

To the consideration of the Annual General Shareholders Meeting of MegaFon OJSC

30.06.2015
Item 2 of the Agenda

Approval of the Annual Accounting Statements, including Profit & Loss
Statements (Profit & Loss Accounts) of the Company

Proposed decision

Approve the Annual Accounting Statements, including Profit & Loss Statements (Profit & Loss Accounts) of the Company.

Responsible Function:
Accounting Function of MegaFon OJSC

APPRAISAL OF AUDITOR'S OPINION

About Auditor:

In 2014, the Company's auditor was Ernst & Young LLC based on approval by the Annual General Shareholders Meeting of the Company on 30.06.2014.

Location: 77 Sadovnicheskaya Emb., Bldg.1, Moscow, 115035, Russia.

Base State Registration Number: 1027739707203.

Based on the results of the audit and the presented auditor's opinion in respect to the accounting (financial) statements of MegaFon OJSC for 2014,

the Audit Committee of the Board of Directors of MegaFon OJSC decided to:

1. Confirm that the audit was performed by the auditor in compliance with the federal auditing standards in effect in the Russian Federation as well as the international auditing standards, and it makes appropriate grounds for the auditor to give its unbiased opinion on fairness of the Company's accounting (financial) statements for 2014 in every material respect.
2. Acknowledge that the accounting (financial) statements present fairly, in all material respects, the financial position of OJSC MegaFon as at 31 December 2014, its financial performance and its cash flows for 2014 in accordance with the rules on preparation of accounting (financial) statements established in the Russian Federation.

The Audit Committee believes that information regarding the Company's statements in the auditor's opinion prepared by Ernst & Young LLC is objective enough, and recommends that the appraisal of the auditor's opinion as made by the Audit Committee of the Board of MegaFon OJSC should be included in the materials to be presented for the Annual General Shareholders Meeting.

Chairman of the Audit Committee


Jan Erik Rudberg

Audit report
on the financial statements
of OJSC MegaFon
for the year ended 31 December 2014

March 2015

Translation of the original Russian version

Audit report – OJSC MegaFon

Translation of the original Russian version

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Independent auditor's report

To the shareholders and Board of Directors of OJSC MegaFon

We have audited the accompanying financial statements of OJSC MegaFon which, consist of the balance sheet as at 31 December 2014, income statement for 2014 and appendices thereto.

Audited entity's responsibility for the financial statements

The management of OJSC MegaFon is responsible for the preparation and fair presentation of these financial statements in accordance with rules on the preparation of financial statements established in the Russian Federation and for the internal control system relevant to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Audit procedures selection depends on the auditor's judgment based on the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control system relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OJSC MegaFon as at 31 December 2014, its financial performance and its cash flows for 2014 in accordance with rules on the preparation of financial statements established in the Russian Federation.

Other matters

The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

A. Y. Grebeniuk
Partner
Ernst & Young LLC

March 10, 2015

Details of the audited entity

Name: OJSC MegaFon
Record made in the State Register of Legal Entities on 17 June 1993, certificate № АОЛ -5192; re-registered 15 July 2002, State Registration Number (1027809169585).
Address: 115035, Russia, Moscow, Kadashevskaya Emb., 30

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

BALANCE SHEET
as of December 31, 2014

Company OJSC "MegaFon"
 Taxpayer Identification Number
 Type of activity Telecommunication services
 Legal/ ownership form
Open Joint Stock Company/private
 Monetary unit: millions of Russian rubles (mln. RUR)
 Location (address)
30 Kadashevskaya, 115035 Moscow

	CODES
Form as per the Russian National Classifier of Management Documentation (OKUD)	0710001
Date (dd/mm/yy)	31 / 12 / 2014
Russian National Classifier of Businesses and Organizations (OKPO)	31090505
Individual tax payer number (INN)	7812014560
Russian National Classifier of Economic Activities (OKVED)	64.20
Russian National Classifier of Organizational and Legal Forms/Russian National Classifier of Property Categories (OKOPF/OKFS)	47/34
Russian National Classifier of Measurement Units (OKEI)	385

Note	Caption	Line code	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
1	2	3	4	5	6
	ASSETS				
	I. NON-CURRENT ASSETS				
-	Intangible assets	1110	341	262	212
-	Research and development results	1120	1	3	6
-	Intangible exploration assets	1130	-	-	-
-	Tangible exploration assets	1140	-	-	-
Note 5	Fixed assets	1150	201,964	181,796	185,084
-	Income-bearing investments in tangible assets	1160	-	-	-
Note 7	Financial investments	1170	117,023	144,341	113,510
-	Deferred tax assets	1180	1,475	3,379	2,129
Note 6	Other non-current assets	1190	34,176	31,354	27,339
-	TOTAL Section I	1100	354,980	361,135	328,280
	II. CURRENT ASSETS				
Note 10	Inventory	1210	1,294	1,868	1,530
-	VAT receivable	1220	503	942	877
Note 11	Accounts receivable	1230	11,570	10,072	10,570
Note 8	Financial investments (excluding cash equivalents)	1240	55,160	57,585	30,298
Note 9	Cash and cash equivalents	1250	21,311	8,990	748
Note 12	Other current assets	1260	10,829	9,393	11,777
	including:				
Note 12	Advances issued	1261	7,325	7,000	10,807
Note 12	Other current assets	1262	3,504	2,393	970
-	TOTAL Section II	1200	100,667	88,850	55,800
-	BALANCE	1600	455,647	449,985	384,080

Note	Caption	Line code	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
1	2	3	4	5	6
	EQUITY AND LIABILITIES				
	III. EQUITY AND RESERVES				
Note 13	Charter capital (share capital, authorized fund, partner's contribution)	1310	62	62	62
-	Treasury shares	1320	-	-	-
-	Revaluation of non-current assets	1340	214	214	214
-	Additional capital (without revaluation)	1350	1,878	1,878	1,878
-	Reserve capital	1360	3	3	3
-	Retained earnings/ (loss)	1370	165,843	170,304	150,334
-	TOTAL Section III	1300	168,000	172,461	152,491
	IV. LONG-TERM LIABILITIES				
Note 14	Loans and borrowings	1410	158,596	129,587	126,033
-	Deferred tax liabilities	1420	14,046	11,687	11,040
Note 16	Provisions	1430	4,958	24,756	5,736
Note 17	Other long-term liabilities	1450	2,303	2,168	1,720
-	TOTAL Section IV	1400	179,903	168,198	144,529
	V. SHORT-TERM LIABILITIES				
Note 14	Loans and borrowings	1510	49,301	19,973	21,873
Note 18	Accounts payable	1520	36,440	36,516	31,353
	including:				
Note 18	Trade accounts payable	1521	25,921	25,569	19,251
Note 18	Due to employees	1522	3,597	4,623	3,918
Note 18	Taxes and levies payable	1523	5,936	5,339	7,272
Note 18	Payable to state non-budget funds	1524	986	985	912
-	Deferred income	1530	-	-	-
Note 16	Provisions	1540	7,372	40,779	22,488
Note 19	Other short-term liabilities	1550	14,631	12,058	11,346
	including:				
Note 19	Advances received	1551	10,931	9,446	9,016
Note 19	Other short-term liabilities	1552	3,700	2,612	2,330
-	Settlements with shareholders	1553	-	-	-
-	TOTAL Section V	1500	107,744	109,326	87,060
-	BALANCE	1700	455,647	449,985	384,080

CEO

 (signature) I.V. Tavrín
 (full name)

Chief Accountant _____
 (signature) L. N. Strelkina
 (full name)

"10" March 2015

INCOME STATEMENT
for year 2014

		Form as per the Russian National Classifier of Management Documentation (OKUD)	CODES
		Date (dd/mm/yy)	0710002
		Russian National Classifier of Businesses and Organizations (OKPO)	12/31/2014
Company	OJSC "MegaFon"	Individual tax payer number (INN)	31090505
Taxpayer Identification Number		Russian National Classifier of Economic Activities (OKVED)	7812014560
Type of activity	Telecommunication services	Russian National Classifier of Organizational and Legal Forms / Russian National Classifier of Property Categories (OKOPF/OKFS)	64.20
Legal/ ownership form	Open Joint Stock Company/private	Russian National Classifier of Measurement Units (OKEI)	47/34
Monetary unit: millions of Russian rubles (mln. RUR)			385

Note	Caption	Line code	2014	2013
1	2	3	4	5
Note 20	Revenue	2110	288,625	273,576
Note 20	Cost of sales	2120	(154,878)	(135,424)
Note 20	Gross profit/ (loss)	2100	133,747	138,152
Note 20	Selling expenses	2210	(27,518)	(28,257)
Note 20	Administrative expenses	2220	(19,385)	(20,857)
Note 20	Profit / (loss) from operations	2200	86,844	89,038
-	Income from equity participation	2310	217	117
-	Interest income	2320	5,301	6,590
-	Interest expense	2330	(14,009)	(12,741)
Note 21	Other income	2340	21,521	5,061
	including:			
Note 21	other income	2341	2,420	2,751
-	foreign currency exchange gain	2342	19,101	2,310
Note 21	Other expenses	2350	(52,516)	(14,705)
	including:			
Note 21	other expenses	2351	(9,898)	(9,331)
-	foreign currency exchange loss	2352	(42,618)	(5,374)
-	reorganization costs	2353	-	-
Note 22	Income/(loss) before tax	2300	47,358	73,360
Note 22	Current profit tax	2410	(8,060)	(15,055)
	including:			
Note 22	Non-deductible (non-taxable) differences	2421	446	249
Note 22	Deferred tax liabilities change	2430	(1,870)	(1,086)
Note 22	Deferred tax assets change	2450	12	1,220
Note 22	Other	2460	(1,905)	36
	Net income/ (loss)	2400	35,535	58,475

Note	Caption	Line code	2014	2013
	FOR REFERENCE			
-	Result of revaluation of non-current assets excluded from net profit/(loss)	2510	-	-
-	Other operations result excluded from net profit/(loss)	2520	-	-
-	Comprehensive financial result for the period	2500	35,535	58,475
Note 23	Basic earnings/ (loss) per share	2900	0.000057	0.000094
Note 23	Diluted earnings/ (loss) per share	2910	0.000057	0.000094

CEO	I.V. Tavrin	Chief Accountant	L.N. Strelkina
	(signature)	(full name)	(signature)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for 2014

		Form as per the Russian National Classifier of Management Documentation (OKUD)	CODES
		Date (dd/mm/yy)	0710003
Company	<u>OJSC "MegaFon"</u>	Russian National Classifier of Businesses and Organizations (OKPO)	31 / 12 / 2014
Taxpayer Identification Number		Individual tax payer number (INN)	31090505
Type of economic activity	<u>Telecommunication services</u>	Russian National Classifier of Economic Activities (OKVED)	7812014560
Legal/ ownership form		Russian National Classifier of Organizational and Legal Forms/Russian National Classifier of Property Categories (OKOPF/OKFS)	64.20
	<u>Open Joint Stock Company/private</u>	Russian National Classifier of Measurement Units (OKEI)	47/34
Monetary unit: millions of Russian rubles (mln. RUR)			385

1. Changes in shareholders' equity

Caption	Line code	Charter capital	Treasury shares	Additional capital	Reserve capital	Retained earnings/ (loss)	Total
1	2	3	4	5	6	7	8
Balance as of December 31, 2012	3100	62	-	2,092	3	150,334	152,491
<u>for 2013</u>							
Equity increase - total:	3210	-	-	-	-	59,966	59,966
including:							
net income	3211	X	X	X	X	58,475	58,475
gain from fixed assets revaluation	3212	X	X	-	X	-	-
income booked to capital increase	3213	X	X	-	X	-	-
additional issue of shares	3214	-	-	-	X	X	-
increase in par value of shares	3215	-	-	-	X	-	X
reorganization of the legal entity	3216	-	-	-	-	1,491	1,491
Equity decrease - total:	3220	-	-	-	-	(39,996)	(39,996)
including:							
net loss	3221	X	X	X	X	-	-
losses from fixed assets revaluation	3222	X	X	-	X	-	-
expense booked to capital decrease	3223	X	X	-	X	-	-
decrease in par value of shares	3224	-	-	-	X	-	-
decrease in number of shares	3225	-	-	-	X	-	-
reorganization of the legal entity	3226	-	-	-	-	-	-
dividends	3227	X	X	X	X	(39,996)	(39,996)
Change in Additional capital	3230	X	X	-	-	-	X
Change in Reserve capital	3240	X	X	X	-	-	X
Balance as of December 31, 2013	3200	62	-	2,092	3	170,304	172,461
<u>For 2014</u>							
Equity increase - total:	3310	-	-	-	-	35,535	35,535
including:							
net income	3311	X	X	X	X	35,535	35,535
gain from fixed assets revaluation	3312	X	X	-	X	-	-
income booked to capital increase	3313	X	X	-	X	-	-
additional issue of shares	3314	-	-	-	X	X	-
increase in par value of shares	3315	-	-	-	X	-	X
reorganization of the legal entity	3316	-	-	-	-	-	-
Equity decrease - total:	3320	-	-	-	-	(39,996)	(39,996)
including:							
net loss	3321	X	X	X	X	-	-
loss from fixed assets revaluation	3322	X	X	-	X	-	-
expense booked to capital decrease	3323	X	X	-	X	-	-
decrease in par value of shares	3324	-	-	-	X	-	-
decrease in number of shares	3325	-	-	-	X	-	-
reorganization of the legal entity	3326	-	-	-	-	-	-
dividends	3327	X	X	X	X	(39,996)	(39,996)
Change in Additional capital	3330	X	X	-	-	-	X
Change in Reserve capital	3340	X	X	X	-	-	X
Balance as of December 31, 2014	3300	62	-	2,092	3	165,843	168,000

2. Equity adjustments due to accounting policy changes and prior year errors corrections

Caption	Line code	As of December 31, 2012	Equity change for 2013		As of December 31, 2013
			through net income/(loss)	other	
1	2	3	4	5	6
Equity - total before adjustments	3400	152,491	58,475	(38,505)	172,461
Adjustments incl. accounting policy change	3410	-	-	-	-
correction of errors	3420	-	-	-	-
after adjustments	3500	152,491	58,475	(38,505)	172,461
including: Retained earnings (loss): before adjustments	3401	150,334	58,475	(38,505)	170,304
Adjustments incl. accounting policy change	3411	-	-	-	-
correction of errors	3421	-	-	-	-
after adjustments	3501	150,334	58,475	(38,505)	170,304
Other equity line corrected: before adjustments	3402	2,157	-	-	2,157
Adjustments incl. accounting policy change	3412	-	-	-	-
correction of errors	3422	-	-	-	-
after adjustments	3502	2,157	-	-	2,157

3. Net Assets

Caption	Line code	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
1	2	3	4	5
Net assets	3600	168,000	172,461	152,491

CEO _____
(signature)

I.V. Tavrín Chief Accountant _____
(full name) (signature)

L.N. Strelkina _____
(full name)

"10" March 2015

STATEMENT OF CASH FLOWS
for year 2014

Company OJSC "MegaFon"

Taxpayer Identification Number

Type of economic activity Telecommunication services

Legal/ ownership form

Open Joint Stock Company

Monetary unit: millions of Russian rubles (mln. RUR)

	CODES
Form as per the Russian National Classifier of Management Documentation (OKUD)	0710004
Date (dd/mm/yy)	31 / 12 / 2014
Russian National Classifier of Businesses and Organizations (OKPO)	31090505
Individual tax payer number (INN)	7812014560
Russian National Classifier of Economic Activities (OKVED)	64.20
Russian National Classifier of Organizational and Legal Forms / Russian National Classifier of Property Categories (OKOPF/OKFS)	47/34
Russian National Classifier of Measurement Units (OKEI)	385

Caption	Line code	2014	2013
1	2	3	4
Cash flows from operating activities			
Cash proceeds received - total	4110	255,058	243,811
including:			
proceeds from customers	4111	254,594	242,817
rent payments, license payments, fees, payments under commission agreements and other	4112	152	198
proceeds from re-sale of financial investments	4113	-	-
proceeds in connection with the reorganization	4114	-	59
other proceeds	4119	312	737
Cash disbursements - total	4120	(146,224)	(138,190)
including:			
payments to suppliers (subcontractors) for goods, work, services, raw materials and other assets	4121	(103,153)	(88,783)
payroll and related payments to employees	4122	(12,670)	(11,469)
interest paid	4123	(11,039)	(10,065)
corporate income tax payments	4124	(8,515)	(12,838)
payments of other taxes	4125	(7,649)	(13,565)
other payments	4129	(3,198)	(1,470)
Net cash flows from operating activities	4100	108,834	105,621

Caption	Line code	2014	2013
1	2	3	4
Cash flows from investing activities			
Cash proceeds received - total	4210	98,874	134,967
including:			
proceeds from sale of non-current assets (except financial investments)	4211	719	736
proceeds from sale of shares in other entities (equity interest)	4212	-	2,300
proceeds from repayment of loans provided, from sale of debt securities (sales of rights to claim)	4213	24,652	18,678
dividends received, interest received	4214	2,996	2,080
proceeds from financial investments (deposits with maturity more than 3 months)	4215	70,506	111,173
other proceeds	4219	1	-
Cash disbursements - total	4220	(187,638)	(196,488)
including:			
payments for purchases, construction, modernization, reconstruction and preparation for use of non-current assets	4221	(53,704)	(38,319)
payments for purchase of shares (equity interest) in other entities	4222	(38,771)	(4,287)
purchase of debt securities (purchase of rights to claim), loans provided to other entities	4223	(25,323)	(28,445)
interest paid on debt securities included in the cost of investment asset	4224	(100)	(99)
payments for financial investments (deposits with maturity more than 3 months)	4225	(69,740)	(125,338)
other payments	4229	-	-
Net cash flows from investing activities	4200	(88,764)	(61,521)
Cash flows from financing activities			
Cash proceeds received - total	4310	54,092	31,843
including:			
proceeds from loans and borrowings	4311	54,092	31,843
cash contributions from owners (shareholders)	4312	-	-
proceeds from issuance of stock, increase of shares	4313	-	-
proceeds from issuance of bonds, promissory notes and other debt securities and other	4314	-	-
other proceeds	4319	-	-
Cash disbursements - total	4320	(66,370)	(68,110)
including:			
payments to shareholders for purchase of shares of the entity or their cessation of being shareholders	4321	-	-
dividends and other distribution of earnings to shareholders	4322	(39,496)	(37,408)
redemption (buyout) of promissory notes and other debt securities, repayment of loans	4323	(26,375)	(30,414)
other payments	4329	(499)	(288)
Net cash flows from financing activities	4300	(12,278)	(36,267)
Net cash flows total	4400	7,792	7,833
Balance of cash and cash equivalents as of the beginning of the reporting period	4450	8,990	748
Balance of cash and cash equivalents as of the end of the reporting period	4500	21,317	8,990
Effect of changes in the exchange rates of foreign currencies to the Ruble	4490	4,535	409

CEO _____ I.V. Tavrín
(signature) (full name)

Chief Accountant

_____ L.N. Strelkina
(signature) (full name)

"10" March 2015

Explanatory Notes to the 2014 Annual Financial Statements of Open Joint-Stock Company MegaFon

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This Explanatory Note is an integral part of the Company's 2014 financial statements prepared in accordance with the existing legislation of the Russian Federation.

All amounts are in million rubles unless stated otherwise. Negative amounts are presented in brackets.

1. DESCRIPTION OF THE COMPANY'S BUSINESS IN 2014

The Open Joint-Stock Company MegaFon was established on 17.06.1993 and registered at No. AOL-5192 by the Foreign Economic Relations Committee of the Saint Petersburg Mayor's Office as Closed Joint-Stock Company North-West GSM.

On May 22, 2002 as a result of renaming and changing the legal form, the Company was registered as Open Joint-Stock Company "MegaFon".

Information on the state registration of the Company: 17.06.1993, registration certificate No. AOL-5192.

Location of the Company: 30, Kadashevskaya Embankment, Moscow, 115035, Russian Federation.

According to the Charter, the Company has the right to be engaged in the following core activities:

- Mobile radio telephone communication services in various bands;
- Local and intra-zonal telephone communication services;
- Lease out of telecommunication channels;
- Telematics communication services;
- Long-distance national and international communication services;
- Communication services for cable broadcasting;
- Data communication services;
- Design, implementation, operation, and development of communication networks on the territory of the Russian Federation, as well as management of communication networks on the territory of the Russian Federation;
- Design, manufacturing, operation, development and sale of technology equipment for information systems;
- Implementation of investment projects;

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- Scientific research in the area of communications, as well as implementation and use of results obtained from such research;
- Repair and maintenance of communication equipment;
- Any transactions related to real estate, as well as construction, reconstruction, renovation and operation of residential and non-residential premises;
- Advertising activities;
- Wholesale, retail trade, creation of distribution networks;
- Export and import of any goods, works, and services;
- Works performed with use of state secrets;
- Actions and/or services in the field of protection of the state secrets.

