Annual Report

MegaFon

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(signature)

Chief Accountant L.N. Strelkina

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Annual Report **2012**

MegaFon

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SUSTAINABLE DEVELOPMENT

This Annual Report focuses principally on our operations in the Russian Federation. While we have operating subsidiaries in the Republics of Tajikistan (TT mobile), Abkhazia (AQUAFON-GSM) and South Ossetia (OSTELEKOM), they generate only 1% of our total consolidated revenues. Unless otherwise specifically indicated, this Annual Report provides consolidated financial and operational data

For more information about MegaFon, see the company website. The report is also available online www.AR2012.megafon.ru/en

Approved
Annual General Shareholders Meeting
OJSC "MegaFon"
Minutes dated 28.06.2013
Preliminarily Approved
Board of Directors OJSC "MegaFon"
Minutes № 192 (256) dated 14.05.2013

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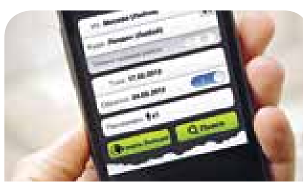

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IN 2012, MEGAFON TOOK A NUMBER OF IMPORTANT STEPS THAT WILL SHAPE ITS FURTHER DEVELOPMENT AND MARKET POSITION IN THE FUTURE. LET'S REVIEW THESE STEPS.

NEW MANAGEMENT TEAM, NEW MOTIVATON

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FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR 2012

MegaFon is Russia's leading integrated telecommunications operator. We enable all of our 64.6 million subscribers to stay in contact and we support whatever they enjoy doing: studying, working, relaxing, or just chatting.

One of the "Big Three" cellular operators in Russia, MegaFon is the country's number one provider of mobile internet services and the second largest in terms of revenue and subscriber base. While we focus principally on the Russian market, we also provide services in Tajikistan, Abkhazia and South Ossetia through separate operating subsidiaries.

In partnership with Yota, MegaFon was the first of the "Big Three" to launch 4G/LTE services in Russia. We also have well-developed 3G infrastructure, as well as our own chain of owned-and-operated stores, MegaFon Retail, one of the largest in the country.

MegaFon is the mobile General Partner of the XXII Winter Olympic Games and XI Winter Paralympic Games in Sochi in 2014.

Key Consolidated Results

OIBDA margin
UP 1.4 p.p.
43.0%
(2011: 41.6%)

ARPU in Russia
UP 2.9%
320 RUB
(2011: 311 RUB)

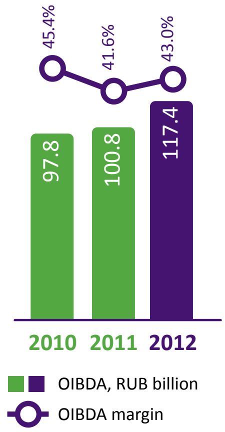
Users of mobile internet
UP 10.6%
21.5 million
(2011: 19.4 million)

Subscribers
UP 2.9%
64.6 million
(2011: 62.8 million)

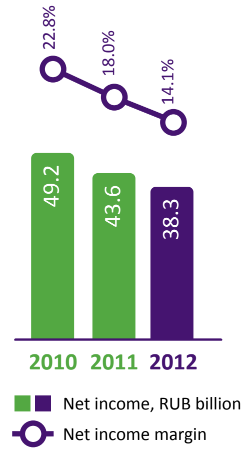
Last year was one of the most successful in MegaFon's history. We conducted an initial public offering of our shares (IPO) on the London Stock Exchange and MICEX and reported excellent financial results, including record revenues. We also saw the first results of our new strategy, aimed at increasing operational efficiency, cost control and returns for our shareholders.

Revenues, RUB
UP 12.4%
272.6 billion
(2011: 242.6 billion)

OIBDA, RUB
UP 16.4%
117.4 billion
(2011: 100.8 billion)

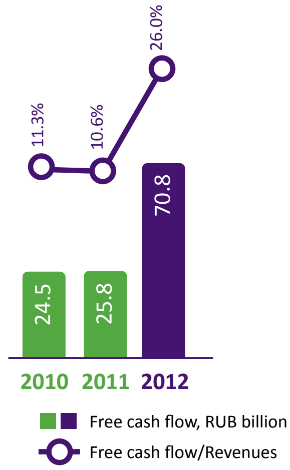


Net income, RUB
DOWN 12.1%
38.3 billion
(2011: 43.6 billion)



CAPEX, RUB
DOWN 37.8%
44.1 billion
(2011: 70.9 billion)

Free cash flow, RUB
UP 174.8%
70.8 billion
(2011: 25.8 billion)



OUR BUSINESS

Nº1
in the mobile data market

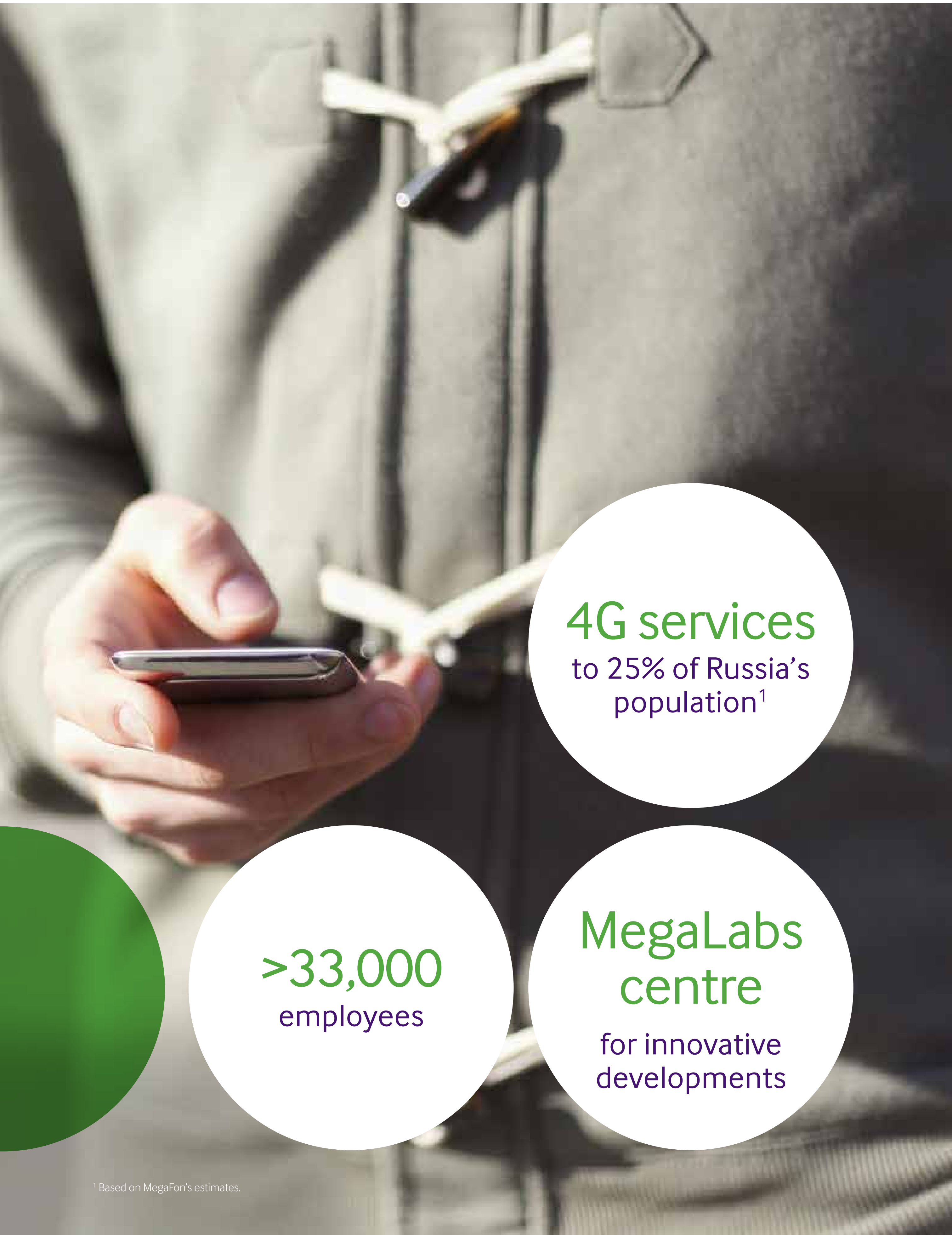
64.6 million
subscribers

28,051
3G base stations[1]

131,030 km
of fibre-optic backbone

3,542
MegaFon owned-and-operated or branded stores

[1] In Russia. In 2011 Annual Report we provided the number of base stations in terms of cabinets. In this Annual report we disclosed the number of base stations in terms of sites.

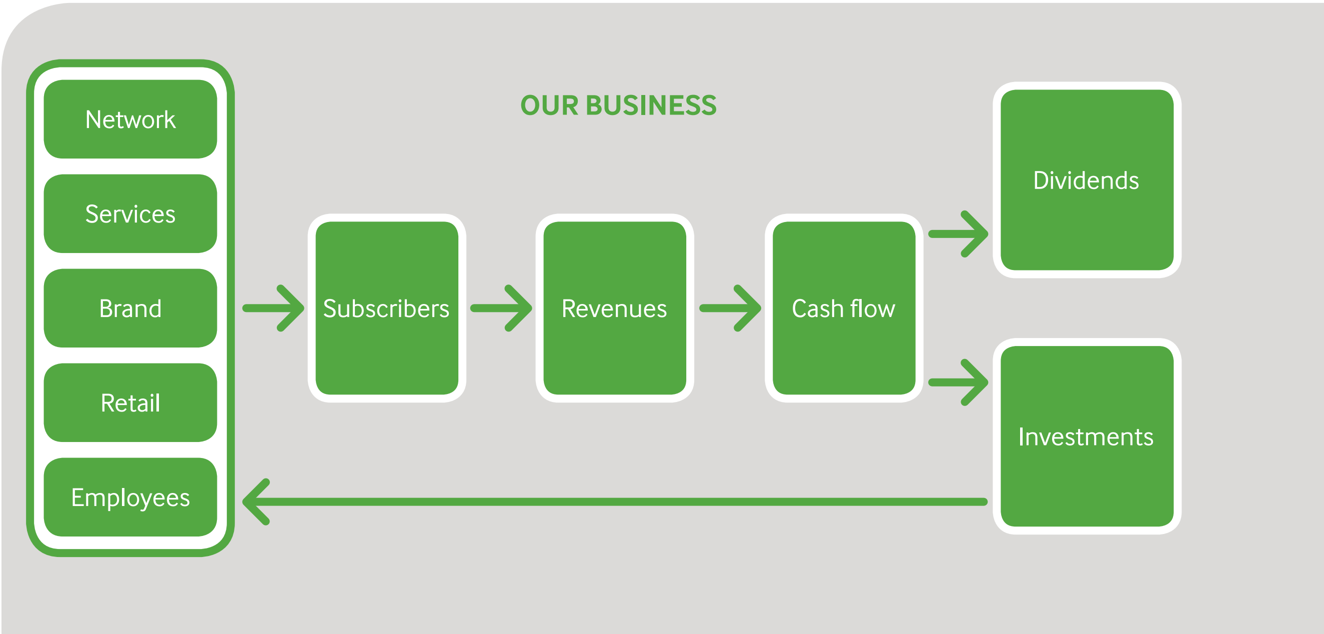


4G services
to 25% of Russia's population[1]

>33,000
employees

MegaLabs centre
for innovative developments

[1] Based on MegaFon's estimates.



Assets

Network

MegaFon's cutting-edge infrastructure allows us to offer a wide range of telecommunication services to a variety of subscribers while always ensuring that they are of the highest quality. The Company's 2G and 3G networks cover 92% and 76% of Russia's population, respectively[1], and in 2013 we intend to start construction of our own network to provide 4G services, something we currently offer through our partner Yota's infrastructure. Today, MegaFon operates Russia's second largest fibre-optic backbone network as well as 18 data centres. ***See page 35 for more details.***

Services

We offer voice, mobile and fixed-line data transfer, roaming, SMS, and VAS services in addition to developing business solutions and selling mobile phones and other electronics. Our MegaLabs subsidiary is an incubation centre for innovative service developments including content and media, financial services, M2M technologies, mobile advertising, and cloud solutions.

We use a customer-centric business model which seeks to provide maximum integration between our mobile and fixed-line businesses.

Brand

The MegaFon brand ranks among Russian trademarks with the highest awareness ratings: as of the end of 2012, unprompted awareness of the brand in Russia stood at 94%[2] with the brand also engendering high loyalty and subscriber satisfaction. MegaFon's selection as the mobile general partner of the XXII Winter Olympics and XI Winter Paralympics in Sochi has further enhanced our visibility in the public's mind. ***See page 47 for more details.***

Retail

MegaFon operates a retail network of 1,785 owned-and-operated stores, as of 31 December 2012. We see our owned-and-operated stores as a tool to generate more value for our subscribers by rendering high-quality service, offering a wide range of mobile devices and accessories, providing highly professional advice, and resolving subscriber issues in a timely manner. The Company also offers its products and services through a network of independent but MegaFon-branded stores, an extensive independent dealer network, specific third-party telecom retailers, and an online shop. ***See page 44 for more details.***

Employees

We believe that our employees represent a core competitive advantage for us and a strong foundation for our business growth. We always strive to attract the most talented

[1] Based on MegaFon's estimates.
[2] Source: Business Analytica.

We currently have licences to provide 2G, 3G, and 4G/LTE telecommunication services throughout the entire Russian Federation. Backed by these licences we are building and operating large-scale infrastructure in order to offer our subscribers high-quality voice, data, and other telecommunications services. In addition, we offer fixed-line services and solutions for telecommunications operators.

The primary source of MegaFon revenues is subscriber payments. We reinvest our cash flow in business growth in order to strengthen our leading market position. This includes investment in infrastructure, marketing, subscriber acquisition, development of new services, expansion of the retail network, and boosting service quality.

A portion of the Company's available cash is distributed as dividends to ensure that the shareholders receive an attractive return on their investment.

people. And, to facilitate this, we offer attractive incentive programmes and fair compensation, as well as professional growth opportunities. At the end of 2012, the Company employed over 33,000 people. ***See page 74 for more details.***

Subscribers

MegaFon operates across all subscriber segments providing for maximum market coverage. We deliver mobile communication services to almost 64.6 million subscribers in Russia, Tajikistan, South Ossetia, and Abkhazia. Approximately 33.6% of the Company's active subscribers use our mobile data transfer services, making the Company the leader in this segment. In addition, we offer fixed-line services. Besides retail subscribers (B2C), who have been our traditional focus, we also serve the corporate (B2B), governmental (B2G) and operator (B2O) segments. ***See page 30 for more details.***

Revenues

Mobile communication services generate 88.5% of all revenues. Retail subscribers, as well as small and medium companies, pay for service on a pre-paid basis. Post-paid plans are offered principally to corporate and government subscribers, and account for less than 5% of the Company's total revenues. This revenue structure helps minimise the credit risk exposure and ensures stable cash flow for the Company. ***See page 48 for more details.***

Cash flow

Cash flow is one of MegaFon's key performance indicators. In managing our operations, we aim to maintain a balance between investing in the sustainable growth of our business while also ensuring that sufficient funds are available for the payment of dividends.

Dividends

MegaFon's dividend policy provides for annual shareholder payments of at least 50% of net income or 70% of net cash flow, whichever is higher, after taking into account the needs of our business and maintenance of an optimal capital structure. In 2012, the Company paid its shareholders their first dividends in the aggregate amount of RUB 151.9 billion. ***See page 72 for more details.***

Investments

For several years we have been making substantial investments in radio and fixed-line infrastructure, IT, and our retail network. This has guaranteed our leading market position and our ability to provide the highest level of cutting-edge telecommunication services. We will continue investing in business growth, but at a more measured pace, seeking to find the correct balance between returns to shareholders and sustaining the competitive position of the business.

Geographic Presence

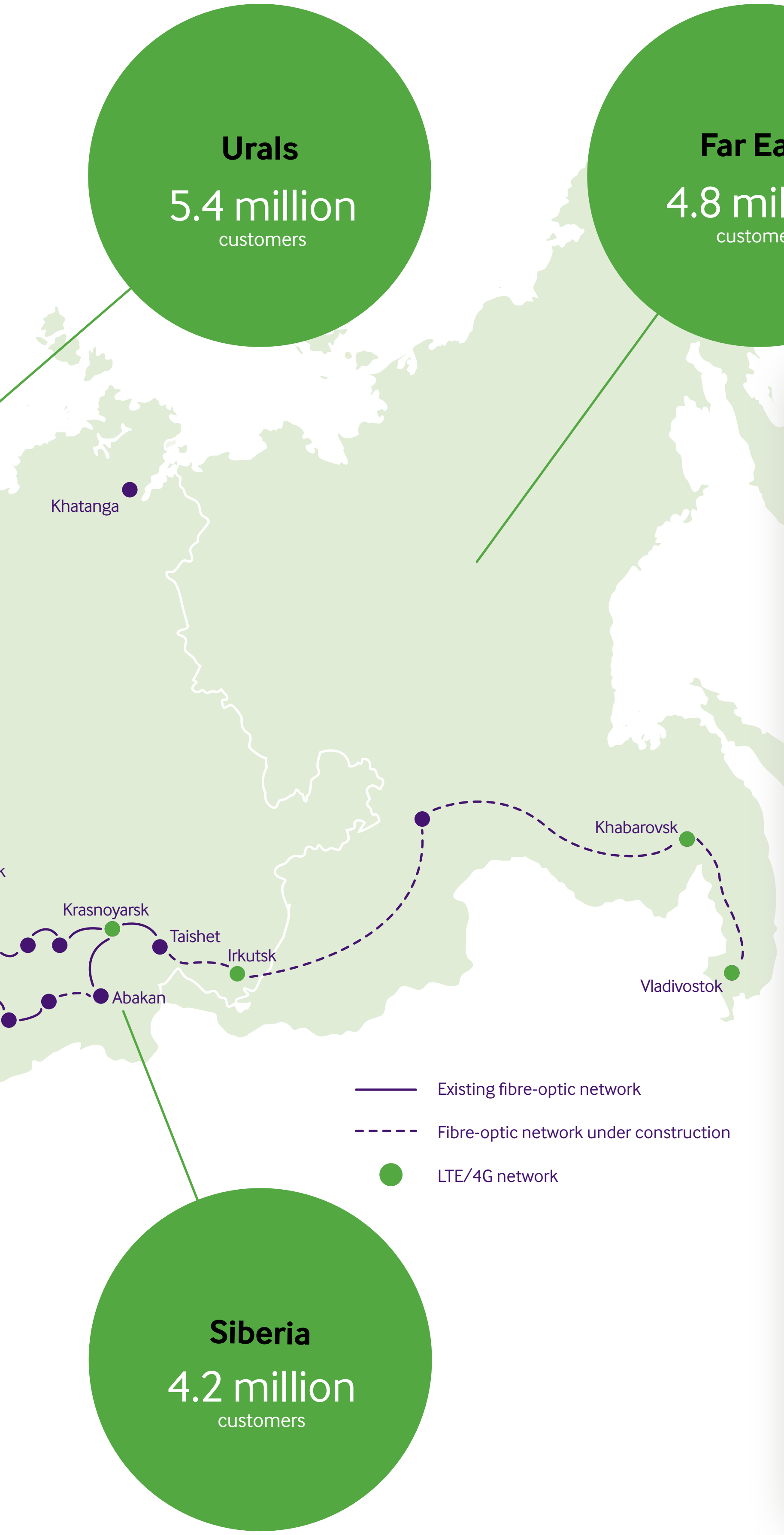
North West
10.7 million
customers

Moscow region
9.9 million
customers

Centre
3.9 million
customers

Caucasus
9.5 million
customers

Volga
14.2 million
customers



Russia

MegaFon
Customer base: 62.6 million
Market share by customers: 27.1%
Mobile Internet users: 21 million
Revenues: RUB 269.7 billion
Investment in 2012: RUB 42.3 billion

Tajikistan

TT mobile
Customer base: 1.8 million
Market share by customers: 21%
Mobile Internet users: 375,000
Revenues: RUB 1.7 billion
Investment in 2012: RUB 1.1 billion

Abkhazia

AQUAFON-GSM
Customer base: 142,800
Market share by customers: 62%
Mobile Internet users: 59,500
Revenues: RUB 1.0 billion
Investment in 2012: RUB 328 million

South Ossetia

OSTELEKOM
Customer base: 64,000
Market share by customers: 100%
Mobile Internet users: 23,400
Revenues: RUB 0.2 billion
Investment in 2012: RUB 322 million

All financial data are net of intercompany settlements.

LETTER OF THE CHAIRMAN OF THE BOARD

Dear Friends,

I am pleased once again to present the results achieved by MegaFon, this time in my new capacity as the Company's Chairman of the Board. In April 2012 I left the post of MegaFon's Chief Executive Officer (CEO), handing over all of my responsibilities to Ivan Tavrin, a highly competent executive with a wealth of management experience in the telecom, media and content sectors – precisely the segments which are driving the Company's rapid growth today.

Thereafter, I was pleased to receive a vote of confidence from the Company's shareholders and the Board of Directors when they elected me as Chairman of the Board in June 2012. In this new role, I see my priorities as further developing MegaFon's corporate governance system, improving the Company's transparency to shareholders and always being vigilant to protect shareholder and other stakeholder interests. And I intend to ensure active Board involvement in following through with MegaFon's new strategic directions and in creating a motivating environment for management.

2012 Highlights and the Company's Strategy

2012 was a very successful year for MegaFon, as we consolidated our leadership in the mobile data transfer market, the most dynamic segment of the telecom industry. In 2012, MegaFon's launch of a 4G/LTE network was a landmark event for the entire Russian telecom market; we were the first of Russia's "Big Three" cellular operators to offer our subscribers this capability. This achievement, following on the heels of our pioneering deployment in Russia of a 3G network in 2007, underlined to both our subscribers and the market our credentials as the industry's leading innovator.

2012 was also significantly different from previous years in that management started to place greater emphasis on cost control and operational performance. Our ambitions now go beyond mere market leadership: we will seek to maintain high margins and strong cash flow, so as, among other things, to be able to implement our new Dividend Policy, referred to below. A number of initiatives launched by management in this area in 2012 helped bring the OIBDA margin to 43% and increase cash flow by 175%. These are excellent results that we intend to sustain and improve going forward.

Sergey Soldatenkov,
Chairman of the Board

The dividend policy provides for annual shareholder payments of at least 50% of net profit or 70% of net cash flow, whichever is higher.

Initial Dividend

In April 2012 we paid our first dividend and in June adopted a specific Dividend Policy, providing for annual shareholder payments of at least 50% of net income or 70% of net cash flow, whichever is higher[1].

IPO Highlights

Last year marked a new milestone in MegaFon's history when, in November, the Company launched an initial public offering on the London Stock Exchange. In fact, MegaFon's IPO was the largest equity offering on the LSE in 2012. The deal generated strong demand, and was oversubscribed. Investors were drawn by the Company's leadership in the Russian market, its prudent strategy, and the quality of its management. MegaFon priced at US$ 20 per share, and by year end the Company's stock price had reached US$ 23.8[2].

Further Development of the Corporate Governance Framework

Significant efforts were made to refine the Company's corporate governance arrangements and bring them in line with international standards throughout the pre-IPO stages. We took a number of steps to protect the interests of our minority shareholders and to ensure that at least two directors on our Board are independent, modeling these actions on the UK Combined Code on Corporate Governance.

Better Transparency

Important steps were also made to step up the transparency of MegaFon's corporate procedures. The Company launched efforts to streamline its insider information access practices and public disclosures, making sure that all the relevant information is treated in stringent compliance with the UK regulatory requirements.The Board adopted a Share Trading Policy, placing restrictions on the trading

[1] To learn more about the Company's dividend policy, please visit MegaFon's website at http://moscow.corp.megafon.ru/investors/management/docs/inye_vnutrennie_dokumenty/.

[1] Source: Bloomberg.

of MegaFon shares by members of its employees, as well as requiring disclosure of all such trades. We also initiated additional measures helping improve our processes to identify and disclose related party transactions.

Management Incentive Scheme

In 2012, we overhauled MegaFon's Management Incentive Scheme, linking it to share price growth, along with other benchmarks. The Board approved a long-term bonus scheme for key executives, including phantom stock options with deferred payout. The phantom share scheme provides for management to receive cash payments apart from bonuses they are entitled to. It is based on share performance and spans three years, with payouts scheduled for 2014 and 2015. We are confident that the new option scheme will enable us to retain our industry-leading management team.

Additionally, a specific option scheme was developed for our CEO, Ivan Tavrin, giving him the opportunity to purchase 1.25% of MegaFon's shares at the IPO price in December 2012 and a further 1.25% at the same price in each of May 2013, May 2014 and May 2015.

Finally, I want to take this opportunity to thank our principal shareholders, the Company's management and all of our employees. Every one of you has made a significant contribution to MegaFon's successful growth in 2012.
I am confident that, with your help and the continued support of our subscribers, suppliers and other stakeholders, 2013 will prove to be another successful year for our Company.

Sergey Soldatenkov
Chairman of the Board

LETTER OF THE CEO

Dear shareholders, colleagues and partners,

2012 was a year of great achievements for MegaFon. I am delighted to present the operating results for a year that will be remembered as a milestone, not only in MegaFon's evolution, but also in Russia's telecom sector as a whole.

IPO

The year's most notable event was our initial public offering, which proved very successful in many respects. MegaFon's offering was oversubscribed, allowing us to build a high quality book of new shareholders. As importantly, our post-IPO share performance gave no cause for our new public shareholders to question their investment decision; MegaFon's stock price on the London Stock Exchange grew 19% by year-end, and has grown 55% through 31 March 2013[1], while the MICEX Index increased by just 3.1% over the same period.