As at December 31, 2012, the Company obtained the following licenses:

License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License №50788	21.05.2007	21.05.2008	21.05.2017	Mobile radio telephone communication services
License №1002398	11.05.2009	-	31.12.2019	Use of radio frequencies to provide communication services in GSM standard on the island of Svalbard
License №72789	28.01.2010	28.01.2012	28.01.2015	Intra-zone telephone communication services
License №72790	28.01.2010	28.01.2012	28.01.2015	Intra-zone telephone communication services
License №72792	28.01.2010	28.01.2012	28.01.2015	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №103156	10.05.2010	10.05.2010	10.05.2015	Telematics services
License №73899	10.05.2010	10.05.2010	10.05.2015	Data transmission services except for data transmission services for the voice data transmission
License №122190	19.05.2010	19.05.2010	19.05.2015	Mobile radio telephone communication services
License №75693	03.07.2010	03.07.2010	03.07.2015	Mobile radio telephone communication services
License №75694	03.07.2010	03.07.2010	03.07.2015	Mobile radio telephone communication services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License №75695	03.07.2010	03.07.2010	03.07.2015	Mobile radio telephone communication services
License №89228	08.09.2010	08.09.2012	08.09.2015	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №123074	13.10.2010	13.10.2010	13.10.2015	Mobile radio telephone communication services
License №84468	14.02.2011	14.02.2013	14.02.2016	Intra-zone telephone communication services
License №84469	14.02.2011	14.02.2013	14.02.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №82391	16.02.2011	16.02.2011	16.02.2016	Intra-zone telephone communication services
License №84932	03.04.2011	03.04.2011	03.04.2016	Provision of communication channels
License №86165	13.04.2011	13.04.2013	13.04.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №89224	13.04.2011	13.04.2013	13.04.2016	Local telephone communication services using multiple access devices.
License №88557	28.07.2011	28.07.2011	28.07.2016	Local telephone communication services using multiple access devices.
License №90364	16.08.2011	16.08.2013	16.08.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №88558	30.08.2011	30.08.2011	30.08.2016	Intra-zone telephone communication services
License №88559	30.08.2011	30.08.2011	30.08.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №90176	21.09.2011	21.09.2011	21.09.2016	Data transmission services except for data transmission services for the voice data transmission
License №90177	21.09.2011	21.09.2011	21.09.2016	Data transmission services for the voice data transmission
License №90826	04.10.2011	04.10.2011	04.10.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №91415	24.10.2011	24.10.2011	24.10.2016	Intra-zone telephone communication services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License №91416	24.10.2011	24.10.2011	24.10.2016	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №91998	10.12.2011	10.12.2011	10.12.2016	Mobile radio telephone communication services
License №93283	23.01.2012	23.01.2012	23.01.2017	Intra-zone telephone communication services
License №93284	23.01.2012	23.01.2012	23.01.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №95240	26.01.2012	26.01.2014	26.01.2017	Intra-zone telephone communication services
License №95692	06.02.2012	06.02.2014	06.02.2017	Mobile radio telephone communication services
License №96176	17.02.2012	17.02.2014	17.02.2017	Intra-zone telephone communication services
License №96173	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96172	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96174	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96177	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96175	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96179	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96180	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №96178	17.02.2012	17.02.2014	17.02.2017	Mobile radio telephone communication services
License №95092	05.03.2012	05.03.2012	05.03.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №95091	09.03.2012	09.03.2012	09.03.2017	Intra-zone telephone communication services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License №95646	09.03.2012	09.03.2012	09.03.2017	Communication services for cable broadcasting
License №95647	09.03.2012	09.03.2012	09.03.2017	Communication services for cable broadcasting
License №95648	09.03.2012	09.03.2012	09.03.2017	Communication services for cable broadcasting
License №98373	16.04.2012	16.04.2014	16.04.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №98821	03.05.2012	03.05.2014	03.05.2017	Mobile radio telephone communication services
License №99467	24.05.2012	24.05.2014	24.05.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №100004	14.06.2012	14.06.2014	14.06.2017	Communication services for cable broadcasting
License №100996	17.07.2012	17.07.2014	17.07.2017	Mobile radio telephone communication services
License №100997	17.07.2012	17.07.2014	17.07.2017	Communication services for cable broadcasting
License №101241	25.07.2012	01.06.2013	25.07.2022	Telematics services
License №101244	25.07.2012	01.06.2013	25.07.2022	Mobile radio telephone communication services
License №101243	25.07.2012	01.06.2013	25.07.2022	Data transmission services except for data transmission services for the voice data transmission
License №101242	25.07.2012	01.06.2013	25.07.2022	Data transmission services for the voice data transmission
License №103157	01.08.2012	01.08.2012	01.08.2017	Provision of communication channels
License №100900	20.08.2012	20.08.2012	20.08.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №102516	28.08.2012	28.08.2014	28.08.2017	Communication services for cable broadcasting
License №100902	31.08.2012	31.08.2012	31.08.2017	Intra-zone telephone communication services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License №100901	31.08.2012	31.08.2012	31.08.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License №103558	03.10.2012	03.10.2014	03.10.2017	Communication services for cable broadcasting
License №104765	02.11.2012	02.11.2014	02.11.2017	Data transmission services for the voice data transmission
License №104764	02.11.2012	02.11.2014	02.11.2017	Data transmission services except for data transmission services for the voice data transmission
License №104763	02.11.2012	02.11.2014	02.11.2017	Telematics services
License №104886	26.12.2012	26.12.2012	26.12.2017	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 108739	25.03.2013	25.03.2015	25.03.2018	Communication services for cable broadcasting
License № 106967	26.03.2013	26.03.2013	26.03.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 106969	26.03.2013	26.03.2013	26.03.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 106968	26.03.2013	26.03.2013	26.03.2018	Intra-zone telephone communication services
License № 106970	26.03.2013	26.03.2013	26.03.2018	Intra-zone telephone communication services
License № 106971	26.03.2013	26.03.2013	26.03.2018	Intra-zone telephone communication services
License № 117073	18.04.2013	18.04.2013	18.04.2018	Telematics services
License № 108043	18.04.2013	18.04.2013	18.04.2018	Provision of communication channels
License № 108044	18.04.2013	18.04.2013	18.04.2018	Data transmission services for the voice data transmission
License № 108042	18.04.2013	18.04.2013	18.04.2018	Data transmission services except for data transmission services for the voice data transmission
License № 108626	28.04.2013	28.04.2013	28.04.2018	Mobile radio telephone communication services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
License № 123075	28.04.2013	28.04.2013	28.04.2018	Mobile radio telephone communication services
License № 111749	21.09.2013	21.09.2013	21.09.2020	National and international long-distance communication services
License № 112993	29.09.2013	29.09.2013	29.09.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 114769	15.10.2013	15.10.2015	15.10.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 116018	01.11.2013	01.11.2013	14.02.2016	Local telephone communication services using public pay-phones
License № 116017	01.11.2013	01.11.2013	25.05.2016	Local telephone communication services using public pay-phones
License № 116019	01.11.2013	01.11.2013	13.04.2016	Local telephone communication services using public pay-phones
License № 113503	28.11.2013	28.11.2013	28.11.2018	Intra-zone telephone communication services
License № 113502	28.11.2013	28.11.2013	28.11.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 115172	03.12.2013	03.12.2013	03.12.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
License № 116299	11.12.2013	11.12.2015	11.12.2018	Communication services for cable broadcasting
License № 114609	30.12.2013	30.12.2013	30.12.2018	Intra-zone telephone communication services
License № 114610	30.12.2013	30.12.2013	30.12.2018	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
Лицензия №116694	13.02.2014	13.02.2014	13.02.2019	Intra-zone telephone communication services
Лицензия №118777	07.05.2014	07.05.2014	07.05.2019	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
Лицензия №118778	07.05.2014	07.05.2014	07.05.2019	Intra-zone telephone communication services
Лицензия №121293	25.06.2014	25.06.2016	25.06.2019	Telematics services

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License Number	Issuance Date	Beginning date of services provision, not later than	Valid through	Description
Лицензия №121294	25.06.2014	25.06.2016	25.06.2019	Provision of communication channels
Лицензия №121295	25.06.2014	25.06.2016	25.06.2019	Data transmission services for the voice data transmission
Лицензия №121296	25.06.2014	25.06.2016	25.06.2019	Data transmission services except for data transmission services for the voice data transmission
Лицензия №123655	01.10.2014	01.10.2016	01.10.2019	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices
Лицензия №124399	18.12.2014	18.12.2014	18.12.2019	Local telephone communication services with the exception of local telephone communication services using public pay phones and multiple access devices

The Company's management believes that the existing licenses will be renewed after their expiration without significant extra costs.

In 2014, the Company's average annual headcount totaled to 14,714 employees (in 2013 – 14,519 employees).

In 2014, the Company's executive body consisted of the following persons:

Full name	Position	Description of remuneration accrued
Ivan Vladimirovich Tavrín	Chief Executive Officer/Management Board Chairman	salary, vacation allowance, annual bonus, additional compensations according to the employment contract
Anait Grigorievna Gasparyan	Director for Corporate Development/Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Mikhail Andreevich Dubin	Executive Director for B2C Business / Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Gevork Arutunovich Vermishyan	Chief Financial Officer /Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Anna Andreyevna Serebryanikova	Director for Legal Affairs and GR / Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract

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Full name	Position	Description of remuneration accrued
Evgeny Nikolaevich Chermashentsev	Director for Infrastructure / Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Eduard Georgievich Ostrovsky	Advisor for Special Programs and Government Relations /Management Board Member till 12.05.2014	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Alexander Vladimirovich Bashmakov	Director for Strategy and Procurement / Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Valery Leonidovich Velichko	Director of Ural Branch/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Alexander Sergeevich Grigoriev	Director of Volga Branch/ Management Board Member till 25.11.2014	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Stanislav Aleksandrovich Frolov	Director of Caucasus Branch/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Pavel Victorovich Korchagin	Director of Central Branch till 25.11.2014/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Konstantin Mikhailovich Likhodedov	Director of Stolichny Branch/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Alexey Borisovich Semenov	Director of North-West Branch/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Alexey Leonidovich Tyutin	Director of Siberian branch/ Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Andrey Borisovich Levykin	Director of Far East Branch / Management Board Member	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract
Vlad Wolfson	Director for Corporate Business/Management Board Member since 30.06.2014	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract

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Full name	Position	Description of remuneration accrued
Dmitry Kononov	Director for Investor Relations and M&A / Management Board Member since 30.06.2014	salary, vacation allowance, annual bonus, long-term incentives, additional compensations according to the employment contract

During 2013, the following remunerations were awarded to the Management Board Members:

	2014	2013
Salary	177	185
Bonus and incentives	173	612
Vacation allowance	60	38
Additional compensations according to the employment contract	3	55
Total	413	890

Related taxes and other obligatory payments to state non-budgetary funds amounted to RUR 58 mln. (in 2013 – RUR 91 mln.).

In 2014, the Company's Board of Directors included the following persons:

Full name		Work period	Description of remuneration accrued
Sergey Vladimirovich Soldatenkov	Chairman of the Board	2014	Remuneration to the Chairman of the Board
Jan Erik Rudberg	Independent Board Member	2014	Remuneration to the Independent Board of Directors Member, reimbursement of expenses
Lord Paul Myners	Independent Board Member	2014	Remuneration to the Independent Board of Directors Member, reimbursement of expenses
Vladimir Yakovlevich Streshinsky	Board Member	2014	Remuneration to the Board of Directors Member
Berndt Kenneth Karlberg	Board Member	2014	Remuneration to the Board of Directors Member
Sergey Alexandrovich Kulikov	Board Member	from 17.03.2014	Remuneration to the Board of Directors Member
Carl Peter Christian Luiga	Board Member	from 17.03.2014	Remuneration to the Board of Directors Member
Yan David Erixon	Board Member	till 17.03.2014	Remuneration to the Board of Directors Member
Kurt Per-Arne Blomquist	Board Member	till 17.03.2014	Remuneration to the Board of Directors Member

In 2014, remuneration accrued to the Board of Directors Members amounted to RUR 48 mln (in 2013 – RUR 28 mln.).

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The total remuneration actually paid to the Board of Directors Members and to the Management Board Members in 2014 amounted to RUR 461 mln. (in 2013 – RUR 918 mln.).

The information on subsidiaries and affiliates of OJSC MegaFon as of December 31, 2014 is presented below:

Company	Place of state registration and/or place of conducting business activities	Business activity	Company's ownership interest
MegaFon Finance, Limited Liability Company	48 Ulitsa Nekrasova, Saint-Petersburg, 191014, Russia	Investment activities	100%
MegaFon International, Closed Joint-Stock Company	30 Kadashevskaya Naberezhnaya, Moscow, 115035, Russia	Investment activities	100%
MegaLabs, Closed Joint-Stock Company	11 Second Kazachiy Side-street, Bldg.1, Moscow, 119049, Russia	Provision of telematic services. Provision of data transmission services for the voice data transmission. Data transmission activities.	100%
MegaFon Retail, Open Joint-Stock Company	30 Kadashevskaya Naberezhnaya, Moscow, 115035, Russia	Mobile phone and accessories sale, MegaFon OJSC contract sale, acceptance of payments, assistance in mobile phone customization, retail trade.	100%
Debton Investments Limited	4 Aphentrica Court office 2, Aphentricas, 6018 Larnaca, Cyprus	Holding interests in companies providing telecommunication services	100%
Web Plus, Closed Joint-Stock Company	29 Kolomenskaya Str., Saint-Petersburg, 191119, Russia	Communication services provision	100%
Metrokom, Closed Joint-Stock Company	29 Odoevskogo st., Saint-Petersburg, 199155, Russia	Communication services provision	100%
Pskovskaya Gorodskaya Telephonnaya Set', Open Joint-Stock Company	23 Paromenskaya street, Pskov, 180007, Russia	Communication services provision	100%
Fairlie Holding & Finance limited	33 Porter Road, Tortola, Road Town, P.O. 3169 PMB 103, British Virgin Islands	Holding controlling interests in companies providing telecommunication services	100%
MEGAFON INVESTMENTS (CYPRUS) LIMITED	2406, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1, Cyprus, Nicosia	Investment activities	100%
Confectus Holdings Limited	2406, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1, Cyprus, Nicosia	Investment activities	100%

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Company	Place of state registration and/or place of conducting business activities	Business activity	Company's ownership interest
MAXITEN CO LIMITED	2406, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1, Cyprus, Nicosia	Holding controlling interests in companies providing telecommunication services	100%
Net By Net Holding LLC	38A Second Khutorskaya Str., Bld.17, Moscow, 127287, Russia	Communication services provision	91,74%
TT Mobile, Closed Joint-Stock Company	73/2 Ulitsa Khuvaydulloyeva, Dushanbe, 734043, Tajikistan	Communication services provision	75%
Lefbord Investments Limited	2406, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1, Cyprus, Nicosia	Investment activities	100%
C-Ring Telecom LLC	11 Byul-Buyt Avenue, Baku, AZ1095, Azerbaijan	Communication services provision	50%
SMARTS Volgograd CJSC	17 Socialisticheskaya Str., Volgograd, 400001, Russia	Communication services provision	100%
Scartel LLC	13 Rusakovskaya Str., Moscow, 107140, Russia	Communication services provision	92%

2. FACTORS AFFECTING THE COMPANY'S FINANCIAL POSITION

In the course of its business the Company is influenced by industry-specific, legal and other internal and external factors (material conditions, events, circumstances, actions). Various risks appear due to that, and they may have significant impact on financial position and financial results of the Company's operations.

The most significant risks that may impact the Company's business are as follows:

- financial risks (market risk, credit risk and liquidity risk);
- industry risks;
- country-specific and regional risks;
- legal risks;
- risks related to the Company's business.

Industry, country-specific and regional risks as well as risks related to the Company's business are disclosed in the Issuer's Quarterly Report, that is in public domain at the Company's official web-site (www.megafon.ru), therefore they are not described here.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

The Company's management controls the risk management process in order to mitigate potential adversary consequences for financial position and financial results of the Company, makes assessment and approves the risk management policy for the specified risks that are described below.

2.1 Financial risks

Market risk

Market risk is the risk that the Company may face negative implications if certain market parameters are changed, when current actual price of a transaction may be significantly lower than the expected market price. Market risks that make the highest impact on the Company are related mostly to risk of changes in interest rates and foreign currency risk.

Interest rate risk

Telecommunication industry is capital intensive. In order to continue growth, the Company needs to make significant investments of cash into development of network, wireless Internet, new products and services and also finance mergers and acquisitions. Interest rate risk is defined as the "risk of financial losses due to negative change in interest rates on assets, liabilities and off-balance instruments". Therefore, the interest rate risk reflects the level of impact of adverse market changes to the Company's financial position, namely, the market interest rates. Growth of interest rates on the market may cause the Company to raise more expensive funds for financing of its investment programs.

As of the end of 2014, the Company hedged most of its floating rate loans through interest swap transactions, whereunder the Company undertakes to pay and has the right to receive after certain time periods the difference

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between fixed and floating interest payments calculated on the basis of contractual notional principal amount and interest rates. Thus, as of 31.12.2014, approximately 86,6% of the Company's borrowings are at fixed interest rates (as of 31.12.2013: 86,7%, as of 31.12.2013: 85%).

The table below gives sensitivity analysis for income before taxes versus reasonably possible changes in interest rates for loans after hedging effect:

	Increase/decrease of interest rates in basis points	Effect on income before taxes, mln.RUR
2014		
USD	+ 2	(7)
USD	- 2	7
2013		
USD	+ 3	(5)
USD	- 3	5

Foreign currency risk

Foreign currency risk is the risk of negative implications due to changes in foreign exchange rates. The Company's exposure to changes in foreign exchange rates mostly relates to the Company's financial activities.

Significant amount of capital expenditures, expenses and obligations are expressed in foreign currency, mostly in USD and Euro. If the Ruble significantly depreciates against USD and/or Euro, the Company may experience difficulties in payment and refinancing of its debt denominated in foreign currency. Therefore, depreciation of Ruble against foreign currencies may increase investment and financial expenses in Ruble, which respectively cause higher foreign currency exchange loss and decreasing net income.

For the purpose of foreign exchange risks mitigation the Company's credit portfolio mostly includes loans denominated in the Russian Rubles. As of the end of 2014, share of Ruble, US dollar and Euro denominated loans were 63%, 35% and 2%, correspondently (by the end of 2013, share of Ruble, US dollar and Euro denominated loans were 69%, 28% and 3%, correspondently). Part of the foreign currency risk is compensated by placing temporary free cash in deposits in foreign currency. The remaining foreign currency risk is mitigated by the Company down to acceptable level by hedging transactions that use currency swaps and cross-currency swaps, as well as natural hedges. Therefore, in 2014, the Company mitigated the foreign currency risk for the portion of its loans of RUR 70 795 mln using the method described above.

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To mitigate foreign currency risks the Company plans to use financial instruments on currency forward market in order to negotiate with counterparties minimizing use of foreign currency in setting prices for goods and services purchased on the domestic market.

See the table below for the financial assets and liabilities of the Company in currency breakdown as of December 31, 2014, 2013 and 2012:

Balance in foreign currency	As of 31.12.2014, mln.			As of 31.12.2013, mln.		As of 31.12.2012, mln.	
	USD	EURO	HKD	USD	EURO	USD	EURO
Assets	447	6	4 441	1 428	3	752	3
Liabilities	(1 034)	(78)	-	(2 915)	(114)	(2 029)	(144)
Net effect	(587)	(72)	4 441	(1 487)	(111)	(1 277)	(141)

The table below gives sensitivity analysis for the Company's income before taxes versus reasonably possible changes in foreign exchange rates of HKD, USD and Euro after hedging effect with other variables constant:

	As of 31.12.2014, mln.			As of 31.12.2013, mln.		As of 31.12.2012, mln.	
	USD	EURO	HKD	USD	EURO	USD	EURO
Appreciation (+30%)	(176)	(22)	1 332	-	-	-	-
Depreciation (-30%)	176	22	(1 332)	-	-	-	-
Appreciation (+10%)	-	-	-	(149)	(11)	(128)	(14)
Depreciation (-10%)	-	-	-	149	11	128	14

Analysis was made for the cash items denominated in respective currency as of the reporting date.

Credit risk

Credit risk means potential losses due to counterparty's failure to perform its contract obligations. Financial instruments that may in theory result in higher credit risk include short-term investments, accounts receivable, long-term deposits. The Company places free cash on deposits opened with various banks in the Russian Federation. In the Russian Federation the bank deposits are either not insured, or insured in respect to certain small amount of the deposit. In order to mitigate the credit risk the Company diversifies its deposits by placing free cash in the Russian branches of international banks and with limited number of Russian banks. Most of such Russian banks are either owned by the government or are under government control. Proactive measures that are aimed at mitigation of the credit risk shall include advance payments received, bank guarantees and other security, establishment of

relationship with counterparties, whose creditworthiness is consistently monitored based on their credit histories and credit ratings assigned to them. Besides, in 2014 in order to mitigate the risks related to increased volatility in the Russian market and geopolitical instability, the Company deposited a significant portion of its available cash in Hong Kong Dollars with major Russian and international banks.