New Growth Strategy

After a review of the Company's development targets in the beginning of 2012, and taking into account the growing saturation in the mobile market, a new strategy of bringing greater efficiency to our future growth was adopted. It means that we are still interested in fast-paced growth – but not at any cost. MegaFon is committed to leadership in Russian telecoms and will pursue a policy of best-in-class telecom services, innovative products, and customer satisfaction. However, we will not fight for high penetration rankings at the cost of profitability and cash flow. Instead, we are focused on successfully balancing the needs for encouraging sustainable growth and providing a respectable level of dividend yield for our investors.

Growth Drivers

The Company's consolidated revenue of RUB 272.6 billion in 2012 was an all-time high and marked a 12.4% increase year-on-year (YoY). Remarkably, MegaFon demonstrated growth in each of its business areas, a significant achievement in the current market environment.

The data services made the largest contribution, accounting for 29.1% of total revenue growth in Russia. This was made possible by the large-scale investments in 3G infrastructure the Company has been making since 2008 in the of process positioning itself as the best mobile operator in the mobile data segment. At the end of 2012, we had 28,051 3G base stations covering 76% of the Russian population[2]. Another two million MegaFon subscribers became mobile internet users over the course of the year, raising the total mobile

[1] Source: Bloomberg.
[2] Based on MegaFon's estimates.

internet users to 33.6% (21 million users) of the overall subscriber base in Russia.

We are not resting on our laurels, however. In 2012, we were the first of the "Big Three" operators to launch 4G/LTE services. This technology allows for both higher data speeds and faster internet access. By the end of 2012, the new service was available in a total of 76 cities that are home to 25% of Russia's population[1]. Over a short time, 100,000 MegaFon subscribers became 4G/LTE users, generating 5% of the Company's aggregate data traffic, and demonstrating that 4G is less and less being considered a niche technology, and instead is becoming a mass market service with excellent potential.

MegaFon's own retail chain plays an increasingly critical role in our business. The number of our owned-and-operated stores reached 1,785 by the end of 2012. MegaFon Retail is widely regarded as one of the best chains of its kind. Notwithstanding the fact that our own stores represent just 3.7% of the total number of outlets in all retail distribution channels used by MegaFon, last year our own stores generated 32% of all of our new subscriptions in B2C segment. Our customers clearly prefer MegaFon Retail stores for their convenient location, well-trained personnel, and high level of service.

We will continue strengthening MegaFon's position in the retail market, including working with the Euroset chain, in which we acquired a stake in December 2012. Euroset is the largest mobile retail chain in Russia and our investment will lead to closer cooperation with them, which in turn will help us provide better services to our customers.

We believe the VAS[2] market to be one of the most promising segments of the mobile business. In late 2011, we established MegaLabs, a company focused on creating innovative value-added services. We rely on MegaLabs' projects to enhance customer loyalty, drive data traffic up, and increase profitability. To reinforce our position in the value-added services market, in September 2012 we acquired VAS Media, a supplier of multimedia content, ringtones, geolocation services, and mobile payment solutions. 13.8% of our consolidated revenue increase in 2012 was contributed by VAS and new products.

We also intend to maximise the marketing potential of the 2013 Universiade in Kazan and the 2014 Olympic and Paralympic Games in Sochi, for both of which we have been named the exclusive mobile General Partner.

Ivan Tavrin,
Chief Executive Officer

[1] Based on MegaFon's estimates.

[2] Value-added Services, additional services provided in addition to voice and data transmission..

MegaFon relies on an efficient growth strategy. We are committed to fast-paced growth, but we will not pursue that growth "at any price".

Increasing Operating Efficiency

As part of our new growth strategy, in 2012 MegaFon focused closely on cost control and operational efficiency issues, targeting several areas for improvement that we believe will have a sizable and sustainable effect on the Company's performance.

We drastically changed our dealer network compensation model. Previously, MegaFon paid its dealers a fixed fee for each new subscriber. Under the new framework, dealers only receive a share of revenues received from new customers who generate sufficient income over specified periods. In addition, we updated our criteria for the acceptance of new subscribers in an effort to improve the quality of our customer base. These initiatives saved us nearly RUB 2 billion in 2012. We intend to further increase savings next year by expanding these initiatives in all Euroset outlets.

One of our priorities for 2012 was to create a new capital expenditure framework. The fact that we had made heavy investment in the development of our mobile infrastructure and network in prior years allowed us to substantially reduce capital investments in 2012. In addition, we began to take more advantage of opportunities to develop infrastructure jointly with other market players. A prime example of this is the launch of MegaFon-branded 4G services based on an MVNO agreement with Yota. In 2012, we reduced MegaFon's capex by 37.8% YoY.

Strong Results

The consistent development of our core voice services business and the rapid growth in data transmission and VAS, coupled with substantial cost savings, produced record-breaking financial results in 2012. I have already mentioned the growth in revenue, which increased at a rate close to that achieved in 2011 despite growing saturation in the market. The Company's consolidated OIBDA reached an all-time high of RUB 117.4 billion, growing 16.4% compared to the previous year, while OIBDA margin increased by 1.4 percentage points, reaching 43.0%. However, our biggest success was the increase in consolidated free cash flow, which grew by 174.8% to RUB 70.8 billion, MegaFon's highest level ever.

In 2013, we expect revenues to grow at a rate in the high single digits and the OIBDA margin to be in line with 2011 and 2012. Capital expenditures will total RUB 55–60 billion.

Customer Satisfaction

In 2013, MegaFon will focus on maximising our subscribers' experience. Our key objective will be to ensure that they are always offered state-of-the-art services that are best-in-class, as well as being the most reliable and affordable options available. We will simplify our line of pricing plans for ease of understanding. We will also strive to make the terms under which we offer our products and services as transparent and surprise-free as possible by providing clear, understandable terms and information that is relevant to our subscribers."Simpler, Clearer, Brighter" is the slogan that will guide our subscriber relations this year.

In conclusion, I would like to thank the shareholders and the Board of Directors for the confidence you vested in me in 2012. In my capacity as CEO, I highly value and will take maximum advantage of the experience that the Company has accumulated over the years, at the same time trying to bring in new ideas and solutions to help attain MegaFon's goals. I would also like to thank each of our employees for their teamwork and professional approach to their work, as well as the support they have given to me in 2012.

Ivan Tavrin
Chief Executive Officer

STRATEGY

MegaFon is currently the country's leading provider of mobile internet services and the number two cellular operator in terms of revenue and subscriber base. We intend to continue strengthening our position in the Russian telecommunications market, focusing in particular on the following strategic aims.

HIGHEST SERVICE QUALITY

One of MegaFon's competitive advantages has always been the quality of its network and services. We intend to maintain our leading position in the sector by further enhancing our service quality and being at the forefront of technological innovation.

RESULTS IN 2012

- Launched 4G/LTE services on Yota's network.
- Remained the leader in terms of 3G network coverage and capacity.
- Received 4G/LTE licences for the whole of Russia.
- Maintained our market share in the voice segment.
- Increased profitability in the mobile data segment.

NEXT STEPS

- Launch own 4G/LTE network.
- Increase the capacity and coverage of our wireless and backbone networks.
- Create a single network resource management centre to make the network more stable.
- Implement local projects to optimise the network where there are many subscribers or heavy traffic.

INNOVATIVE PRODUCTS AND VAS SERVICES

In our view, the future success of our business depends on our ability to deliver not only standard products and services, but also new and innovative ones as well. This will enable us to attract new customers and retain existing ones, while increasing service usage.

RESULTS IN 2012

- Completed the operational launch of MegaLabs.
- Acquired content provider VAS Media and integrated it into MegaLabs.
- Launched new value-added services, including content, media, financial, M2M, mobile.
- Advertising and convergent products.

NEXT STEPS

- Increase usage of new products.
- Boost the profitability of innovative and value-added services, including reaching beyond MegaFon's current subscriber base.
- Stimulate traffic using value-added services.

CUSTOMER SATISFACTION

MegaFon is concentrating on its customer-oriented business model. We are working hard to deliver the best possible customer service both in our retail outlets and through other channels.

RESULTS IN 2012

- Divided our subscriber base into segments for future targeted communication with customers.
- Launched customer service functions on our website and social networks.
- Consolidation of our call-centres to provide on a single customer service standard is underway.
- Increased the share of loyal customers to 36% (up 7 p.p.)[1].

NEXT STEPS

- Develop our retail network and use it to increase customer loyalty.
- Complete the project to consolidate the call centres.
- Merge technical support and customer complaint services.
- Expand self-service functions.

EFFICIENCY

We intend to boost our efficiency and operational profitability by expanding the business and simultaneously cutting costs.

RESULTS IN 2012

- Increased our consolidated OIBDA margin to 43.0%, up 1.4 p.p.
- Reduced the cost of signing up new customers by entering into revenue-sharing agreements with dealers.
- Streamlined our capital expenditure programme.

NEXT STEPS

- Further reduction of subscriber addition cost and commission optimisation through leveraging the stake in Euroset.
- Seek long-term partnerships to make our business more effective.
- Further standardisation and centralisation of business processes.

[1] Source: Business Analytica, "Monitoring the "Health" of the "Big Three" operators' brands".

THE RUSSIAN MARKET IN 2012

Russia's telecom market continued its growth in 2012, mainly driven by the wireless data transfer and mobile content services segments. The total size of the telecommunications market excluding equipment sales reached RUB 1.4 trillion.

MegaFon's market position In Russia at year end 2012[1]

Mobile data market
Nº 1 OPERATOR BY REVENUE
36.4%
market share
down 0.9 p.p. over 2011

Mobile voice market
Nº 2 OPERATOR BY REVENUE
28.6%
market share
up 0.4 p.p. over 2011

VAS market
Nº 2 OPERATOR BY REVENUE
29.8%
market share
up 0.2 p.p. over 2011

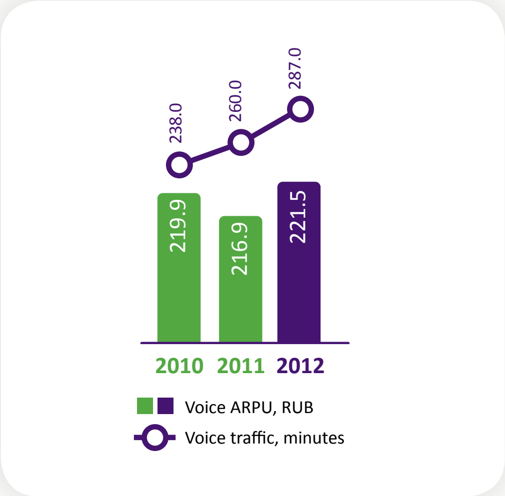
Subscriber base
Nº 2 OPERATOR BY TOTAL SUBSCRIBERS
62.6
million subscribers
up 2% over 2011

[1] Source: AC&M.

Mobile business in Russia

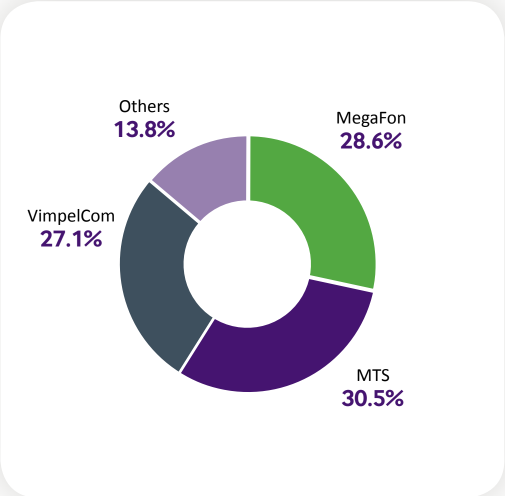
Source: AC&M.

Russian mobile voice market



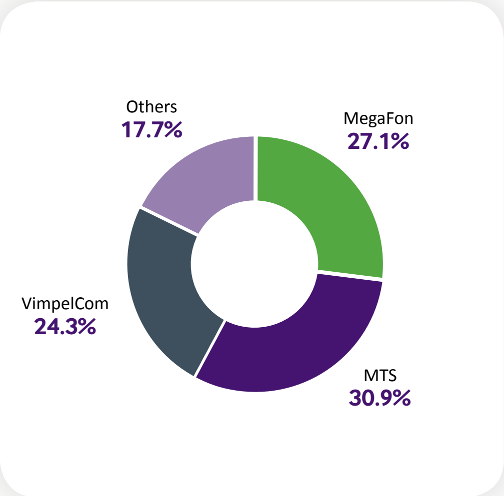
Source: AC&M.

Key Russian mobile players, by revenue



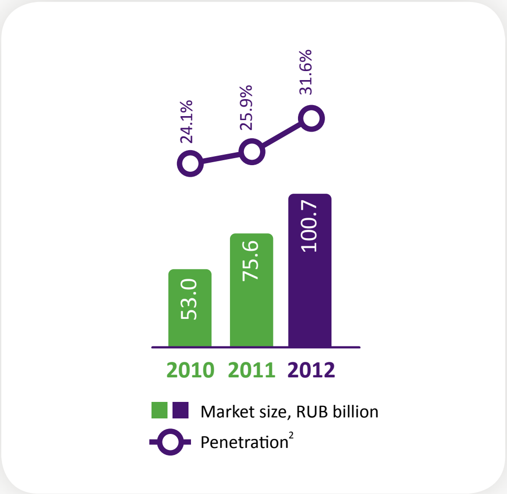
Source: AC&M.

Key Russian mobile players, by subscribers



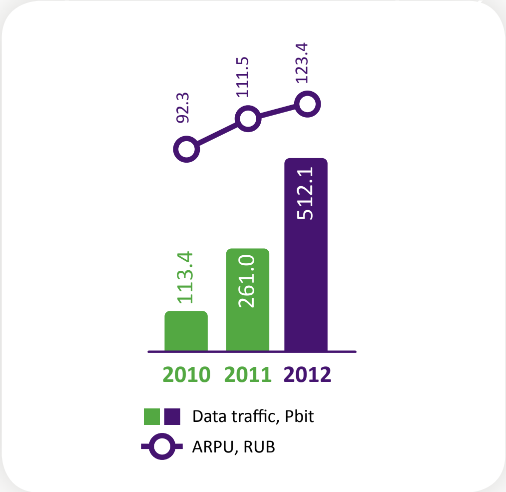
Source: AC&M.

Russian mobile data market



Source: AC&M.

Mobile data traffic and ARPU[3] in Russia



Source: AC&M.

Trends in the overall Russian telecommunications sector

Mobile business

Russia's mobile market grew 9% to RUB 837.4 billion over 2012[1]. The "Big Three" operators – MegaFon, MTS and VimpelCom – remained the key players in the industry.

Subscriber base
As of the end of 2012, Russia had approximately 230.5 million active mobile subscribers, up 2.9 million YoY. This indicates a market penetration rate of 161.3%, one of the highest globally. However, with the increased attention to premium services and revenues per subscriber, the role of subscriber base growth on its own as an essential driver of the mobile market will likely diminish.

Voice services
Voice services remain the biggest segment of the mobile market, though its share decreased from 77% to 73% over 2012. Wireless voice services are currently accessible to most of Russia's population, so that the segment's growth rate is not high. Although voice traffic grew 14% in 2012, ARPU increased by a mere 2.1%. Going forward, rising traffic will be offset by lower airtime fees resulting from the launch of packaged voice/data offers.

Data services
The increase in mobile data service users and internet traffic is increasingly becoming the key growth driver for the mobile market.

Today, the mobile data market is mainly driven by growing 3G penetration and the surge in popularity of internet-friendly mobile devices such as smartphones and tablets.

The data services share of the mobile market's top-line revenues increased in 2012 by 12.0% to RUB 100.7 billion.

As of the end of 2012, Russia had 73 million mobile internet users, up 14% YoY.

Data traffic grew 196% during the year. However, average revenue per active user is developing at a slower rate, only increasing by 10.7% to RUB 123.4, because of pressure on tariffs.

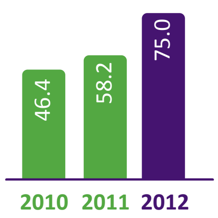
[1] Source: Unless otherwise indicated, all figures are based on AC&M data.
[2] % of total subscriber base of the mobile market, at the year-end.
[3] ARPDU (Average monthly revenue per data services user) in MegaFon's terms.

4G

NATIONWIDE 4G LICENCE

In July 2012 MegaFon obtained a nationwide, 10 year LTE/4G licence. Under the licence, we are obliged to commence provision of LTE/4G services no later than 1 June 2013, and by the end of 2019 these next-generation technologies must be rolled out in all Russian cities and towns with populations of over 50,000. The licence terms also provide for the annual investment of at least RUB 15 billion to develop the network. The licence enables us to roll out LTE/4G network in Russia's regions not only on the basis of the MVNO model already in place, but also via direct access to our own frequency bands.

Russian VAS market[1], RUB billion



Source: AC&M.

Fixed-line broadband access market in Russia

Source: AC&M.

VAS

The value-added services segment is the second largest in the mobile market, with a 15.5% share at year end. The segment's revenue increased in 2012 by 18.4% to RUB 129.9 billion.

While the VAS segment mainly consists of short messaging and mobile content services, 2012 was the first year that content services pushed well ahead of traditional short messaging. The share of revenue in the value-added services segment commanded by short messaging is already as low as 42% and will decline still further as the market becomes saturated and SMS fees continue to decrease.

By contrast, the mobile content segment can expect strong growth. In 2012, it increased by 38.9% to RUB 75.0 billion. The mobile content business will be driven largely by the anticipated growth from its currently low penetration level, increasingly affordable 3G and 4G internet access services, and wider use of smartphones and tablet PCs.

Fixed-line business

The fixed-line market is the second largest segment of Russia's telecom sector.

Subscriber base

As of the end of 2012, fixed-line services were used by 43 million people, 0.5 million fewer than the year before. This reduction was mainly driven by subscribers migrating from fixed-line to mobile services.

Voice services

The fixed-line voice segment currently commands a revenue share of about 50%. Its revenues saw negligible change over the previous year and totalled RUB 228.6 billion. The voice segment has shown low performance in recent years due to migration to mobile and VoIP telephony.

Broadband internet access

Broadband internet access remains the fastest growing segment of the fixed-line market. In 2012, the number of fixed-line broadband subscribers increased by 14% as market penetration reached 42.1%, compared to 36.9% at the beginning of the year. 21.9 million households had fixed-line internet access at the end of 2012. The fixed-line broadband business will continue to grow due to new network roll-outs, price reductions, and greater affordability of equipment, as well as on-going market consolidation.

[1] Only VAS, does not include Messaging and Data.
[2] % of total households.

Equipment sales

2012 saw important developments in the range of devices available to subscribers. The growing affordability of mobile services, increasing amounts of data transmission, and the need for "heavy" content, all drove consumer demand for devices that have more functionality than conventional handsets. Another important factor in the development of the advanced equipment market was price deflation, a result of competition in the market.

Mobile phones and smartphones

According to Euroset estimates, about 42 million handsets were sold in Russia in 2012, up 5.8% YoY. Smartphone sales continued to rise (12.8 million units, up 69% YoY) while simple handset sales continued to drop (29.2 million units, down 9% YoY).

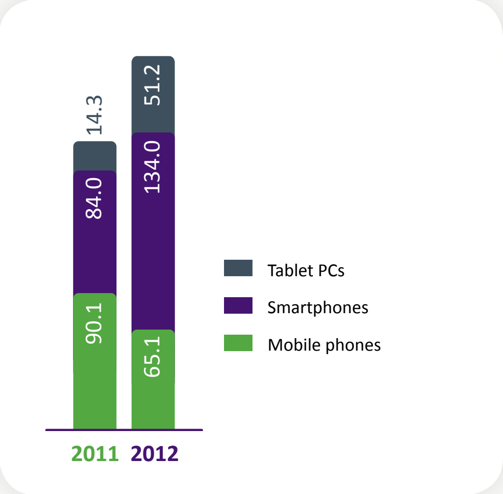
Tablet PCs

Tablets were the best performing segment of the mobile device market during 2012, with 3.3 million sold, up 0.7 million over the previous year.

USB modems

2012 was the first year that USB modem sales showed a negative trend, decreasing by 46% to 6.1 million units. The main reasons were market saturation, price increases by operators, and the growing penetration of smartphones and tablets. Modem sales are expected to continue slowing in Russia.

Mobile device sales in Russia: growth and structure, RUB billion



Source: Euroset.

REVIEW OF OPERATIONS[1]

Highest service quality

Quality has always been and will remain one of the key advantages underpinning MegaFon's leading market position. We intend to strengthen our leadership by increasing the quality of our services and products and ensuring that our infrastructure and equipment incorporates the latest telecommunications technologies.

Services and products

We offer our subscribers a wide range of services, including voice communications, messaging, internet access and convergent services. Our objective is to make sure that our subscribers are always able to connect effortlessly, whatever service they are using.

Voice communication

Voice mobile communication remains MegaFon's largest business segment. While its share in total revenues continues to decline (61.6% last year, compared with 66.2% in

[1] This section covers MegaFon's operations in Russia as a major part of company's business. Unless otherwise indicated, all financial and operational data refers to Russia.

2011), we remain focused on supporting and developing the segment, because voice communication still remains an essential part of modern life and is the service that is most in demand today.

In 2012, MegaFon continued to enhance its tariff offerings in the voice segment, adding two new options. To stimulate internal traffic, the Company launched its national tariff plan "Switch to 0", while, to attract high-revenue subscribers interested in combined voice/data packages, we introduced a range of tariffs called "MegaFon – Everything Included".

We also invested considerable effort in launching regional tariff plans. Regional tariff plans are effective because they are designed to meet the specific requirements of the subscribers in a particular region, and by carefully tailoring regional offers to such requirements, we are able to boost voice traffic and its profitability.

Furthermore, in regions where market share did not meet our expectations, we launched special tariffs designed to be attractive enough to potential subscribers in those regions to stimulate demand.

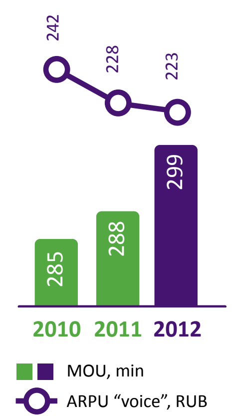
We see clear potential for increasing voice traffic in the B2B and B2G segments, where voice penetration has not reached mass market levels. But we aim to do this by offering packages of convergent services tailored for the individual needs of clients, rather than simply signing up new clients.

Mobile data

In 2012, the mobile data segment continued to grow dynamically. Data traffic in Russia doubled and amounted to 234.4 Pbit. The positive trend was due primarily to an increase in the number of users of mobile data services, as well as growth in the intensity of traffic generated by users.

Last year, the average number of active users of MegaFon data services in Russia grew to 21.0 million, 10% higher than the figure in 2011, and accounted for around 33.6% of the Company's total subscriber base. The main source of growth in subscribers was from smartphone owners subscribing to data services, as well as from the purchasers of modems. Over the medium term, we believe that the data segment will continue to grow, and by 2015, we expect it to account for at least half of our subscriber base.

Figures for MegaFon's voice communications segment



In 2012, the Company carried out a comprehensive qualitative and quantitative analysis of its retail subscriber base. As a result of this, we re-classified our subscriber base into various sub-segments, allowing us to target each with new products and services more effectively.

In 2012, voice traffic in Russia

grew by 10.5%,

compared with 9.9% in 2011. Revenue from voice services

grew by 4.4%,

compared with 2.3% a year earlier.

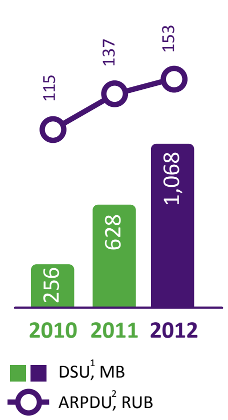
4G

The 4G network launch

gave MegaFon an unmatched competitive advantage in the mobile data transfer segment.

In 2013, MegaFon shifted its focus in mobile data from expanding the subscriber base to monetising the service.

MegaFon data traffic and ARPDU in Russia



In 2012, MegaFon actively promoted mobile data services, with the primary focus in its advertising campaigns on promoting a "BIT" package enabling customers to access the Internet from smartphones with the highest speeds, but subject to a daily traffic limit. In addition, the Company worked to improve the quality of customers who are modem internet users to boost traffic profitability. We increased the cost of the equipment we sell for accessing the internet, both by eliminating subsidies and actually raising prices. We also put greater emphasis on the higher margin equipment like smartphones, while de-emphasising modems. As a result, in 2012 the level of internet use via smartphones and tablets increased by 20%, versus only 16% via modems.

The most important event for MegaFon in the data segment was the launch of 4G/LTE services in cooperation with Yota. In April 2012 the service first became available to our subscribers in Novosibirsk and by the end of the year residents of 76 Russian cities (25% of the country's population) had access to this new technology for internet access. As part of the service launch, we began offering subscribers devices with 4G/LTE technology, including modems and tablets. By the end of the year, more than 100,000 subscribers were using the new service across Russia, while the share of 4G in total data traffic amounted to 5%.

Today, MegaFon is positioning 4G as an important product which generates higher profitability. In 2012, ARPU from 4G users exceeded that from 3G users by 3.5 times.

In August 2012 MegaFon revised its data tariff plans, to provide tariffs which could meet subscribers' differing needs depending on the device they are using e.g., standard plans for smartphone users needing basic services and more substantial plans for larger users such as owners of tablets and modems, and router operators . We believe that this re-vamping of our tariff packages will make them more attractive and comprehensible for our subscribers. A major advertising campaign to promote these new tariff options was launched in December 2012.

During the year, we continued to actively improve the technical aspects of our data services. Investments in 3G network capacity and the development of transportation infrastructure along with the growing number of customers using mobile broadband meant that the average data speed in the fourth quarter was able to be increased to 3.2 Mbit/s.

[1] Average monthly data traffic per user, calculated by dividing the total number of megabytes transferred by our network during a given period by the average number of data services users during such period and dividing the result by the number of months in such period.
[2] Average monthly revenues per data services user.

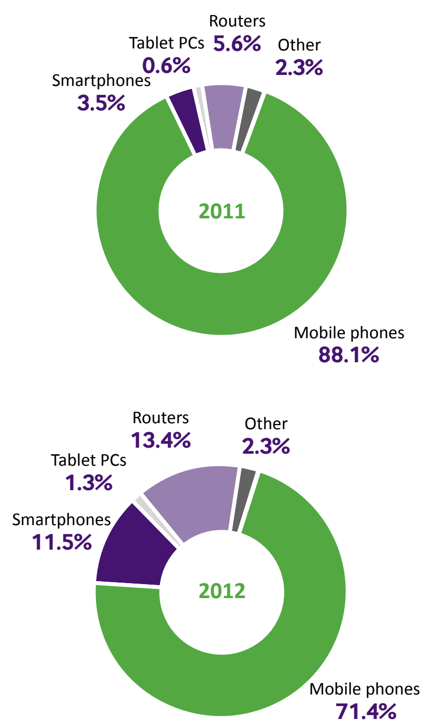
AGREEMENT WITH YOTA ON 4G NETWORK DEVELOPMENT

In February 2012 MegaFon and Yota signed an agreement to develop fourth generation mobile networks in Russia based on the mobile virtual network operator (MVNO) business model. This mutually beneficial arrangement enabled MegaFon to provide 4G/LTE services using Yota's equipment, and Yota to utilise MegaFon's infrastructure to develop its own business. The partnership's primary goal is to promote awareness of these new technologies and services and make them available to subscribers as quickly as possible. In May, Novosibirsk subscribers were the first to start using the 4G network, and as of the end of 2012 the new technology was available in 76 cities, reaching 25% of Russia's population.[1]

[1]Based on MegaFon's estimates.

We increased sales of MegaFon's own mobile devices by 13% in 2012[1].

Breakdown of sales of MegaFon branded devices[2]



Roaming

In 2011, MegaFon took an unprecedented step in significantly lowering the cost of international roaming in Europe, including the European part of the Commonwealth of Independent States (CIS) and Turkey (the "Eurotariff" plan), which produced significant results . The volume of incoming and outgoing calls by MegaFon subscribers roaming in Europe trebled and doubled respectively, while mobile internet traffic increased 3.3 times.

Having made roaming genuinely accessible, we now aim to make it more comprehensible for our subscribers. So, in 2013, we will focus on making our roaming tariff plans as transparent and easily understandable as possible, as well as launching new innovative national tariff options.

MegaFon mobile devices

In 2012, MegaFon actively promoted the sale of its own branded mobile devices (known as "white phones"). We see this area not as a standalone business, but as an important way of increasing our subscriber base, strengthening subscriber loyalty and stimulating the use of our services, especially mobile internet.

The Company sells four types of branded mobile devices: telephones and smartphones, tablet computers, modems and WiFi routers, and other equipment like MMS cameras, 3G cameras and so on. In 2012, we offered subscribers more than 20 types of equipment under our own brand.

As in 2011, the bulk of our sales in 2012 were in the modem segment. Through our dealer and branded retail network, we sold around 2.9 million of our USB modems. The main buyers were users of personal computers seeking to obtain reliable mobile internet access, especially in those Russian regions where fixed-line, broadband internet access is not developed. Also, at the end of July 2012, we began to sell the first universal modem using LTE/4G technology in Russia. During the year these new devices accounted for more than 10% of our overall modem volume sales.

However, we also increased the sale of smartphones by 2.3 times to 69,700, and sold a further 8,000 tablet computers[3]. In June 2012 we started to offer a new range of our own mobile devices, with the MegaFon SP-A10 smartphone as our flagship model. In addition, in the autumn, we began offering our own WiFi router capable of connecting to 4G high-speed internet.

[1] In volume terms.
[2] Not including modems.
[3] This refers to branded devices.

However, amid this rise in the popularity of devices providing convenient internet access, our sales of standard mobile telephones fell by 20%.

We also sell third party devices customised with specific MegaFon applications. MegaFon's customised devices are designed to work on our network and are sold primarily as a package with targeted tariff offerings.

Last year, MegaFon continued to develop its line of customised telephones, smartphones and tablets, adding seven new models. In particular, together with Samsung as a strategic partner, we launched the Galaxy Tab 7.7 and the Galaxy Tab 8.9 tablets with built-in MegaFon services and supporting 4G. At the end of 2012, MegaFon was offering the widest range of branded and customised mobile devices on the Russian market, and had become the leader among the "Big Three" in terms of volume sales of devices for data services (3G+4G).

Fixed-line communications for the mass market

In addition to mobile services, we offer fixed-line broadband internet, pay TV and fixed-line telephone services. At the end of 2012 we were providing fixed-line services in more than 60 towns and cities in Russia.

Last year, MegaFon worked intensively to develop and optimise its fixed-line tariffs based on client needs. In a number of regions we completely re-vamped our product range. In some towns and cities we significantly discounted the cost of fixed-line broadband internet for new subscribers to stimulate demand. In addition, the Company created many combined fixed-line and mobile packages, such as offering special mobile tariffs to users of fixed-line broadband internet, as well as developing all-in-one packages for mobile and fixed-line services.

Our investment in services, infrastructure and development of new tariffs in this area during 2012 enabled us to boost our subscriber base in this segment by 30.5% YoY, while we also doubled the number of subscribers to our pay TV services.

B2B and B2G telecommunication services

MegaFon offers comprehensive mobile and fixed-line telecommunication solutions for corporate and government clients. It has a wide range of tariffs for organisations looking to connect their employees depending on the size of the organisation and its specific needs. As of the year-end, the number of persons related to our corporate and government clients who were using our services totalled 6.5 million.

In 2012 we also completed the merger of the product portfolios of MegaFon and Synterra and thereby became a fully integrated provider of telecommunications services for B2B and B2G clients throughout Russia, giving us a critical competitive advantage in the market.

Together with streamlining traditional fixed-line and mobile services for our B2B and B2G clients, last year we invested substantial efforts in developing our range of convergent services. For instance, MegaFon began offering its Express Dial service to businesses, which integrates mobile and desktop phones into a single network for better intra-company communications and reduced telecom expenses.

MegaFon also completed a project, begun in 2011, to introduce BlackBerry services for clients. By the end of 2012 we were offering BlackBerry Enterprise Service and BlackBerry Internet Service to clients in all segments.

In addition, together with MegaLabs, we launched various innovative products for corporate clients, including "Employee Monitor" and "Web Button" (for more details, see the "Innovative Products and VAS Services" section).

To attract clients in the small-to-medium enterprise (SME) and home office (SoHo) segments, the Company developed new tariff plans and solutions and worked on making service interfaces more user-friendly. We also continued to increase sales to, and enhance our service for, SME clients through our owned-and-operated stores.

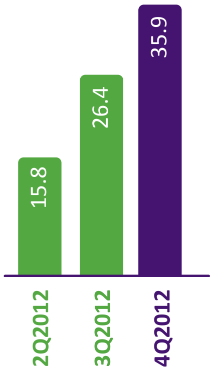
In 2013, we intend to start developing telecommunications solutions targeted at specific industries, as well as launching more unique products based on the integration of mobile and fixed-line services. In addition, we plan to start offering dedicated IT security solutions to our B2G clients. Other keys area of focus will be the promotion of self-service systems, innovative products streamlining customer business processes, and real-time quality management systems.

Infrastructure

In 2012, MegaFon became the first of the "Big Three" operators to deploy a 4G/LTE network. Expanding our 4G/LTE coverage and enhancing our existing 3G and

At the end of 2012,
around 100,000 MegaFon subscribers
used 4G services.
By the end of 2013 we plan to bring this number
up to 1 million.

MegaFon's 4G/ LTE rollout in Russia, million people



backbone infrastructure capacity are key priorities in the Company's technological development.

4G/LTE

MegaFon has always sought to provide its subscribers with the best ways to communicate with each other. Proof of this came in April 2012 when MegaFon became the first of the "Big Three" operators to launch 4G mobile communication services. The first network was launched in Novosibirsk and by the end of the year our subscribers in 76 cities across Russia, including the major cities of Moscow, St Petersburg, Samara, Ufa, Kazan and Krasnoyarsk, were enjoying the benefits of the new technology. As of the end of 2012, 25% of Russia's population was covered by the Company's 4G network[1].

The key consumer advantage of the 4G network over earlier generation standards is the higher mobile internet speeds. The average data transfer rate for 4G is between18-20 Mbit/s, approximately seven times faster than third generation network rates. Additionally, the 4G networks' "ping response time" is almost twice the speed of previous generation technology; internet pages appear on the screen almost instantly.

MegaFon worked to develop the 4G network throughout 2012 on the basis of an MVNO (mobile virtual network operator) model, signing an agreement with Yota early in 2012 to give us access to Yota's fourth generation mobile network. Under this agreement MegaFon can offer 4G services to its subscribers using Yota infrastructure and Yota can use the Company's network to develop its own subscriber base. This approach to network development has allowed the Company to significantly increase the efficiency of its capital investment while limiting operating expenses.

In July 2012 the Company was awarded its own ten-year 4G licences spanning the entire country and, in 2013 we intend to begin building our own 4G network. First, however, decisions have to be made on converting and vacating the allocated frequency spectrum, after which the Company will start building the appropriate infrastructure in the Urals, Povolzhie and Central and North-West Federal Districts of Russia.

3G

In 2008, MegaFon became the first mobile operator in Russia to deploy a 3G network. Since then the Company has remained a market leader in the segment, both in terms of

[1] Based on MegaFon's estimates.

network coverage and quantity of base stations. By the end of 2012, 76% of Russia's population had access to 3G services provided by MegaFon[1].

In the last 5 years, MegaFon has invested more in 3G network development than any other mobile telecommunications operator in Russia. By the beginning of 2012, our network infrastructure was well established; consequently, expanding capacity became the priority.

So we reduced the number of 3G base stations which we built during the year, even though we still ended 2012 with a total of 28,051 base stations in Russia. Conversely, in order to increase 3G network quality and capacity, we proceeded with the introduction of HSPA+ technology, achieving peak download speeds of 21 Mbit/s and, by the end of 2012, had introduced this technology in 76% of our 3G base stations. In the Moscow region we introduced UMTS-900 technology at our base stations to provide better coverage inside buildings. And, towards the end of the year, the Company started introducing DC-HSPA technology providing for a data transfer rate of up to 42 Mbit/s.

2G

Along with rolling out the 4G network and increasing 3G capacities, MegaFon continued targeted development of 2G networks. We installed over 2,400 new base stations in 2012 for a year-end total of 31,700, reaching 92% of Russia's population[1]. We intend to maintain a coverage rate on par with our competitors, while increasing network capacity and reliability, as well as improving access in remote areas. In 2013, the Company (in partnership with MTS, Vimpelcom, and Rostelecom) plans to jointly provide mobile communications along the major national highways Baikal, Kaspiy, Ural, and Ussuri.

Backbone and backhaul networks

Dynamic traffic growth and the 4G network launch are the key drivers of MegaFon's backbone network development. In 2012, the Company's main efforts in this area were aimed at enhancing infrastructure capacity, expanding geographic reach, and upgrading backhaul communication channels.

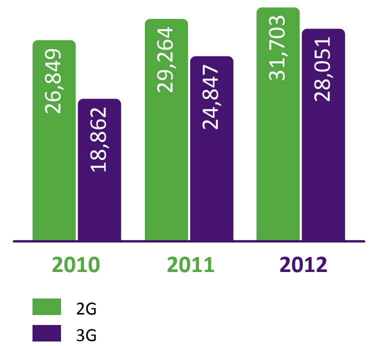
During the year the Company implemented projects aimed at increasing the total capacity of the European portion of its backbone network. As a result of these improvements, we were able to grow and further develop fixed-line and mobile traffic all across Russia. We also began actively to

[1] Based on MegaFon's estimates.

In 2012, MegaFon offered 2G/3G services at 188 stations in the Moscow Underground, servicing **7 million users daily.**

In 2012, the average data transfer speed through the MegaFon 3G network was **3.2 Mbit/s.**

MegaFon's 2G and 3G base stations in Russia[1]



[1] In 2011 Annual Report we provided the number of base stations in terms of cabinets. In this Annual report we disclosed the number of base stations in terms of sites.

MegaFon performs regular monitoring of communication quality, using its results to further improve and optimise its network. In December 2012, we ran scheduled tests which showed that the 2G/3G connection success rate

exceeded 99%

and the 3G packet session drop rate

was about 1%.

MegaFon's fibre-optic networks

span over

131,030 km.

During the year, the Company built

over 12,000 km

of fibre-optic communication lines.

Today, the Company operates

18 data centres

distributed across Russia. In 2013, we plan to open a new large data centre in Moscow.

employ DWDM technology, which provides for substantially increased data transfer rates (up to 40 Gbit/s) per optic channel. We also completed a network upgrade by switching over to higher speed interfaces (100 Gbit/s). By the end of the year MegaFon backbone capacity had grown by up to 1 Tbit/s in the highest traffic segments.

In 2012, we continued upgrading the backhaul network by connecting mobile infrastructure to the backbone, and, as of the end of the year, 57% of urban base stations and around 12% of non-urban stations were connected through modern fibre-optic communication channels.

Information technology

Today's telecommunications would be virtually impossible without advanced information technology. MegaFon sees IT infrastructure as essential to helping resolve a wide range of business issues, and as a tool to boost its operational efficiency.

One crucial MegaFon IT initiative that directly impacts business efficiency is a project to combine the billing systems used in the Company's branches. We successfully unified the billing systems used in the Moscow and Central branches in 2012 and this project will continue in 2013.

We also made one other important step towards greater business efficiency in 2012: the Company launched a project to introduce a Group-wide shared e-document platform. We believe it will help MegaFon considerably increase the speed and manageability of its business procedures.

Throughout the year MegaFon continually introduced new IT solutions aimed at improving the quality of subscriber service. For instance, an automated system to manage operators' work shifts was launched in our call centres (of which we have seven), while our first corporate knowledge portal was established along with a universal operator workstation, all of which provided prompter subscriber services.

NEW CAPEX FRAMEWORK

In 2012 we created a new capital expenditures framework. The fact that we had made heavy investment in the development of our mobile infrastructure and network in prior years allowed us to substantially reduce capital investments in 2012, without affecting the quality of our communications services. In addition, we began to take more advantage of opportunities to develop infrastructure jointly with other market players. A prime example of this is the launch of MegaFon-branded 4G services based on an MVNO agreement with Yota. In 2013 we intend to start building out our own 4G network, leveraging the Company's well-developed existing 3G infrastructure and considering new options for exploiting the network in partnership with other operators.

Market drivers

Key drivers of the VAS market are the growing availability of mobile Internet access, cheaper smartphones and tablets, large volumes of free content, and an emerging need for high-quality pay content. Further important factors are the growing disposable income of retail subscribers and the increasing awareness of corporate clients of digital solutions as a key to operational excellence.

MegaLabs

will guide MegaFon into new areas of business and partner with it in achieving leadership in those areas.

MegaFon's revenue from innovative products and VAS reached

RUB 22.7 billion[1]

to become one of the main contributors to the Company's consolidated revenues for the past year.

[1] Excluding SMS.

Innovative products and VAS services

The continued success of our business depends to a significant extent on our ability to provide value-added products and services, rather than just communication services, which will be of value to our subscribers, whether at work, travelling, or on holiday – virtually at every moment of their lives.

MegaLabs was founded by MegaFon in late 2011 with the primary objective of carrying out research, development, and marketing of innovative VAS for our subscribers. By the end of the year MegaLabs employed about 300 professionals in project management, product marketing, application and system development, customer experience research, and working with partners. MegaLabs focuses principally on product development for MegaFon's B2C and B2B segments. We strive to produce solutions and services which stimulate growth of data traffic, enhance its profitability, and increase subscriber loyalty.

In 2012 MegaLabs developed a new range of value-added services to meet growing subscriber demand for information, entertainment, and practical solutions.

Content and media services

In 2012, we focused particularly on over-the-top (OTT) products which could be deployed on the networks of any mobile or fixed-line operators, like music, video, games and mobile applications. We also invested much effort in expanding and increasing the profitability of existing VAS.

At the end of 2012 Trava.ru remained one of the largest entertainment portals in Russia. The past year showed a significant growth in the size of our audience, visitors to the site increasing 1.5 times YoY. Page views per session also increased by almost 50%, while the average duration of visits more than doubled. Today, Trava.ru features over 1.5 million music tracks, 10,000 videos, movies, and entertainment programmes, 15,000 books in various formats suitable for most popular readers, and 3,000 games for

PCs and mobile phones. All the content on the web site is protected by copyright. The total number of registered users of the website exceeds one million while the mobile application is used by tens of thousands of music fans.

In 2012 MegaLabs launched Game Studio, a new division for game content development, marketing, and distribution. We believe it will help MegaLabs to take the lead in certain segments of the game market and reach out to new users. We expect it to become a major partner to other market players; already last year we entered into distribution agreements with other partners to introduce three new multiplayer games to the market.

In 2012, we launched a digital TV service, which gives access to over 200 thematic channels, including 30 HD channels. The application works with every TV network without quality loss, and is accessible through mobile phones, desktop PCs, netbooks, tablets, and TV sets. At the end of the year the user base comprised about 800,000 people.

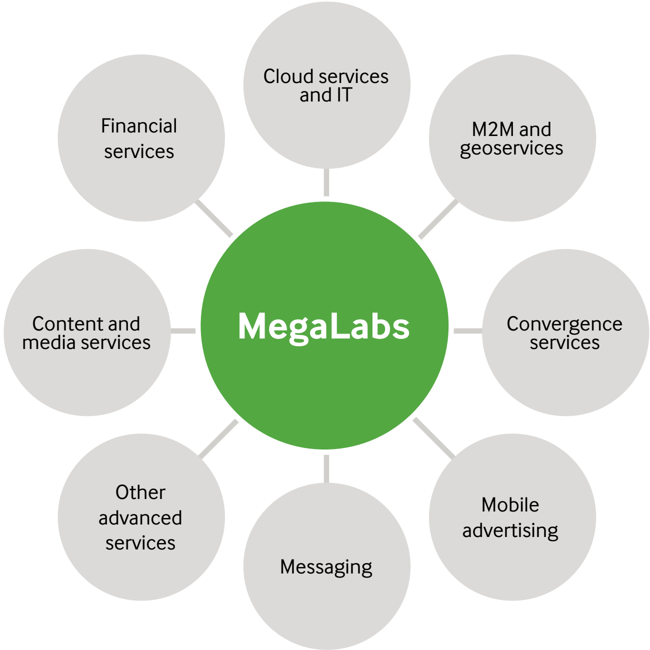
In the summer of 2012 MegaFon announced the launch of a new service, Internet Click, designed to make mobile content purchases easier. The new service allows the Company's subscribers to buy audio, video and graphic content, and also access non-download services (such as theatre ticket payments) on partner websites through a much simplified procedure.

Together with Yandex, MegaLabs developed GetUpps!, an Android application designed to assist application developers in implementing their business ideas. GetUpps! was launched in early February 2013 and was downloaded over 50,000 times in the first month after launch.

Financial services

We tackled two major tasks in 2012. First, we worked at securing further growth in our existing mobile payment business, as a result of which partners of our Mobile Payment service increased by 30% YoY, with the total number of users reaching 1.3 million people. Second, we launched MegaFon Money, a new product that allows money transfers to be made via a mobile phone, just by entering the recipient's mobile number.

Our efforts generated strong results despite growing competition from bank cards and e-wallets. The Company's revenues from mobile payment services increased



Profitable partnerships

In 2012, we intensified our cooperation with venture capital funds, such as Intel Capital, Lightspeed Venture Partners, and Accel Partners. We are interested in their vision of the market and new technologies, and in tapping their expertise in the application of various business models. We also worked directly with their portfolio companies in identifying products and technologies that could be of value for MegaLabs. We also cooperated with technology leaders like Google, Yandex, Microsoft and Facebook in jointly developing products which could improve our subscribers' experience.

more than twofold, while payment volumes exceeded RUB 8 billion.

Mobile advertising

We also created a mobile advertising division to develop competencies in direct sales, along with the development and launch of new mobile ad products.

The division aims to function as a fully integrated agency that offers comprehensive advertising services. During the year we ran advertising campaigns for over 300 customers. The list of MegaLabs' customers includes well-known brands like Ile de Beauté, L'Etoile, Tinkoff, Sberbank, B&N Bank, Nokia, Samsung, Nissan, and many others. We also launched a large number of new advertising channels intended to make advertisements more relevant and targeted, and thereby more effective for the client.

M2M and geoservices

Usage of MegaFon's geoservices, which employs radar to locate relatives, children, friends, and colleagues, increased by 60% YoY and now are used by 800,000 people, while the revenues from the service grew by over 2.5 times YoY. In 2012 MegaFon also made significant improvements to its MegaFon Navigation application and increased its user base to 500,000. MegaFon Navigation remains the Nº 1 application among all of the comparable services offered by other mobile operators.

A new application, Jams, was launched in 2012 to complement our established geoservices. This application provides information about road traffic based on data from MegaFon's communications network. By the end of the year the new product ranked second in Russia by number of users.

MegaFon also launched an "Employee Monitor" service, a new solution for corporate clients, which helps to monitor employee movements, identify employees who are the closest to a certain facility, and enable employers to be notified of deviations from route. Very quickly over 500 large companies, including the Russian Post, became subscribers to the service.

MegaFon also worked on developing its own M2M platform, so as to give users an opportunity to customise M2M connections, and provide them with tools to develop new products. Commercial launch of the platform is scheduled for mid-2013.

Convergent services

Our MultiFon service, which provides Internet voice communications (VoIP) services, showed a steady growth in user base and paid-for data traffic in 2012. The number of pay users increased by 20% YoY to over 700,000 people who generated over 80 million minutes of paid-for traffic. In the past year, we launched new Android-based versions and a web version of MultiFon. We believe that the service will maintain its appeal, and that its market penetration will continue to grow.

Corporate clients in particular have shown significant interest in the product. To capitalise on this, MegaLabs introduced Web Button, an option that allows visitors to the client's website to access its staff using a special MultiFon contact. Another product launched in 2012 was MultiFon Business, which enables a client to quickly deploy a PBX and significantly cut down on its phone costs.

Messaging

In late 2012 MegaFon launched a pilot version of UMS, a service which we believe is unique in the world. Using the product and a single interface (iOS, Android, or web) the user gets immediate access to messaging services (SMS and MMS), instant messengers (ICQ and gTalk), social network chatrooms, and all popular social networks. Subscribers are also offered extended management functions for contacts and messages, together with strong SMS spam protection. Over 10,000 people subscribed to the product within the first few weeks after its launch.

2013 outlook

MegaLabs' priorities for 2013 will be to grow business revenues and monetise new products, including through sales to non-MegaFon customers. We will also keep developing new products and services with a primary focus on OTT solutions.

ACQUISITION OF VAS MEDIA

In September 2012 we acquired VAS Media[1], a supplier of multimedia content, ringtones, geolocation services and mobile payment solutions. This transaction was a major milestone in MegaFon's strategy of developing new services in the emerging VAS market. Synergies between VAS Media and our R&D subsidiary MegaLabs will make us more competitive in the innovative product market. By the end of the year we had integrated VAS Media into our operations, with full merger expected in 2013.

[1] MegaFon acquired a 100% stake in Felebior Holdings Ltd, the holding company for VAS Media.

Subscriber satisfaction

We are committed to a subscriber-oriented business model. In offering communications services and serving our subscribers, we strive to ensure that interacting with MegaFon provides our subscribers with a wholly positive experience.

Own sales network

We are focused on the development of our own sales network, through our subsidiary MegaFon Retail. We believe that our network of MegaFon owned-and-operated outlets represents both a valuable resource for attracting subscribers and an important tool for retaining existing subscribers.

Last year, we worked aggressively to expand and optimise our network of owned-and-operated stores, opening 436 new stores[1], bringing the total at year end to 1,785. The share of subscriber additions accounted for by our own stores rose from 20% to 29%. The average number of new subscribers signed up by MegaFon Retail grew to 1.5 million per month. In 2012, our owned-and-operated stores carried out most of our service procedures for retail clients.

In 2012, we continued to increase the efficiency and quality of subscriber service at our stores. For example, the Company launched its free MegaFon Guru service, through which top technical specialists help subscribers to set up equipment and advise them on how to use their devices efficiently. In addition, during the year, we significantly expanded the range of products and services offered by introducing our own branded telephones, smartphones, 4G modems and routers, as well as initiating many new subscriber service initiatives. We also focused on improving our sales and administrative processes, while being ready to close subpar outlets where necessary.

The MegaFon Retail network continues to be one of the most efficient channels for us to communicate with our subscribers, while delivering top-quality subscriber service. In 2012, 66% of visitors to our stores were fully satisfied by the service they received and 62% were ready to recommend us to their friends and family[2], the top rating among the "Big Three" operators.