Liquidity risk

Liquidity (insolvency) risk is one of the key financial risks and is related to the Company's ability to repay in due time and in full scope its current financial liabilities as of the reporting date: accounts payable to suppliers and contractors, debt to lenders under the received loans and credits.

In order to mitigate the risk of insolvency the Company is focused on well-balanced structure of future expenses and expected revenue, forecast of known future payments, analysis and identification of tendencies in value of uncertain payments. However, uncertainty of future payments requires maintaining of a liquidity reserve, which may be provided by ability to raise debt and generate cash flow, when needed.

The Company manages the liquidity risk through weekly analysis and planning of own liquidity, selection of optimum leverage in compliance with the Company's approved policies, management plans and other factors that are also aimed at maintaining the company's investment grade rating assigned by international rating agencies Moody's and S&P. Such approach helps the Company to maintain the required liquidity level and finance resources so that the cost of debt would be at its minimum, while the debt structure and maturity dates being at optimum. The Company has several available loan facilities from banks, and they prevent occurrence of any liquidity risk. Besides, all the Company's free cash is placed on deposits that have early termination clauses whereby the cash shall be withdrawn on 1-3 days notice to the banks, as a result of which the liquidity risk is compensated.

However, decreasing availability of capital and its increasing cost combined with increase inflation and uncertainty with respect to growth of economy might increase the Company's liquidity risk exposure in future.

The Company's goal is to maintain the balance between consistent uninterrupted financing and flexibility through use of bank deposits, overdrafts, loans and supply contracts with deferred payments. The Company has reviewed the risk concentration related to refinancing of its debt and concluded that it is quite low. Based on book value of borrowings reflected in financial statements as of December 31, 2014, 24% of the Company's debt must be repaid during one year (13% as of December 31, 2013, 15% as of December 31, 2012).

As of December 31, 2014 and 2013, the Company's short-term liabilities (line 1500 of the Balance Sheet "Short-term liabilities") were higher than its Current Assets (line 1200 of the Balance Sheet "Current Assets"). The

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Company believes that it is able to generate sufficient cash flows from operating activities, also the Company has access to untapped credit facilities that may be used by the Company for performance of its obligation. Besides, the Company may phase its capital expenditures in order to meet short-term liquidity demands. Accordingly, the management believes that cash flows from operating and financing activities will be sufficient for the Company to perform its obligations when they become due.

The tables below present the summary of maturity dates for discharge of financial liabilities as of December 31:

	less 1 year	1 – 3 years	4 – 5 years	over 5 years	Total
As of December 31, 2014					
Loans and borrowings, including interest	57 288	87 365	79 976	25 292	249 921
Provisions related to acquisition of interests and shares	7 561	-	-	-	7 561
Trade accounts payable	25 956	1 001	220	-	27 177
Due to employees	3 597	5	-	-	3 602
Payable to state non-budget funds	986	-	-	-	986
Total as of 31.12.2014	95 388	88 371	80 196	25 292	289 247

	less 1 year	1 – 3 years	4 – 5 years	over 5 years	Total
As of December 31, 2013					
Loans and borrowings, including interest	30 563	48 445	72 227	43 147	194 382
Provisions related to acquisition of interests and shares	42 574	21 627	-	-	64 201
Trade accounts payable	25 587	512	339	-	26 438
Due to employees	4 623	250	-	-	4 873
Payable to state non-budget funds	985	25	-	-	1 010
Total as of 31.12.2013	104 332	70 859	72 566	43 147	290 904

2.2 Legal risks

Currently, there is a risk that anti-monopoly laws and court practice in this area in respect to the Russian companies may become more severe. The Russian Federation government initiated some changes in the law that introduced easier procedures for the regulators to prove that any wrongful act has been committed, besides, they give additional powers to the regulators. MegaFon OJSC performs its business in strict compliance with tax, customs and foreign currency laws, it monitors and follows any changes on a timely basis, besides, it strives for constructive dialogue with regulators in the issues of court practice. Existing shortcomings of the Russian legal system and legislation create uncertainties in business activities, which may have significant impact on the Company's financial well-being. Many of such uncertainties are also present in the countries with more developed legal environment of market economy, however to less extent. Such shortcomings shall include the following:

- fast development of the Russian legal system, and as a result, instances of mismatch between the laws, decrees of the President and orders, decisions, rulings and other acts of the government, ministries and local state agencies. Besides, some of the basis Russian laws were brought into effect just recently, and often there are no bylaws that govern application of some laws;
- inconsistency of court institutions in implementation of universal court and arbitration practice, incorrect interpretation of the Russian laws by courts, especially in commercial and corporate law;
- insufficient effectiveness of the court system.

The above shortcomings may have adverse impact on the Company's ability to enforce its rights as well as defense itself against claims from other parties.

Risks related to changes in foreign currency regulations

Domestic market:

Currently, foreign currency transactions in the Russian Federation are regulated by the Federal Law No.173-FZ as of December 10. 2003 "On Foreign Currency Regulation and Foreign Currency Control" that is, in general, intended for liberalization of the foreign currency regulations in the Russian Federation. As a whole, the risk of dramatic change in the regulator's approach to the principles of foreign currency regulation in the Russian Federation is seen as insignificant. However, the Company may not waive the possibility of such unfavourable change completely and cannot assure against negative effects of such a change on the Company's business: most of the Company's capital expenditures (import of telecommunications equipment), cost of roaming and cost of debt are denominated in foreign currency. The Company takes necessary steps to mitigate the above risks (diversified currency deposits portfolio, increasing share of OPEX and CAPEX denominated in Rubles and doreign currency hedging).

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International market:

Legal risks related to changes of foreign currency regulations in the international market do not have any significant impact on the Company's business due to small scope of international operations performed by the Company.

Risks related to changes in tax laws

Domestic market:

The Russian tax law bears various interpretations and is a subject to frequent changes. The Company follows closely all current changes in the tax laws and pays special attention to practical workshops and meetings with participation of leading experts in this area.

Recent developments in the Russian Federation demonstrate that tax authorities may take more strict positions in interpretation of tax laws and tax estimates. As a result, tax authorities may have claims to transactions and accounting methods where previously no claims were made. Significant additional taxes, fines and penalties may be charged as a consequence. Tax audit may cover three calendar years of business preceding immediately the year of audit. Subject to certain conditions, even earlier periods may be also checked.

International market:

Legal risks related to changes in tax laws in the international market do not have any significant impact on the Company's business due to small scope of respective operations performed by the Company.

Taxation related to income of controlled international companies and revenue of international organizations

On November 24, 2014, the President of Russian Federation signed the Federal Law No. 376-FZ "On amendments to Part One and Part Two of the RF Tax Code (in relation to income tax of controlled international companies and international organizations)". According to the above law, new rules will come into effect from January 1, 2015 and under these rules retained profits of foreign companies and non-corporate structures controlled by Russian tax residents (companies and individuals) may be subject to Russian taxation. The Russian taxpayer (controlling parties) shall be responsible for payment of respective tax and must inform the tax authorities of the foreign companies controlled by them.

As soon as the draft legislation was presented to the State Duma of the Russian Federation, the Company started to analyze the proposed amendments to the Tax Code, and it has implemented a wide range of actions aimed at mitigation of potential negative implications related to the law coming into force. In particular, the pool of

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international companies has been defined that potentially may be recognized as controlled international companies, an action plan has been prepared in relation of the above companies, and key deadlines have been determined for filing of required notifications to the competent authorities. For the purpose of compliance with new rules that come into effect since January 1, 2015, the Company continues improving its internal procedures according to official explanations from the authorities.

Risks related to new transfer pricing rules

Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to control transaction prices for the purpose of taxation and impose additional profits tax liabilities in respect of certain transactions if the transaction price differs from the market level of prices. Because of the lack of clarity in the current Russian transfer pricing legislation and the absence of court precedent, consequences of litigations with the Russian tax authorities with respect to the level of prices applied by the Company cannot be reliably assessed. However, those consequences might affect the Company's financial statements.

3. Analysis and evaluation of Balance Sheet structure and profit trends

Balance sheet structure as of December 31 was as follows (as a percentage of balance sheet total):

Caption	Balance sheet line	Balance sheet items as percentage of balance sheet total			Changes in balance structure	
		31.12.2014	31.12.2013	31.12.2012	2014	2013
Non-current assets	1100	78%	80%	85%	(2%)	(5%)
Current assets, total	1200	22%	20%	15%	2%	5%
Including						
Inventory	1210	-	1%	1%	(1%)	-
VAT receivable	1220	-	-	-	-	-
Accounts receivable	1230	3%	2%	3%	1%	(1%)
Financial investments (excluding cash equivalents)	1240	12%	13%	8%	(1%)	5%
Cash and cash equivalents	1250	5%	2%	-	3%	2%
Other current assets	1260	2%	2%	3%	-	(1%)

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Caption	Balance sheet line	Balance sheet items as percentage of balance sheet total			Changes in balance structure	
		31.12.2014	31.12.2013	31.12.2012	2014	2013
Total assets	1600	100%	100%	100%	-	-
Long-term liabilities	1400	39%	38%	37%	1%	1%
Short-term liabilities, total	1500	24%	24%	23%	-	1%
Including						
Loans and borrowings	1510	11%	4%	6%	7%	(2%)
Accounts payable	1520	8%	8%	8%	-	-
Provisions	1540	2%	9%	6%	(7%)	3%
Other short-term liabilities	1550	3%	3%	3%	-	-
Equity and reserves	1300	37%	38%	40%	(1%)	(2%)
Total liabilities and equity	1700	100%	100%	100%	-	-

The balance structure as of December 31 is characterized by the following ratios:

Ratios	As of 31.12.2014	As of 31.12.2013	As of 31.12.2012
Absolute liquidity ratio	0.71	0.61	0.36
Current liquidity ratio	0.93	0.81	0.64
Return on equity	0.21	0.36	0.21
Leverage	1.71	1.61	1.52
Return on sales	0.30	0.33	0.30

Absolute liquidity ratio is calculated as the amount of cash and cash equivalents (Balance sheet line 1250) and short-term financial investments (Balance sheet line 1240) divided by the amount of short-term liabilities (Balance sheet lines 1510, 1520, 1540 and 1550).

Current liquidity ratio is calculated as the amount of current assets (Balance sheet line 1200) divided by the amount of short-term liabilities (Balance sheet lines 1510, 1520, 1540 and 1550).

Return on equity is calculated as the amount of net income (Income statement line 2400) divided by the amount of average equity for the reporting period (Balance sheet line 1300).

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Leverage ratio is calculated as the amount of long-term and short-term liabilities (Balance sheet lines 1400 and 1500) divided by the equity (Balance sheet line 1300).

Return on sales is calculated as the amount of profit/(loss) from operations (Income statement line 2200) divided by the amount of revenue (Income statement line 2110).

Profit trends

Type of business	Revenue (line 2110, Income statement)		Cost of sales, selling and administrative expenses (lines 2120, 2210, 2220, Income statement)		Profit/(Loss) from operations (line 2200, Income statement)		Increase /(decrease) in profit (loss), %
	2014, mln.RUR	2013, mln.RUR	2014, mln.RUR	2013, mln.RUR	2014, mln.RUR	2013, mln.RUR	2014
Telecommunicati on services	284 261	270 475	(194 921)	(180 054)	89 340	90 421	(1%)
Sales of subscribers' handsets	4 364	3 101	(6 860)	(4 484)	(2 496)	(1 383)	80%
Total:	288 625	273 576	(201 781)	(184 538)	86 844	89 038	(2%)

4. Summary of significant accounting policies

The Company's accounting is carried out in accordance with Federal Law No. 402-FZ "On Accounting", dated December 6, 2011 and Regulations on Accounting and Accounting Financial Statements in the Russian Federation approved by Order No. 34n of the Ministry of Finance of the Russian Federation, dated July 29, 1998 as well as the existing Russian Accounting Standards. The Company's financial statements for 2014 were prepared in compliance with the same Law and regulations.

Uncertainty of management estimates

The main assumptions concerning future events and other sources of estimated values uncertainty as of the reporting date are presented below. These assumptions contain a considerable risk of a necessity to substantially adjust the assets book value and liabilities in the next reporting year:

- bad debt allowance for accounts receivable;

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- inventory obsolescence reserve;
- fixed assets and intangible assets useful life;
- provisions recognized in accordance with RAS 8/2010 "Provisions, contingent liabilities and contingent assets".

Fixed assets

Fixed assets (FA) – part of the property used as instruments of labor for operational business activities, performing works, providing services, or for managerial purposes, over a period exceeding 12 months. Fixed assets also include capital investments into leased FA items.

The following assets are not included into fixed assets and are accounted for as current assets:

- assets used within a period less than 12 months regardless of their cost;
- assets with cost less than RUR 40 000 regardless of the useful life, except for technological equipment and fiber-optic communication lines (FOCLs);
- books, brochures and other publications.

In compliance with items 7,8 RAS 6/2001 "Accounting for Fixed Assets", fixed assets are accounted for based on their historical cost which is determined in accordance with item 11, RAS 6/2001 as follows:

- for fixed assets acquired for cash consideration – as the actual cost of acquisition, construction or production, net of VAT and other recoverable taxes as well as general and administrative costs and other similar costs except for directly related to the acquisition of the fixed assets;
- for fixed assets acquired under a gift contract and other cases of gratuitous receipt – of their market value as of the date of the acquisition as investments into noncurrent assets;
- for fixed assets acquired for non-cash consideration – at the cost of items that were transferred or are to be transferred in exchange of the assets received except for cases when market value of an asset received seems more applicable.

Fixed assets are depreciated using the straight-line method. The useful lives are set for fixed assets in accordance with the Classifier of Fixed Assets, Intangible Assets and Other Non-Current Assets of MegaFon OJSC.

If the initial characteristics of fixed assets are improved (upgraded) as a result of reconstruction or modernization, their useful lives may be revised by decision of a special committee, as approved by the Head of the Company.

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Depreciation for upgraded items shall be calculated on the basis of the remaining useful life of a fixed assets item and its carrying value plus cost of upgrades.

Change of the historical cost of a fixed asset item is only allowed in case of additional construction or installation, reconstruction, modernization, partial liquidation, and revaluation (item 14, RAS 6/2001).

The costs of fixed assets repair are included into the current accounting period expenses in the total sum of the actual expenses.

Intangible assets

In compliance with item 6, RAS 14/2007 "Accounting for Intangible Assets", intangible assets (IA) are recognized at their historical cost. Their historical cost is determined as follows:

- for intangible assets acquired for cash consideration – at the amount of actual cost of acquisition net of VAT and other refundable taxes;
- for intangible assets under a gift contract – based on the current market cost of items as of the date of inclusion into accounting as an investment into noncurrent assets;
- for intangible assets acquired for non-cash consideration – at the cost of items that were transferred or are to be transferred in exchange of the assets received.

In compliance with item 28, RAS 14/2007 "Accounting for Intangible Assets", Intangible assets are amortized using the straight-line method.

The useful life of intangibles is determined based on:

- validity period of the entity's intellectual property rights or individualization assets and period of executing control over the asset;
- if there is no "legal" useful life, the Company must use the Classifier for Fixed Assets, Intangible Assets and Other Non-Current Assets of MegaFon OJSC, or in exceptional cases that are justified by evident economic circumstances, it should define its own assumptions and estimates regarding the useful life of an IA item (such estimate should be appropriately documented).
- If the "legal" lifetime of the intangible assets substantially exceeds the expected asset lifetime during which the Company plans to benefit from, the useful life is considered equal to the assumed lifetime (with a corresponding documenting of such estimate).

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The useful life of IA is subject to annual revisions. If the lifetime of an asset changes substantially, its useful life shall be adjusted.

Any adjustments shall be reflected in accounting and in financial statements as of the beginning of the reporting year as changes in estimates.

Amortization charge for Intangible assets is recorded in accounting ledgers by accumulating the corresponding amounts on separate accounts.

Research and development

R&D results are research, development and technical works where:

- Achieved results that must be protected by the law but which are not registered in accordance with the legislation;
- Achieved results that must not be protected by the law in accordance with the legislation.

R&D expenses shall be included in financial statements only if:

- Amount of expenses can be determined and proved;
- Work delivery statement available;
- Work results are used for operating and/or management needs for the future benefit of the Company;
- R&D results can be demonstrated.

In case if any of the above listed criteria is not met, expenses related to R&D are expensed in the current period as incurred.

Period over which R&D expenses are written off shall be determined according to proposed utilization period, but up to 5 years under the resolution signed by the CEO / Director of the Branch.

R&D expenses are written off using the straight-line method.

Financial investments

In compliance with item 3, RAS 19/2002 "Accounting for Financial Investments", financial investments include investments into state securities, bonds and other securities of other entities, charter capital of other entities, deposit accounts with financial institutions with maturity more than 3 months (91 days and more) and loans issued to other entities.

The Company defines a unit of accounting for each type of financial investments in order to present complete and fair information about these investments. The unit of accounting for loans is each loan granted, for deposits – each deposit opened, for investments to charter (share) capitals of other entities (including subsidiaries and associated companies as well as Group of companies) – each issuer of securities or the entity, where the Company participates (directly or indirectly).

In order to provide for appropriate control over availability of and changes in investments in charter (share) capitals of other entities, the Company may define a unit of accounting for financial investments as the entities that are indirectly controlled the Company via its direct subsidiaries. In which case, such investments to other entities shall be evaluated as the amount of actual cost of financial investment to a relevant subsidiary to be determined on the basis of the share of the aforementioned entity in the estimated value of investments to the corresponding subsidiary.

Financial investments, for which it is possible to determine current market value, are reflected at the current market value at the end of the reporting year by adjusting their value as of the previous reporting date. The adjustment is made on a quarterly basis (item 20, RAS 19/2002).

Financial investments, for which it is not possible to determine a market value, are accounted for at their historical cost (item 21, RAS 19/2002).

The Company shall check the value of investments, which are not determined by market value, for the presence of its steady decline in order to create a reserve for impairment (item 37 RAS 19/2002).

Long-term financial investments are classified as non-current assets in the financial statements.

Inventory

In compliance with item 2, PBU 5/2001 "Accounting for Inventory", the following assets are classified as inventory:

- assets used to support the Company's operations;
- assets held for sale;
- assets used for the organization's managerial needs;
- assets with value that does not exceed RUR 40 000 independently of the period of their use, except for technological equipment and FOCLs.

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The Assets, which value does not exceed RUR 40 000 independently of the period of their use, except for technological equipment and FOCLs , as well as purchased books, brochures and publications are accounted for as inventory and written-off to expenses as and when they are used for production or operations.

Inventory items acquired for cash consideration, are carried at their actual acquisition cost, which is defined as the total amount of actual costs incurred by the entity in connection with their acquisition, manufacturing and transportation including all premiums, discounts and other price adjustments granted by the vendors in connection with the acquisition of the assets, net of the value added tax. The premiums and discounts in particular include the transaction terms and conditions that envisage the decrease of the price for inventories being acquired, payment of a certain amount of money, provision of additional amount of inventory items free of charge, etc.

Determination of the actual cost price of inventory items to be charged to production or sales costs is performed by the method of stock assessment for the unit cost of inventory. Determination of the actual cost price of fuel and lubricants is done according to the inventory evaluation at average cost price.

In compliance with item 25, RAS 5/2001 "Accounting for Inventory", as of end of reporting year, the inventory items, which have become obsolete or lost its initial quality or do not correspond to the market value, are recorded in the Balance sheet at cost net of the obsolescence reserve.

Spare parts and materials used in technological equipment installation and modernization are recorded in financial statements as non-current assets.

Accounts receivable

In compliance with item 70 of the Regulations on Accounting and Accounting Financial Statements in the Russian Federation, approved by Order No.34N of the Ministry of Finance of the Russian Federation dated July 29, 1998, the Company records the following reserves:

- bad debt allowance for accounts receivable;
- provision for advances issued (reserve for potential loss on write-off of advances paid to suppliers/contractors due to its failure to perform obligation or failure to return the advance).

A bad debt is an outstanding account receivable, which will not be settled with a high probability within the contractual term and is not secured by proper guarantees.

The amount of bad debt allowance is determined in accordance with the Company's methodology.

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Bad debt allowance is created based on ongoing analysis of receivables outstanding as of the last day of the reporting period and the statistical forecast of non-payment percent for each group of debtors.

For the purposes of subsequent analysis, when performing analysis of outstanding debts, the accounts receivable are aggregated as follows:

- Mobile subscribers;
 - Postpaid subscribers
 - Advance paid subscribers
- Fixed line subscribers;
- Significant debtors (over RUR 1 mln.);
- Roaming partners;
- Dealers;
- Buyers of subscriber equipment;
- Buyers of fixed assets and other Non-Current Assets;
- Buyers of other services.

Bad debt allowance for accounts receivable of “Prepaid” subscribers is formed separately:

- Advance paid subscribers excluding subscribers enrolled to the “Credit of Trust” service;
- Advance paid subscribers enrolled to the “Credit of Trust” service.

Accounts receivable with the expired period of the statute of limitations and other uncollectible debts, are written off based on the item-by-item analysis, as approved by the Head of the Company.

Revenue

Revenue is recognized upon rendering telecommunications services, performing works, sale of handsets and other assets, and lease of assets.

The revenue from ordinary activities is determined taking into account (an increase or decrease) all discounts (markups) provided by the Company.

Expenses

In compliance with item 18, RAS 10/99 “Expenses”, all expenses are recorded in the accounting period when they are incurred, regardless of timing of actual cash payment and other form of settlements.

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Selling and administrative expenses are recognized entirely in the period of their recognition as expenses from ordinary activities.

Following the principle of prudence and completeness of recognition of all business operations in the financial statements, expenses and liabilities are recognized based on the economic substance of the transactions, without concealment or understatement of expenses. For each reporting date, the accounting records reflect the amount of liabilities assumed in connection with certain economic transactions or events that occurred in the current or previous accounting periods, if there is certainty that these economic transactions or events have resulted in the decrease in economic benefits, i.e. the Company has incurred expenses.

Accounting of loan and borrowing costs

The principal amount of a loan and (or) borrowings is reflected in the accounting records of the Company as accounts payable on the date when the funds were actually received in accordance with the terms of the loan or facility agreement in the amount of funds actually received under the loan agreement.

In compliance with item 3, RAS 15/2008 on "Accounting for Loan and Credit Expenses", the expenses related to fulfillment of obligations under the loans and credits received (hereinafter "loan expenses"), include:

- interest payable to the lender (creditor);
- additional expenses related to loans.

Additional expenses related to loans are:

- amounts paid for information and consulting services;
- amounts paid for the expert's report on loan agreement (credit agreement);
- other expenses directly related to receiving loans (credits).

In compliance with item 7, RAS 15/2008 on "Accounting for Loan and Credit Expenses", all loan expenses shall be recognized as other expenses except for those that are to be included in the cost of the investment asset.

The cost of investment asset includes interest payable to the lender (creditor), that is directly related to acquisition, construction and production of such investment asset.

Additional loan expenses will be evenly expensed during the loan period (credit agreement term) and recognized in other expenses (item 8, RAS 15/2008).

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Methods for valuation of assets

For the purpose of recognition of assets and liabilities in financial statements they are valued in monetary terms in compliance with item 1, Article 12 of Federal Law No.402-FZ.

The value of assets acquired for a cash consideration is determined as the total cost of acquisition; the value of gratuitously received assets is determined based on their market value as of the acquisition date; the value of the assets manufactured by the organization itself is determined based on the costs incurred to manufacturing of the assets.

Depreciation and amortization charges are accrued for fixed and intangible assets regardless of the Company's financial results in the reporting period.

Using other methods of assets valuation, including provisioning, is allowed in cases provided for by the Russian laws and regulation documents issued by the accounting regulation authorities

Cash and cash equivalents, presentation of Cash Flows

Cash and cash equivalents

For the purposes of preparation of Statement of cash flows the Company includes the cash equivalents in the amount of cash, which mean highly liquid financial investments that can be easily converted into the predictable amount of cash and are exposed to a minor value change risk. In particular, the Company includes in the cash equivalents the sight deposits in credit organizations and/or deposits with maturity of three months or less. For the purposes of making a Balance sheet the Company includes the cash equivalents in the cash.

Statement of cash flows

The Company presents in its Statement of cash flows the cash flows from operating, investing and financing activities that are classified depending to the nature of performed activities.

Cash flows from operating activities are related to the Company's core business. In particular, cash flows from operating activities may be represented by receipts from sales of goods, performance of work, provision of services; payments to vendors (contractors) for raw materials, works, services; remuneration to employees, as well as payments to the third parties; other payments and receipts related to the core business. In the section "Cash flows from operating activities" the Company reflects payments related to remuneration to employees on a net basis after

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withholding of personal income tax or payments against orders of enforcement. The withheld amounts of personal income tax are reflected with amounts of other taxes related to current operations.

Cash flows from investing activities are related to acquisition, establishment or disposal of non-current assets. In particular, cash flows from investing activities may include: payments to vendors (contractors) and employees of organization due to acquisition, establishment, modernization, reconstruction of non-current assets; payment of interest on debt included in cost of investment assets; proceeds from sale of non-current assets; loans issued to other entities, repayment of loans issued to other entities, payments related to purchase of debt securities (right of claim of cash payments to other parties) and any other payments and proceeds related to investing activities.

Cash flows from financing activities related to financing raised by the Company on debt and equity basis resulting in changes of size and structure of capital and borrowings. Examples of financing activities shall include: proceeds from share issues, payments to owners due to buyback of shares, payment of dividend, receipt of loans and borrowings and other payments and proceeds related to financing activities. In the section "Cash flows from financing activities the Company presents dividend payments on a net basis after withholding of dividend tax and personal income tax withheld when dividends are paid to shareholders. The amounts of withheld taxes shall be reflected with amounts of other taxes in the section "Cash flows from operating activities".

Net presentation of Cash Flows

Cash flows are presented in Statement of cash flows on a net basis if they characterize the activities of the Company's counterparties rather than those of the Company, and (or) if the cash received from some parties make it necessary to effect corresponding payments to other parties. In particular, the Company presents on a net basis the following cash flows: 1) cash flows of a commissionaire or an agent related to performance of agency services (except for payments for such services); 2) indirect taxes included in cash receipts from buyers and customers, included in payments to suppliers and contractors and payments of indirect taxes to the budget system of the Russian Federation or reimbursements from the same.

Accounting for Cash Flows denominated in Foreign Currencies

For the purposes of preparing the Statement of cash flows the cash flows denominated in foreign currency are converted into rubles at the official foreign currency exchange rates set by the Central Bank of the Russian Federation on the date of making or receiving the payment. Opening and closing balances of hard currency cash or cash equivalents for a reporting period are reflected in the Statement of cash flows in rubles in the amount that is calculated in accordance with the Regulations on Accounting for Assets and Liabilities Denominated in Foreign Currencies (RAS 3/2006). The differences resulting from conversion of the Company's hard currency cash flows and

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cash and cash equivalents balances using exchange rates stated on different dates, are reflected in the Statement of cash flows separately from current, investment and financial cash flows of the Company as the impact of foreign currency exchange rates changes.

Accounting for Assets and Liabilities denominated in Foreign Currency

Accounting for the Company's foreign currency bank accounts and transactions denominated in foreign currency is performed in rubles based on the foreign currency exchange rate set by the Central Bank of the Russian Federation as of the date of such transaction.

Currency exchange rates of the Central Bank of the Russian Federation as of the reporting date

Currency	Exchange rate as of 31.12.2014	Exchange rate as of 31.12.2013	Exchange rate as of 31.12.2012
US Dollar	56,2584	32,7292	30,3727
EURO	68,3427	44,9699	40,2286

In compliance with item 12, RAS 3/2006 on Accounting for Assets and Liabilities Denominated in Foreign Currency, foreign currency exchange gain/loss shall be recorded in financial statements for the reporting period when liability is settled, or for which the financial statements are prepared.

Foreign currency exchange gain/loss is posted to the financial results of the Company as Other Income or Other Expenses (item 13, RAS 3/2006) except for the foreign currency exchange gain/loss related to forming the Company's charter (share) capital, which must be posted to the additional capital. In the financial statements foreign currency exchange gain/losses are presented on a net basis by each type of transactions resulting to exchange gain/loss, i.e.:

- transactions with suppliers and contractors;
- transactions with customers;
- financial investments transactions;
- cash and cash equivalents transactions;
- loans and borrowings transactions;
- changes in provisions;
- transactions with other debtors and creditors.

Provisions

In accordance with RAS 8/2010 "Provisions, contingent liabilities and contingent assets" the Company recognizes provisions in relation to liabilities with uncertain amounts and (or) timing of settlements.

The provisions are recognized if the following criteria are met:

- the Company has an obligation resulting from its past business activities, performance of which cannot be avoided;
- decrease of economic benefits is probable, which makes it necessary to settle the liability;
- amount of the provision can be reasonably determined.

In particular, the Company recognizes provisions for liabilities which occur from acquisitions of other legal entities, liabilities resulting from legal proceedings, etc.

If the liability settlement period exceeds 12 months from the reporting date, the provision is evaluated using discounted cash flows method.

Increase of the provision due to growth of its present value on the subsequent reporting dates as the settlement date becomes closer (interest) is recognized as other expenses.

If the amount of the recognized provision is not sufficient to cover the liability at the settlement date, the additional expense shall be recognized using general accounting principles.

In case if the recognized provision exceeds the settled obligation or in case the recognition criteria are not met any longer, the surplus is recognized as other income.

Other

The expenses incurred by the Company in the reporting period but also related to next reporting periods, shall be recognized in the Balance sheet in accordance with general principles of assets recognition set forth by the accounting standards, and shall be written off in accordance with the procedure established for writing off assets of this type. These expenses shall be recorded at account 97, "Prepaid Expenses" and shall be classified as "Other Non-Current Assets" or "Other Current Assets" in the Balance sheet depending on its terms.

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If for certain transactions there is no specific accounting guidance in the accounting regulations, the Company shall develop method of accounting based on the requirements of RAS 1/2008 "Accounting Policy of Organizations" and other regulations on accounting, as well as the International Financial Reporting Standards.

Changes in accounting policy

The Company did not change the 2014 accounting policy as compared to the 2013 accounting policy.

The Company does not plan to make changes in the accounting policy for 2015 as compared to 2014.

5. Fixed Assets

As of December 31, the Balance Sheet line 1150 "Fixed Assets" includes:

Caption	As of 31.12.2014, mln.RUR	As of 31.12.2013, mln.RUR	As of 31.12.2012, mln.RUR
Gross book value	392 586	343 837	325 255
Accumulated depreciation	(215 427)	(185 859)	(160 682)
Construction in-progress, including advances paid	24 805	23 818	20 511
Total for line 1150 of Balance Sheet	201 964	181 796	185 084

The changes in the main groups of fixed assets in 2014 and 2013 are presented in the tables below:

FA group	Gross book value as of 31.12.2013, mln. RUR	Net book value as of 31.12.2013, mln.RUR (estimated)	Fixed asset additions during 2014, mln.RUR	Fixed assets additions as a result of reorganization, mln.RUR	Fixed assets disposals during 2014, mln.RUR	Gross book value as of 31.12.2014, mln.RUR	Net book value as of 31.12.2014, mln. RUR (estimated)
2014							
Buildings	10 456	8 456	176	-	(108)	10 524	8 141
Structures and transmission devices	51 823	39 013	3 722	-	(170)	55 375	39 407
Machinery and equipment	278 064	108 754	52 946	-	(7 938)	323 072	127 925
Transport vehicles	1 405	454	176	-	(123)	1 458	408
Production and organizational stock	443	266	105	-	(6)	542	288

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FA group	Gross book value as of 31.12.2013, mln. RUR	Net book value as of 31.12.2013, mln.RUR (estimated)	Fixed asset additions during 2014, mln.RUR	Fixed assets additions as a result of reorganization, mln.RUR	Fixed assets disposals during 2014, mln.RUR	Gross book value as of 31.12.2014, mln.RUR	Net book value as of 31.12.2014, mln. RUR (estimated)
2014							
Land plots	762	762	14	-	-	776	776
Other fixed assets	884	273	26	-	(71)	839	214
Total	343 837	157 978	57 165	-	(8 416)	392 586	177 159

FA group	Gross book value as of 31.12.2012, mln. RUR	Net book value as of 31.12.2012, mln.RUR (estimated)	Fixed asset additions during 2013, mln.RUR	Fixed assets additions as a result of reorganization, mln.RUR	Fixed assets disposals during 2013, mln.RUR	Gross book value as of 31.12.2013, mln.RUR	Net book value as of 31.12.2013, mln. RUR (estimated)
2013							
Buildings	10 425	8 757	167	-	(136)	10 456	8 456
Structures and transmission devices	48 577	38 699	3 740	-	(494)	51 823	39 013
Machinery and equipment	262 863	115 235	25 763	5	(10 567)	278 064	108 754
Transport vehicles	1 289	475	217	6	(107)	1 405	454
Production and organizational stock	429	316	22	-	(8)	443	266
Land plots	744	744	18	-	-	762	762
Other fixed assets	928	347	30	4	(78)	884	273
Total	325 255	164 573	29 957	15	(11 390)	343 837	157 978

Information on accumulated depreciation of fixed assets for 2014 and 2013:

FA group	Accumulated depreciation as of 31.12.2013, mln. RUR	Depreciation charges in 2014, mln. RUR	Additions as a result of reorganization, mln. RUR	Depreciation on written off after FA disposal during the year, mln. RUR	Accumulated depreciation as of 31.12.2014, mln.RUR
2014					
Buildings	2 000	415	-	(32)	2 383

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FA group	Accumulated depreciation as of 31.12.2013, mln. RUR	Depreciation charges in 2014, mln. RUR	Additions as a result of reorganization, mln. RUR	Depreciation written off after FA disposal during the year, mln. RUR	Accumulated depreciation as of 31.12.2014, mln. RUR
Structures and transmission devices	12 810	3 218	-	(60)	15 968
Machinery and equipment	169 310	32 321	-	(6 484)	195 147
Transport vehicles	951	213	-	(114)	1 050
Production and organizational stock	177	83	-	(6)	254
Other fixed assets	611	76	-	(62)	625
Total depreciation	185 859	36 326	-	(6 758)	215 427

FA group	Accumulated depreciation as of 31.12.2012, mln. RUR	Depreciation charges in 2013, mln. RUR	Additions as a result of reorganization, mln. RUR	Depreciation written off after FA disposal during the year, mln. RUR	Accumulated depreciation as of 31.12.2013, mln. RUR
2013					
Buildings	1 668	419	-	(87)	2 000
Structures and transmission devices	9 878	2 953	-	(21)	12 810
Machinery and equipment	147 628	30 183	5	(8 506)	169 310
Transport vehicles	814	230	5	(98)	951
Production and organizational stock	113	72	-	(8)	177
Other fixed assets	581	86	4	(60)	611
Total depreciation	160 682	33 943	14	(8 780)	185 859

The structure of Construction in-progress included in Fixed assets (line 1150 "Fixed Assets") was as follows as of December 31:

Construction in progress item group	CIP item value as of 31.12.2014, mln. RUR	CIP item value as of 31.12.2013, mln. RUR	CIP item value as of 31.12.2012, mln. RUR
Buildings	418	431	339

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Construction in progress item group	CIP item value as of 31.12.2014, mln. RUR	CIP item value as of 31.12.2013, mln. RUR	CIP item value as of 31.12.2012, mln. RUR
Structures	668	1 135	1 332
Machinery and equipment	10 340	9 633	8 736
Technologic equipment for installation	10 235	8 946	5 763
Spare parts, installation and repair materials for technologic equipment	1 409	1 192	1 094
Production and organizational stock	22	23	47
Other capital investments	218	216	124
Advances for CAPEX, gross	2 273	2 999	3 120
Provision for Advances for CAPEX	(778)	(757)	(44)
Total	24 805	23 818	20 511

Information on the useful life by groups of fixed assets is presented below:

Fixed assets group	Useful life length
Buildings	30 years
Structures and transmission devices	5 – 30 years
Machinery and equipment	2 – 20 years
Transport vehicles	3 – 7 years
Production and organizational stock	2 – 7 years
Other fixed assets	2 – 20 years

As of 31.12.2014, the gross book value of fully depreciated fixed assets amounted to RUR 99 677 mln. (as of 31.12.2013: RUR 76 942 mln., as of 31.12.2012: RUR 59 937 mln.).

Interest expense on loans and borrowings in the amount of RUR 93 mln. relating to acquisition of investment assets were capitalized during 2014 (2013: RUR 96 mln.).

Salary expenses and travel expenses of operating units responsible for control and supervision over capital construction works during the reporting period were capitalized in the amount of RUR 298 mln. (2013: RUR 230 mln.).

The Company dismantled and continues dismantling of fixed assets (telecommunications equipment), the net book value of which is RUR 427 mln. The Company continues to depreciate equipment that is in the process of being dismantled. The potential selling price of these sites may be significantly lower than their net book value.

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Other use of the fixed assets as of December 31 was as follows:

Caption	As of 31.12.2014, mln.RUR	As of 31.12.2013, mln.RUR	As of 31.12.2012, mln.RUR
Fixed assets leased to third parties*	14 723	67	533
Fixed assets received under lease**	294	304	2 726
Real estate objects, accepted for operation and actually used, that are in the process of state registration	14 883	14 625	12 670
Fixed assets, transferred for conservation	125	123	101
Fixed assets under pledge - original value***	645	477	-
Fixed assets under pledge – book value	474	467	-

(*) Most of fixed assets leased to third parties in the amount of RUR 14 652 mln. Include assets that have been transferred to Scartel LLC under the property lease agreement № 01/AP/2014 as of 01.04.2014. The property includes communication facilities, structures and lines, as well as other property of the Company that is needed for communication services provided by Scartel LLC based on its licenses.

(**)In addition to the abovementioned fixed assets the Company also leases fiber optic lines and sites for installation of base stations. The existing lease agreements do not state the value of the said leased fixed assets, therefore a reliable evaluation of the value of the said objects is difficult and requires high labour costs or is simply impossible. That is why no evaluation of the said leased fixed assets for accounting on off-balance accounts was carried out by the Company, in compliance with the principle of rationality (RAS 1/2008, item 6).

(***) Equipment supplied under contract № UDR-16042013-1 with Hewlett-Packard A.O. CJSC is under pledge in compliance with item 5 Article 488 of the RF Civil Code until it is completely and timely paid for. The Fixed Assets under pledge mostly include equipment and software with Hewlett Packard. According to the contract terms and conditions the pledged equipment shall be kept by the Company and used at its own discretion.

Caption	2014, mln.RUR	2013, mln.RUR
Changes in the value of fixed assets as a result of further construction, installation of additional equipment, reconstruction	3 498	2 660

In 2014, the Company acquired property that is used technologically and functionally for communication services under purchase & sale agreement No. 01КП/2014 dated 31.03.2014 from the Company's subsidiary Scartel LLC for the total amount of RUR 15 821 mln. (net of VAT), plus VAT of RUR 2 848 mln. Payments for the equipment were partly effected by offsetting against the loan granted to Scartel LLC under agreement dated 24.02.2012 and agreement No. 1013 dated 02.10.2013 in the amount of RUR 18 555 mln. (information on loans issued is disclosed in section 7 "Long-term financial investments" and section 8 "Short-term financial investments").

In 2014, the Company acquired equipment (platforms and systems) under the Amendment No.1 dated 25.05.2014 to the Master Agreement No.2 dated 25.05.2014 from the Company's subsidiary MegaLabs CJSC for the total

amount of RUR 1 575 mln., (net of VAT), plus VAT of RUR 284 mln..

6. Other Non-Current Assets

The Company incurred costs related to acquisition of non-exclusive rights and licenses. In accounting books these expenses are recorded at account 97 "Prepaid Expenses", they are of long-term nature and are presented in the line 1190 "Other Non-Current Assets" in the Balance sheet.