Other retail sales channels

MegaFon Retail is not our only retail sales channel. MegaFon continues to rely on its network of partners who operate stores under the MegaFon brand (1,757 at year end), and on a substantial number of independent dealers to offer our services to subscribers. The independent dealer network remains the largest distribution channel in terms of points of sale; their number reached 44,800 at the end of 2012. MegaFon also has distribution arrangements with retailers, such as banks and supermarkets, as well as an agreement with Russian Post under which our services and equipment are also offered at its offices across the country.

However, following our acquisition of a stake in the leading Russian mobile retailer Euroset, we have no plans to actively develop the independent dealership network in the future. Rather, we intend to steadily reduce its share in our business and redistribute the functions performed by dealers to our own stores and those of our MegaFon-branded partner stores, as well as the Euroset stores.

In 2012, we continued to actively develop our MegaFon online shop, our "shop front" on the internet, by offering a broad range of services, including the sale of equipment and accessories, and the choice of attractive phone numbers for new subscribers. Also in 2012, the shop implemented payments by bankcards and also launched regional delivery of orders by Russian Post. Year-on-year, orders via the shop more than doubled and the number of visitors to our online shop grew to 4.3 million.

During the year, this sales channel provided 213,000 new subscriber additions. By the end of 2012, the online shop was accessible across the entire territory covered by our own MegaFon retail network[3].

Call centres and other subscriber services

MegaFon committed significant resources to the development of other resources to communicate with subscribers and improve their quality of service.

In 2012, the Company took steps to improve the operation of its call centres. During the year, we implemented a project to merge the contact centres of our Capital and Central branches and create a single platform providing a high standard of subscriber service. In 2013, we intend to continue consolidation of our Russian call centres.

[1] Including relocated stores.
[2] Source: Business Analytica "Tracking the satisfaction of visitors to mobile retailers".
[3] Including orders picked up by customers from MegaFon's owned-and-operated stores if no courier delivery is available at the online shop.

STRENGTHENING OUR RETAIL POSITION: THE PURCHASE OF EUROSET

In December 2012 MegaFon completed a transaction to acquire a 25% interest in Euroset, which owns the largest chain of mobile telecom retail outlets in Russia. Garsdale Services Investment Limited, which is affiliated to MegaFon, and owned by MegaFon's majority shareholder, also acquired 25% of Euroset. One year after closing, MegaFon is expected to buy Garsdale's 50% stake in Lefbord and, thereby, to take control of Lefbord's entire 50% interest in Euroset Holding N.V. The remaining 50% of Euroset Holding N.V. is owned by OJSC Vimpelcom.

"We expect that investment in the largest Russian mobile retailer will be instrumental in further enhancing the quality of its subscriber base and in helping to reduce churn, and will result in broader marketing of MegaFon products through Euroset's outlets. MegaFon believes in particular that it may be able to benefit from synergies related to the sale of handsets, for which Euroset is the market leader in Russia", said Ivan Tavrin, CEO of MegaFon.

In 2012, 94% of MegaFon Retail's customers rated their customer experience as
"fully satisfying".

More than 200 million
people visited MegaFon Retail stores in 2012.

In 2012, our megafon.ru online shop was honoured at the Online Retail Awards in the category
"Most subscriber-oriented online shop in Russia".

Last year, the role of our call centres and other remote support providers grew significantly, and the total audience for these services grew to
20 million.

Employees of MegaFon's call centres are expected to provide subscribers with the information they need to make informed decisions when choosing tariff plans and additional services. In 2012, we continued to work on systems to motivate our call centre employees, giving them incentives to provide our subscribers with the highest quality service. By the end of the year, nine out of 10 users of our call centres rated their interactions with our operators five out of a possible five points.

Also during the year MegaFon introduced several new services aimed at making it easier for subscribers to interact with us and provide regular feedback. We launched the 'On-line Consultant' service offering subscribers the option to receive answers via a chat function on the MegaFon website. In 2012, our website served more than 30 million subscribers and around one million new subscribers were signed up through it.

In addition, during 2012, MegaFon started to offer its subscribers assistance via popular Russian social networks. At the end of 2012 Socialbakers, a leading global firm carrying out social media analysis, awarded MegaFon the title of "Socially Devoted Brand" for its high response rate to comments and questions left by users on MegaFon's Facebook page. On average, the Company responded to 88% of questions within 24 hours.

B2B and B2G client sales and service

In 2012, MegaFon continued to build a sales structure designed to best meet the needs of B2B clients and the rapid growth of our business in these segments. We set up a department at our head office to work with key corporate clients, while increasing the role of our branches in generating regional B2B sales. We also continued to develop sales and service support for SME and SoHo clients through our owned-and-operated stores. This has created additional opportunities for us to attract and retain clients with businesses in areas far from large towns.

MegaFon also committed significant resources to optimising its sales processes. Last year, in the corporate segment, we launched projects designed to increase the operational efficiency of our B2B sales managers. These included initiatives to introduce the use of legally recognised electronic documents, transfer support functions to the back office, and expand the functions of the support line at several branches. These projects have enhanced our ability to expand our client base without having to hire additional sales managers.

In the B2G segment, we created new sales departments at each of our branches while establishing a centralised function at the national level for supporting these sales functions. Under this system a single manager is responsible for each individual client and for ensuring that they are offered our whole range of telecommunications services.

Brands and Marketing

Last year, MegaFon concentrated its marketing activity on promoting mobile internet services. The Company was the first among the "Big Three" operators to offer its subscribers 4G/LTE services and launched a massive campaign under the slogan "4G is Waiting For Those Who Won't Wait".

In connection with this the Company launched a line of national data tariffs created with the needs of internet users in mind. Marketing communications were aimed at popularising fast mobile internet and stimulating traffic, while strengthening MegaFon's reputation as the leader in data.

Along with the promotion of mobile internet services, the Company continued to actively market various voice tariffs, as well as mobile equipment, particularly those customised for internet services.

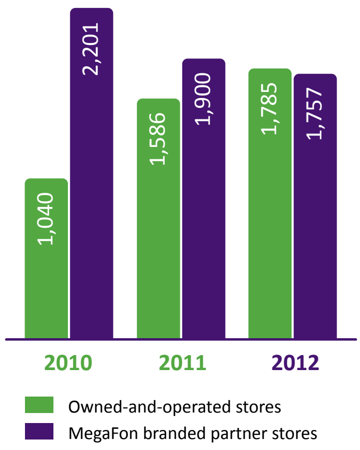
To achieve its marketing aims, MegaFon used its traditional channels for reaching subscribers (TV, radio, and billboard advertisements, as well as in-store promotions), while also actively focussing on the use of internet advertising on social networks and blogs as well as innovative mobile advertisements. This combination of marketing channels allowed the Company to target its selected audience closely and create a strong emotional attachment to our brand.

In 2012, we also continued our work to increase subscriber loyalty. Our efforts focused primarily on the further development of our "MegaFon Bonus" loyalty programme. By the end of the year, the programme covered 50 million subscribers, and more than 26.7 million participants had received awards under our various bonus programmes. Awards for our MegaFon Bonus members included bundles of minutes, SMS and MMS messages, internet data, and equipment and accessories from MegaFon Retail, as well as discounts on partner programmes. During the year, the average time that a MegaFon Bonus member remained a subscriber (25 months) was twice that of non-members.

In 2012, we continued to develop our "Credit of Trust" loyalty programme, through which subscribers can obtain credit for communications services. We expanded the programme to cover additional segments of high revenue subscribers and promoted it actively through targeted marketing.

Over the reporting period, the share of unwaveringly loyal customers in MegaFon's subscriber base (defined as subscribers whose principal SIM card is a MegaFon card, who view MegaFon as their operator of choice and who have no plans to switch to another network any time soon) grew by 7 percentage points, reaching 36%[1].

Growth of the MegaFon branded retail network in Russia



The MegaFon trademark is one of the most recognised brands in Russia. At the end of 2012, spontaneous awareness of the brand amounted to 94%.

The total value of the Euroset acquisition is US$1.07 billion[2].

MegaFon's marketing activity increased the average "lifespan" of subscribers by 10%.

[1] Source: Business Analytica, "Monitoring the "Health" of the "Big Three" operators' brands".
[2] Additional payment of up to US$ 100 million may be made if Euroset meets certain targets in the first half of 2013.

FINANCIAL REVIEW

This review has been prepared based on MegaFon's audited US GAAP results for the twelve months ending 31 December 2012. Consolidated figures include, intera alia, financial results from its majority-owned operating subsidiaries TT mobile CJSC in the Republic of Tajikistan, AQUAFON-GSM CJSC in the Republic of Abkhazia and OSTELEKOM CJSC in the Republic of South Ossetia.

Consolidated key financial indicators

In 2012, MegaFon showed growth as measured by all major financial indicators. Consolidated revenues increased by 12.4% YoY to RUB 272.6 billion. This was largely due to an expanded subscriber base, continued strong demand for voice services, wider use of data transfer and value-added services, and a sizable increase in sales of handsets and accessories.

Consolidated OIBDA totalled RUB 117.4 billion, up 16.4% YoY. The OIBDA margin reached 43.0%, improving on the 2011 number of 41.6%. The increase stemmed from our new operational excellence and cost control strategy, which led to a major improvement in operating income and margin.

Consolidated net income fell by 12.1% to RUB 38.3 billion in 2012. The main reasons were higher interest expenses as a result of the increase in net debt referred to below and the revaluation of the Company's US$-denominated liabilities as a result of the significant depreciation of the ruble against the dollar during the second quarter. The net margin fell to 14.1%, compared to 18.0% in 2011.

Operating cash flow increased by 12.5% to RUB 109.4 billion, while free cash flow (FCF) reached RUB 70.8 billion, up 174.8% YoY. The surge in FCF was driven by the growth in operating cash flow coupled with a capex reduction.

Consolidated net debt increased to RUB 121.8 million over the year, compared to net cash of RUB 45.7 million in 2011, primarily reflecting the increase in borrowing as a result of the shareholder restructuring and dividend payments made in April 2012.

Revenues in Russia accounted for 98.9%, or RUB 269.7 billion, of the consolidated top line revenues compared with 99.1%, or RUB 240.5 billion in 2011.

Mobile revenues

In 2012, mobile revenue rose by 10.2% to RUB 241.4 billion. The key revenue drivers were an increase in the number of subscribers, the continued strong consumption of voice services, and the robust performance of the mobile internet and VAS segments.

Mobile data transfer revenue reached RUB 36.6 billion in 2012, or 13.4% of the consolidated top line revenues, against RUB 27.8 billion, or 11.4%, the previous year. This growth was driven by the increased consumptin of 3G traffic caused by the expansion of data transfer networks, and improved service quality.

In spite of the rapid growth in data transfer, voice services[1] remained the mainstay of our mobile business: MegaFon voice revenues increased by 4.1% YoY to RUB 168.481 billion in 2012 due to the widening subscriber base and growing MOU and ARPU levels.

Revenue from value-added services reached RUB 36.3 billion in 2012, a 19.6% increase compared to RUB 30.4 billion a year earlier. The main contribution came from mobile content and SMS revenue.

Fixed-line revenues

In 2012, MegaFon's revenues from its fixed-line business amounted to RUB 17.9 billion, up 18.1% from the previous year's RUB 15.2 billion. This sizable increase was mainly due to the growth of our operations in Russia's fixed-line and broadband access market, including through the acquisitions of NetByNet and Yugratel. The fixed-line revenue' share in consolidated top-line revenues came to 6.6%, compared to 6.3% a year earlier.

Handsets and accessories

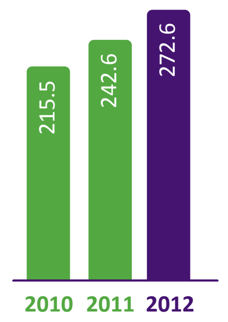
In 2012, revenue from handsets and accessories grew 58.2% YoY, reaching RUB 13.3 billion. This strong performance was

	2012	2011	YoY, 12/11	2010
Revenues, RUB billion	272.6	242.6	+12.4%	215.5
OIBDA, RUB billion	117.4	100.8	+16.4%	97.8
OIBDA margin	43.0%	41.6%	+1.4 p.p.	45.4%
Net income, RUB billion	38.3	43.6	-12.1%	49.2
Net income margin	14.1%	18.0%	-3.9 p.p.	22.8%
Free cash flow, RUB billion	70.8	25.8	+174.8%	24.5

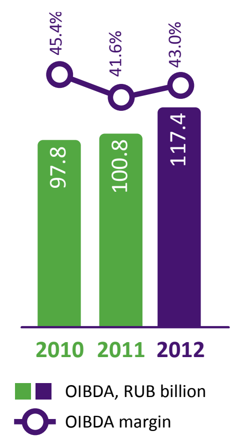
[1] Excluding interconnect and other mobile revenues.

Consolidated results

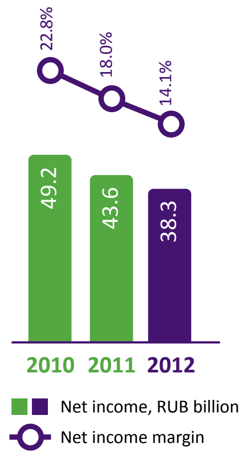
Revenues, RUB billion



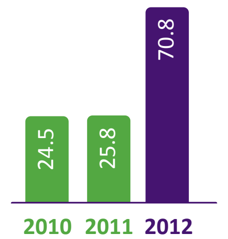
OIBDA



Net income



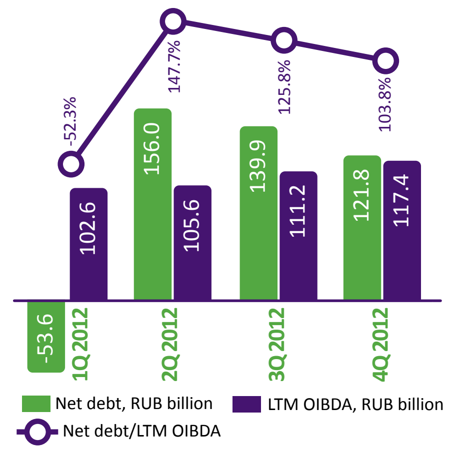
Free cash flow, RUB billion



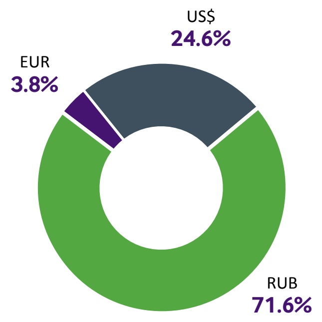
Mobile revenues after elimination of intercompany transactions, RUB billion

	2012	2011	YoY, 12/11
Revenues from mobile telecommunications services	203.5	183.6	+10.8%
Payments for connecting and transferring traffic	36.4	33.4	+9.0%
Roaming services	0.9	1.4	-35.7%
Other	0.6	0.6	0%
Total mobile revenues	241.4	219.0	+10.2%

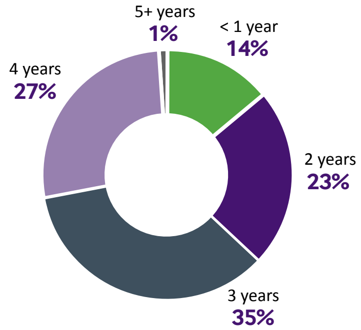
2012 liquidity and financial stability



Breakdown of MegaFon's debt by currency at YE2012



MegaFon's debt maturity profile



primarily driven by the growing number of our owned-and-operated retail stores and the higher average price of devices sold, due in part to discontinuing subsidies for 3G USB modems. Sales of handsets and accessories accounted for 4.9% of consolidated top-line revenues versus 3.5% in 2011.

Capital expenditure

In 2012, MegaFon's capex was RUB 44.1 billion, down by 37.8% YoY. The Company reduced capital expenditure following several years of significant investment in the development of our new and technologically advanced infrastructure. The funds were mainly spent on building our 2G/3G base station networks, backhaul and backbone networks, and IT infrastructure. Capital expenditure in 2012 was 16.2% of overall revenue, a sizable decrease from 29.2% the year before.

Liquidity and financial stability

Consolidated net debt increased to RUB 121.8 million as of 31 December 2012, compared to net cash of RUB 45.7 million a year earlier. This growth reflected the increase in borrowing made to fund the shareholder restructuring as part of which MegaFon repurchased 14.4% of its own stock through a subsidiary, and the Company's first dividend payments, both of which occurred in April 2012. Nevertheless, by the end of 2012, the Company's net debt-to-LTM OIBDA ratio was at the level of 103.8% due to strong free cash flow during the year.

As of 31 December 2012, MegaFon's short-term bank loans along with other short-term borrowings totalled RUB 19.9 billion, compared to RUB 7.4 billion in 2011. Long-term bank loans amounted to RUB 126.5 billion, compared to the previous year's figure of RUB 36.3 billion.

The Company's debt is held in US dollars, euros, and Russian rubles. At the end of 2012, foreign currency debt represented 28.4% of MegaFon's total debt portfolio versus 98.5% in 2011. The growth in the share of ruble-denominated liabilities is due to an increase in domestic borrowing, intended to align our liabilities more closely with our source of revenues. Most of the Company's debt will mature within three years.

Credit ratings

In 2012, Moody's upheld MegaFon's international credit rating at "Baa3". The outlook was downgraded from "stable" to "negative" due to the dividend payments and stock repurchase. MegaFon still has the highest investment rating from Moody's among Russian telcos.

Taken together with Standard & Poor's current rating of "BBB-" ("stable"), this indicates that MegaFon is one of the most creditworthy companies in Russia and should enable it to secure financing on attractive terms should the need arise.

NEW APPROACH TO DEALER FEES

In 2012 MegaFon overhauled its dealer remuneration policy and signed new revenue-sharing agreements with a majority of its independent dealers. Previously, we paid a commission for every new subscriber connection made; under the new framework, a dealer receives a share of subscriber-generated revenue only if it exceeds a minimum cap stipulated in the agreement. Dealers must also transfer subscriber payments to MegaFon within three days, and MegaFon pays dealers their share of revenues within six to twelve months thereafter. We expect that this initiative will both improve the quality of our new subscribers and reduce the cost of attracting them.

RISK MANAGEMENT

Successfully achieving the Company's goals and strategic aims is possible only with timely identification, accurate evaluation and effective management of existing and potential risks. Due to the IPO and additional requirements for public companies, the importance of the robust risk management system rose significantly, what has resulted in additional developments.

By the end of 2012 we completed the roll-out of risk management structure in branches. As a result, every branch has a dedicated risk committee and coordinator. Each branch committee includes the branch manager, as well as key executives who control and monitor the branches' risk management system. The branch committee reports to the risk committee at the head office, which in turn reports to the Board of Directors and works closely with the Audit Committee. In addition, the head office committee has a dedicated department that gathers information, evaluates risks and devises mitigation measures on a regular basis. In 2013 we will continue to develop the risk management system to improve it's effectiveness.

In its business, MegaFon faces many risks. Below is a brief description of the key risks and the ways in which the Company attempts to mitigate them.

Industry risks

Competition

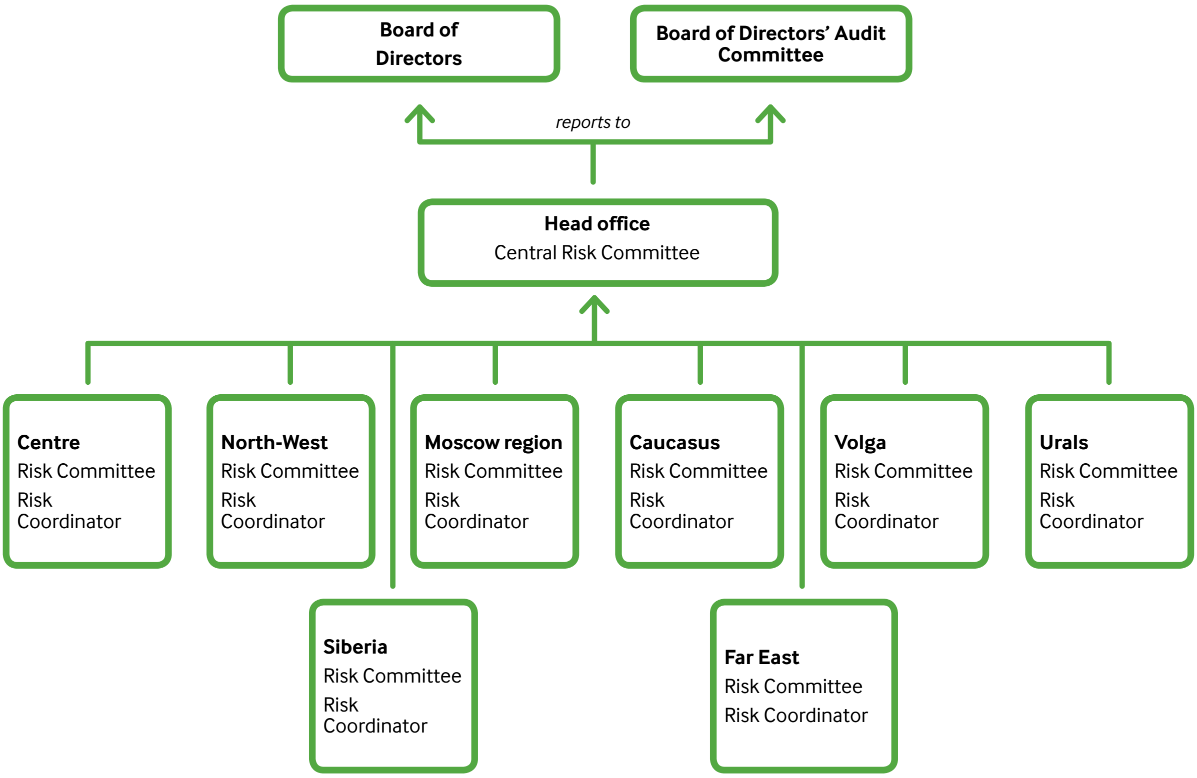
The mobile business, which provides the bulk of our revenues, is one of the most developed areas of Russia's telecommunications sector, and is characterised by a high rate of penetration (161%) and ever-increasing competition to retain existing subscribers and to attract new subscribers. We face fierce competition from the other "Big Three" operators and others, including Rostelecom. New companies may enter the market and dilute our current market share. All of this competition for subscribers creates downward pressure on tariffs and therefore on overall margins. This represents a key threat to our business.

The effect of that risk is mitigated, however, by the fact that MegaFon is one of the three largest cellular operators in Russia, has licences to provide GSM, 3G and 4G services throughout the country, is the leader in the data transfer market, and has the second largest backbone/backhaul network in Russia. The Company believes that these competitive advantages will enable it to be able to continue to increase its market share and maintain its margins, despite the highly competitive nature of the market in which it operates.

Churn

We, like other Russian operators, have high churn rates as compared to world standards. This is in part ameliorated by the fact that we enjoy, again by world standards, extremely low subscriber acquisition costs. Nevertheless, we are taking a number of steps to increase subscriber loyalty, including expanding the number of our owned-and-operated stores (which we believe create better opportunities to engage with our subscribers), changing independent dealer compensation arrangements (which previously served to encourage churn), and creating bonus plans and

Risk management structure



bundled service and other tariff offerings which incentivise subscribers to remain with us.

Technological developments

Russia's telecommunications industry is experiencing significant changes due to the rapid development of new technology and standards (WiFi, WiMax, UMTS, LTE). One of the main threats to operators in the sector is their services becoming outdated and uncompetitive as a result.

MegaFon fully intends to maintain pace with technological progress and new industry standards by adopting the newest technology, and by developing more effective and innovative products and services through its subsidiary MegaLabs, which was founded for the express purpose of developing cutting edge products and services. We intend to capitalise on the fact that we remain the only telecommunications provider in Russia with a 3G network throughout every region, and to leverage the fact that in July 2012 we received an LTE/4G licence covering the whole of Russia, placing us in a favourable position to create our own next generation network in the near future. In the meantime we intend to continue our partnership with Yota, with whom we signed an MVNO agreement in February 2012, which has enabled us to provide LTE/4G services to subscribers in 76 cities nationwide as of year end.

Financial risks

MegaFon's business is sensitive to the impact of external macro-economic conditions. The results of its operations can be particularly affected by fluctuations in currencies and in financing costs, which in turn impact profits.

Exchange-rate risk

In accordance with Russian legislation, payments from our subscribers and interconnect fees from other Russian operators must be in rubles only. At the same time, a large part of our capital expenditures, borrowings and international roaming costs are denominated in foreign currencies, particularly the dollar and euro. Any depreciation in the ruble could increase these expenses in ruble terms, creating exchange rate losses and thereby reducing our net income.

Also, since the Company's borrowings consist of loans denominated in both rubles and foreign currencies, should the ruble fall sharply against the dollar and/or the euro, MegaFon could experience difficulties repaying or refinancing any non-ruble borrowings.

By the end of 2012 the share of ruble loans accounted for 71.6% of our liabilities which significantly limits currency risk due to the fact that most of the cash flow is in the same currency as our debt portfolio. The remaining, foreign-denominated part of the debt portfolio is mostly hedged by making deposits in foreign currency. Apart from that, the company is developing a foreign currency hedging strategy which is also meant to reduce the effect of currency market fluctuations on MegaFon's debt portfolio.

Interest-rate risk

Interest-rate risk is the threat of incurring financial losses from adverse fluctuations in interest rates payable on obligations and liabilities, including items off the balance sheet. Any increase in rates could increase the cost of raising new financing for the Company's operations and investments and, where existing financing carries a floating rate, the cost of servicing such financing.

In early 2012, we hedged most of our variable-rate loans using interest rate swaps. As a result, 85% of our liabilities now have fixed interest rates. In addition, MegaFon has a high credit rating, which we believe will enable us to continue to be able to secure financing on attractive terms.