As of December 31, the other non-current assets included:

Other non-current assets	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Operating licenses	303	345	390
Software licenses	14 902	13 964	13 397
Rights to use of trademarks	333	1 448	1 672
Radio frequencies rights	5 065	4 334	3 910
Numbering capacity costs	25	28	202
Payments for installation of communication channels and circuits	1 141	414	507
Interconnection costs	510	558	451
Additional expenses related to loans and borrowings	1 552	1 013	1 062
Advance payments related to capital investments in other non-current assets	317	120	552
Long-term accounts receivable	51	35	5
Long-term advances issued	56	61	789
Interest receivables for loans granted to subsidiaries	8 917	8 136	3 619
Long-term receivables from cession	126	74	68
Other non-current assets	878	824	715
Total Balance sheet line 1190	34 176	31 354	27 339

7. LONG-TERM FINANCIAL INVESTMENTS

The roll-forward of long-term financial investments by types for 2014 and 2013 is presented in the table below:

Type of long-term financial investments	Balance as of 31.12.2013, mln. RUR	Additions in 2014, mln. RUR	Disposals in 2014, mln. RUR	Additions as a result of reorganization, mln. RUR	Foreign exchange gain/loss, mln. RUR	Reclassification between long-term and short-term portion, mln, RUR	Balance as of 31.12.2014, mln. RUR
2014							
Equity participations and shares	99 870	4 976	-	-	-	-	104 846
Loans issued	44 471	989	(32 656)	-	3 218	(3 845)	12 177
Total Balance sheet line 1170	144 341	5 965	(32 656)	-	3 218	(3 845)	117 023

Type of long-term financial investments	Balance as of 31.12.2012, mln. RUR	Additions in 2013, mln. RUR	Disposals in 2013, mln. RUR	Additions as a result of reorganization, mln. RUR	Foreign exchange gain/loss, mln. RUR	Reclassification between long-term and short-term portion, mln. RUR	Balance as of 31.12.2013, mln. RUR
2013							
Equity participations and shares	66 609	38 789	(5 610)	82	-	-	99 870
Loans issued	46 901	14 622	(4 129)	-	362	(13 285)	44 471
Total Balance sheet line 1170	113 510	53 411	(9 739)	82	362	(13 285)	144 341

As of December 31, loans issued included as follows:

Loans issued	Average interest rate	Maturity	Loan amount as of 31.12.2014, mln. RUR	Loan amount as of 31.12.2013, mln. RUR	Loan amount as of 31.12.2012, mln. RUR
Loans issued to subsidiaries in RUR	7,66%	2016 – 2018 годы	7 398	39 863	42 185
Loans issued to subsidiaries in USD	19,28%	2016 – 2017 годы	4 321	4 327	4 558
Other loans in USD	8,00%	2016 год	458	281	158
Total			12 177	44 471	46 901

As of December 31, the equity participations and shares included:

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Subsidiary	Direct/ indirect ownership	Company exercise indirect control through the below enterprise	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR.
Scartel LLC	direct/indirect	MAXITEN CO LIMITED	42 931	37 219	-
Yota LLC	indirect	MAXITEN CO LIMITED	-	1 112	-
Euroset Holding N.V.	indirect	Lefbord Investments Limited	35 298	35 298	35 298
Net By Net Holding LLC	direct/ indirect ownership	FAIRLIE HOLDING & FINANCE LIMITED	11 944	11 614	8 818
VAS Media LLC	indirect	FELEBIOR HOLDINGS LIMITED from 11.09.2012 till 10.07.2013 MegaLabs CJSC from 10.07.2013 till present	-	7 571	7 571
Point Media LLC	indirect	FELEBIOR HOLDINGS LIMITED from 11.09.2012 till 10.07.2013 MegaLabs CJSC from 10.07.2013 till present	-	771	771
Media Technologies Center LLC	direct/indirect	FELEBIOR HOLDINGS LIMITED from 11.09.2012 till 10.07.2013 MegaLabs CJSC from 10.07.2013 till present	9 207	628	628
Metrocom CJSC	direct	-	2 082	2 082	2 082
MegaFon Retail OJSC	direct	-	1 155	1 155	1 155
MegaLabs CJSC	direct	-	1 024	1 024	1 024
AQUAFON GSM CJSC	indirect	Debton Investments Limited	819	819	819
Absolut Construction Company CJSC	direct	-	-	-	2 347
Synterra CJSC	direct	-	-	-	3 083

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Subsidiary	Direct/ indirect ownership	Company exercise indirect control through the below enterprise	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR.
Yugratel OJSC	direct	-	-	-	2 421
Other equity participation and shares in subsidiaries			386	577	592
Total	-	-	104 846	99 870	66 609

Synterra CJSC

In June 2010, the Company completed acquisition of Synterra Group – an alternative provider of integrated telecommunication services in Russia – through acquisition of 100% shares of Synterra CJSC. The value of the shares as of the date of acquisition amounted to RUR 12 460 mln. (USD 401 mln.), composed of cash consideration of RUR 9 267 mln. (USD 298 mln.) and deferred cash payments of RUR 3 193 mln. (USD 103 mln.). In 2011, due to reorganization of subsidiaries from the Synterra Group in form of the merger with MegaFon OJSC, the amount of financial investments was reduced down to RUR 3 098 mln.. In August 2013, the Company settled the contingent consideration for purchase of shares of Synterra CJSC in the amount RUR 2 696 mln. by transferring to the sellers its 60% interest in Synterra-Media CJSC and 100% interest in Absolut Construction Company CJSC and a cash payment of USD 7 mln. (RUR 231 mln. at the exchange rate on the date of payment) (Section 17 Provisions). On November 1, 2013, Synterra CJSC was reorganized in form of merger with the Company.

Net By Net Holding LLC, ORC LLC

In June 2011, the Company completed the acquisition of shares of FAIRLIE HOLDING & FINANCE LIMITED that owned 100% interest in Net By Net Holding LLC, ORC LLC, Consul Group LLC, INETERA LLC, providers of broadband Internet, IP-telephony, IP TV and other multimedia services in Russia, operating under Net By Net brand - at total USD 321 mln. (RUR 8 936 mln. at the exchange rate on the date of payment), including USD 270 mln. (RUR 7 507 mln. at the exchange rate on the date of payment) and the deferred component USD 51 mln. (RUR 1 429 mln. at the exchange rate on the date of payment). The deferred component consisted of several payments within 1 year after the date of acquisition, which execution depended on operating results of the acquired company in 2011. The deferred payments had been calculated as of the date of acquisition using discounted cash flow method and was assessed based on the estimated probabilities of deferred payments and expected repayment

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dates. In 2012, the Company paid RUR 1 489 mln. as final and complete consideration under the acquisition of (FAIRLIE HOLDING & FINANCE LIMITED) made in June 2011. Part of this liability was paid to the company where the Company's Chief Executive Officer was the beneficiary.

In December 2012, Consul Group LLC and INETERA LLC were reorganized in form of the merger with Net By Net Holding LLC.

In December 2013, Yugratel LLC and Synterra-South LLC were reorganized in form of the merger with Net By Net Holding LLC.

On December 31, 2014, the Company made a contribution to Net By Net Holding LLC assets through transfer of broadband assets with market value of RUR 330 mln.

VAS Media LLC, Point Media LLC, Media Technologies Center LLC

In September 2012, the Company acquired 100% of the shares of FELEBIOR HOLDINGS LIMITED, which holds a 100% interest in VAS Media LLC, Point Media LLC, Media Technologies Center LLC, providers of multimedia content, ringtones, geo-location services, mobile payments and other value added services in Russia ("VAS Media"), for cash consideration of RUR 8 970 mln. In July 2013, FELEBIOR HOLDINGS LIMITED sold 100% of the shares of VAS Media LLC, Point Media LLC, Media Technologies Center LLC to MegaLabs CJSC, the Company's subsidiary.

On February 27, 2014 and March 12, 2014, the companies Point Media LLC and VAS Media LLC, respectively, were reorganized in form of the merger with Media Technologies Center LLC.

On June 17, 2014, FELEBIOR HOLDINGS LIMITED terminated its business (was liquidated).

Euroset Holding N.V.

In December 2012, the Company acquired 50% of the shares of Lefbord Investments Limited, which holds a 50% interest in Euroset Holding N.V., the biggest Russian mobile equipment retailer, for the amount of USD 536 mln. (RUR 16 522 mln. at the exchange rate on the date of payment). Under this transaction, Garsdale Services Investment Limited, related party of the Company, acquired another 50% of shares of Lefbord and became a parity shareholder. Also, under this transaction, the Company is obliged to buy these 50% of shares of Lefbord from Garsdale Services Investment Limited in three years from the date of the acquisition, but not earlier than in December 2013. This liability includes deferred and contingent payment. The amount of the contingent payment under the agreement is USD 535 mln., plus 8% p.a. for the period from the date of the agreement until the

repayment date. Therefore, after the completion of the transaction the Company has control over 50% of the charter capital of Euroset Holding N.V. The remaining 50% of the charter capital of Euroset Holding N.V. indirectly belong to Vimpelcom Group which is one of the three biggest mobile carriers in Russia same as the Company.

The Company had the right to settle this liability to Garsdale Services Investment Limited for the remaining 50% share in Lefbord Investments Limited either in cash or by own shares, including shares owned by Company's subsidiary MEGAFON INVESTMENTS (CYPRUS) LIMITED. The Company defined the above option for debt payment with own shares as separately acquired financial asset (put option) and classified as short-term financial investments. The Company reflected this put option at the estimated value until its exercise as described below.

In September 2013, Lefbord Investments Limited settled 50% of its liability for contingent consideration for the 50% share in Euroset to its previous shareholders as certain targets were met by Euroset by 30.06.2013. The payment in amount of USD 100 mln. (RUR 3 182 mln. at the exchange rate on the date of payment 25.09.2013) was financed by the issue of additional shares Lefbord Investments Limited to the Company and Garsdale Services Investment Limited in equal shares (50/50). The final amount of the contingent payment corresponded to the estimates made at the moment of acquisition of shares of Lefbord Investments Limited.

As of the transaction date 06.12.2012, the Company estimated the deferred and contingent consideration, which was included in the value of financial investments to Lefbord Investments Limited, in the amount of RUR 18 776 mln. The deferred and contingent liability for the acquired share in Euroset to Garsdale Services Investment Limited (as of 31.12.2013 was reflected in line 1540 "Provisions" of the Balance Sheet in the amount of RUR 20 678 mln.) was settled on July 9, 2014 by the Company's subsidiary MEGAFON INVESTMENTS (CYPRUS) LIMITED through transfer of 22 641 056 shares of the Company. The number of shares to be transferred as settlement of the liability was determined according to the agreement with Garsdale Services Investment Limited based on the amount of liability to Garsdale Services Investment Limited for 50% interest in Euroset as of the settlement date (USD 657 mln.) and average weighted market price for the Company's depository receipts during the period of 6 months prior to the liability settlement date.

As a result of settlement of liability to Garsdale Services Investment Limited by the Company's subsidiary there was change of a party under the agreement since the liability settlement date: the obligation to sell to the Company 50% interest in Lefbord Investments Limited and the right of claim of respective consideration from the Company in the amount of USD 657 mln. were transferred to MEGAFON INVESTMENTS (CYPRUS) LIMITED. Settlements under the transaction were completed by the Company on September 30, 2014 through offsetting against the loan agreement in the amount of RUR 25 889 mln. (section 7 "Long-Term Financial Investments").

Scartel LLC and Yota LLC

In October 2013, the Company acquired 100% of the shares of MAXITEN CO LIMITED, which holds a 100% interest in Scartel LLC and Yota LLC, providers of 4G/LTE telecommunication services under Yota brand, from Garsdale Services Investment Limited, the related party of the Company, for deferred payment in the amount of USD 1 180 mln. (RUR 38 331 mln. at the exchange rate on the date of payment). The payment for shares of MAXITEN CO LIMITED shall be made in two installments: 50% of the deferred payment plus interest at 6% p.a. is payable in one year from the date of the acquisition, the remaining part of deferred payment plus interest at 6% p.a. is payable in two years from the date of the acquisition. On June 21.2014, the Company made early cash payment of about 90% of the deferred consideration to Garsdale Services Investment Limited in the amount of USD 1 060 mln. plus accrued interest in the amount of USD 46 mln. (RUR 37 925 mln at the exchange rate as of the payment date). As of 31.12.2014, the short-term part of the deferred payment in the amount of RUR 7 257 mln was reflected in line 1540 "Provisions".

On April 1, 2014, Yota LLC was reorganized in the form of merger to Scartel LLC.

On December 10, 2014, the Company made a contribution to the charter capital of Scartel LLC in the amount of RUR 3 800 mln. through netting of counterclaims under the loan agreements:

- loan agreement dated 24.04.2012 in the principal amount of RUR 1 mln. and accrued interest of RUR 1 554 mln.
- loan agreement No. 1013 dated 02.10.2013 in principal amount of RUR 2 034 mln. and accrued interest of RUR 211 mln.

As a result of this transaction the Company's share in the charter capital of Scartel LLC is 92%.

On December 25, 2014, the Company made cash contribution to the property of Scartel LLC in the amount of RUR 800 mln.

8. SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments of the Company in 2014 and 2013:

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Type of financial investments	Balance as of 31.12.2013, mln. RUR	Additions in 2014, mln. RUR	Disposals in 2014, mln. RUR	Foreign exchange gain/loss, mln. RUR	Change in estimated value, mln. RUR	Reclassification between long-term and short-term portion, mln. RUR	Balance as of 31.12.2014, mln. RUR
2014							
Bank deposits with maturity more than 3 months	37 854	69 740	(70 506)	10 222	-	-	47 310
Loans issued	18 550	24 334	(39 056)	166	-	3 845	7 839
Put option – related to settlements for Leftbord Investments Limited*	1 176	-	(1 611)	-	435	-	-
Other short-term financial investments	5	396	(390)	-	-	-	11
Total Balance sheet line 1240	57 585	94 470	(111 563)	10 388	435	3 845	55 160

* Put option was disposed in July 2014 due to its exercise (see section 7 "Long-Term Financial Investments")

Type of financial investments	Balance as of 31.12.2012, mln. RUR	Additions in 2013, mln. RUR	Disposals in 2013, mln. RUR	Foreign exchange gain/loss, mln. RUR	Change in estimated value, mln. RUR	Reclassification between long-term and short-term portion, mln. RUR	Balance as of 31.12.2013, mln. RUR
2013							
Bank deposits with maturity more than 3 months	22 221	125 338	(111 174)	1 469	-	-	37 854
Loans issued	6 958	12 844	(14 548)	11	-	13 285	18 550
Put option – related to settlements for Leftbord Investments Limited	1 118	-	-	-	58	-	1 176
Other short-term financial investments	1	463	(459)	-	-	-	5
Total Balance sheet line 1240	30 298	138 645	(126 181)	1 480	58	13 285	57 585

As of December 31, loans issued included:

Loans issued	Average interest rate	Maturity	Loan amount as of 31.12.2014, mln. RUR	Loan amount as of 31.12.2013, mln. RUR	Loan amount as of 31.12.2012, mln. RUR
Loans issued to subsidiaries in RUR	7,80%	2015 год	5 085	18 452	6 958
Loans issued to subsidiaries in USD	20,00%	2015 год	2 745	98	-
Other loans in USD	8,00%	2015 год	9	-	-

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Loans issued	Average interest rate	Maturity	Loan amount as of 31.12.2014, mln. RUR	Loan amount as of 31.12.2013, mln. RUR	Loan amount as of 31.12.2012, mln. RUR
Total			7 839	18 550	6 958

The Company's structure of deposits as of December 31:

Deposits	Deposits as of 31.12.2014, mln. RUR	Deposits as of 31.12.2013, mln. RUR	Deposits as of 31.12.2012, mln. RUR	Repayment date
Deposits in RUR	15 580	3 750	5 090	January – March 2015
Deposits in HKD	27 398	-	-	February – June 2015
Deposits in USD	4 332	34 104	17 131	April – May 2015
Total	47 310	37 854	22 221	

As of 31.12.2014, deposits were placed with the following credit institution:

Deposits in RUR:

- VTB Bank OJSC
- CB Transportny LLC

Deposits in HKD:

- Bank of China (Hong Kong) Limited
- China Construction Bank (Asia)
- ACB TPBK (Moscow) CJSC
- Sberbank of Russia OJSC

Deposits in USD:

- Sberbank of Russia OJSC

As of 31.12.2013, deposits were placed with the following credit institution:

Deposits in RUR:

- BNP Paribas Bank CJSC
- UniCreditBank CJSC

Deposits in USD:

- Alfa Bank OJSC
- Gasprombank OJSC
- Rosselkhozbank OJSC

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- Sberbank of Russia OJSC

As of 31.12.2012, deposits were placed with the following credit institution:

Deposits in RUR:

- BNP Paribas Bank CJSC
- Rosselkhozbank OJSC
- ООО «банк Раунд»
- Sberbank of Russia OJSC

Deposits in USD:

- UniCreditBank CJSC
- Alfa Bank OJSC
- Rosselkhozbank OJSC
- VTB Bank OJSC

9. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents included:

Cash and cash equivalents	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Petty cash	4	6	5
Cash in rubles on bank accounts	3 387	1 057	438
Cash in foreign currency on bank accounts	6 855	101	298
Cash in transit	-	25	3
Bank deposits with maturity less than 3 months	11 065	7 801	4
Total Balance sheet line 1250	21 311	8 990	748

10. INVENTORY

As of December 31, inventories included:

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Group of inventory	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
SIM cards, Activation packages, scratch cards	306	288	323
Advertising materials	89	68	82
Other materials	126	120	112
Goods	992	1 865	1 179
Obsolescence reserve for consignment goods	(219)	(473)	(166)
Total Balance sheet line 1210	1 294	1 868	1 530

11. ACCOUNTS RECEIVABLE

As of December 31, short-term accounts receivable included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Buyers and customers including:	9 681	8 145	6 604
Settlements with customers for subscriber equipment	796	1 451	916
Settlements with customers for roaming services	430	416	289
Settlements with subscribers for mobile services	7 389	5 463	4 893
Settlements with customers for interconnection services	2 098	1 763	1 867
Settlements with subscribers for fixed-line services	2 033	2 138	1 755
Settlements with buyers of other services	895	659	433
Bad debt allowance	(3 960)	(3 745)	(3 549)
Receivables from dealers for collected subscribers' payments including:	1 483	1 768	3 273
Receivables from dealers for collected subscribers' payments	1 539	1 854	3 365
Bad debt allowance	(56)	(86)	(92)
Settlements with debtors for sale of fixed assets	406	159	693
Settlements with debtors for sale of fixed assets	407	230	695
Bad debt allowance	(1)	(71)	(2)
Total Balance sheet line 1230	11 570	10 072	10 570

As of 31.12.2014, receivables on settlements with buyers totaling RUR 1 055 mln. (as of 31.12.2013: RUR 575 mln., as of 31.12.2012: RUR 535 mln.) were denominated in foreign currency, mainly in USD.

12. OTHER CURRENT ASSETS

As of December 31, the advances issued included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Advances issued to suppliers and contractors including	4 085	4 323	5 948
Advances issued	4 514	4 790	6 141
Provision for advances issued	(429)	(467)	(193)
Taxes and charges overpayment including	3 240	2 677	4 859
VAT overpayment	59	78	12
Income tax overpayment	3 062	2 500	4 733
Other taxes overpayments	55	32	21
Social charges overpayments	64	67	93
Total Balance sheet line 1261	7 325	7 000	10 807

On 01.01.2012, the Federal law № 321-FZ dated 16.11.2011 "On introduction of changes to the first and second parts of the Tax Code of the RF due to establishment of consolidated group of taxpayers" came into force and the Company took a decision to form the consolidated group of taxpayers starting from January 1, 2012 which included: MegaFon OJSC, Synterra CJSC, MegaLabs CJSC, MegaFon International CJSC. In December 2013, changes were introduced into the agreement on establishment of consolidated group of taxpayers due to the merger of Synterra to MegaFon OJSC. From January 1, 2014, the consolidated group of taxpayers included: MegaFon International CJSC - the responsible taxpayer, MegaLabs CJSC and MegaFon OJSC – taxpayers. Income tax overpayment line in the table above includes overpayment to the state budget for income tax in the amount of RUR 174 mln. and overpayment of income tax to the responsible taxpayer of the taxpayer group in the amount of RUR 2 888 mln.

As of December 31, other current assets included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Interest receivable on loans issued to Company's subsidiaries	1 705	1 145	220
Interest receivable on bank deposits	218	256	87
Other receivables	1 127	513	508
Bad debt allowance on other receivables	(22)	(53)	(33)

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Prepaid expenses	267	416	188
Other current assets	209	116	-
Total Balance sheet line 1262	3 504	2 393	970

13. CHARTER CAPITAL

Number of issued fully paid shares as of December 31, 2014 was 620 000 000 ordinary registered shares with nominal value of 10 kopecks (RUR 0.1) each. No changes in the charter capital of the Company occurred in 2014.

In November 2012, the Company completed Initial Public Offering (IPO) of ordinary shares of MegaFon OJSC at MICEX Stock Exchange and depository receipts of foreign issuer (global depository receipts) that certify the rights related to MegaFon shares at London Stock Exchange. As a result of IPO, shareholders of the Company sold 91 479 500 shares at 20 USD each (depository receipts of a foreign issuer confirming rights related to shares).

As of December 31, 2014 the Company's shareholders were as follows:

Shareholders	Address	Share in charter capital, %	Number of shares	Nominal value, RUR thousands
AF Telecom Holding LLC	18 1 st Tverskoy-Yamskoy per. Moscow, 125047, Russia	50,38%	312 385 156	31 238
TELECOMINVEST HOLDINGS LIMITED	Christodoulou Chatzipavlou, 205 Louloupis, 7 th floor, 3036 Limassol, Cyprus	3,43%	21 285 464	2 129
Anfimako Limited	3107 Lakovou Tompazi, Vashiotis Business Center, 1 st floor, office 101, Neapoli, Lomassol, Cyprus	2,5%	15 500 000	1 550
Sonera Holding B.V.	34k Rodezand, 3011 AN, Rotterdam, the Netherlands	25,17%	156 080 311	15 608
MEGAFON INVESTMENTS (CYPRUS) LIMITED	2406 Egkomi, Ledra Business Center, Poseidonos 1, Nicosia, Cyprus	3,92%	24 299 033	2 430
Free Float	-	14,60%	90 450 036	9 045
Total		100%	620 000 000	62 000

As of December 31, 2014 the Company is controlled by USM HOLDINGS LIMITED (“USMHL”) – parent company which holds indirectly through TELECOMINVEST HOLDINGS LIMITED, AF Telecom Holding LLC and Anfimako Limited 56,31% in the charter capital of the Company. In August, as a result of restructuring amongst USMHL’s shareholders, the voting interest held by Mr Alisher Usmanov, which previously enabled him to control USMHL, has been reduced to a 48% voting interest.

14. LOANS AND BORROWINGS

Bonds

In March 2012, MegaFon Finance LLC conducted official registration of the Ruble Bonds Prospectus for series 05, 06, 07 secured by the Company. The number of placeable securities was 10 000 000 (Ten Million) under each series with par value 1 000 (One Thousand) rubles each security. The maturity date is on the 3,640th (Three Thousand Six Hundred and Fortieth) day since the date of bonds placement.

In October, 2012, the Company signed general purpose revolver agreement with MegaFon Finance LLC for RUR 30 billion . In October 2012 and in March 2013, the Company drew down RUR 10 billion and RUR 20 billion respectively under the agreement. Loans shall be provided at fixed rate subject to market conditions, for the period up to 10 years from the agreement signature date.

In October 2012, MegaFon Finance LLC placed ruble bonds of series 05 at RUR 10 billion, where the coupon yield was set at 8,05% per annum for 1- 4 coupon periods. On September 24, 2014 MegaFon Finance LLC set 9, 85% per annum bond rate ruble bonds of series 05 for 5, 6 and 7 coupon periods. Ruble bonds of series 05 shall be redeemed in October 2022.

On 14 October 2014 MegaFon Finance LLC re-purchased 8,249,296 Series 05 bonds at 100% of their nominal value under a mandatory put option exercisable by the bond holders following a coupon rate reset on 24 September 2014. The rest of the Series 05 bonds will continue trading in the market with a coupon rate of 9.85% p.a. for a period of eighteen months, after which the rate will be subject to further reset and the bonds will be subject to a further put option. On October 2014, the Company also partly repaid of the debt of MegaFon Finance LLC in the amount RUR 8,25 billion as per the purchase bonds of series 05. As of December 31, 2014 RUR 8,85 billion were available under this agreement.

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In March, 2013, MegaFon Finance LLC placed ruble bonds series 06 and 07 at RUR 20 billion, where coupon yield was set at 8,00% per annum for 5 years and shall be revised at the end of the tenor. Bond holders were given the put option for bonds after 5 years from the date of placement. The bonds shall be redeemed in October 2023.

In June 2013, exchange bonds of MegaFon OJSC series 50-01 — 50-05 for total of RUR 60 billion were admitted for floating at ZAO MICEX. Number of bonds series 50-01 — 50-03 and nominal value of each security: 10 000 000 (Ten Million) securities at nominal value RUR 1000 (One Thousand) each. Number of bonds series 50-04 — 50-05 and nominal value of each security: 15 000 000 (Fifteen Million) securities at nominal value RUR 1000 (One Thousand) each. The maturity date would be on the 3,640th (Three Thousand Six Hundred and Fortieth) day since the bonds placement date.

On 20 May 2014 the Company placed its Series 50-04 Ruble denominated exchange bonds, in an aggregate principal amount of RUR 15 billion. The bonds are due for repayment in full in May 2024 subject to a put option exercisable by the bond holders on the first anniversary of the placement. The coupon rate was set at 9.45% per annum, paid semiannually, and will be revised in one year from the bonds' placement.

Credit facility agreements

In February 2014 the Company signed a new credit facility agreement for up to 150 MUSD. The credit facility must be used to finance purchases of equipment and related services provided by Nokia Solutions and Networks and requires the Company to make semi-annual payments, plus accrued interest, during the period from 2014 to 2022. At 31 December 2014, 93 MUSD has been undrawn under this loan facility.

In July 2014 the Company signed a general purpose 3-year revolving credit facility agreement for up to RUR 12 billion. To date, no amount has been drawn under this credit facility.

In October 2014 the Company signed a new loan facility agreement for up to RUR 1 350 mln. The loan facility agreement must be used to finance purchases of Cisco equipment and requires the Company to make semi-annual payments during 2014 - 2018. At 31 December 2014, RUR 616 mln. has been undrawn under this loan facility.

In December 2014 the Company drew RUR 15 billion under its existing RUR 30 billion revolving credit facility agreement for a general purpose.

In December 2014 the Company signed a Term Loan Facility Agreement for up to 500 MUSD, with a 7-year-tenor. The proceeds will be used to finance purchases of equipment and related services provided by Huawei Technologies Co. Ltd. and requires the Company to make semi-annual payments during 2018 - 2022. To date, no amount has been drawn under this loan facility.

As of December 31, 2014 total amount RUR 110 996 mln. remained undrawn under the loan agreements.

Pursuant to the overdraft agreement the Company may receive overdraft up to RUR 5.6 billion. As of December 31, 2014, the Company did not have any outstanding overdraft.

All credit facility agreements signed in 2014 and before contain restrictive covenants, except permitted carve outs which are related to size of the Company's debt, limit the Company's ability to encumber assets, undertake mergers and acquisitions and make significant changes in the nature of the business without prior consent from the lenders. Such agreements require the Company to meet various financial covenants. In 2014, the Company did not have any violations of loan covenants.

Credit policy

The Company uses interest rate swap instruments to mitigate the risk of unfavorable change in interest rate on bank loans and assure the stability of interest expenses. To this end the Company has chosen interest swaps and foreign exchange swaps as its management strategy for underlying interest rate and currency exchange rate fluctuation risks.

The Company accounts its assets and liabilities related to interest and currency swap transactions on off-balance sheet accounts. As of 31.12.2014, the fair value of such: assets – RUR 3 615 mln., liabilities - RUR 264 mln..

The realized net loss from interest and currency swap transactions recorded in "Other expenses" in the Income statement in 2014 amounted to RUR 499 mln.

As of December 31, the borrowings structure was as follows:

	As of 31.12.2014, mln. RUR		As of 31.12.2013, mln. RUR		As of 31.12.2012, mln. RUR.	
	Short-term liability	Long-term liability	Short-term liability	Long-term liability	Short-term liability	Long-term liability
Bank loans	34 300	134 686	9 955	108 983	19 162	115 336
Borrowings from subsidiaries	-	23 849	10 018	20 542	2 710	10 636
Bond loans	15 000	-	-	-	-	-
Commercial loans	374	892	25	561	-	-
Other borrowings	1	61	-	62	1	61
Total	49 675	159 488	19 998	130 148	21 873	126 033

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As of December 31, the interest payable on the loans received:

	As of 31.12.2014, mln. RUR		As of 31.12.2013, mln. RUR		As of 31.12.2012, mln. RUR.	
	Short-term liability	Long-term liability	Short-term liability	Short-term liability	Long-term liability	Short-term liability
Interest on bank loans	450	-	251	-	591	-
Interest on borrowings	548	175	680	55	262	25
Interest on bond loans	167	-	-	-	-	-
Interest on commercial loans	6	-	2	-	-	-
Total	1 171	175	933	55	853	25

Loans and borrowings:

Loans and borrowings	Weighted average interest rate	Repayment period	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR.
Bank loans:					
In RUR, fixed rate	9,21%	2015 – 2020	92 739	73 505	82 505
In RUR, floating rate	-	-	-	-	11 000
In USD, fixed rate	2,26%	2015 – 2022	9 151	7 202	8 551
In USD, floating rate	LIBOR+2,29%	2015 – 2022	63 001	34 066	26 947
In EUR, fixed rate	3,74%	2015	310	613	913
In EUR, floating rate	EURIBOR+2,05%	2015 – 2019	3 785	3 552	4 582
Total, bank loans			168 986	118 938	134 498
Exchange bonds:					
In RUR, fixed rate	9,45%	2024 with a buy back option in May 2015	15 000	-	-
Borrowings from subsidiaries:					
In RUR	8,28%	2015 – 2022	23 849	30 560	13 346
Other borrowings:					
In RUR	-	до полного погашения обязательств	62	62	62
Commercial loans:					
In USD, fixed rate	3,30%	2019	1 266	586	-
Total loans and borrowings			209 163	150 146	147 906

15. GUARANTEES ISSUED

Guarantees issued by the Company included:

Entity that holds guaranteed obligations	Obligations secured by guarantees issued	Term of guarantee	Amount of guarantee as of 31.12.2014, mln. RUR
TT Mobile CJSC	Credit facility agreement	2016	551
MegaFon Finance LLC	Guarantee under issued securities	2022 – 2023	27 593
Scartel LLC	Guarantee under opening a letter of credit	2016 – 2017	3 798
Total			31 942

16. PROVISIONS

Changes in provisions for 2014 and 2013 were as follows:

Caption	Balance as of 31.12.2013, mln. RUR	Value of liabilities recognized in the accounting period, mln. RUR	Increase of liabilities due to growing present value, mln. RUR	Accrued interest for the accounting period, mln. RUR	Repayments, mln. RUR	Change in estimate of liability (change of estimate), mln. RUR	Exchange rate revaluation of the liability, mln. RUR	Balance as of 31.12.2014, mln. RUR
In 2014								
Deferred and contingent consideration *	59 877	-	-	2 216	(63 814)	39	8 939	7 257
Decommissioning provision	5 156	492	543	-	-	(1 233)	-	4 958
Provisions for reserve on taxes	502	45	-	-	-	(432)	-	115
Total	65 535	537	543	2 216	(63 814)	(1 626)	8 939	12 330

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Caption	Balance as of 31.12.2012, mln. RUR	Value of liabilities recognized in the accounting period, mln. RUR	Increase of liabilities due to growing present value, mln. RUR	Accrued interest for the accounting period, mln. RUR	Repayments, mln. RUR	Change in estimate of liability (change of estimate), mln. RUR	Exchange rate revaluation of the liability, mln. RUR	Balance as of 31.12.2013, mln. RUR
In 2013								
Provisions for acquisition of equity interest and shares*	22 484	38 331	43	1 683	(4 287)	(330)	1 953	59 877
Provisions for reserve for dismantling of equipment	5 724	255	583	-	-	(1 406)	-	5 156
Provisions for reserve on taxes	16	486	-	-	-	-	-	502
Total	28 224	39 072	626	1 683	(4 287)	(1 736)	1 953	65 535

Caption	As of 31.12.2014	As of 31.12.2013	As of 31.12.2012
Provisions, long-term part (line 1430 of Balance Sheet)	4 958	24 756	5 736
Provisions, short-term part (line 1540 of Balance Sheet)	7 372	40 779	22 488

(*) detailed disclosure on other entities acquisitions provided in section 7 "Long-Term Financial Investments"

The Company recognized in its financial statements the provisions for dismantling of assets, resulted from legal obligations (contracts), and reasonable expectations of third parties that the Company would perform its obligations. The Company estimates value of liability at fair value of future cost of dismantling. For this purpose the best reasonable value of obligation (including inflation) is determined and discounted under risk-free rate, adjusted for the credit rating of the Company. The initial estimation of expenses for dismantling and ecological recovery at site, regarding which the provisions were recognized, is included in initial cost of equipment and depreciated. The Company estimates that the term of performance under dismantling obligations recognition is 25 years. Over time, the changes in value of asset retirement obligations due to increase of present value are reflected as interest expenses in line 2330 "Interest payable" of the Income Statement.

17. OTHER LONG-TERM LIABILITIES

As of December 31st, the structure of long-terms liabilities was as follows:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Interest payable on loans and borrowings	175	55	25
Deferred income	618	689	339
Payables to suppliers for goods, works and services	1 154	789	749
Advance payments received	351	360	396
Employees long-terms incentive remuneration (long-term part), including relevant taxes	5	275	211
Total per line 1450 of Balance Sheet	2 303	2 168	1 720

In April 2008, the Board of Directors approved a long-term program of employee incentives and retention. The program provides that some senior officers may be incentivized by phantom shares (options). Any program participant may use the received phantom shares (options) every second year within a four-year period on condition he/she keeps his/her employment with the Company. The value of full package of phantom shares that are distributed as incentives under each Plan will be 1.1% of total value of the Company, which in its turn is estimated as a six fold amount of income before taxes, depreciation and amortization (OIBTDA) net of difference between long-term debt and total cash and its equivalent and short-term investment (net debt).

In October 2012, the Board of Directors of the Company approved a long-term program of incentives and retention for key managers and directors, under which participants may be incentivized by awarding of phantom shares (options). The value of full package of phantom shares that are distributed as incentives shall amount to 1,1% of shareholders' capital of the Company (equivalent of 7 000 000 of phantom shares at basic price of US\$17,86 per share). Validity period of the program is three years, options are exercised in parts in April - May 2014 and 2015 and are paid in cash. Payments are based on the difference between basic price and average weighted price of the Company's shares within the period since January 15 till March 15 of the relevant year of exercise. Option exercise depends on whether the recipient continues his/her employment in the Company. In February 2013, options for phantom shares in the amount of 2 133 000 were vested to certain key top managers and directors under the long-term incentive plan 2012. In relation to some employees, who quit their job, part of options in the number of 893 400 were exercised under the plan and part of options in the number of 116 400 was cancelled. Accordingly, as of 31.12.2014, the balance of granted options is 1 123 200. On 10 March 2015 the Board of Directors of the Company approved an amendment to the terms of the Long-term incentive programme 2012 to change the base price and the strike price for the awards outstanding as at 31 December 2014 with a payment due in April-May 2015, so that the base price is denominated in Rubles and becomes 555 Rubles per share, and the weighted-average price of the Company's shares is based on prices on the Moscow Exchange over the period between 15 January and 15 March

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in the relevant year of vesting. As a result of the above changes, liability to pay remuneration under incentive program for employees including related taxes increased by approximately RUR 547 mln. as of March 10, 2015.

In August 2013, the Board of Directors of the Company approved a long-term program of incentives and retention for key managers and directors, under which participants may be incentivized by awarding of phantom shares (options). The value of full package of phantom shares that are distributed as incentives shall amount to 1,1% of shareholders' capital of the Company (equivalent of 7 000 000 of phantom shares at basic price of US\$24,25 per share). The program is designed for three years and the options for phantom shares vested to participants of the program are subject to exercise in April - May 2015 and April - May 2016. Calculations on the options shall be based on difference between basic value and average weighted price of a share of the Company during the period between January 15 and March 15 of the relevant year of the option exercise. Option exercise depends on whether the participant continues his/her employment in the Company. In June 2014, phantom shares options were granted to key managers and directors long-term incentive plan 2013.

Flow of reserves and relevant taxes on long-term incentive for employees for 2014 and 2013 are shown below:

Caption	Balance as of 31.12.2013, mln. RUR	Accrued in 2014 mln. RUR	Foreign currency exchange gain/loss, mln. RUR	Paid in 2014 mln. RUR	Balance as of 31.12.2014, mln. RUR
2014					
Liability to pay remuneration under the long-term incentive programs for employees	761	(130)	26	(582)	75
Taxes accrued on reserve for long-term incentive for employees	76	(10)	-	(59)	7
Total	837	(140)	26	(641)	82

Caption	Balance as of 31.12.2012, mln. RUR	Accrued in 2013, mln. RUR	Income / loss from currency exchange rate change, mln. RUR	Paid in 2013, mln. RUR	Balance as of 31.12.2013, mln. RUR
2013					
Liability to pay remuneration under the long-term incentive programs for employees	492	642	7	(380)	761
Taxes accrued on reserve for long-term incentive for employees	49	65	-	(38)	76
Total	541	707	7	(418)	837

Caption	As of 31.12.2014	As of 31.12.2013	As of 31.12.2012
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Caption	As of 31.12.2014	As of 31.12.2013	As of 31.12.2012
Liability to pay remuneration under the long-term incentive programs for employees (long-term part)	5	250	192
Liability to pay remuneration under the long-term incentive programs for employees (short-term part)	70	511	300
Taxes accrued on reserve under the long-term incentive programs for employees (long-term part)	-	25	19
Taxes accrued on reserve under the long-term incentive programs for employees (short-term part)	7	51	30

18. ACCOUNTS PAYABLE

As of December 31, accounts payable included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Payables to suppliers and contractors	25 921	25 569	19 251
Payables due to employees	3 597	4 623	3 918
Taxes and levies payable	5 936	5 339	7 272
Payables to state non-budget funds	986	985	912
Total per Balance Sheet line 1520	36 440	36 516	31 353

As of 31.12.2014, the payables to suppliers in amount of RUR 9 071 mln. (as of 31.12.2013: RUR 7 619 mln., as of 31.12.2012: RUR 3 799 mln.) were denominated in foreign currency, mainly in US dollars.

As of December 31, payables to employees included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Salaries payable	254	240	229
Employees quarterly and annual bonus payables	2 472	3 170	2 779

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Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Unused vacation reserve	801	702	610
Employees long-term incentive remuneration (short-term part)	70	511	300
Total per Balance Sheet line 1522	3 597	4 623	3 918

As of December 31, taxes and charges payable included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
VAT	4 634	3 924	5 832
Income tax	94	84	92
Property tax	531	623	697
Payments to the Ministry of Communications	672	703	645
Other taxes	5	5	6
Total per Balance Sheet line 1523	5 936	5 339	7 272

As of December 31, payables to the government non-budget funds included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Social insurance payments including	985	984	910
Social security fund	1	1	-
Obligatory health insurance fund	15	13	13
Pension fund	969	970	897
Social obligatory insurance fund against work-related accidents and diseases	1	1	2
Total per Balance Sheet line 1524	986	985	912

19. OTHER SHORT-TERM LIABILITIES

As of December 31, other short-term liabilities included:

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Advances received	10 931	9 446	9 016
Other short-term liabilities including	3 700	2 612	2 330

Caption	As of 31.12.2014, mln. RUR	As of 31.12.2013, mln. RUR	As of 31.12.2012, mln. RUR
Interest payable on loans and borrowings	1 171	933	853
Other accounts payable	1 645	594	697
Deferred income	850	1 062	708
Other accrued liabilities	34	23	72
Total per Balance Sheet line 1550	14 631	12 058	11 346

20. DISCLOSURE OF INFORMATION ON REVENUE AND EXPENSES

Information on the net revenue from sale of goods, products, works, services (net of VAT, excise taxes and similar mandatory charges), cost of goods, products, works and services sold, as well as selling expenses and administrative expenses for 2014 and 2013 is stated below:

Business activity	Revenue (net), mln. RUR	Cost of sales, mln. RUR	Gross profit/(loss), mln. RUR	Selling expenses, mln. RUR	Administrative expenses, mln. RUR	Profit/(loss) from operations, mln. RUR
2014						
Revenue from telecommunication services	284 261	(148 027)	136 234	(27 509)	(19 385)	89 340
Revenue from sales of subscriber equipment	4 364	(6 851)	(2 487)	(9)	-	(2 496)
Total in 2014	288 625	(154 878)	133 747	(27 518)	(19 385)	86 844
Income statement line	Line 2110	Line 2120	Line 2100	Line 2210	Line 2220	Line 2200

Business activity	Revenue (net), mln. RUR	Cost of sales, mln. RUR	Gross profit/(loss), mln. RUR	Selling expenses, mln. RUR	Administrative expenses, mln. RUR	Profit/(loss) from operations, mln. RUR
2013						
Revenue from telecommunication services	270 475	(130 942)	139 533	(28 255)	(20 857)	90 421
Revenue from sales of subscriber	3 101	(4 482)	(1 381)	(2)	-	(1 383)

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Business activity	Revenue (net), mln. RUR	Cost of sales, mln. RUR	Gross profit/(loss), mln. RUR	Selling expenses, mln. RUR	Administrative expenses, mln. RUR	Profit/(loss) from operations, mln. RUR
equipment						
Total in 2013	273 576	(135 424)	138 152	(28 257)	(20 857)	89 038
Income statement line	Line 2110	Line 2120	Line 2100	Line 2210	Line 2220	Line 2200

During the accounting period the Company was selling products, works and services under the certain contracts which provide for non-monetary offset of reciprocal obligations. Total amount of such transactions in 2014 was RUR 33 212 mln. (in 2013: RUR 30 602 mln.). The number of counterparties transacting with the Company under the agreements with such terms in 2014 was 435 (Four Hundred Thirty Five); in 2013: 450 (Four Hundred Fifty).

The companies that take the bulk of revenue under non-monetary offset terms:

Counterparty	Revenue, mln. RUR (net of VAT)	Percentage, %
VimpelCom OJSC	11 643	35%
Mobile Telesystems OJSC	9 229	28%
Scartel LLC	3 217	10%
Saint Petersburg Telecom OJSC	783	2%
Votek Mobile CJSC	743	2%
Organization Committee of the 22 nd Winter Olympic Games Independent Non-profit Organization (Sochi-2014)	570	1%
Nizhegorodskaya Sotovaya Svyaz CJSC	532	1%
Rostelecom OJSC	504	1%
Joint Stock Company «Uzbektelecom»	385	1%
Central Telegraph OJSC	371	1%
Kemerovo Mobilnaya Svyaz CJSC	331	1%
RT Mobile CJSC	307	1%
Rostov Sotovaya Svyaz CJSC	288	1%
Regional Personal Systems of Communications CJSC	271	1%
Orange	262	1%
Yekaterinburg-2000 LLC	249	1%
Telecom Eurasia CJSC	211	1%
Eniseitelecom CJSC	205	1%
Golden Telecom Limited	182	1%

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Counterparty	Revenue, mln. RUR (net of VAT)	Percentage, %
Other	2 929	9%
Total	33 212	100%

In 2014, revenue under the contracts providing for non-cash settlements with related parties amounted to RUR 3 236 mln. or 9,7 % (2013: RUR 455 mln. or 1,5%).