Regulatory risks

General

Russia's mobile telecommunications industry is regulated by various agencies on the basis of the Law "On Telecommunications" and numerous subordinate regulations. The terms of the applicable regulations are sometimes unclear or conflicting, and subject to change, and the work of regulatory bodies is not always transparent or predictable, and all of this entails risks for market participants.

Additionally, since MegaFon's main activity is providing telecommunications services for which it currently has all of the necessary licences, revocation, suspension or non-renewal of the Company's licences could have a significant impact on its business. Also, the Company uses facilities which are finite in number or extent, including the radio frequency spectrum and numbering resources, and their unavailability for any reason could adversely affect our business.

So far, MegaFon has not faced difficulties obtaining or renewing any required licences or permits, or in gaining access to adequate spectrum or numbering capacity. To ensure that this continues, we will endeavour to work constructively with the regulator and to meet all of the conditions in our licence agreements and other regulations affecting our activities.

Transfer pricing

Russia's taxation system is subject to frequent change and considerable uncertainty. In 2012 new rules on transfer pricing were introduced that increase the range of methods used to monitor the prices of controlled transactions, the list of which was also extended. Under the new legislation, taxpayers must inform the tax authorities about any controlled transaction that generates over RUB 100 million in annual revenues and may be subject to additional tax if the terms are found not to be at arm's length.

The Company has implemented a range of measures to mitigate the risk of additional tax charges relating to transfer pricing. In particular, it has developed internal procedures in response to the Transfer Pricing Regulation, which was applied starting from 1 January 2012, introduced a new system to identify controlled transactions and explain any transfer prices, and created a consolidated group of taxpayers within its corporate group among which transactions are not subject to controls on transfer pricing.

Other possible regulatory initiatives

There are currently a number of regulatory initiatives being proposed at various levels of government which if implemented, collectively or even individually, could have a material adverse effect on the Company's business, operations and prospects:

- Mobile number portability: It is proposed that, as of December 2013, a mobile number portability regime will be introduced in Russia, enabling subscribers to keep their numbers for a small charge if they change provider. The plan is to introduce the system at both the regional and the federal level. Additionally, mobile operators will be expected to contribute to the cost of creating and maintaining the database required to support the system. MegaFon estimates the cost to it of implementing the new service at around US$ 60 million at the regional level and up to US$ 100 million at the federal level. In addition, we face the risk that the new rules could negatively affect our market share and impact the Company's financial and operational results.
- Intra-network roaming: The Ministry of Communications and Mass Media is drafting a new law that envisages scrapping payments on intra-network roaming. At present, it is unclear whether the law will be passed. However, if it is, operators' revenues from roaming services could drop substantially, which would negatively affect the Company's financial and operational results.
- Ban on above ground communication cables: During 2012 various Russian regions and municipalities introduced laws banning the installation of communication cables above ground. While such laws are being challenged, currently many of our communications cables in the affected areas are above ground, and being required to bury or otherwise hide them will involve major spending on our part.

We are carefully monitoring all of these possible developments to ensure that, if any are adopted, the final form in which they are adopted minimises to the greatest extent possible any adverse impact upon us and our business, operations and prospects.

International compliance

As a result of the successful completion of its IPO in November 2012, MegaFon became subject to a variety of regulatory regimes in the UK, and the regulations of the UK Financial Services Authority and the London Stock Exchange, which regulate generally a company's ongoing disclosure obligations and its relations with investors.

We have adopted a number of measures to comply with these new responsibilities, notably, Board-endorsed corporate statements of our "zero tolerance" approach to bribery and corruption, and plan to introduce extensive in-house training programmes and other necessary procedures. In addition, we have put in place a number of policies and regulations regarding non-disclosure of inside information and the timing and disclosure of trades in the Company's shares, which have been disseminated to all affected parties. We also intend to reinforce these messages on a regular basis.

In addition, while we have always been sensitive to the impact of international sanctions, embargo and boycott regulations on our business, now that we are a public company, we have endeavoured to create a heightened awareness within the Company of these obligations so as to avoid incidents which could result in not just financial but also reputational risk.

Transaction risks

As MegaFon's development strategy includes the possibility of acquiring additional telecommunications assets, the Company is exposed to various risks related to such acquisitions, including the fact that anticipated values or synergies may not materialise, antimonopoly regulators may impose conditions which prove to be onerous, creditors may be in a position to demand early repayment of obligations, the Company is unable to integrate or manage assets acquired efficiently, and so forth, any or all of which could limit the income and other benefits received from the acquired business and have negative consequences for MegaFon's own business.

At the same time over the past few years MegaFon has acquired several telecoms operators, including the major Synterra group, and integrated them, and we believe that the experience gained in acquiring and integrating these assets will help us to minimise these risks in future transactions.

Fraud risks

MegaFon may incur losses caused by intentional acts by unscrupulous counterparties and subscribers. There is also the risk of losing subscribers who become victims of fraud and a general risk to our reputation if such events occur. To minimise the occurrence of such events, the Company has created and operates a special division for managing fraud. The division operates in accordance with MegaFon's "Fraud Management Strategy", which provides for identifying and defending against known and newly emerging forms of fraud (the division also analyses subscribers' international roaming activity, a requirement for operators under a resolution of the International GSM Association). The Company has also implemented a specialised system for fraud management, called "HP FMS", which allows for real-time detection and prevention of attempts to cause damage to MegaFon's assets or records, and a second system for identifying illegal termination of international traffic on its network.

Last year, MegaFon identified 2.29 million instances of fraud, compared with 0.92 million in 2011. Losses from fraud amounted to 0.04% of revenues, which is significantly lower than industry standards. The Company recovered more than RUB 342 million of the amounts lost, and the damage prevented amounted to more than RUB 1.77 billion. The overall economic effect of the fraud management efforts totalled 0.78% of revenues.

Data privacy risks

We and other operators have suffered instances where subscriber personal information has been publicly disclosed, whether as a result of operator negligence or third party security breaches. While at present the disciplinary sanctions which the regulators can apply and the damages which the affected parties can claim are nominal in amount, this situation could change, and, more important, the real damage to an operator is to its reputation which, if the situation recurs regularly, could result in erosion of its subscriber base.

MegaFon has always endeavoured to handle subscribers' personal information in accordance with existing legislation which establishes rules and procedures for protecting information received from subscribers. To underline the need that such information remains confidential in the interests of both subscribers and the Company, we have recently approved a formal internal Resolution on Processing Personal Data, to reinforce to those involved the importance of the topic and the procedures that they are expected to follow to ensure the required confidentiality.

Disclosure and other securities-related risks

Companies which have publicly-traded shares are frequently sued on the basis that they failed to disclose, or mis-stated, some important matter affecting their business, operations or prospects. Equally, public shareholders may sue to question or to block corporate action, to endeavour to remove directors or officers, or to get access to information. MegaFon became exposed to these risks as a result of the successful completion of its IPO in November 2012.

While the Company has always had liability insurance covering the directors and officers for claims against them in their capacity as director or officer, in connection with its IPO the Company renegotiated the terms of its regular Directors' and Officers' (D&O) liability policy so as to add the Company as an additional insured. In addition (since this was not covered by the regular D&O policy), the Company also negotiated a separate Public Offering of Securities Insurance (POSI) policy covering claims against directors and officers arising specifically out of the IPO and the disclosures made in the prospectus and during the "road show" and other selling events, to which the Company is also added as an insured.

CORPORATE GOVERNANCE

Principles of corporate governance

MegaFon attaches great importance to proper corporate governance. Transparency in management and decision making and full disclosure of information about the

Company's activities are considered to be essential factors for effective growth and sustainable development. Developing and maintaining corporate governance consistent with the standards of international best practices has always been an integral part of MegaFon's modus operandi, and has received enhanced attention since the 2012 IPO.

MegaFon's corporate governance aims to ensure equal treatment of all shareholders and to give them the opportunity to exercise fully their rights as shareholders in the Company. Our system of corporate governance starts with ensuring that we are in compliance with the regulations on joint-stock companies and securities markets under Russian legislation, and in particular the recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market (FCSM). A report on compliance with the FCSM Corporate Governance Code is published annually, and a summary of our compliance with the FCSM Code is attached as Appendix 1. However, because of our listing on the London Stock Exchange, we also endeavour to comply with the UK's Combined Code of Corporate Governance, whose requirements are broadly similar to the FCSM Code and the other requirements of Russian legislation.

To ensure the effective functioning of the corporate governance system, MegaFon has a Corporate Secretary who is responsible for ensuring that its principles of corporate governance are followed by the Company's management.

Corporate governance developments in 2012

MegaFon did much to strengthen its corporate governance processes in connection with its IPO, to give its expanded shareholder base (following the completion of the offering) confidence that their rights and expectations as shareholders would be protected in accordance with international standards, and that MegaFon would be managed in a proper and transparent manner. In particular:

- In June 2012, the Board of Directors adopted a dividend policy that specifies the criteria for determining the amount of dividend payments, as well as the decision-making process for determining the amount and timing of payments (for more details on MegaFon's dividend policy, see page 71).
- The Company aligned its process for determining the independence of members of the Board of Directors with the provisions of the UK's Combined Code of Corporate Governance.

MegaFon's principles of corporate governance:

- protection of the legitimate rights and interests of shareholders
- equal treatment of all shareholders
- transparency in corporate decision-making
- respect for all of our stakeholders, including employees and subscribers
- adherence to international disclosure standards
- following "best practices" as well as legal norms in conducting business

The key elements of the Company's corporate governance structure are:

- The General Meeting of Shareholders
- The Board of Directors
- The Audit Committee
- The Remuneration and HR Development Committee
- The Finance and Strategy Committee
- The Management Board
- The CEO
- The Revision Commission
- The Internal Audit Department

- And we initiated efforts to enhance our procedures for the detection and oversight of related party transactions (see page 68).
- In December 2012, MegaFon adopted a securities trading policy that limits trading by members of the Board of Directors and Management Board, as well as requiring disclosure of such transactions. The policy also stresses to all employees the need to maintain the confidentiality of inside information and their obligation not to trade on the basis of such information.
- Also in December 2012 MegaFon adopted a specific declaration and policy against bribery and corruption, re-affirming our commitment not to engage in these practices and aiming to ensure that all employees of MegaFon, its subsidiaries and associated companies are aware of the Company's position and their obligation to comply.

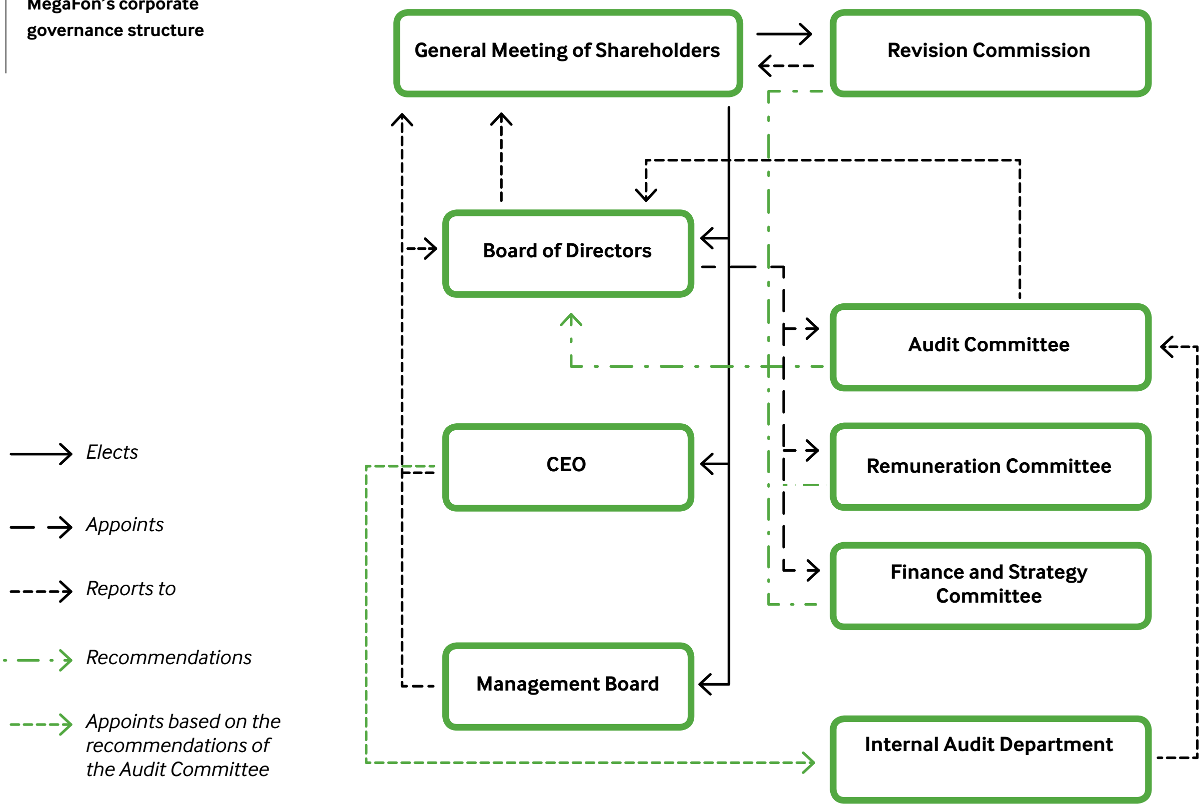
We are confident that these measures will significantly strengthen our corporate governance process and the transparency of our operations. More information about these actions is available on our website: http://msk.corp.megafon.ru/investors/management/docs/.

General Meeting of Shareholders

The General Meeting of Shareholders is the ultimate governing body of MegaFon. Shareholders are required under the Company's Charter and applicable Russian legislation to approve a number of measures, such as distribution of profits and approval of major or interested party transactions, and they take these actions and exercise their rights as shareholders by attending and voting at General Meetings.

An Annual General Meeting (AGM) is held once a year and must be convened no earlier than two months and no later than six months following the end of the fiscal year. The relevant procedures for the meeting are set out in the Regulations on the General Meeting of Shareholders, which are available on the Company's website.

MegaFon's corporate governance structure



In 2012 the AGM was held on 24 May 2012.

An extraordinary shareholders' meeting may be held between annual meetings. A decision to convene such a meeting is made by the Board of Directors on its own initiative or at the request of any of the Revision Commission, the auditor or shareholders holding at least 10% of voting shares. In 2012, MegaFon held 13 extraordinary shareholders' meetings (one face to face and 12 by absentee ballot).

A list of resolutions adopted by the Board of Directors in 2012 can be found at: http://www.corp.megafon.ru/investors/disclosure/.

The Board of Directors

The Board of Directors determines the Company's strategy and has overall responsibility on all matters relating to the Company outside the competency of the General Meetings of Shareholders. The powers of the Board of Directors are defined in detail in the Company Charter and the Regulations on the Board of Directors, which are available on the Company's website at www.megafon.ru.

Board members

The Board members are elected by the AGM for the period until the next AGM and can be re-elected an unlimited number of times. Shareholders together holding at least 2% of the voting shares of the Company have the right to nominate a candidate to the Board of Directors.

According to the Charter, the Board of Directors consists of seven members. All members of the Board of Directors are non-executive directors. On 24 May 2012, Aimo Eloholma, Nikolai Krylov, Ardavan Moshiri and Dmitry Vozyanov left the Board of Directors. Tero Kivisaari left the Board of Directors on 4 March 2013. The current members of the Board of Directors are Sergey Soldatenkov, Lars Nyberg, Cecilia Edström, David Erixon, Lord Myners, Vladimir Streshinsky and Jan Rudberg. More information about the members of the Board of Directors can be found on page 61.

Independent directors

In determining the independence of directors, the Company complies with the criteria established by Russian law (the Federal Law on Joint-Stock Companies and the FCSM Corporate Governance Code), and with the requirements stipulated in the UK Corporate Governance Code.

Accordingly, MegaFon's independent directors must satisfy the following requirements:

- Not be an officer or employee of the Company when elected or in the five year period preceding the election.
- Not be otherwise affiliated with MegaFon, or receive any remuneration from MegaFon, other than by virtue of his or her directorship.
- Not be a representative of or have a significant connection with a significant shareholder of the Company.
- Not have close family ties with any of the Company's directors, senior employees or advisers.
- Not be an officer of another company where any of the officers of the Company is a member of that company's Human Resources and Remuneration Committee.
- Not have any material business relationship with the Company, including any transaction under which he or she could receive money or property with a value of 10% or more of his or her gross annual income, except for remuneration for being a director of MegaFon.
- Not be a representative of governmental authorities in the Russian Federation or elsewhere.

The credentials of candidates to be independent directors are checked against the above criteria at the time of their nomination. If a candidate who meets the Company's requirements is elected to the Board of Directors, he or she must complete and sign an application for designation as an independent member of the Board of Directors and the Board must then confirm his or her status as such.

The target for the future is to have at least two independent directors on the Board.

Educating and informing new members of the Board of Directors

After new members of the Board of Directors have been elected, MegaFon will organise an orientation session for them that explains the Company's business in detail, as well as providing an overview of the corporate governance system. New members receive a complete set of bilingual corporate documents at the orientation, which is also attended by the CEO and senior management. New members are also offered individual meetings with senior management to obtain any additional information required.

The Company has also developed a manual for all members of the Board of Directors. It describes the MegaFon corporate governance system and existing internal corporate practices related to the Board of Directors, and also includes a section dealing with FAQs.

Meetings of the Board of Directors

Board Meetings are held on a regular basis either face to face or by absentee ballot, in accordance with a work plan approved every six months by the Board of Directors. Meetings of the Board of Directors are convened at the initiative of the Chairman of the Board, and may also be convened at the request of any other member of the Board of Directors, the Revision Commission, the Management Board, the auditor, or the CEO. The quorum for a meeting is four members of the Board of Directors. The Board of Directors votes on decisions by simple majority, except as otherwise provided for in the Charter. Each member of the Board of Directors has one vote.

MegaFon's internal documents do not stipulate a minimum number of board meetings. Meetings are held in accordance with the then-current six-month work plan. A meeting by absentee ballot may be scheduled if needed due to business needs or legal requirements. The Company informs the Board of Directors in advance of such situations: in person at a board meeting or by e-mail. Face to face meetings are generally held once every two months.

Board members have the opportunity to ask any questions and request any additional information on agenda items. In accordance with the principle of equal treatment, any additional documents requested and comments made in response to questions are sent to all members of the Board of Directors.

As a rule, all the members of the Board of Directors are present at board meetings. If physical participation at a face to face meeting is impossible, a member may attend by teleconference or send written comments on agenda items. In 2012, all meetings of the Board of Directors had a full quorum.

In 2012, the Board of Directors held 28 meetings (six face to face, 22 by absentee ballot), as compared with 20 in 2011. The greater number of board meetings was primarily due to preparations for the IPO. Resolutions adopted by the Board of Directors in 2012 included the approval of a long-term management incentive programme.

During the year the Company worked to make preparation for meetings of the Board of Directors and its committees more efficient. In particular, MegaFon completely eliminated the distribution of hard copies of documents and provided all directors with tablet computers. This not only improved the availability of information, but also significantly reduced distribution costs. In addition, a Virtual Data Room (first launched in 2010) has become the standard tool for preparing for board meetings in 2012. All materials for meetings are available in electronic form, providing round-the-clock access for members of the Board of Directors. In 2012, a new technical system to automatically update the materials (and to inform directors of changes) was implemented.

Interaction with executive management

Board members have the opportunity at any time to request a meeting with any member of the senior management (including the CEO). In practice, most board members frequently communicate with senior management outside the formal meetings of the Board of Directors and committees, including attending special events organised by the Company. MegaFon also arranges special working meetings where required for members of the Board of Directors on issues requiring detailed consideration by the Board.

Remuneration of Board members

Board members are paid remuneration for, and reimbursed for expenses related to, the performance of their duties.

Remuneration paid to Board members who are not independent is based on real working time in the previous calendar year and is determined by the Annual General Meeting of Shareholders.

Independent directors' remuneration is also determined by the Annual General Meeting of Shareholders and is paid in two instalments: two and six months after their election, respectively.

The total paid to all of the members of the Board of Directors in 2012 for remuneration and reimbursement of expenses was RUB 45.3 million.

Corporate Secretary

The Company has appointed a specific individual as Corporate Secretary with the specific mandate of ensuring observance by management of all procedures intended to protect the rights and legitimate interests of shareholders in the Company.

The Corporate Secretary organises General Meetings of Shareholders and is charged generally with facilitating interaction between the Company and its shareholders. The Corporate Secretary also assists the Board of Directors and its committees in their work.

The Corporate Secretary is elected by the Board of Directors and reports to it. MegaFon has stringent requirements for the person elected to the office of the Corporate Secretary. In addition to possessing the knowledge necessary to carry out his or her mandated functions, the Corporate Secretary must have an impeccable reputation.

The current Corporate Secretary is Anna Serebryanikova.

Members of the Board

SERGEY SOLDATENKOV

Chairman of the Board

Sergey Soldatenkov has been a member of the Board of Directors of the Company since May 2012. He was CEO of the Company from April 2003 to April 2012. He was previously the Vice President of United Company GROS, a role he held from 2002 to 2003. Prior to that, from 2000 to 2002, he was the Deputy CEO for Commercial Affairs, acting CEO, and then CEO at Petersburg Telephone Networks (since re-organised as North-West Telecom). From 1999 to 2000, he was the Deputy CEO of OJSC Telecominvest and from 1994 to 1999, he headed Delta Telecom. He has served as a member of the Board of Directors of CJSC North West GSM, our predecessor. He was also a member of the Board of Directors at OJSC Telecominvest, from 1997 to June 2012. Mr Soldatenkov holds a degree in Radio Engineering from the Leningrad Institute of Aviation Instruments.

He is also a member of the Remuneration and HR Development Committee.

LORD MYNERS[1]

Independent Member of the Board of Directors

Lord Myners joined the Board of Directors in March 2013. He is also a director at RIT Capital Partners, chairman of the Board of Directors and a partner at Cevian Capital LLP, and chairman of the Board of Directors and a managing partner at Autonomous Research LLP. In the period 2008–2010 he served in the UK Government as Treasury Minister and a member of the National Economic Council, and has remained involved in government as a member of the House of Lords and a parliamentary committee. Prior to this he had an active career in the City of London with N.M. Rothschild and as CEO and chairman of the Gartmore Investment management group, after which he served on a number of boards, including Marks and Spencer, Land Securities, and the Guardian Media Group, which he also chaired. Lord Myners graduated from the University of London with an honours degree in Education.

He is also Chairman of the Remuneration and HR Development Committee and a member of the Audit Committee.

TERO KIVISAARI[2]

Former member of the Board of Directors

Tero Kivisaari was a member of the Board of Directors of the Company from April 2008 until March 2013. He has served since 2007 as the President of TeliaSonera Eurasia, where he was previously Chief Financial Officer and Vice President. In September 2012, he was also appointed President of Mobility Services of TeliaSonera AB. Mr Kivisaari holds degrees from Helsinki University of Technology and Helsinki School of Economics and Business Administration.

LARS NYBERG

Member of the Board of Directors

Lars Nyberg has been a member of the Board of Directors of the Company since May 2012. He was President and Chief Executive Officer of TeliaSonera from 2007 until February 2013. He has been a member of the Board of Directors of DataCard Corporation since 2005 and of Autoliv Inc. since 2004 (where he has also served as Chairman since December 2011). Mr Nyberg has also been a member of the Board of Directors of the University of Stockholm since 2006, of SNS since 2006, and of the World Childhood Foundation since 2007. Until 2007, he was a member of the Board of Directors of Snap-On Tools Inc. and Micronic Laser Systems, and Chairman of the Board of Directors of International Business Systems. Previously, he held various managerial positions in Philips. Mr Nyberg graduated with a Bachelor of Science in Business Administration from Stockholm University.

He is also a member of the Finance and Strategy Committee.

JAN RUDBERG

Independent Member of the Board of Directors

Jan Rudberg has been a member of the Board of Directors of the Company since June 2010. Mr Rudberg has been a Corporate Advisor since 2003, and is also Board Chairman of Hogia AB. He is also Board Chairman of Kcell JSC. He was previously the Executive Vice President of Telia AB, CEO of Tele2 AB, Executive Vice President of Nordbanken AB, CEO of Enator AB and CEO of Ericsson Information Systems Nordic. He founded Next Generation Broadcasting AB and was a member of the Board of Directors until 2011. Mr Rudberg is a graduate of the Gothenburg School of Business Administration.

He is also Chairman of the Audit Committee.

[1] Lord Myners was elected to the Board of Directors at an Extraordinary General Meeting of Shareholders held on 4 March 2013.

[2] Tero Kivisaari was last elected to the Board of Directors on 24 May 2012. He retired from the Board on 4 March 2013 and was replaced by Lord Myners.

VLADIMIR STRESHINSKY

Member of the Board of Directors

Vladimir Streshinsky has been a member of the Board of Directors of the Company since June 2008. He was the CEO of OJSC Telecominvest until July 2012, and is currently a Board member at the Kommersant publishing house, OJSC Telecominvest, Mail.ru Group Limited, UTH Russia Limited, New Media Technologies Capital Partners Limited. He is also the CEO of USM Advisors LLC and Garsdale Services Investment Limited. In the period from 2006 to 2008 he was responsible for the formation of Metalloinvest. From 2007 to 2010 he served as member of the Board of Directors of Coalco Development Limited. From 2008 to 2009, Mr Streshinsky was General Director of Coalco LLC. From 2000 to 2010 he was Executive Director and from 2010 to 2011 financial advisor at Coalco AG. In addition, from 2006 to 2007 he was CEO of CJSC "Gazmetal". Mr Streshinsky graduated from the Moscow Institute of Physics and Technology in 1992.

He is also Chairman of the Finance and Strategy Committee, and a member of the Remuneration and HR Development Committee.