The breakdown of Company's expenses by elements is presented below:

Cost of sales	2014, mln. RUR	2013, mln. RUR
Materials cost, including	8 048	5 754
Raw materials	1 197	1 272
Cost of goods	6 851	4 482
Labor costs	7 496	7 331
Salaries	6 073	5 690
Bonus expenses	1 423	1 641
Social taxes	1 921	1 800
Depreciation	34 149	31 478
Other expenses including	103 264	89 061
Interconnection cost	47 263	42 700
Communication channel lease	8 897	7 750
BTS site and warehouse lease and maintenance	13 565	11 427
Radio frequency utilization expenses	5 712	4 576
Expenses on additional services and reference and information service	10 648	10 574
Roaming charges	1 975	2 067
Network and billing system maintenance	4 885	4 798
Technological network software expenses	3 990	3 420
MVNO infrastructure usage expenses	4 856	502
Other expenses	1 473	1 247
Total per Income statement line 2120	154 878	135 424

Selling expenses:

Selling expenses	2014, mln. RUR	2013, mln. RUR

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Selling expenses	2014, mln. RUR	2013, mln. RUR
Material expenses	326	436
Depreciation	45	51
Other expenses including	27 147	27 770
Dealer commission fee	20 134	18 537
Advertising and marketing expenses	6 537	8 735
Other selling expenses	476	498
Total per Income statement line 2210	27 518	28 257

2014 Advertising expenses reflected in line "Advertising and marketing expenses" above include the effect of reduction of the reserve generated in previous reporting period in the amount RUR 1200 mln..

Administrative expenses:

Administrative expenses	2014, mln. RUR	2013, mln. RUR
Materials cost	637	560
Labor costs	5 067	6 314
Salaries	3 912	3 955
Bonus expenses	1 285	1 716
Long-term incentive plan expenses	(130)	643
Social taxes	1 022	1 032
Depreciation	2 236	2 508
Other expenses including	10 423	10 443
Premises lease, maintenance and protection	2 342	2 373
Software and office equipment expenses	2 309	2 620
Charges to Universal Service Fund	2 670	2 682
Professional services by third parties	765	986
Other administrative expenses	2 337	1 782
Total per Income statement line 2220	19 385	20 857

Total costs of the Company for power supply in 2014 equaled to RUR 4 352 mln. (2013: RUR 2 720 mln.), these expenditures are shown in the cost price of the line "BTS and Warehouse Lease and Maintenance" and in the administrative expenses of the line "Premises Lease, Maintenance and Protection".

21. OTHER INCOME AND EXPENSES

Other income and expenses of the Company in 2014 and 2013 are presented below:

Other income	2014, mln. RUR	2013, mln. RUR
Writing-off of payables with expired limitation of action	125	83
Change in reserve for bonuses for earlier periods	25	328
Debt forgiveness under loans received from subsidiaries	-	111
Prior year income	203	139
Change in reserve for reduction of the cost of inventory	255	-
Change in contingencies	1 194	1 736
Penalties under business contracts	180	105
Income from buying/selling foreign currency	90	49
Government subsidies	33	19
Gains received as compensation for losses from providing universal communication services	209	73
Other financial income	81	40
Other income	25	68
Total per of Income statement line 2341	2 420	2 751

Other expenses	2014, mln. RUR	2013, mln. RUR
Losses due to writing-off of fixed assets, intangible assets and other assets	1 516	2 678
Property tax	2 547	3 092
Financing of Skolkovo Business Center	1 089	-
Reserves for future expenses	1 294	2 249
Charity contributions and expenses on social and cultural activity	575	325
Additional expenses for loans and borrowings	662	431
Expenses on derivative transactions	1 675	229
Losses from written off equities	-	47
Other expenses on employees and voluntary social charges	63	68
Bank charges	63	58
Other profits and losses	414	154
Total per Income statement line 2351	9 898	9 331

The Company 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. The Company accrued RUR 1,089 mln. of contributions made to the Partnership during 2014. In January, 2015 the Company accrued RUR 1,826 mln. of contributions made to the Partnership.

22. INCOME TAX

Indicator	2014, mln. RUR	2013, mln. RUR
Pre-tax profit as per accounting	47 358	73 360
Income tax qualified expenditure	9 472	14 672
Non-deductible (non-taxable) differences of accounting period:	2 310	1 993
Financing of Skolkovo Business Center	1 089	-
Residual value of disposed fixed assets non-deductible for tax purposes	266	307
Non-deductible personnel expenses	248	263
Non-deductible expenses on gratuitous selling	238	213
Charity contributions non-deductible for tax purposes	111	136
Dividends from participation in charter capital of other entities	(217)	(117)
Non-deductible advertising expenses	48	8
Non-deductible reserve expenses	7	999
Forgiveness of loans received from subsidiaries	-	(111)
Other non-deductible expenses	520	295
Temporary difference of accounting period:	(9 289)	672
Over-depreciation of fixed assets in tax accounting	(7 368)	(2 593)
Change of temporary difference on reserves for vacations and bonuses	(4 207)	840
Change of temporary difference on expenses accrued without original documents	(2 805)	2 515
Over-depreciation of other non-current assets in tax accounting	(2 324)	(2 645)
Change of temporary difference on reserves for future expenses	(611)	169
Expenses on dismantling of equipment	(519)	(668)
Temporary difference increase on deferred income	(252)	543
Change of time difference on estimated reserve for refund from FAS	(93)	133
Temporary difference on investments	7 645	2 774

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Indicator	2014, mln. RUR	2013, mln. RUR
Change of temporary difference on revaluation of contingencies and accounts payable quoted in foreign currencies	1 007	155
Temporary difference increase on roaming discounts	161	(498)
Other time difference changes	77	(53)
Taxable income, tax accounting	40 379	76 025
Income tax rate	20%	20%
Income tax at 20% rate	8 076	15 205
Permanent tax asset due to application of income tax preferential rates	(16)	(150)
Income tax (line 2410 of Income statement)	8 060	15 055

In 2013, deferred tax liability that was written off due to assets retirement was RUR 128 mln. (in 2013: RUR 160 mln.).

Detailed breakdown of line 2460 "Other income tax accruals" in Income Statement:

	2014, mln. RUR	2013, mln. RUR
Income tax reduction/increase due to adjusted returns	292	5
(Accrual) / recovery of reserve for income tax	13	26
Additional income tax assessment upon field tax audit	(29)	-
Adjustment of deferred taxes for previous periods	-	(17)
Write-off of deferred taxes on investments in reorganization	(2 159)	22
Other income tax accruals	(22)	-
Total per Income statement line 2410	(1 905)	36

23. EARNINGS PER SHARE

Basic earnings per share reflect part of the earnings of the reporting year, which is payable to shareholders – owners of ordinary shares. It is calculated as the ration of basic earnings for the reporting period to average-weighted number of outstanding ordinary shares during the reporting period.

The stated below basic earnings are equal to net earnings of the Company (line 2400 of the Income Statement).

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Indicator	For 2014	For 2013
Basic EPS for the reporting period	35 535	58 475
Average weighted number of the ordinary shares in circulation during the reporting period, mln. shares	620	620
Basic EPS, RUR	57,31	94,31
Diluted EPS, RUR	57,31	94,31

The Company did not have securities which suggested their conversion into additional number of ordinary shares. That is why basic EPS is equal to diluted EPS.

24. RELATED PARTIES

In the course of its business the Company makes transactions with related parties. For the purpose of these financial statements under RAS 11/2008 "Related Parties" we have identified the following related parties:

No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
MATERIAL BUSINESS ENTITIES					
1.	AF Telecom Holding LLC	18, 1-st Tverskoy-Yamskoy side-street, Moscow, 125047, Russia	As of 31.12.2014, this is a shareholder of the Company	50.38%	-
2.	Sonera Holding B.V.	Rodezand 34k, 3011 AH Rotterdam, Netherlands	As of 31.12.2014, this is a shareholder of the Company	25.17%	-
3.	MEGAFON INVESTMENTS (CYPRUS) LIMITED	2406, Poseidonos 1, LEDRA BUSINESS CENTER, Egkomi, Nicosia, Cyprus	As of 31.12.2014, this is a shareholder of the Company	3.92%	100%
4.	TELECOMINVEST HOLDINGS LIMITED	7 floor, Louloupis building, 205 Hristodulu Hatsipavlu	As of 31.12.2014, this is a shareholder of the Company	3.43%	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
		Limassol, Cyprus 3036			
5.	Anfimako Limited	3107 Lakovou Tompazi 1, Vashiotis Business Center, Floor 1, Office 101, Neapoli, Limassol, Cyprus	As of 31.12.2014, this is a shareholder of the Company	2,5%	-
SUBSIDIARIES OF THE COMPANY					
6.	TT mobile CJSC	73/2 Khuvaydulloyeva st., Dushanbe, 734043, Tajikistan	MegaFon OJSC owns over 50% of the charter capital of this company	-	75%
7.	MegaFon Finance LLC	48, Nekrasova st., St. Petersburg, 191014, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
8.	MegaFon International CJSC	30, Kadashevskaya Naberezhnaya, Moscow, 115035, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
9.	MegaLabs CJSC	11, 2 nd Kazachiy side street, bld. 1., Moscow, 119080, Russia,	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
10.	MegaFon Retail OJSC	30, Kadashevskaya Naberezhnaya, Moscow, 115035, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
11.	Dehton Investments Limited	6018, 4 Aphentrica Court office 2, Aphentricas, Larnaca, Cyprus,	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
12.	Metrokom CJSC	29, Odoevskogo st., St.Petersburg, 199155, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
13.	Web Plus CJSC	29, Kolomenskaya Street, Saint Petersburg, 191119, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
14.	Pskovskaya Gorodskaya Telephonnaya Set' OJSC	23, Paromenskaya street, Pskov, 180007, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
15.	FAIRLIE HOLDING & FINANCE LIMITED	P.O. Box 3169 PMB 103 33 Road Town, Tortola, Porter Road, British Virgin Islands	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
16.	MEGAFON INVESTMENTS (CYPRUS) LIMITED	2406, Poseidonos 1, LEDRA BUSINESS CENTER, Egkomi, Nicosia, Cyprus	As of 31.12.2014, this is a shareholder of the Company MegaFon OJSC owns over 50% of the charter capital of this company	3,92%	100%
17.	Confectus Holdings Limited	2406, Poseidonos 1, LEDRA BUSINESS CENTER, Egkomi, Nicosia, Cyprus	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
18.	MAXITEN CO LIMITED	2406, Poseidonos, LEDRA BUSINESS CENTER, Egkomi, Nicosia, Cyprus	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
19.	NetByNet Holding LLC	38A, 2-nd. Khutorskaya st., bldg. 17, Moscow, Russia, 127287,	MegaFon OJSC owns over 50% of the charter capital of this company	-	91,74%
20.	Lefbord Investments Limited	2406, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1, Cyprus, Nicosia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
21.	C-Ring Telecom LLC	11 Byul-Byul Ogly Avenue, Baku, AZ1095, Azerbaijan	MegaFon OJSC owns over 50% of the charter capital of this company	-	50%
22.	SMARTS Volgograd CJSC	17 Socialisticheskaya Str., Volgograd, 400001, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	100%
23.	Scartel LLC	13 Rusakovskaya Str., Moscow, 107140, Russia	MegaFon OJSC owns over 50% of the charter capital of this company	-	92%
EXECUTIVE PERSONNEL					
24.	Sergey Vladimirovich Soldatenkov	Russia	Board Chairman	-	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
25.	Jan David Erixon	Ireland	Board Member till 17.03.2014	-	-
26.	Jan Erik Rudberg	Sweden	Independent Board member	-	-
27.	Vladimir Yakovlevich Streshinsky	Russia	Board Member	-	-
28.	Lord Paul Myners	Great Britain	Independent Board member		
29.	Kurt Per-Arne Blomquist	Sweden	Board Member till 17.03.2014		
30.	Berndt Kenneth Karlberg	Sweden	Board Member		
31.	Sergey Alexandrovich Kulikov	Russia	Board Member since 17.03.2014		
32.	Carl Peter Christian Luiga	Sweden	Board Member since 17.03.2014		
33.	Ivan Vladimirovich Tavrin	Russia	Chief Executive Officer/Management Board Chairman	-	-
34.	Anait Grigorievna Gasparyan	Russia	Director for Corporate Development/ Management Board Member	-	-
35.	Mikhail Andreevich Dubin	Russia	Executive Director for B2C Business / Management Board Member	-	-
36.	Gevork Arutunovich Vermishyan	Russia	Chief Financial Officer /Management Board Member	-	-
37.	Anna Andreyevna Serebryanikova	Russia	Director for Legal Affairs and GR /Management Board Member	-	-
38.	Evgeny Nikolaevich Chermashentsev	Russia	Director for Infrastructure / Management Board Member	-	-
39.	Eduard Georgievich Ostrovsky	Russia	Advisor for Special Programs and Government Relations /Management Board Member till 12.05.2014	-	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
40.	Alexander Vladimirovich Bashmakov	Russia	Director for Strategy and Procurement / Management Board Member	-	-
41.	Valery Leonidovich Velichko	Russia	Director of Ural Branch/ Management Board Member	-	-
42.	Alexander Sergeevich Grigoriev	Russia	Director of Volga Branch/ Management Board Member till 25.11.2014	-	-
43.	Stanislav Aleksandrovich Frolov	Russia	Director of Caucasus Branch/ Management Board Member	-	-
44.	Pavel Victorovich Korchagin	Russia	Director of Central Branch Member till 25.11.2014/ Management Board Member	-	-
45.	Konstantin Mikhailovich Likhodedov	Russia	Director of Stolichny Branch/ Management Board Member	-	-
46.	Alexey Borisovich Semenov	Russia	Director of North-West Branch/ Management Board Member	-	-
47.	Alexey Leonidovich Tyutin	Russia	Director of Siberian branch/ Management Board Member	-	-
48.	Andrey Borisovich Levykin	Russia	Director of Far East Branch / Management Board Member since 30.10.2013	-	-
49.	Vlad Wolfson	Israel	Director for Corporate Business/Management Board Member since 30.06.2014	-	-
50.	Dmitry Kononov	USA	Director for Investor Relations and M&A / Management Board Member since 30.06.2014	-	-
DEPENDENT COMPANIES and OTHER RELATED PARTIES					
51.	Aquafon-GSM CJSC	106, Abazinskaya Street, Sukhum, 354000, Abkhazia	The Company controls it through subsidiary	-	-
52.	Ostelecom CJSC	3A, Geroev st., Tskhinval, South Ossetia	The Company controls it through subsidiary	-	-
53.	Nakhodka Telecom LLC	30, Nakhimovskaya st., 692901, Nakhodka	The Company controls it through subsidiary	-	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
54.	MegaFon Luxembourg S.à r.l.	46A, George F. Kennedy Av., L-1855, Luxembourg	The Company controls it through subsidiary	-	-
55.	Center Media Technology LLC	16, Krasnoproletarskaya st., bld. 1, Moscow,	The Company controls it through subsidiary	-	-
56.	MultiMedia IP LLC	3, Lesnaya st. Moscow	The Company controls it through subsidiary	-	-
57.	Newstube LLC	40, Bolshaya Ordynka, bld. 4, Moscow	The Company has substantial influences on it through subsidiary	-	-
58.	Torgoviy Dom Euroset, LLC	3 Begovaya st., bld. 1, floor 36, Moscow	The Company has substantial influences on it through subsidiary	-	-
59.	Euroset Retail LLC	3 Begovaya st., bld. 1, floor 36, Moscow	The Company has substantial influences on it through subsidiary	-	-
60.	Regional Navigation and Information center of Vladimir region OJSC	40, Verkhnyaya Dubrova, Vladimir	The Company controls it through subsidiary	-	-
61.	Regional Navigation and Information center of Kurgan Region OJSC	70, Karl Marx St., Kurgan	The Company controls it through subsidiary	-	-
62.	Regional Navigation and Information center of the Jewish Autonomous Region	44, Sovetskaya st. office 3, Birobidzhan,	The Company controls it through subsidiary	-	-
63.	Regional Center for Information and space services OJSC	9a, Leningradskaya st., Khabarovsk,	The Company controls it through subsidiary	-	-
64.	ORC LLC	38a, 2 nd Khutorskaya st., bld.17, Moscow	The Company controls it through subsidiary	-	-
65.	Tele MIG LLC	Yamal-Nenets AD, 78 Taezhnaya st., Novy Urengoy	The Company controls it through subsidiary	-	-
66.	ArtiCom LLC	40, 3d Maryina Roscha pr. bld.1, Moscow	The Company controls it through subsidiary	-	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
67.	Express TeleCom CJSC	3A, Zvedniy blvd. bld.1, Moscow	The Company controls it through subsidiary	-	-
68.	Aston LLC	19 Oboronnya st., Serpukhov, Moscow Region	The Company controls it through subsidiary	-	-
69.	Peter Service CJSC	36, Shpalernaya st., St-Petersburg,	This entity and the Company are influenced by the same group	-	-
70.	AS EMT	Tallinn, Estonia, Sole14, EE0006	This entity and the Company are influenced by the same group	-	-
71.	ELION ETTEVOTTED AKTSIASELTS	6 Endla Str, Tallinn 15033, Estonia Tallinn	This entity and the Company are influenced by the same group	-	-
72.	Elion Ettevotted AS	15033, Tallinn, Estonia,16 Endla Str	This entity and the Company are influenced by the same group	-	-
73.	Kcell Joint Stock Company	ALMATY,KAZAKHS TAN, Bogenbay-Batyr St.,134,480091	This entity and the Company are influenced by the same group	-	-
74.	LATTELECOM SIA	105, Dzirnavu st., Riga, Latvia, LV-1011	This entity and the Company are influenced by the same group	-	-
75.	Latvian Mobile Telephone Co	LV-1039 Riga, Latvia 39 Unijas Str.	This entity and the Company are influenced by the same group	-	-
76.	LLC ASTELIT	03110, Kiev,Ukraine, 11 "A", Solomyanska St.	This entity and the Company are influenced by the same group	-	-
77.	Ncell Private Limited	New Baneshwor, Nepal	This entity and the Company are influenced by the same group	-	-
78.	OMNITEL Telecommunications Network	Vilnius, Lithuania T.Sevcenkos St. 25, 2600	This entity and the Company are influenced by the same group	-	-
79.	Síminn Danmark A/S	Denmark, Glostrup	This entity and the Company are influenced by the same group	-	-

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No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
80.	Superonline İletisim Hizmetleri A.S.	Salih Tozan Sok. Karamancılar İş Merkezi, No:18 34394 Esentepe - Şişli / İstanbul	This entity and the Company are influenced by the same group	-	-
81.	Telecom Development Company Afghanistan Ltd.	Kabul,Afghanistan	This entity and the Company are influenced by the same group	-	-
82.	Telia Mobile Denmark Holmbladsgade	Copenhagen S., Danmark, Holmbladsgade 139 2300	This entity and the Company are influenced by the same group	-	-
83.	TeliaSonera Finland Oy	Helsinki, Finland, Sturenkatu 16, (PB 98), FIN-00510	This entity and the Company are influenced by the same group	-	-
84.	TeliaSonera International Carrier Finland Oy	P.O.Box 805, 00051, Sonera, Finland	This entity and the Company are influenced by the same group	-	-
85.	TeliaSonera International Carrier AB	Stockholm Vitsandsgatan 9	This entity and the Company are influenced by the same group	-	-
86.	TeliaSonera Mobile Networks AB	S-136 80 Haninge,Nacka Strand, Sweden	This entity and the Company are influenced by the same group	-	-
87.	TeliaSonera Norge AS	123 86 FARSTA Sweden, c/o Financial Services - AP	This entity and the Company are influenced by the same group	-	-
88.	TEO LT, AB	03501, Vilnius, Lvovo str. 25	This entity and the Company are influenced by the same group	-	-
89.	TURKCELL İletisim Hizmetleri A.S.	Tepebasi, Istanbul,Turkey Mesrutiyet Cad. N153 80 050 Bank of New York, New York	This entity and the Company are influenced by the same group	-	-
90.	Xfera Moviles S.A.	28042 Madrid, SPAIN C/ RiberaDel Sena s/n, CampoDelasNacion	This entity and the Company are influenced by the same group	-	-
91.	Azercell Telekom BM	370139, Baku, Azerbaijan, pr. Azerbaijan 41	This entity and the Company are influenced by the same group	-	-