CECILIA EDSTRÖM

Member of the Board of Directors

Cecilia Edström has been a member of the Board of Directors of the Company since May 2012. She has been Senior Vice President and Head of Intergroup Communications and Strategy of TeliaSonera since May 2008. Previously, she was Senior Vice President and Head of Corporate Relations at Scania AB, where she held a number of senior positions since 1995. She started her career in corporate finance at SEB in 1989. She is also a member of the board of BE Group AB. Ms Edström holds a Bachelor of Science in Finance and Business Administration.

She is also a member of the Audit Committee.

DAVID ERIXON

Member of the Board of Directors

David Erixon has been a member of the Board of Directors of OJSC MegaFon since May 2012. Previously, he was Vice-President of Products and Consumer Experience at Yota Group and Global Brand Director at Vodafone Plc. Mr Erixon studied Media & Communication Science at Gothenburg University in Sweden and Information Systems at Kingston University in London. Mr Erixon is the co-founder of the internationally renowned digital school Hyper Island and the design agency Doberman (based in Scandinavia). He is also the founder and currently a director and business advisor of David Erixon Limited.

He is also a member of the Finance and Strategy Committee.

None of the Directors owns any shares in MegaFon except for Mr Lars Nyberg, who owns 100,000 ordinary shares, an approximately 0.01613% interest in the Company, purchased on November 28, 2012, in connection with the Company's IPO.

Committees of the Board of Directors

Three Committees of the Board of Directors have been set up for improving corporate governance standards and for the preliminary consideration of the most important issues within the competence of the Board of Directors, as follows:
- Audit Committee;
- Remuneration and HR Development Committee;
- Finance and Strategy Committee.

Audit Committee

The Audit Committee oversees the preparation and presentation of the Company's financial statements, the Company's internal controls, its financial and accounting systems, the Company's compliance with internal and external regulations (such as anti-bribery legislation) and its risk management processes. Its members are elected at each Annual General Meeting of Shareholders for the period until the next Annual General Meeting.

The current Audit Committee members are:
- Jan Rudberg (Chairman);
- Cecilia Edström;
- Lord Myners.

In 2012, the Audit Committee held nine meetings. All members attended all of the meetings.

Remuneration and HR Development Committee

The Remuneration and HR Development Committee makes recommendations to the Board of Directors as to the amount of the base salary and other remuneration to be paid to the CEO and officers directly subordinate to the CEO, as well as setting performance targets and determining incentive scheme payments for other employees. In addition, the Committee is responsible for analysis of all HR processes, including recruiting and employee evaluation. Its members are elected at each Annual General Meeting of Shareholders for the period until the next Annual General Meeting.

The current Remuneration and HR Development Committee members are:
- Lord Myners (Chairman);
- Sergey Soldatenkov;
- Vladimir Streshinsky.

In 2012, the Committee held six meetings, for which all members were present. Particular issues addressed included the establishment of a new long-term the Company programme for top management, and approval of the CEO's stock option plan.

Finance and Strategy Committee
The Finance and Strategy Committee oversees MegaFon's acquisition and investment activities, and participates in the preparation of the Company's business plans. It also monitors compliance with Company policies, procedures and practices. Its members are elected at each Annual General Meeting of Shareholders for the period until the next Annual General Meeting.

The current Finance and Strategy Committee members are:
- Vladimir Streshinsky (Chairman);
- David Erixon;
- Lars Nyberg.

Management Board

The Management Board is the executive management body at MegaFon and oversees all of the Company's activities. Thus, it is responsible for all aspects of operational management, apart from those areas for which the General Meeting of Shareholders and the Board of Directors are responsible. The Management Board is also responsible for ensuring that decisions made by the Shareholders and the Board of Directors are implemented and reports on this to them on a regular basis. Its size and composition are approved annually at the General Meeting of Shareholders based on recommendations from the CEO. The Management Board is chaired by the CEO.

The current Management Board is composed of the following persons:

IVAN TAVRIN
Management Board chairman
Ivan Tavrin has been a member of the Management Board since 7 March 2012. He was First Deputy CEO of the Company until 20 April 2012 when he became our General Director and CEO. He graduated from Moscow State Institute for International Relations in 1998 with a diploma in law. Between August 2009 and January 2012, he was President of UTH Russia Limited, of which he currently controls 50% (the other 50% being controlled indirectly by Mr Alisher Usmanov). He has previously been the President of CJSC TV Service and CJSC Media-1 Management, as well as a shareholder of Fairlie Holding & Finance Limited (the holding company for the NetByNet group of companies) from December 2009 to June 2011. Mr Tavrin is currently a director of MO-TV Holdings Limited, UTH Russia Limited, Media-One Holdings Limited, Mail.ru Group Limited and Kommersant Publishing House CJSC.

ANAIT GASPARIAN
Management Board member
Anait Gasparian has been a member of the Management Board since October 2012. She was appointed as Director of Corporate Development at the Company in April 2012. From 2010 to 2012, she was the Director for Corporate Development for UTH Russia. In 2009 she was Projects Lead on Operational Effectiveness at MC Euroset. From 2007 to 2008, she was with Renaissance Capital as part of its Investment Banking, Consumer & Retail Group. Ms Gasparian holds a degree in Economics from the St Petersburg State University.

MIKHAIL DUBIN
Management Board member
Mikhail Dubin has been a member of the Management Board since November 2010. In October 2012 he was appointed as Executive Director of Consumer Business. He joined the Company in July 2010 as the First Deputy General Director for Strategic Development. From 2009 to 2010, he was the Deputy General Director for OJSC AF Telecom Holding and OJSC Telecominvest. Mr Dubin holds a degree in International Economics from the State Academy of Finance and a degree and a doctorate in Economics.

VALERY ERMAKOV
Management Board member
Valery Ermakov has been a member of the Management Board since June 2009. In October 2012, he was appointed as Director of Regional Operations; prior to that he served as the Chief Operating Officer of the Company. From 2001 to 2009, he served as General Director of OJSC MSS-Povolzhie, at the time one of our operating subsidiaries. Mr Ermakov is also a Chairman of CJSC TT mobile and a Board member at CJSC Aquafon-GSM. Mr Ermakov had previously spent six years at OJSC Tambov Telecommunications, reaching the position of Deputy General Director. Mr Ermakov graduated

from the Tambov Institute of Chemical Machinery with a degree in Radio Engineering, Design and Production.

GEVORK VERMISHYAN

Management Board member

Gevork Vermishyan has been a member of the Management Board since November 2011. He was appointed as Chief Financial Officer of the Company in July 2011. From 2002 to 2007, he was at LUKOIL OJSC where he rose from the position of analyst to Deputy Head of Corporate Borrowings. From 2007 to July 2011, he was the Head of Corporate Debt at AFK Sistema. Mr Vermishyan graduated from the Financial University under the Government of the Russian Federation in the faculty of International Economic Relations.

EDUARD OSTROVSKY

Management Board member

Eduard Ostrovsky has been a member of the Management Board since August 2002. In October 2012, he was appointed as Advisor on Special Programs and Relations with State Authorities. From June 2006 until October 2012, Mr Ostrovsky served as Deputy CEO for Government Relations and Implementation of Special Programmes. From 2002 to 2006, he acted as our Deputy CEO for the Federal Subsystem of Confidential Mobile GSM Communication. From 1993 until 2002, he served as Deputy Communications Minister, Deputy Chairman of the State Telecommunications Committee, and Deputy Communications and Information Minister. Mr Ostrovsky graduated from the Ordzhonikidze Military College in Ulyanovsk and from the Military Communications Academy with a degree in Military Communications.

ANNA SEREBRYANIKOVA

Management Board member

Anna Serebryanikova has been a member of the Management Board since January 2009. She was appointed to the position of Director of Legal Affairs and Government Relations in October 2012. Previously, from September 2008, she acted as our General Counsel. She has also served as Corporate Secretary since 2007. She joined MegaFon in 2006 and became adviser to the General Director on international legal affairs. From 2004 to 2006, she was a lawyer at J. P. Galmond & Co. From 1998 to 2004, she was a senior legal consultant and head of department at the Non-Profit Foundation for Restructuring Enterprises under the Finance Ministry. Ms Serebryanikova graduated with honours from the Law faculty of Moscow State University and holds a Masters of Law degree from Manchester University.

EVGENY CHERMASHENTSEV

Management Board member

Evgeny Chermashentsev has been a member of the Management Board since October 2012. He joined the Company in May 2012 as Adviser to the CEO and has been Director of Corporate Business and the CEO of CJSC Synterra since August 2012. From 2009 to 2012, he was General Director of LLC Vyberi Radio. From 2008 to 2009, he was Director for Regional Development of Media 1 Management CJSC and worked in the field of management of media assets. From 2006 to 2007, he was General Director and Director for Development of RMG Media LLC. Mr Chermashentsev graduated from Saratov State University, which was renamed Chernyshevsky Saratov State University in 1999.

IGOR SHIROKOV

Management Board member

Igor Shirokov has been a member of the Management Board since October 2012. He joined the Company in June 2012 as Director of Infrastructure. From 2011 to present he has been Chairman of the Board of LLC Prominvest, which provides housing and community services. From 2010 to 2012 he acted as CEO of telecommunications company LLC SpetsRadioService. From 2000 to 2004 and from 2005 to 2010 he was CEO of LLC KORUS Consulting. Mr Shirokov graduated from St Petersburg State University of Civil Aviation.

VALERY VELICHKO

Management Board member

Valery Velichko has been a member of the Management Board since June 2011 and is Director of Ural Operations, having previously been its Deputy Director and Director of Security. From 2006 to 2009, he was Director of Security at Urals GSM. Mr Velichko is a graduate of the Dzerzhinsky Higher Institute of Border Defence and the Ministry of Internal Affairs' Special Police School in Bryansk.

ALEXANDER GRIGORIEV

Management Board member

Alexander Grigoriev has been a member of the Management Board since June 2011 and is Director of Volga Operations. He joined the Company in April 2003 as Head of the IT Group of the Technical Operation Department of the Ulyanovsk office of MegaFon. In September 2005, he was transferred to the Central Office of the Volga Branch of MegaFon in the city of Samara in the position of Deputy Chief of the IT Department. In March 2009, he

NEW MANAGEMENT TEAM, NEW MOTIVATON

Ivan Tavrin was elected CEO in April 2012. He is a highly competent executive with a wealth of management experience in the telecom, media and content sectors – precisely the segments which are driving the Company's rapid growth today. In 2012, the Company welcomed a number of other senior managers who strengthened MegaFon's team and will play a crucial role in key areas of the company development. In October 2012 the Board approved a long-term incentive scheme for key executives, including phantom stock options with deferred payout. The phantom stock scheme provides for management to receive cash payments based on the performance of the Company's shares. A specific option scheme was also developed for Ivan Tavrin, giving him the opportunity to purchase 1.25% of MegaFon's shares at the IPO price in December 2012 and a further 1.25% at the same price in each of May 2013, May 2014 and May 2015. These new incentive programmes will allow us to retain one of industry's best management team and keep them motivated to deliver exceptional performance.

was appointed Chief of the IT Department, and a year thereafter, he was appointed as a First Deputy Director of the Volga Branch of MegaFon. Mr Grigoriev graduated from the Ulyanovsk State Technical University specialising in Computing Machines, Integrated Systems and Networks, and also holds a Masters degree in Dataware and Software of Automated Systems.

YURI ZHURAVEL

Management Board member

Yuri Zhuravel has been a member of the Management Board since June 2009 and is Director of Far East Operations. He was appointed as General Director of CJSC Mobicom-Khabarovsk, then the Company's operating subsidiary in the Far East region in October 2005. He joined MegaFon in 2003 as the Director of the Vladivostok Branch of CJSC Mobicom-Khabarovsk and subsequently became its First Deputy CEO in 2005. Mr Zhuravel graduated from the Red Banner Military Institute. He also holds an MBA degree from Salve Regina University, Rhode Island in the US.

PAVEL KORCHAGIN

Management Board member

Pavel Korchagin has been a member of the Management Board since November 2011 and is Director of Central Operations. From 2002 to 2003, he was the Technical Director and then the General Director of Volgograd Mobile CJSC. He became the Technical Director at Mobicom-Centre CJSC in 2003 and was appointed as First Deputy General Director of Mobicom-Centre CJSC in April 2007. After the re-organisation of MegaFon's operating subsidiaries, he became the First Deputy General Director of the Central Branch in July 2009, and was appointed Director of the Central Branch in September 2011. Previously, from 1986 to 1992, Mr Korchagin had been an engineer and research scientist in the Scientific and Research Institute for Special Purpose Machine Building in Moscow. From 1993 to 2002, he was a senior engineer and, later, the Head of the Department for Informatics and Automation of Bank Operations at Sberbank in Volgograd. Mr Korchagin graduated from the Bauman Moscow State Technical University with a degree in Automated Systems.

KONSTANTIN LIKHODEDOV

Management Board member

Konstantin Likhodedov has been a member of the Management Board since October 2012 and is Director of Stolichny (Capital) Operations. He joined the Company in June 2012. From January to May 2012, he acted as CEO of Disney Channel. From 2009 to 2011, he was CEO of 7TV. From August 2008 until August 2009, he was CEO of Vyberi Radio. In 2008 he acted as Deputy CEO of Channel MTV And in 2007 he acted as Deputy CEO of Channel TV3. Mr Likhodedov graduated from the St Petersburg State University specialising in Economics.

ALEXEY SEMENOV

Management Board member

Alexey Semenov has been a member of the Management Board since October 2012 and Director of North-West Operations since August 2012. From 2009 to 2012, he was Executive Director of CJSC TT mobile, the Company's operating subsidiary in Tajikistan. From 2008 to 2009 he was Director of the Republic of Tatarstan branch office of OJSC MCS-Povolzhie. Mr Semenov graduated from the State Economic Academy of Samara.

ALEXEY TYUTIN

Management Board member

Alexey Tyutin has been a member of the Management Board since June 2009 and is Director of Siberia Operations. He was appointed as General Director of CJSC Mobicom-Novosibirsk, then the Company's operating subsidiary in Siberia, in April 2009. He joined OJSC MSS-Povolzhie in December 2001 as the head of the Corporate Finance department, and became Deputy General Director for Commercial Affairs at Mobicom-Novosibirsk in 2004. Mr Tyutin holds degrees in Industrial and Civil Construction from the Mikoyan Kuibyshev Institute of Engineering and Construction and in Economic and Social Planning from the Samara Institute of Economics.

STANISLAV FROLOV

Management Board member

Stanislav Frolov has been a member of the Management Board since October 2012. Mr Frolov joined the Company in March 2012, and has been Director of Kavkaz Operations since September 2012. From September 2011 to March 2012, he was General Director of LLC Eurostroy. During 2011 he also acted as Managing Director of the Corporation for Development of the North Caucasus. From 2009 to 2010, he was Director of the Federal State Unitary Enterprise Rostechinventarisation, Federal Technical Inventory Bureau. In 2007, he was Deputy Head of the Department for Registration of Title to Land Plots in the Federal Registration Service Department for Moscow. Mr Frolov graduated from Voronezh State University in 1999 and from the All-Russian Extramural Institute of Finance and Economics in 2007.

As of 31 December 2012, none of the members of the Management Board own shares in MegaFon other than the CEO, Ivan Tavrin, who currently owns a 1.25% interest in the Company, and has options which vest over the period 2013 - 2015 to acquire an additional 3.75% interest in the Company.

Chief Executive Officer

The CEO is the principal executive officer of MegaFon and, together with the Management Board, manages the Company's current operations. The CEO is elected by the General Meeting of Shareholders. The CEO reports to the Board of Directors and the General Meeting of Shareholders.

Ivan Tavrin was elected CEO in April 2012. Previously, Sergey Soldatenkov had been the CEO of MegaFon from 2003 to April 2012 and has been Chairman of the Board of Directors since June 2012.

Remuneration of members of the Management Board and CEO

The Board of Directors decides on the remuneration (salary, bonuses, vacation pay, etc) for the members of the Management Board. The total amount of payments to members of the Management Board for remuneration and reimbursement of expenses in 2012 was approximately RUB 1,451 million.

In October 2012, the Board of Directors approved a long-term incentive programme for key executives, under which participants will be awarded phantom share options which vest in 2014 and 2015, and are settled immediately on vesting in cash on the basis of the difference between a base price of US$ 17.86 per share and the weighted average price of the Company's Global Depositary Receipts (or GDRs) on the London Stock Exchange for the period from January 15 to March 15 in the year in which the option vests. A total of 7 million phantom share options may be awarded under the plan. Vesting is subject to MegaFon's continued employment of the recipient, although in certain circumstances individuals who are no longer employed may still exercise options held by them. In February 2013 the Board of Directors awarded a total of 2.3 million phantom share options to various employees who included all members of the Management Board.

In November 2012, the Board of Directors also approved a long-term incentive programme for the CEO. Under the terms of the programme, Mr Tavrin was given the right to buy a 1.25% interest in MegaFon (or 7.75 million shares) held by our subsidiary, MegaFon Investments (Cyprus) Limited, at a price equal to the public offering price, or US$ 20 per share. If he made this purchase, he was given the further right to purchase an additional 1.25% share in the Company in each of May 2013, May 2014 and May 2015, also at the public offering price (or US$ 20). These rights to purchase can be exercised up till May 2017, subject to Mr Tavrin continuing to be employed by MegaFon and continuing to own at least 1.25% of the shares on the date that the right is exercised.

On 24 December 2012 Mr Tavrin purchased the initial 7.75 million shares, for a total purchase price of US$ 155 million, and thereby earned the right to acquire up to an additional 3.75% interest in the Company on the terms set forth above.

Remuneration paid to the Management Board in 2012

Remuneration type	Remuneration, RUB million
Salary	237.8
Bonuses	1,191.8
Other payments	21.2

Liability insurance for directors and management

MegaFon maintains directors and officers (D&O) liability insurance which covers its and its subsidiaries' directors and officers, as well as certain employees. In addition, in connection with its IPO, it obtained a special D&O liability insurance policy specifically covering the issuance of securities. The insurer is OJSC SOGAZ, which has re-insured 99% of the risk in the international reinsurance market.

Internal control and audit

Revision Commission

The Revision Commission is elected at the General Meeting of Shareholders and is responsible for the monitoring and control of MegaFon's financial and economic activity. Its members cannot be members of the Board or other executive bodies of the Company. The maximum number of members cannot exceed 3 people.

The Revision Commission carries out the inspection of the Company's financial activities, including: checking financial records, assessment of compliance with accounting procedures in the preparation of financial statements, verification of calculations of taxes and fees in accordance with the legal requirements of the Russian Federation, analysis of the implementation by MegaFon of approved plans and budgets, and other decisions by the Company's management, and assessment of whether operations and results are in line with MegaFon's plans.

The current members of the Revision Commission are:
- Pavel Kaplun (Chairman), head of investment and analytical department of USM Advisors LLC;
- Yuri Zheimo, Director of Internal Audit at MegaFon;
- Olli Ranta, Finance Director at TeliaSonera Eurasia.

Internal audit

The Internal Audit department is responsible for the conduct of all internal auditing at the Company. It reports to the Audit Committee of the Board of Directors, which approves its work plan and reviews the reports. Its operations are based on the Regulations on Internal Audit approved by the Board of Directors. Internal audit function in the Company's subsidiaries, except for MegaFon Retail, is carried out by the Internal Audit department and the relevant divisions within the branches. The Internal Audit department's staffs are also auditors of, or members of the audit committees of, all MegaFon subsidiaries.

The Internal Audit department's work is based on international standards for internal audit. Matters which fall within its remit include: evaluation of the procurement system, the efficiency of its information technology and information security systems, and the processes for external and internal reporting, as well as developing risk management systems and procedures to combat corruption.

Internal control over financial reporting

MegaFon has an internal control system to mitigate risks, actual or potential, in the financial statements preparation process. The system regularly analyses the status of possible risks and ways in which to deal with them. In 2012, the Company enhanced the system further by introducing self-assessment of internal control effectiveness.

The effectiveness of the internal control system over financial reporting is ensured by:
- Closely monitoring the quality of control procedures.
- Conducting regular surveys among key managers and employees about the effectiveness of internal control procedures.
- Arranging internal audits to test key control procedures.

The results of the internal control system's work are submitted to the Board of Directors' Audit Committee and the management.

External audit

MegaFon engages independent external auditors to review and give an opinion on its annual financial statements and to review its quarterly financial statement. Such independent auditors must be approved by the General Meeting of Shareholders based upon a recommendation from the Board of Directors. In recommending an auditor, the Board takes into consideration the following criteria:
- independence of the auditor and potential conflicts of interest;
- quality and consistency of staff;
- commitment to providing services;
- specific, actionable recommendations to improve internal controls;
- principles of working relationships with clients;
- amount of professional fees, and
- others.

In 2012 the Company's Annual General Meeting of Shareholders approved Ernst & Young as its external auditor. In 2012, the remuneration of Ernst & Young for acting as auditor amounted to RUB 67.8 million.

Interested party transactions

Transactions which are "interested party transactions" are governed by Chapter XI of Federal Law no. 208-FZ On Joint-Stock Companies. Under these provisions transactions in which the shareholders, the Board of Directors, or individual members of the Board or the Management Board are interested parties may be approved by either the Board of Directors or the General Meeting of Shareholders, depending on the nature of the transaction, and subject to the requirement that the interested members of the Board of Directors or shareholders do not vote on the transaction.

In 2012, the Company continued to work on the implementation of additional measures to improve the detection and control of transactions with interested parties. Using the SAP ERP system, the lists of persons and companies affiliated with the Company or its subsidiaries or affiliates, including its direct and indirect shareholders and their affiliates, will be generated and updated at least once a quarter. The names of the Company's counterparties in transactions will be checked against the lists and, if a match is found, the responsible persons will be notified to seek the approval of the transaction by the appropriate body within the Company.

A list of MegaFon's interested party transactions in 2012 is provided in Appendix Nº 1.

Major transactions

In 2012, MegaFon concluded four transactions which qualify as "major transactions", (as defined by Article 78 of Federal Law no. 208-FZ On Joint-Stock Companies). A list and description of all major transactions concluded in 2012 is provided in Appendix Nº 2.

Anti-corruption policy

MegaFon values its reputation for strictly adhering to recognised standards of ethics and integrity in business, and therefore does not tolerate bribery and corruption in any form in its operations.

The Company has developed a specific policy proscribing bribery and corruption. Compliance is mandatory for all employees of MegaFon, and its subsidiaries and associated companies. The policy calls for strict measures, including dismissal, to be taken with respect to all persons identified as participating in bribery. Furthermore, failure by any employee to disclose the corrupt actions of others may also result in disciplinary sanctions.

MegaFon's anti-corruption policy encourages all employees with questions whether a particular action can be perceived as corrupt to consult with his or her superiors.

All employees of MegaFon must also read and sign the policy, pledging to comply with its provisions in their work. The Board of Directors has overall responsibility for ensuring that all Company employees comply. The CEO is the person who is primarily responsible for the implementation of the policy. More documents can be found on our website in the Corporate Documents section: http://msk.corp.megafon.ru/investors/management/docs/inye_vnutrennie_dokumenty/

SHAREHOLDER'S EQUITY

Charter capital

MegaFon has a charter capital of 620,000,000 ordinary registered uncertified shares, each with a par value of RUB 0.1. It is authorised to issue an additional 100,000,000,000 ordinary shares. It has no preferred shares. All ordinary registered uncertified shares have been combined into one issue whose state number is 1-02-00822-J. The government does not hold shares in the charter capital.

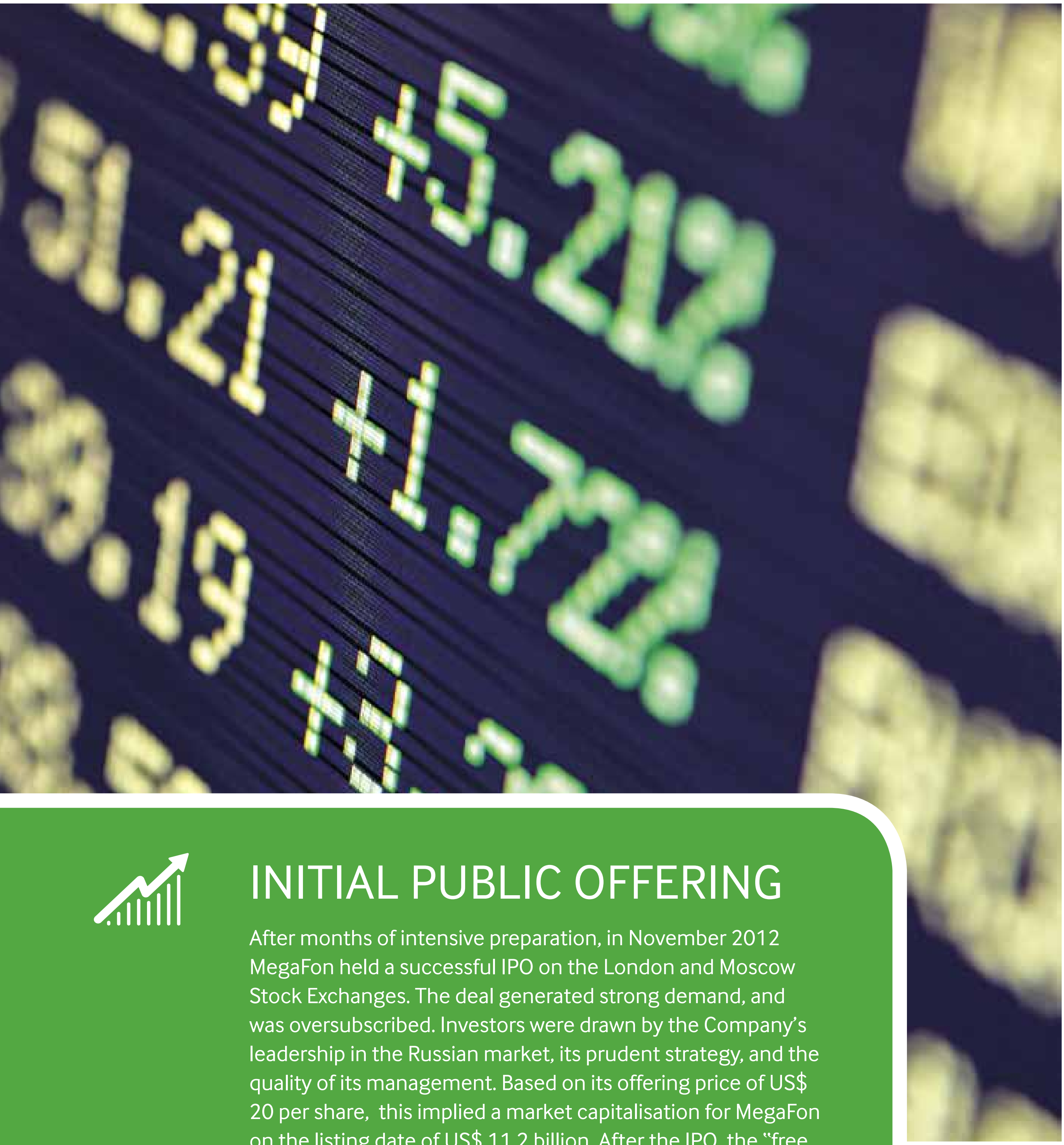
In July 2012, MegaFon acquired and cancelled two shares held by its subsidiary MegaFon Investment (Cyprus) Limited, with the goal of reducing its charter capital.

Also, as part of the IPO preparations, in September 2012 the Company split its ordinary shares 100:1, increasing its outstanding ordinary shares from 6,200,000 to 620,000,000.

On 28 November 2012, MegaFon held an initial public offering (IPO) on the London and Moscow stock exchanges. The offer price was US$ 20 per ordinary share and global depositary receipt (GDR) (each GDR representing one ordinary share). The total offer size was US$ 1.7 billion, before the exercise of the overallotment option, or 84,526,819 shares (1,957,273 ordinary shares and 82,569,546 GDRs), and US$ 1.8 billion, including the overallotment option (195,727 ordinary shares and 6,756,954 GDRs). This implied a market capitalisation for MegaFon on the listing date of US$ 11.2 billion.

The global coordinators of the placement were Morgan Stanley and Sberbank CIB, while the joint book-runners were Citigroup, Credit Suisse and VTB Capital. The selling shareholders were TeliaSonera Group (selling a 10.43% interest) and MegaFon Investments (Cyprus) Limited (selling a 4.33% interest).

Trading in MegaFon GDRs on the London Stock Exchange and in MegaFon ordinary shares on the Moscow Exchange commenced on 28 November 2012. Trading on both exchanges is conducted under the ticker symbol MFON.



INITIAL PUBLIC OFFERING

After months of intensive preparation, in November 2012 MegaFon held a successful IPO on the London and Moscow Stock Exchanges. The deal generated strong demand, and was oversubscribed. Investors were drawn by the Company's leadership in the Russian market, its prudent strategy, and the quality of its management. Based on its offering price of US$ 20 per share, this implied a market capitalisation for MegaFon on the listing date of US$ 11.2 billion. After the IPO, the "free float" was 14.75% of the total outstanding shares. Trading on both exchanges is conducted under the ticker symbol MFON. MegaFon's shares are included in the FTSE and MSCI Russia indexes.

Shareholder structure

In April 2012 a major re-structuring of the shareholder base took place, as a result of which companies controlled by the Alfa Group, a major banking, energy and telecoms group, gave up their interests in the Company, their interests being acquired by other shareholders in the Company, as well as by the Company itself, through a wholly-owned subsidiary, MegaFon Investment (Cyprus) Limited.

Immediately prior to the IPO, the main shareholders in MegaFon were as follows: AF Telecom (50% + 100 shares), TeliaSonera Group (35.6%), and MegaFon Investment (Cyprus) Limited (14.4%).

The TeliaSonera Group sold a 10.43% interest in the IPO, reducing the size of its interest to 25.17%, while MegaFon Investment (Cyprus) Limited sold a 4.33% interest, reducing its interest to 10.07%. After the IPO, the "float" (shares in public hands) was 14.75% of the total outstanding shares.

In December 2012, after MegaFon CEO Ivan Tavrin (via a Cyprus company Anfimako Limited) exercised his option to acquire a 1.25% interest in the Company (for details, see p. 65), MegaFon Investments (Cyprus) Limited's stake dropped to 8.82%.

Dividend policy

Before 2012, MegaFon did not pay any dividends on its shares, re-investing net income in business development instead. In April 2012, the Company paid dividends for the first time in its history: a total of RUB 151.863 billion (US$ 5.15 billion), or RUB 24,500 per ordinary share[1]. The dividend payment was made as part of the changes in the shareholder structure, described above.

In June 2012, the Board of Directors approved a dividend policy which sets forth MegaFon's objectives for distributing its net income and its principles for making decisions about dividend payments. In accordance with the policy, the General Meeting of Shareholders approves the amount of dividend to be disbursed, based on a recommendation by the Board of Directors (following preliminary determinations by its Finance Committee and the CEO). The amount will depend on the financial results, the cash needed by the Company to develop its business and implement its strategy and meet its obligations, and any other factors that the Board of Directors

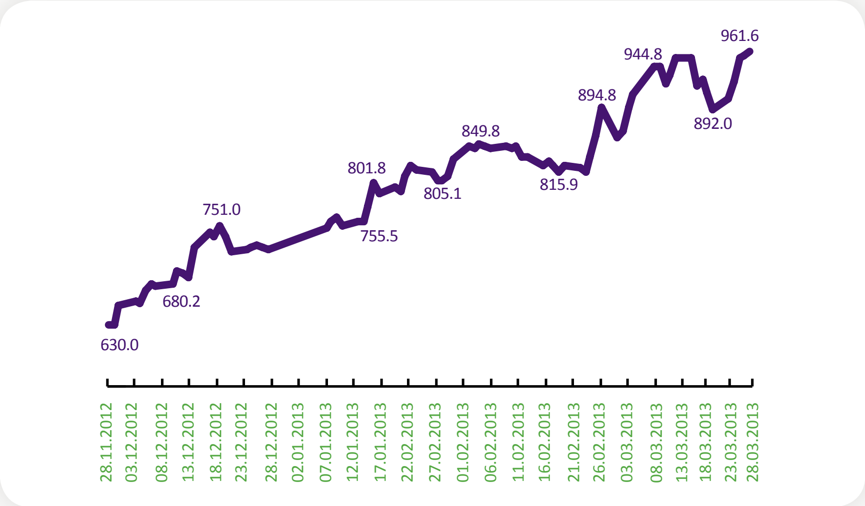
MegaFon ordinary shares on the Moscow Exchange

	28.11– 31.12.2012	01.01–31.03.2013
Maximum price, RUB per share	751.0	961.6
Minimum price, RUB per share	630.0	748.0
Year-end price (at close on 31.12.2012), RUB per share	723.0	961.6
Trading volume, RUB millions	275.7	550.7

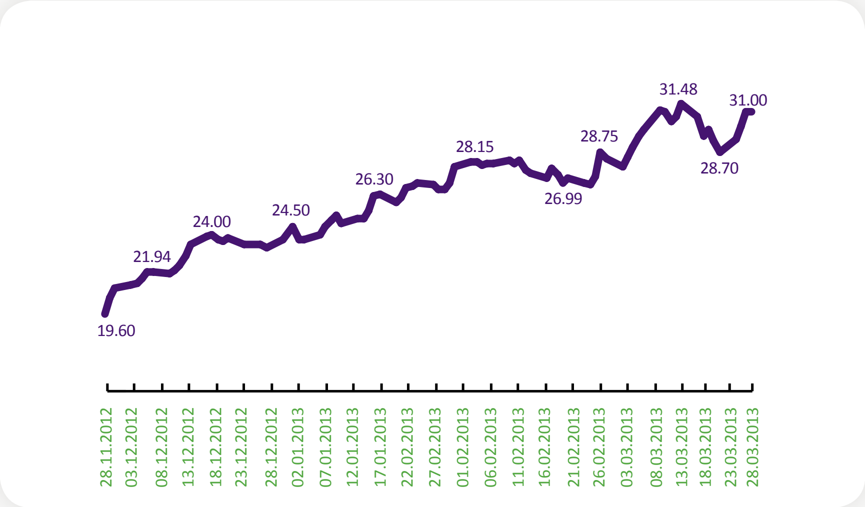
MegaFon GDRs on the LSE

	28.11– 31.12.2012	01.01–31.03.2013
Maximum price, US$ per share	24.1	31.5
Minimum price, US$ per share	19.6	23.8
Year-end price (as of close on 31.12.2012), US$ per share	23.8	31.0
Trading volume, US$ millions	2,011.4	1,504.2

[1] RUB 245 per ordinary share – based on current number of shares after the share split and cancellation.



Share price performance on MICEX, RUB



Share price performance on the LSE, US$

Source: Bloomberg.

believes relevant, including the impact on the Company's investment-grade rating. The Company aims to pay at least 50% of Net income[1] or 70% of net cash flow[2] (whichever is greater) in dividends annually. The target payout percentages may be adjusted upwards or downwards by the Board of Directors as needed to maintain a capital structure based on a net debt/adjusted OIBDA[3] ratio of 1.2–1.5.

Dividends are disbursed to shareholders within 30 days after their declaration by the General Meeting of Shareholders.

Taxation of dividends

Dividends paid to residents of the Russian Federation will be subject to withholding at the rate of 9%. However, residents holding GDRs, and non-residents holding GDRs or ordinary shares through a non-taxable representative office in the Russian Federation, may be subject to a 15% withholding rate on dividends.

[1] Net income means the amount of net income for the 12 months ending on the immediately preceding 31 December as reflected in the Company's annual consolidated US GAAP (IFRS) financial statements exclusive or the effect of non-cash items.

[2] Net cash flow means the amount of Net income plus amortisation and depreciation minus investments for the last financial year.

[3] Adjusted OIBDA means the amount of net income after adding back depreciation and amortisation for the relevant financial year.

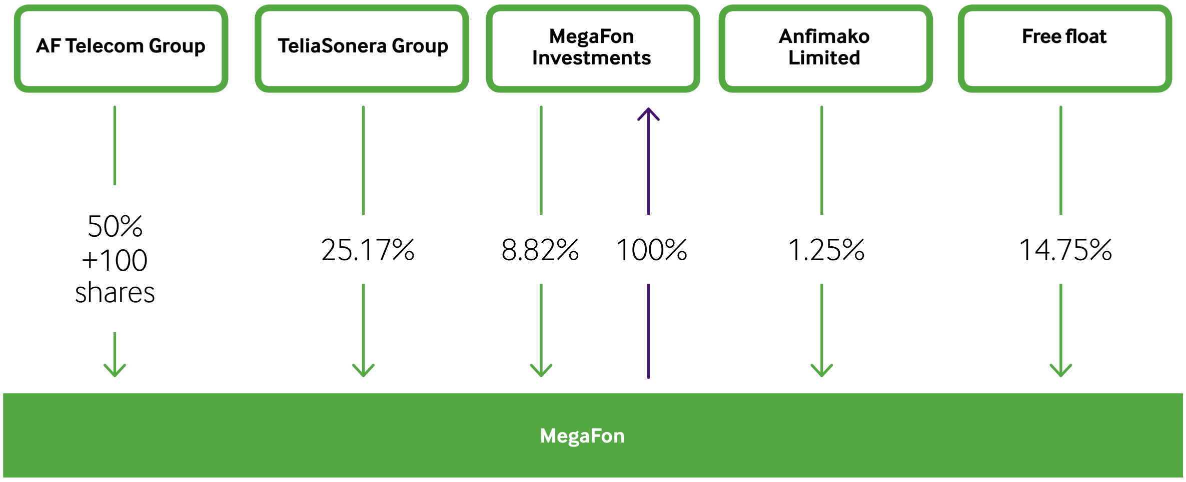
Dividends paid to non-residents of the Russian Federation will be subject to withholding at the rate of 15%. This rate may be reduced pursuant to the terms of any applicable tax treaty between the Russian Federation and the country of residence of the non-resident holder to the extent that the non-resident holder is entitled to relief under the applicable treaty and all Russian documentation requirements are satisfied.

However, there is considerable uncertainty as to the availability to non-resident holders of GDRs of treaty benefits and as to the procedures for claiming such benefits.

Accordingly non-resident shareholders, and particularly holders of GDRs, are strongly urged to consult with their tax advisers to determine whether, and how, they may be able to benefit under any applicable tax treaty and any other tax consequences arising from their receipt of dividends.

Absent satisfactory evidence that a reduced rate of withholding is applicable in any given situation, the Company intends to withhold at the rates required by the applicable legislation in the Russian Federation set forth above.

MegaFon's shareholder structure as of 31 December 2012 and as of 31 March 2013



SUSTAINABLE DEVELOPMENT

Personnel

MegaFon's employees are its most important competitive advantage; they form the basis for the success of our business. The Company's HR policy aims to develop a corporate culture which makes employees more engaged in and accountable for their work, increases their possibilities for professional training and advancement, and provides support and encouragement for all of them. Accordingly, we have established the Remuneration policy and Compensation and Benefits policy which specifically aim to ensure fair compensation and provide a comprehensive menu of benefits for all employees, as well as to enable employees to progress in their careers.

As of 31 December 2012, MegaFon had over 33,000 employees.

Last year, we worked hard to make all of our business processes more efficient. oday, all HR procedures are aimed at making MegaFon an even more open, dynamic and successful company.

Training and development

MegaFon pays close attention to developing employees' professional skills and unlocking their potential. Our efforts begin on the first working day for all new personnel, who undergo a special orientation programme to which top managers and experts from various areas are invited as speakers. The programme also includes a visit to the Monitoring Management Centre, call centres and a base station.

MegaFon also runs training schemes, strategy sessions, and professional and management skill development programmes. We pay particular attention to training specialists in sales and subscriber service, as well as technical and IT specialists. All corporate programmes emphasise the need for continued training, the sharing of information and experiences, and using internal resources efficiently.

At the core of our personnel training is MegaAcademy, a comprehensive programme for instruction that promotes best practices and business ideas. In 2012, some 21,700 people underwent training at MegaAcademy, up 30% YoY.

Last year we expanded the range of programmes we offered relating to all of our main areas of business and started to introduce them at the branch level. We ran approximately 30 educational programmes, including "Developing Management Skills" and "Project Management". Most of those who underwent training at MegaAcademy were employees from the retail network and call centres: i.e., those dealing with subscribers on a daily basis.

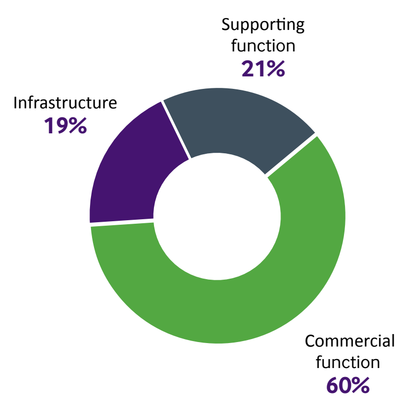
Teaching at MegaAcademy takes place using both internal resources (internal trainers) and external experts. We have also organised a system of mentoring for employees who work directly with customers: in the retail divisions alone, 1,226 mentors were trained in 2012. Meanwhile, to enhance the knowledge and skills of our trainers, we implemented three advanced programmes of instruction and developed a system for training the trainers themselves. .

One important area is advanced training for managers. In 2012, a particular priority was working with change: being able to communicate changes and implement them effectively. We also focused on increasing individual efficiency by using various methods for working with information and managing time.

Number of MegaFon employees

In 2012, as part of our overall drive **to increase efficiency,** we substantially modified our organisational structure, making it **more efficient.**

Number of MegaFon employees by area of work



In 2012, MegaFon **invested RUB 180 million** in employee training.

Career opportunities

MegaFon operates a system of open competition for vacancies, giving every employee substantial opportunities to realise his or her potential. For management-level vacancies, priority is given to internal candidates. In 2012, existing employees filled around 60 management vacancies and 40% of openings overall. When we consider someone for a senior position, it is important that he or she possesses a clear vision of what the Company aspires to be and is capable of inspiring others to achieve our ambitious goals.

Motivation

MegaFon works hard to motive its personnel. Pay reviews take place once a year and are based on individual performance and market trends. In 2012, the average salary at MegaFon increased around 6% YoY.

Last year, we moved towards making the package of benefits available to employees more uniform at all levels of the Company. We also focused on developing non-monetary motivation programmes for personnel.

Once every three years, we conduct a Company-wide survey to research employee loyalty and their feelings about the Company.

Corporate culture

Our corporate culture is the basis for the success of our business. We build awareness of and support for our culture through a series of communications and events.

MegaFon regularly holds round-table meetings for all employees to discuss different aspects of life in the Company. This format allows employees to learn about projects and developments in MegaFon's business first-hand, as well as promoting better interaction with colleagues.

In 2012, all of our branches conducted our traditional "Life MegaFon Style" survey in which our employees select those colleagues who best represent our brand's values. The winners received certificates and awards from the CEO at a special ceremony on New Year's Eve.

To encourage contact across the Company, we have established a range of communication channels on

MegaNet, our internal corporate portal. In autumn 2012, we opened a new LiveJournal platform, where employee can share their experiences and opinions. Last year, we also launched a test version of an internal corporate social network, which aims to distribute information more rapidly, thereby enabling our employees to acquire additional knowledge and to share experience and expertise.

Environment

We believe that advances in science and technology cannot be at the expense of the natural environment in which we live. MegaFon's main corporate colour is green. This emphasises the Company's commitment to environmental values, a philosophy of caring for the world we live in, and our efforts to protect nature and to preserve it for future generations.

MegaFon not only complies with all requirements of Russian environmental laws but also seeks actively to contribute to environmental protection. We carry out projects aimed at protecting nature and raising public awareness of environmental issues, and we manage our operations in such a way as to minimise their negative impact on the environment.

Energy conservation and efficiency

MegaFon strives to conserve resources, particularly electricity, thermal energy, water and paper. We save heat by adjusting HVAC equipment to optimal temperatures depending on the season, and to minimise heat loss in the winter. MegaFon offices use an HVAC system that features recuperative heat exchange and free cooling, which promotes energy efficiency.

An important factor in reducing MegaFon's power consumption is the application of new energy technology in the construction of base stations. For example, all of our base stations have climate control with air-conditioning unit rotation, which can significantly extend the life of air conditioners due to uniform wear. In 2012 we conducted tests of several options for ventilation systems for base stations, and determined that the most effective of these reduces base stations' energy consumption by 15%. We plan to begin using these systems in our network during 2013.

MegaFon also aims to motivate all employees to take responsibility for energy consumption in the workplace. We ensure that lighting, office equipment and HVAC equipment are turned off after hours. The Company uses fluorescent lamps instead of incandescent lamps, and also encourages employees to use individual light sources and to refrain from the use of additional electrical equipment when not necessary.

While increasing the energy efficiency of base stations, hardware, offices, etc., we also remember that all of our facilities consume electrical energy derived mainly from non-renewable sources. Accordingly, we are gradually phasing in alternative energy systems to reduce our environmental impact, using wind turbines and solar panels for supplying energy to base stations in the Caucasus and Volga division, and operating wind generators in test mode in base stations in the Northwest and Siberia divisions. If the efficiency of these systems is confirmed, then we will consider adopting them en masse.

Resource conservation and waste management

The use of modern technology in the field of document management allows us to not only improve efficiency, but also save paper. Since 2004 MegaFon has been using electronic documents and memos, as well as a "Single Library" module that minimises paper consumption. We encourage employees to minimise the use of paper documents in conferences and workshops, to rely on electronic rather than document-based communication, and to use resource-conserving technology for printing and photocopying.

In 2012, to reduce the use of paper at MegaFon offices, we started using two-sided printing and integrated electronic systems for the preparation, retention, archiving and signing of documents. We also send the bulk of our subscribers' account details via electronic media.

We regularly reduce the use of motor vehicles to mitigate their impact on the environment and, when replacing vehicles, we focus on optimum environmental performance and fuel consumption. In 2013, we expect our entire fleet to meet Euro-3 standards at a minimum.

We actively use videoconferencing to reduce the number of business trips.

We pay special attention to the proper utilisation of resources: paper documents past their expiry date are sent for recycling, while we ensure that used fluorescent lamps, batteries and tires are disposed of through certified companies and automotive service centres. Disposal of waste equipment and network components is done only through specialised companies that have the necessary licences.

Environmental campaigns

An important part of MegaFon's environmental initiatives is volunteer environmental programmes for the protection of bodies of water, landscaping and beautification of the urban environment. We have been conducting the "Green Saturday" environmental campaign for five consecutive years. People all over the country devote a few hours of their time to protecting nature: cleaning litter, planting flowers and trees, and landscaping parks and gardens. This event, which started a few years ago on a purely volunteer basis, has become an organised nationwide campaign in which MegaFon employees and subscribers participate, along with regular citizens.

MegaFon environmental initiatives are aimed at improving the world in which our employees and subscribers live and work. We are convinced that small efforts of individuals united by a common purpose can help to protect the environment and conserve Russia's natural resources for future generations.

Social Investments

MegaFon's approach to business is based on the principle of harmonising the Company's aspirations with the interests of society. We do our best to meet the challenges facing our society and participate in building the country's future.

In 2012, MegaFon was actively involved in projects aimed at supporting sport and culture, as well as assisting socially vulnerable groups and victims of natural disasters.

Principles of social activities

MegaFon's social responsibility is inextricably linked to its mission: uniting Russia and overcoming communication barriers. We are guided by the following principles in implementing initiatives in the field of corporate social responsibility:

Development
The Company's social activities are focussed on long-term programmes that have potential for development and improvement.

Reliability
MegaFon strives always to fulfil its commitments to social activities. Furthermore, our social programmes are transparent and the use of funds can be monitored easily.

Partnership
The Company is always open to cooperation with other parties active in the social sector and welcomes participation in joint projects.

Involvemen
We are committed to completing all of our social programmes, because they are identified with us and because so many of our employees are actively involved as volunteers.

Modern Russia
MegaFon's social activities are national in character. We support programmes that can cover the whole of Russia, and we seek wherever possible to turn regional projects into national ones.

Access for all

MegaFon is constantly working to improve the quality of life of people with disabilities. Accordingly, we equip mobile shops with ramps, call buttons and lifts, and we offer special mobile phones with large keys and panic buttons for the visually impaired and the elderly. The Company has also developed special tariff plans for deaf and hard-of-hearing subscribers. We have created a special website for people with impaired vision, which provides information about our services in a convenient form, with the optimum font size and colour and screen background colour. All of our stores have special instructions for sales staff to enable them to serve people with disabilities.

Supporting sport

MegaFon considers supporting sport to be part of the Company's philosophy, which has always focused on leadership, in whatever field. Our core values are team spirit, the will to win, a belief in one's own abilities and the notion that success always comes to those who strive to improve themselves. MegaFon is a major party in the national sports scene, supporting most of the prominent nationwide sport projects. Thus, MegaFon is the General Mobile Partner of the 2014 XXII Olympic Winter Games in Sochi, and General Partner of the Olympic and Paralympic Committees of Russia as well as of the Russian Olympic and Paralympic teams in 2010, 2012, 2014 и 2016.

Rehabilitation programmes for people with disabilities
Programmes designed to restore and maintain the physical activity of people with disabilities have pride of place among MegaFon's social projects. Indeed, MegaFon's most important area of social activity is to support Paralympic sports.

As stated above, MegaFon was granted the status of exclusive Mobile General Partner of Paralympic Committees of Russia, as well as the 2010, 2012, 2014 and 2016 Paralympic Russian teams.

Bocce, one of the oldest ball games, was included in the Paralympic Games in 1994. In April 2012, the Company sponsored the Russian disabled athletes' bocce championship, which 37 athletes from different regions of the country attended. The winners received a gift from MegaFon of tickets to the Paralympics in London.

In anticipation of the 2014 Paralympic Games, MegaFon supported the Russian national ice sledge hockey team, becoming the first private company in Russia to contribute significant funds (RUB73 million) to support a Russian national team in a Paralympic sport.

In the spring of 2012 we supported the second ITF Series MegaFon Dream Cup international Paralympic tennis tournament, the ITF Zelenograd Open international tennis tournament for athletes in wheelchairs, and the World Victory Cup in football for athletes with disabilities.

In August 2012 we sent a team with the Russian Paralympic team to London to support our Russian athletes. We believe that people with disabilities are full-fledged members of society, and all they need is equal opportunities for them in life and a chance at self-fulfilment.

In addition, trips to the London Paralympic Games were awarded to the winners of The World Through the Eyes of Children International Children's Photo Contest of Equal Opportunities held among children with disabilities, orphans, and children in difficult circumstances. The

MegaFon has produced a brochure "Communication without Borders", with useful information about mobile communications for individuals with disabilities and their families. In this publication, we offer our recommendations on the selection of mobile devices for those with hearing, sight and mobility issues. The brochure can be downloaded from our web site or obtained from any of the Company's flagship stores in Moscow.

Around 5,000 children

from Russia, South Ossetia, Tajikistan and Abkhazia took part in the the

"Future Depends on You"

open Russian football championship.

winners in the Sports category were awarded tickets to the opening ceremony of the Paralympic Games and the events with Russian athletes competing.