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№	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
92.	AO «KazTransCom»	50009, Almaty, Radostovtza str. 69/204a 3d floor	This entity and the Company are influenced by the same group	-	-
93.	AO Commercantъ.	11, Tikhvinsky side-st., Bld. 2, Moscow, 127055	This entity and the Company are influenced by the same group	-	-
94.	Garsdale Services Investments Limited	Akara building, 24 De Castro Street, Wickhams Key 1, Road Town, Tortola, British Virgin Islands	This entity and the Company are influenced by the same group	-	-
95.	Rostec Corporation	21, 1 Gogolevsky blvd, Moscow	This entity and the Company are influenced by the same group	-	-
96.	Avtopilot CJSC	4 Vrubelya, Moscow	This entity and the Company are influenced by the same group	-	-
97.	Indigo Tajikistan,CJSC	Tajikistan JP Morgan Chase Bank, New York Dushanbe, Tajikistan	This entity and the Company are influenced by the same group	-	-
98.	Commercantъ CJSC in Rostov-on-Don	42 Serafimovicha st., Rostov-on-Don	This entity and the Company are influenced by the same group	-	-
99.	Commercantъ CJSC in St. Petersburg	8A pom 2H, lit.A, Kharkovckaya st. St. Petersburg	This entity and the Company are influenced by the same group	-	-
100.	Commercantъ-Volga CJSC	44, Novo-sadovaya st., Samara,	This entity and the Company are influenced by the same group	-	-
101.	Commercantъ- press CJSC	41G, Khoroshevskoye, Moscow, 123308	This entity and the Company are influenced by the same group	-	-
102.	Metalloinvest CJSC	28, Rublevskoye shosse, Moscow, 121609	This entity and the Company are influenced by the same group	-	-
103.	Metallinvestleasing CJSC	28, Rublevskoye shosse, Moscow, 121609	This entity and the Company are influenced by the same group	-	-

Translation of the original Russian version

No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
104.	Ruslaim CJSC	Promploschadka of Lebedinsky GOK OJSC, Gubkin-11, Belgorod Region	This entity and the Company are influenced by the same group	-	-
105.	TV Service CJSC	43, B.Tishinskiy per., Moscow	This entity and the Company are influenced by the same group	-	-
106.	TeliaSonera International Carrier Russia CJSC	2, Paveletskaya sq., bld. 2, Moscow	This entity and the Company are influenced by the same group	-	-
107.	JV Somoncom CJSC	735716, Khujand, Tajikistan, 50 Let SSSR Str., 2 bld.	This entity and the Company are influenced by the same group	-	-
108.	MOLDCELL S.A.	Chisinau, Moldavia 31 August 1989 St., 67 MD 2001	This entity and the Company are influenced by the same group	-	-
109.	Razvitiye, Innovatsii, Technologii, Non-Profit Partnership for contribution to development of innovation projects	25A, B. Strochenovskiy side-st., Moscow,	This entity and the Company are influenced by the same group	-	-
110.	NCP Development and Use of Navigation Technology	12,1,15/9A/Д, Krasnopresnenskaya emb., Moscow	This entity and the Company are influenced by the same group	-	-
111.	Vtormet OJSC	83A, Vatutina st., Belgorod,	This entity and the Company are influenced by the same group	-	-
112.	KMA-Energosbyt OJSC	25/2, Lenina st., Zheleznogorsk, Kursk Region	This entity and the Company are influenced by the same group	-	-
113.	Lebedinsky obogatitelny kombinat OJSC	Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
114.	Mikhailovsky GOK OJSC	21, Lenina st., Zheleznogorsk, Kursk Region	This entity and the Company are influenced by the same group	-	-
115.	Oskolskiy electrometallurgy combine OJSC	Stariy Oskol, Belgorod Region	This entity and the Company are influenced by the same group	-	-
116.	Ural Steel OJSC	1, Zavodskaya st., Novotroitsk, Orenburg Region	This entity and the Company are influenced by the same group	-	-

Translation of the original Russian version

№	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
117.	METALLOINVEST Holding Company OJSC	28, Rublevskoye shosse, Moscow,	This entity and the Company are influenced by the same group	-	-
118.	USM Advisors, LLC	28, Rublevskoye shosse, Moscow,	This entity and the Company are influenced by the same group	-	-
119.	Agrofirma Metallurg LLC	1, proezd SH-2, site 'Teplichnaya', promuzel, Kotel station, Stariy Oskol, Belgorod Region,	This entity and the Company are influenced by the same group	-	-
120.	Baikalskaya gornaya kompania LLC	1, Fabrichnaya st., vil. Udokan, Karask area, The Baikal Territory,	This entity and the Company are influenced by the same group	-	-
121.	V kontakte LLC	8, Tverskaya st., Leter B, St-Petersburg,	This entity and the Company are influenced by the same group	-	-
122.	Vtormetproekt LLC	8, Karacharovskoye shosse, bld. 2, Moscow,	This entity and the Company are influenced by the same group	-	-
123.	Gamma RV LLC	21/2, Tokmakov side-st., bld. 1, Moscow,	This entity and the Company are influenced by the same group	-	-
124.	Ivanovka LLC	8, Kosmos mkr., Stariy Oskol, Belgorod Region	This entity and the Company are influenced by the same group	-	-
125.	INTERNET TECHNOLOGII LLC	13 Shurukhina st., Volgograd	This entity and the Company are influenced by the same group	-	-
126.	CommersantЪ KARTOTEKA LLC	17B, Mosfilmovskaya st., Moscow	This entity and the Company are influenced by the same group	-	-
127.	CommersantЪ Holding LLC	4 Vrubelya st., Moscow	This entity and the Company are influenced by the same group	-	-
128.	FE Coscom LLC	Tashkent, Uzbekistan 118, Vakhidov Str., 700031 JPMorgan Chase	This entity and the Company are influenced by the same group	-	-

Translation of the original Russian version

№	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
129.	LebGOK- Food Production Facility LLC	Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
130.	LebGOK- RMZ LLC	Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
131.	LebGOK- Transport LLC	49, Belgorodskaya st., Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
132.	LebGOK- EERZ LLC	Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
133.	LebGOK- Zdorovie LLC	30 Parkoviy m-r, Stariy Oskol, Belgorod Region	This entity and the Company are influenced by the same group	-	-
134.	Mail.ru LLC	39, Leningradskiy prospect, bld. 79, Moscow	This entity and the Company are influenced by the same group	-	-
135.	Odnoklassniki LLC	39, Leningradskiy prospect, bld. 79, Moscow	This entity and the Company are influenced by the same group	-	-
136.	OMCM LLC	2A, proezd SH-6, site 'Skladskaya, promuzel, Kotel station, Stariy Oskol, Belgorod Region,	This entity and the Company are influenced by the same group	-	-
137.	Orenburg Vtorchermet LLC	2B, Kramatorskaya st., Orsk, Orenburg Region	This entity and the Company are influenced by the same group	-	-
138.	Primavera LLC	28, Rublevskoye shosse, Moscow	This entity and the Company are influenced by the same group	-	-
139.	Rudstroy LLC	LGOK Industrial site, Industrial zone, Gubkin, Belgorod Region	This entity and the Company are influenced by the same group	-	-
140.	SKA LLC	33, Molodogvardeyskaya st., Samara	This entity and the Company are influenced by the same group	-	-

Translation of the original Russian version

No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
141.	Stroy Keramika Service LLC	28, Rublevskoye shosse, Moscow,	This entity and the Company are influenced by the same group	-	-
142.	UMK Vtormet LLC	ОЭМК ОАО promploschadka, Stariy Oskol, Belgorod Region	This entity and the Company are influenced by the same group	-	-
143.	UMK-Voronezh LLC	8, Ilyushin st., Voronezh, Voronezh Region	This entity and the Company are influenced by the same group	-	-
144.	Uralmetcom – Oskol, LLC	Kotel 15, Stariy Oskol, Belgorod Region	This entity and the Company are influenced by the same group	-	-
145.	Uralstalenergosbyt LLC	1, Zavodskaya st., Novotroitsk, Orenburg Region	This entity and the Company are influenced by the same group	-	-
146.	Uralskiy Kirpich LLC	1, Zavodskaya st., Novotroitsk, Orenburg Region	This entity and the Company are influenced by the same group	-	-
147.	Uralskaya Zdravnitsa LLC	29, Sovetskaya st., Novotroitsk, Orenburg Region	This entity and the Company are influenced by the same group	-	-
148.	Uralsky service LLC	16, Frunze st., Novotroitsk, Orenburg Region,	This entity and the Company are influenced by the same group	-	-
149.	Fabrika razvlecheniy LLC	22 corp.2, bld.7 Kashirskoye sh, Moscow	This entity and the Company are influenced by the same group	-	-
150.	Headhunter LLC	9, Godovikova st., bld. 3, Moscow,	This entity and the Company are influenced by the same group	-	-
151.	UTV-Media LLC	11, Tikhvinsky side- st., Bld. 2, Moscow,	This entity and the Company are influenced by the same group	-	-
152.	Post-Telecom LLC	27/2, 2 nd Sovetskaya st., apt. 8, St.-Petersburg,	This entity and the Company are influenced by the same group	-	-
153.	Geocell Ltd	Tbilisi, Georgia 3 Mitrofan Ladgidze	This entity and the Company are influenced by the same group	-	-

Translation of the original Russian version

No	Related party full name	Registered address of legal entity or individual person	Reason for the party to be considered as related	Ownership share of related party in the Company's charter capital, %	The Company's ownership share in the charter capital of related party, %
154.	METALLOINVEST Management Company LLC	14/16, Tsiolkovskiy st., Office VI, Korolev, Moscow Region, 141070	This entity and the Company are influenced by the same group	-	-

All transactions with related parties are performed under signed agreements. The settlements are made in cash except for the cases described in Note 20 "Disclosure of Information on Revenue and Expenses". Most of payments are due in 12 months of invoice issue.

The amounts of the transactions in progress as of the end of reporting period:

Transactions in progress as of the end of period	As of 31.12.2014, mln. RUR			As of 31.12.2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent companies and other related parties	Material business entities	Subsidiaries	Dependent companies and other related parties
Accounts receivable including	-	1 822	785	-	1 709	1 212
Sales of fixed assets and other non-current assets	-	6	-	-	2	-
Sales of inventory	-	587	13	-	1 200	43
Sales of services of core activity	-	967	403	-	171	1 055
Sales of other services	-	63	215	-	53	-
Reimbursement under agency contracts	-	199	154	-	283	114
Advances received including	-	(19)	(60)	-	(9)	(43)
Sales of services of core activity	-	(17)	(43)	-	(4)	(39)
Reimbursement under agency contracts (MegaFon-Principal)	-	(2)	(17)	-	(5)	(4)
Accounts payable including	(22)	(4 348)	(829)	-	(3 410)	(739)
Purchases of fixed assets and other non-current assets	-	(57)	(64)	-	(3)	(374)
Purchases of inventory	-	(2)	(1)	-	(1)	-
Purchases of services of core activity	(22)	(4 228)	(747)	-	(3 397)	(321)
Purchases of other services	-	(28)	(17)	-	(3)	(44)
Reimbursements under agency contracts	-	(33)	-	-	(6)	-

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Transactions in progress as of the end of period	As of 31.12.2014, mln. RUR			As of 31.12.2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent companies and other related parties	Material business entities	Subsidiaries	Dependent companies and other related parties
Advances issued including	-	2 905	18	-	2 291	793
Purchases of fixed assets and other non-current assets	-	1	10	-	4	1
Purchases of services of core activity	-	16	8	-	10	792
Settlements with CTG members	-	2 888	-	-	2 277	-
Contingent liabilities	-	-	(7 257)	-	-	(59 877)
Loans issued	-	19 093	456	-	45 928	16 812
Loans received	-	(23 803)	(46)	-	(30 532)	(28)
Interests receivable on loans issued	-	10 361	168	-	7 829	1 420
Interests payable on loans received	-	(718)	(5)	-	(733)	(2)
Debt on assignment agreement	-	-	126	-	-	74
Total	(22)	5 293	(6 644)	-	23 073	(40 378)

Types and scope of transactions with related parties:

Transaction type	2014, mln. RUR			2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent Companies and other related parties	Material business entities	Subsidiaries	Dependent Companies and other related parties
Revenue including	1	8 655	1 340	-	2 990	2 198
Sales of fixed assets and other non-current assets	-	5	-	-	5	-
Sales of inventory	-	1 116	7	-	1 855	325
Sales of services	1	7 534	1 333	-	1 130	1 873
Costs, selling and administrative expenses	(182)	(26 935)	(4 077)	-	(22 587)	(4 158)
Interest receivable	-	4 078	46	-	4 330	375
Interest payable	-	(2 408)	(2 220)	-	(2 348)	(1 685)
Other income/expenses	-	132	(1 130)	-	364	5

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Transaction type	2014, mln. RUR			2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent Companies and other related parties	Material business entities	Subsidiaries	Dependent Companies and other related parties
Foreign currency exchange gain/(loss)	-	420	(5 664)	-	406	(1 731)
Total income and expenses	(181)	(16 058)	(11 705)	-	(16 845)	(4 996)
Purchases of shares	-	-	-	-	(165)	(38 331)
Investments in property of subsidiaries	-	(4 930)	-	-	(293)	-
Change in financial instrument cost	-	-	(435)	-	-	(58)
Change in put option valuation and exercise of the put option (Note 7)	-	-	1 611	-	-	-
Income tax on CTG	-	(7 915)	-	-	(14 986)	-
Dividends received	-	(240)	-	-	-	-
Dividend tax	-	209	8	-	117	-
Purchase of fixed assets and other non-current assets	-	-	(1)	-	-	-
Purchase of inventory	-	(17 446)	(1 346)	-	(5)	(1 183)

Cash flows with related parties:

Transaction type	2014, mln. RUR			2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent Companies and other related parties	Material business entities	Subsidiaries	Dependent Companies and other related parties
Cash flows from operating activities						
Cash disbursements for – total including	(193)	(37 019)	(5 651)	(21)	(42 040)	(4 801)
Payments to suppliers for goods, works or services	(193)	(25 812)	(5 641)	(21)	(25 236)	(4 796)
Payments of interest on debt obligations	-	(2 423)	(1)	-	(1 641)	(1)
Other payments	-	(18)	(9)	-	(1)	(4)
Payments under CTG	-	(8 766)	-	-	(15 162)	-
Cash proceeds received from - total including	1	20 348	2 187	128	13 626	2 464
Sales of goods, works or services	1	20 215	2 184	-	13 398	2 449

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Transaction type	2014, mln. RUR			2013, mln. RUR		
	Material business entities	Subsidiaries	Dependent Companies and other related parties	Material business entities	Subsidiaries	Dependent Companies and other related parties
Other proceeds	-	133	3	128	228	15
Total cash flows from operating activities	(192)	(16 671)	(3 464)	107	(28 414)	(2 337)
Cash flows from investing activities						
Cash disbursements for – including	-	(28 180)	(39 549)	(15 483)	(10 140)	(5 475)
Purchases of non-current assets	-	(2 057)	(1 624)	-	(14)	(1 164)
Purchases of shares (equity interest) in other entities	-	-	(37 925)	-	-	(1 591)
Contribution to asset	-	(800)	-	-	-	-
Loans issued to other entities	-	(25 323)	-	-	(10 126)	(2 720)
Acquisition of rights of claim of cash to other entities	-	-	-	(15 483)	-	-
Cash proceeds received from – including	-	26 404	18	-	18 793	1 337
Sales of non-current assets	-	1	-	-	630	-
Repayments of loans issued	-	24 629	10	-	17 794	878
Promissory notes interest	-	1 565	-	-	252	9
Dividends	-	209	8	-	117	-
Proceeds from the investments (deposits with maturity more than 3 months)	-	-	-	-	-	450
Total cash flows from investing activities	-	(1 776)	(39 531)	(15 483)	8 653	(4 138)
Cash flows from financing activities						
Cash disbursements for - including	-	(11 987)	(38)	-	(1 088)	(19)
Repayments of loans and borrowings	-	(11 987)	(38)	-	(1 088)	(19)
Cash proceeds received from - including	-	5 258	55	-	21 431	18
Proceeds from loans and borrowings	-	5 258	55	-	21 431	18
Total cash flow from financing activities	-	(6 729)	17	-	20 343	(1)

As of 31.12.2014, the Company had outstanding guarantees provided for obligations of its related parties, which are disclosed in Note 15 "Guarantees issued".

25. STATE FINANCING

In 2011, the Ministry of Communications and Mass Media of the Russian Federation subsidized the Company with RUR 125 mln. from the federal budget to construct access roads to the communication facilities of the federal highway "Amur" Chita - Khabarovsk.

In 2013, the Ministry of Communications and Mass Media of the Russian Federation subsidized the Company with the amount of RUR 176 mln. from the Federal budget to ensure stable operation of Mobile communication service along intercity federal highways and road-traffic safety, specifically, for performance of actions to provide electric power to Base Stations under the permanent scheme and construction of access roads to the communication sites located along federal highways: M-6 Kaspiy, M-51, M-53, M-55 Baikal, M-60 Ussuri.

In accordance with RAS 13/2000 "State Financing Accounting" the Company recognized the targeted financing as the deferred income with subsequent recognition during the useful life of fixed assets regular depreciation as other income in the Income statement. In 2014, the amount of RUR 33 mln. (2013: RUR 19 mln.) was recognized as income recorded to Income statement line «Other income».

26. SEGMENT INFORMATION

In accordance with RAS 12/2010 "Segment information" the Company identifies eight geographical segments which correspond to business of eight branches of the Company in the territory of eight regions of the Russian Federation (Moscow, North-West, South, Volga, Ural, Far East, Center, Siberia) and match the criteria of their identification as operational:

- Each geographical segment is capable of bringing economic benefits and in the course of that incurs relevant expenses, including those from operations with other segments;
- Operating results are presented in internal reporting of the Company and systematically analyzed by persons, authorized in the Company to take decisions on allocation of resources inside the Company and evaluation of these results. Based on its organizational structure, the Company determined that CEO is such authorized person;
- Financials are formed separately from other segments by each geographical segment.

Based on the fact that in each geographical operating segment of the Company has economically uniform business: provides services of similar nature, has similar characteristics of the acquired subscribers, operates in one legal environment in the territory of the same country, eight above mentioned geographical segments are defined as a

uniform segment of telecommunication business. The Company believes that unification of segments provides the interested users of financial statements with more relevant information on industry specifics, industrial structure and financials of the Company.

27. CONTINGENCIES

Taxation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent amendments. Interpretation by the Company's management of the current legislation as applicable to the Company's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a more offensive position with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is impossible to determine amounts of potential claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

According to the management, as of December 31, 2014, the relevant provisions of the laws are interpreted by the Company correctly and there is a high probability that the Company will maintain the existing position in respect to the tax, foreign currency and customs legislation.

Company's Business 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 taken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company's future financial position,

results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Agreement with Huawei

In April 2014, the Company entered into 7-year agreement with Huawei Technologies to purchase equipment and software for 2G/3G/4G network construction and modernisation. The software usage agreements contain various termination options, however the Company is specifically committed under the agreement to pay at least 3 years' worth of fees for each base station in use as at the date of termination after taking into account fees already paid. The amount of the commitments at 31 December 2014 is RUR 5 415 mln.

Agreement with Nokia Solutions

In December 2014, the Company entered into 7-year agreement with Nokia Solutions and Networks Oy to purchase equipment and software for 2G/3G/LTE network construction and modernization. The software usage agreements contain various termination options, however the Company is specifically committed under the agreement to pay at least full amount of software fees for the period till December 31, 2016 and 60% worth of fees for the period from January 1, 2017 till the end of the term of the agreement for each base station in use as at the date of termination after taking into account fees already paid. The amount of the commitments at 31 December 2014 is RUR 3 791 mln.

Litigations

As of the date of the financial statements, the Company's liability in all pending litigation, other legal proceedings or other matters, will not have any significant effect on the financial condition or results of Company's operations.

28. SUBSEQUENT EVENTS AFTER DECEMBER 31, 2014

On February 5, 2015, Standard and Poor's Rating Agency (S&P) affirmed Company's local currency rating and downgraded foreign currency rating following the RF sovereign rating downgrade. S&P affirmed the local currency rating of the Company at the BBB- level, noting MegaFon's above-average profitability, solid credit metrics and liquidity position, as well as its ability to service its debt. At the same time, S&P has downgraded the Company's foreign currency rating one notch to BB+, explaining that this action reflected the Agency's assessment of foreign currency Transfer and Convertibility of Russia.

Translation of the original Russian version

On February 5, 2015, Moody's Rating Agency downgraded Company's credit rating from Baa3 down to Ba1 level following the RF sovereign rating downgrade down to Ba1 level.

29. IMPLEMENTATION OF DECISIONS BASED ON APPROVAL OF THE PREVIOUS YEAR FINANCIAL STATEMENTS

The Annual General Shareholders Meeting that was held on June 30, 2014, took a decision that net income of the Company received in 2013 in the amount of RUR 39 996 mln., should be used for payment of dividends. Dividends were paid in July-August 2014.

Chief Executive Officer

MegaFon OJSC

I.V. Tavrin

Chief Accountant

MegaFon OJSC

L.N. Strelkina