Sport for children

The wellbeing, prosperity and health of Russia depend on what kinds of careers its younger generation will choose. We are making a contribution to the development of future generations who will live and work in our country by supporting talented young people and promoting a healthy lifestyle.

That is why MegaFon considers the "Future Depends on You" open Russian football championship – held among teams from children's homes and boarding schools since 2005 – no less important than a massive Russia-wide competition with big-name teams. Around 5,000 children from Russia, South Ossetia, Tajikistan and Abkhazia took part in the championship. The Russian Football Union and Ministry of Sports became co-sponsors of the championship. In 2012 the winners of the championship travelled to London to visit Arsenal Football Club, where they held a training session under the guidance of British coaches and played a friendly match with pupils of a local youth academy. Following eight years of smaller regional competitions, the tournament turned into a championship that has been recognised internationally. In 2012, this MegaFon-supported project was awarded the prestigious international Peace and Sport Prize, which celebrates the best sport initiatives and honours individuals who have made a significant contribution to peace and social stability. In addition, the championship has been included on the list of the most important social projects in Russia.

In June 2012, with MegaFon's support, NHL goalie, Stanley Cup winner and world champion Ilya Bryzgalov held a series of workshops for young goalkeepers from the best Russian hockey clubs, as part of the Goalkeeper School project. We are convinced that every tournament, sporting event or workshop with famous athletes that we have organised is another step towards ensuring that young people will make their choice in favour of a lifestyle which involves sport, and may even result in some excelling and reaching the highest peaks.

Professional sport
In addition to youth sports teams, we also support the Russian Biathlon Union, the Kontinental Hockey League and the Russian Premier League. MegaFon sponsors the national football and biathlon teams, as well as Russia's national, youth and women's hockey teams.

We also are the general partner and the official mobile operator of the 27th World Summer Universiade 2013 in Kazan, the second largest and most important event in the sporting world after the Olympic Games. MegaFon was awarded the Time of Innovation 2012 award in the category Social Innovation of the Year for its support of the project.

Charity and supporting socially vulnerable groups

An important focus of the Company's corporate social responsibility is to assist socially vulnerable groups and people who are suffering as a result of natural disasters.

During the flood in the Kuban region in the summer of 2012, MegaFon's professionals did everything possible to correct breaks in the networks, so as to continue to provide the affected areas and communities with mobile communications. We introduced "technical roaming mode" in the flooded areas, which enabled subscribers of all operators to stay in touch, on the basis that, if there was no signal from one operator's network, subscribers remained connected through the network of another. We also provided around-the-clock technical support for emergency services, as well as a special SMS number for donations to the Red Cross to help the flood victims in Kuban.

MegaFon regularly **sponsors the GUM skating rink** on Red Square, which up to 3,000 people visit daily in winter. We organise a Christmas tree for the younger visitors and lessons in curling and figure skating from famous Russian athletes for the older ones.

MANAGEMENT RESPONSIBILITY STATEMENT

In line with the Company's Act 2006, Directors are responsible for preparing annual accounts for each of the financial years of the company and to ensure that they give a "true and fair view" of the assets, liabilities, financial position and income or loss of the company.

The Board of MegaFon confirms that to the best of its knowledge:

1. The consolidated financial statements, prepared in accordance with US GAAP, as of December 31, 2012, 2011 and 2010, and also for the years ended on those dates, including the consolidated balance sheets, statements of comprehensive income, cash flow statements, shareholders' equity statements and notes to the consolidated financial statements provide a true and fair view of the state of affairs of MegaFon.
2. The Business Review contained in the MegaFon's Annual Report for 2012 gives a fair view of the performance of the business, and specifically the operational results of MegaFon, of its efforts to meet its strategic objectives, and of the risks and uncertainties faced by the business, as well as other events which in the near future may have an impact on the operations of the Company.

Chief Executive Officer
Ivan Tavrin

US GAAP CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010 WITH REPORT OF INDEPENDENT AUDITORS

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Report of Independent Auditors

The Board of Directors and Shareholders of OJSC MegaFon

We have audited the accompanying consolidated financial statements of OJSC MegaFon and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012, 2011 and 2010, and the related consolidated statements of comprehensive income, cash flows and shareholders' equity for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OJSC MegaFon and subsidiaries at December 31, 2012, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

February 28, 2013

/s/ Ernst and Young LLC

Consolidated Balance Sheets

(In millions of Rubles)

		December 31,		
	Note	2012	2011	2010
Assets				
Current assets:				
Cash and cash equivalents	6	**2,387**	2,887	2,667
Short-term investments	7	**22,246**	84,509	63,554
Accounts receivable, net of allowances of 1,259, 1,447 and 1,029	8	**9,021**	9,547	6,859
Due from related parties	26	**1,086**	104	95
Inventory	9	**5,277**	4,551	3,081
Prepaid income taxes		**5,066**	6,957	6,975
VAT receivable		**1,297**	1,779	2,562
Deferred tax assets	20	**1,270**	1,972	1,166
Other current assets	10	**8,466**	7,987	7,114
Total current assets		**56,116**	120,293	94,073
Property, plant and equipment, net of accumulated depreciation of 201,984, 164,765 and 130,876	11	**215,383**	223,718	194,872
Goodwill and intangible assets:				
Goodwill	4, 12	**23,950**	15,393	7,041
Intangible assets, net of accumulated amortization of 29,457, 24,817 and 20,638	12	**18,073**	19,672	19,245
Equity method investments	5	**32,633**	–	–
Deferred tax assets	20	**932**	712	506
Deferred finance charges	14	**1,188**	729	665
Advances to related parties, less current portion	26	**681**	–	–
Other non-current assets		**1,113**	2,951	1,065
Total assets		**350,069**	383,468	317,467

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

Consolidated Balance Sheets (continued)

(In millions of Rubles)

		December 31,		
	Note	2012	2011	2010
Liabilities				
Current liabilities:				
Accounts payable	13	**8,631**	9,621	6,521
Accounts payable to equipment suppliers		**6,488**	8,034	10,308
Due to related parties	5, 26	**17,668**	465	404
Current portion of liability for marketing related licences	12	**529**	402	382
Current portion of liability for deferred and contingent consideration	4, 15	**2,769**	2,550	1,450
Accrued compensation	17	**5,033**	5,360	2,840
Prepayments received		**9,221**	7,895	7,303
Taxes payable	19	**2,887**	3,056	1,704
VAT payable		**6,603**	2,965	1,294
Current portion of deferred revenue		**1,315**	954	552
Short-term loans and current portion of long-term debt	14	**19,881**	7,415	12,171
Other current liabilities		**1,977**	1,256	845
Total current liabilities		**83,002**	49,973	45,774
Debt, less current portion	14	**126,541**	36,294	20,750
Deferred tax liabilities	20	**13,131**	10,543	8,256
Asset retirement obligations	11	**4,805**	5,248	4,304
Liability for marketing related licences, less current portion	12	**153**	621	893
Liability for deferred and contingent consideration, less current portion	4, 15	**–**	1,829	1,731
Deferred revenue, less current portion		**1,109**	1,569	1,968
Other non-current liabilities		**1,082**	759	665
Total liabilities		**229,823**	106,836	84,341
Equity				
MegaFon shareholders' equity:				
Ordinary shares par value of 0.1 Rubles 620,000,000 shares issued; 565,309,911 (2012) and 620,000,200 (2011 and 2010) shares outstanding		**581**	581	581
Treasury shares	3, 18	**(39,133)**	–	–
Reserve fund		**17**	17	17
Additional paid-in capital	18	**14,027**	13,852	13,855
Retained earnings	3	**144,722**	261,950	218,371
Accumulated other comprehensive loss		**(486)**	(291)	(261)
Total MegaFon shareholders' equity		**119,728**	276,109	232,563
Noncontrolling interests		**518**	523	563
Total equity		**120,246**	276,632	233,126
Total liabilities and equity		**350,069**	383,468	317,467

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

Consolidated Statements of Comprehensive Income

(In millions of Rubles, except share and per share amounts)

		Years ended December 31,		
	Note	2012	2011	2010
Revenues (including related party amounts of 280, 236 and 357)	21, 26	**272,637**	242,608	215,515
Cost of revenues (including related party amounts of 787, 1,382 and 1,220)	22, 26	**67,048**	58,896	48,423
Sales and marketing expenses (including related party amounts of 51, nil and nil)	23, 26	**19,747**	21,841	19,471
Operating expenses (including related party amounts of 3,177, 1,314 and 1,080)	24, 26	**68,486**	61,049	49,847
Depreciation	11	**47,514**	42,377	35,035
Amortization	12	**6,149**	5,299	3,839
Operating income		**63,693**	53,146	58,900
Other income/(expense):				
Interest expense	11	**(7,211)**	(706)	(837)
Interest income		**1,193**	3,591	4,008
Other income, net		**191**	30	18
Loss on derivatives, net	16	**–**	(51)	(203)
Share of earnings in equity investees	5	**266**	–	–
Foreign currency exchange loss, net		**(8,241)**	(105)	(700)
Total other income/(expense), net		**(13,802)**	2,759	2,286
Income before income taxes and noncontrolling interests		**49,891**	55,905	61,186
Provision for income taxes	20	**11,531**	12,320	11,962
Net income		**38,360**	43,585	49,224
Net income attributable to noncontrolling interests		**(54)**	(6)	(52)
Net income attributable to MegaFon		**38,306**	43,579	49,172

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

Consolidated Statements of Comprehensive Income (continued)

(In millions of Rubles, except share and per share amounts)

	Note	Years ended December 31, 2012	2011	2010
Basic EPS:	25			
Net income attributable to MegaFon per share		**68**	70	79
Weighted-average ordinary shares outstanding		**561,293,092**	620,000,200	620,000,200
Diluted EPS:	25			
Net income attributable to MegaFon per share		**68**	70	79
Weighted-average ordinary shares outstanding		**562,970,228**	620,000,200	620,000,200
Foreign currency translation adjustment, net of tax of nil		**88**	(39)	(8)
Change in fair value of derivatives, net of tax of nil	16	**(261)**	–	–
Other comprehensive loss		**(173)**	(39)	(8)
Total comprehensive income		**38,187**	43,546	49,216
Comprehensive (income)/loss attributable to noncontrolling interest		**(76)**	3	(50)
Comprehensive income attributable to MegaFon shareholders		**38,111**	43,549	49,166

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

Consolidated Statements of Cash Flows

(In millions of Rubles)

		Years ended December 31,		
	Note	2012	2011	2010
Cash flows from operating activities:				
Net income attributable to MegaFon		**38,306**	43,579	49,172
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		**47,514**	42,377	35,035
Amortization		**6,149**	5,299	3,839
Net loss on derivatives	16	**–**	51	203
Net foreign exchange loss		**8,241**	105	700
Net income attributable to noncontrolling interests		**54**	6	52
Bad debt expense	8, 24	**1,319**	1,437	1,182
Provision for deferred income taxes	20	**3,065**	850	3,240
Amortization of deferred finance charges		**564**	196	180
Share of earnings in equity investees	5	**(266)**	–	–
Changes in assets and liabilities:				
Accounts receivable		**(1,650)**	(3,870)	(1,927)
Inventory		**(724)**	(1,414)	(1,606)
Other current assets		**1,667**	(1,053)	(3,555)
Accounts payable and accrued expenses		**(76)**	6,962	448
Deferred revenue		**(99)**	3	151
Prepayments received		**1,326**	392	18
VAT, net		**4,020**	2,375	(519)
Net cash provided by operating activities		**109,410**	97,295	86,613
Cash flows from investing activities:				
Purchases of property, plant and equipment and intangible assets		**(46,674)**	(73,332)	(63,860)
Proceeds from sale of property, plant and equipment		**521**	449	743
Acquisitions of subsidiaries, net of cash acquired of 240, 274 and 849	4	**(8,439)**	(10,825)	(10,418)
Purchase of equity method investments and put option	5	**(16,491)**	–	–
Change in short-term investments and long-term deposits		**58,313**	(18,948)	(15,286)
Net cash used in investing activities		**(12,770)**	(102,656)	(88,821)

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

Consolidated Statements of Cash Flows (continued)

(In millions of Rubles)

	Note	Years ended December 31, 2012	2011	2010
Cash flows from financing activities:				
Proceeds from long-term debt	14	**217,568**	21,486	13,728
Repayments of long-term debt	14	**(116,795)**	(14,365)	(20,105)
Deferred finance charges paid	14	**(1,023)**	(260)	(208)
Dividends paid to MegaFon shareholders	3	**(151,863)**	–	–
Purchase of treasury shares	3	**(63,883)**	–	–
Payments of contingent consideration	15, 26	**(1,490)**	(491)	–
Payments of liability for marketing related licences	12	**(369)**	(385)	(329)
IPO proceeds, net	3	**16,384**	–	–
Proceeds from exercise of stock options	18	**4,768**	–	–
Dividends paid to noncontrolling interests		**(81)**	–	(147)
Purchase of noncontrolling interest in subsidiaries		**–**	(40)	(100)
Net cash provided/(used in) financing activities		**(96,784)**	5,945	(7,161)
Effect of exchange rate changes on cash and cash equivalents		**(356)**	(364)	(514)
Net increase/(decrease) in cash and cash equivalents		**(500)**	220	(9,883)
Cash and cash equivalents at beginning of year		**2,887**	2,667	12,550
Cash and cash equivalents at end of year		**2,387**	2,887	2,667
Supplemental cash flow information:				
Cash paid during the year for income taxes		**13,675**	10,914	11,858
Interest paid during the year, net of interest capitalized		**5,630**	114	158
Non-cash activities – Deferred consideration for purchases of equity-method investments and acquisitions	4, 5, 15	**16,491**	1,231	3,166

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

Consolidated Statements of Shareholders' Equity

(In millions of Rubles, except share amounts)

		MegaFon shareholders' equity			
		Ordinary shares		Treasury shares	
	Note	Shares	Amount	Shares	Amount
As at December 31, 2009		620,000,200	581	–	–
Net income		–	–	–	–
Other comprehensive loss		–	–	–	–
Acquisitions	4	–	–	–	–
Purchase of noncontrolling interests		–	–	–	–
Dividends paid to noncontrolling interests		–	–	–	–
As at December 31, 2010		620,000,200	581	–	–
Net income		–	–	–	–
Other comprehensive loss		–	–	–	–
Purchase of noncontrolling interests		–	–	–	–
As at December 31, 2011		620,000,200	581	–	–
Net income		–	–	–	–
Other comprehensive loss		–	–	–	–
Dividends paid	3	–	–	–	–
Purchase of treasury shares	3	–	–	89,279,700	(63,883)
Sale of treasury shares in IPO	3	–	–	(26,839,411)	19,205
Sale of treasury shares upon exercise of stock options	18	–	–	(7,750,000)	5,545
Share-based compensation expense	18	–	–	–	–
Retirement of treasury shares	3	(200)	–	(200)	–
Dividends paid to noncontrolling interests		–	–	–	–
As at December 31, 2012		620,000,000	581	54,690,089	(39,133)

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

MegaFon shareholders' equity						
Reserve fund	Additional paid-in capital	Retained earnings	Accumulated other compre-hen-sive loss	Total attrib-utable to MegaFon	Non-con-trolling interests	Total
17	13,870	169,199	(255)	183,412	502	183,914
–	–	49,172	–	49,172	52	49,224
–	–	–	(6)	(6)	(2)	(8)
–	–	–	–	–	214	214
–	(15)	–	–	(15)	(56)	(71)
–	–	–	–	–	(147)	(147)
17	13,855	218,371	(261)	232,563	563	233,126
–	–	43,579	–	43,579	6	43,585
–	–	–	(30)	(30)	(9)	(39)
–	(3)	–	–	(3)	(37)	(40)
17	13,852	261,950	(291)	276,109	523	276,632
–	–	38,306	–	38,306	54	38,360
–	–		(195)	(195)	22	(173)
–	–	(151,863)	–	(151,863)	–	(151,863)
–	–		–	(63,883)	–	(63,883)
–	–	(3,033)	–	16,172	–	16,172
–	(140)	(638)	–	4,767	–	4,767
–	315	–	–	315	–	315
–	–	–	–	–	–	–
–	–	–	–	–	(81)	(81)
17	14,027	144,722	(486)	119,728	518	120,246

Notes to Consolidated Financial Statements

(In millions of Rubles, unless otherwise indicated)

1. DESCRIPTION OF BUSINESS

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

MegaFon is a leading universal telecommunications operator in Russia and provides a broad range of voice, data and other telecommunication services to retail customers, businesses, government clients and other telecommunications services providers.

In Russia, MegaFon has constructed and continues to operate a nationwide wireless communications network that operates on the dual band GSM 900/1800 standard. In May 2007, the Company was awarded a licence that expires on May 21, 2017, for the provision of 3G wireless telephony services based on IMT-2000/UMTS standards throughout the entire territory of Russia. In July 2012, the Company was awarded a licence which expires in July 2022 for the provision of fourth-generation ("4G") technology services under Long Term Evolution ("LTE") standard throughout the entire territory of Russia. As of December 31, 2012, the Company is providing and expanding 3G services in almost all of the regions in which it operates throughout Russia and has commenced providing 4G/LTE services in Moscow, and in certain other cities throughout Russia under a mobile virtual network operator ("MVNO") agreement with Scartel LLC ("Scartel"), a related party ***(Note 26)***. The Company also holds licences for local and long-distance telephony services, data transmission, broadband access services, and communication channels leasing covering the whole territory of Russia. The Company has its own land-line and leased satellite transmission network capacities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

The statutory accounting records of the Company and its subsidiaries, except CJSC TT-Mobile ("TT-Mobile"), the Company's subsidiary in the Republic of Tajikistan ("Tajikistan"), are maintained in Russian Rubles and except for TT-Mobile, CJSC Aquafon GSM, a subsidiary in the Republic of Abkhazia ("Abkhazia"), and CJSC Ostelecom, a subsidiary in the Republic of South Ossetia ("South Ossetia"), are prepared in accordance with the requirements of Russian accounting and tax legislation. Foreign subsidiaries of the Company maintain their accounting records in accordance with their local accounting and tax legislation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from statutory financial statements used in Russia, Tajikistan, Abkhazia and South Ossetia as they reflect certain adjustments, recorded in the entities' accounts, which are necessary to present the financial position, results of operations and cash flows in accordance with US GAAP.

The principal adjustments are related to (1) revenue recognition; (2) recognition of interest expense and other operating expenses; (3) deferred income taxes; (4) valuation and depreciation of property, plant and equipment and intangible assets; (5) business combinations; (6) consolidation and accounting for subsidiaries; (7) accounting for financial instruments; (8) foreign currency translation; and (9) valuation allowances for unrecoverable assets.

The Company evaluated subsequent events up to February 28, 2013, the date these financial statements were issued.

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

Use of Estimates in Preparation of Financial Statements

The preparation of consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reported period. Significant estimates, among others, include the allocation of purchase price to the fair value of net assets acquired in connection with business combinations, useful lives related to tangible and intangible assets, impairment of long-lived assets, deferred revenue, asset retirement obligations, recoverability of deferred tax assets, fair value of financial instruments, long-term employee benefits, share-based compensation, income tax provision and allowance for doubtful accounts. Actual results could differ from these estimates.

Principles of Consolidation

Wholly-owned and majority-owned subsidiaries where the Company has operating and financial control are consolidated. Consolidation is also required when the Company is a primary beneficiary of a variable interest entity.

All significant inter-company accounts and transactions are eliminated upon consolidation and net earnings/(losses) are reduced or increased by the amount of the net earnings/(losses) of subsidiaries attributable to noncontrolling interests.

Business Combinations

The Company applies the acquisition method of accounting and recognizes the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired company at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset lives and market multiples, among other items. Results of subsidiaries acquired and accounted for by the acquisition method have been included in operations from the relevant date of acquisition.

Equity Method Investments

Investments in associated companies and corporate joint ventures in which the Company exercises significant influence and joint control over the operations and financial policies are reported according to the equity method of accounting. The Company's share of the earnings and losses of these companies are included in share of earnings in equity investees in the accompanying consolidated statements of comprehensive income.

Foreign Currency Translation

The functional currency of the Company's subsidiaries domiciled in Russia, Abkhazia and South Ossetia is the Russian Ruble as a majority of their revenues, costs, property and equipment purchases, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Rubles.

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits in banks with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value.

Short-Term Investments

Short-term investments comprise all highly liquid investments with original maturities of more than three months but less than twelve months. The carrying value of short-term investments approximates their fair value.

Accounts Receivable

Accounts receivable are stated net of allowance for bad debts. The Company makes judgments as to the recoverability of accounts receivable based on historical trends and future expectations. To determine the allowance for doubtful accounts, management reviews specific customer risks and the Company's analysis of the aged accounts receivable balances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Inventories

Inventories, which primarily consist of telephone handsets, accessories, USB modems and SIM-cards, are stated at the lower of cost or market value. Cost is determined using the average cost method.

Value-Added Tax

Value Added Tax ("VAT") related to revenues is generally payable to the tax authorities on an accrual basis when invoices are issued to customers. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. As of December 31, 2012, the VAT enacted statutory rate was 18% in Russia and Tajikistan and 10% in Abkhazia and South Ossetia.

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

Deferred Finance Charges

Commissions, arrangement and commitment fees and related legal fees paid to secure a firm commitment from lenders, premiums paid to secure vendor financing, and other direct debt issuance costs incurred in connection with new borrowings are deferred and amortized over the terms of the related loans, using the effective-interest method. Costs capitalized in connection with revolving credit facilities are amortized on a straight-line basis over the period the revolving line of credit is available.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment, if any. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. Interest expense incurred during the construction phase is capitalized as part of property, plant and equipment until the asset is ready for use. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset.

The estimated useful lives are as follows:

Buildings and structures	7 to 49 years
Switching equipment, including billing systems	3 to 7 years
Base stations, including software	7 years
Fiber-optic equipment	20 years
Other network equipment	5 to 7 years
Vehicles and office equipment	3 to 5 years

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

Repair and maintenance costs are expensed as incurred, while updates and improvements are capitalized.

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

Asset Retirement Obligations

The Company has certain legal obligations related to rented sites for base stations and masts, which include requirements to restore the real estate upon which the base stations and masts are located.

The Company records the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the corresponding estimated economic useful life of 25 years.

Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. The Company annually evaluates whether there are any indicators which suggest that the estimated cash flows underlying the liability have changed materially. If such indicators exist the Company changes estimates of the timing and amount of the cash flows and accounts for the effect as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost is capitalized as part of the carrying amount of the related long-lived asset.

Goodwill

Goodwill represents the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquired company at the acquisition date over the fair values of the identifiable net assets acquired, and is not amortized, but tested for impairment at least annually.

Intangible Assets

Intangible assets, which are stated at cost, less accumulated amortization and impairment, if any, consist principally of operating licences, frequencies, numbering capacity, customer base and marketing related licences.

Operating licences and frequencies provide the Company with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. The Company capitalizes payments made to third party suppliers to acquire access to the resources and for use of telephone numbering capacity. These assets, except for GSM 900/1800 standard wireless licences and marketing related licences ***(Note 12)***, are generally amortized on a straight-line basis over their estimated useful lives, generally from four to ten years.

Customer base and other intangible assets, such as software and trademarks, are amortized on a straight-line basis over their estimated useful lives.

The Company continues to evaluate the amortization period to determine whether events or circumstances warrant revised amortization periods. Additionally, the Company considers whether the carrying value of such assets should be impaired based on the expected future economic benefits.

Long-Lived Assets Impairment

Long-lived assets to be held and used by the Company are reviewed to determine whether an event or change in circumstances indicates that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flow analysis of assets at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. No such losses were recognized in the years ended December 31, 2012, 2011 and 2010.

Goodwill Impairment Assessment

Goodwill is reviewed for impairment annually, at the beginning of the fourth quarter, and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. The Company determines whether impairment has occurred by assigning goodwill to the reporting units identified and comparing the carrying amount of the reporting unit, including goodwill, to the fair value of the reporting unit. The fair value of the reporting unit is estimated using a discounted cash flows approach. If goodwill impairment has occurred, the Company recognizes a loss for the difference between the carrying amount of reporting unit goodwill and its implied fair value. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. The Company's evaluation of goodwill completed during the years ended December 31, 2012, 2011 and 2010 resulted in no impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Revenue Recognition

Wireless Revenue

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

The content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers while gross revenues and related costs are recorded when the Company is a primary obligor in the arrangement.

Service revenue is generally recognized when the services are rendered. Revenues are stated net of value-added tax charged to customers.

The Company defers revenue resulting from fees paid by customers upon initial connection. Deferred revenues are subsequently recognized over the estimated average customer lives under tariff plans, which are periodically reassessed by management.

Revenue Recognition for Arrangements with Multiple Deliverables

The Company enters into multiple element revenue arrangements in which a customer may purchase a combination of equipment (e.g. USB modems, handsets) and telecommunication services (e.g. airtime, data, and other services). The Company allocates consideration received from subscribers to the separate units of accounting based on their relative selling price. The selling price used for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. Revenue allocated to the delivered equipment and related costs are recognized in the profit and loss account at the time of sale provided that other conditions for revenue recognition are met. Amounts allocated to telecommunication services are deferred and recognized as revenue over the period of rendering the services.

Wireline Revenue

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

Advertising Costs

Advertising costs are expensed as incurred *(Note 23)*.

Dealer Commissions

Dealer commissions are expensed as incurred.

During the year ended December 31, 2012, the Company introduced changes to its third party dealer arrangements for provisions of post-sales services. As a result, dealer commissions are recognized as the services are performed, generally during a six-month period from the date a new subscriber is activated.

Government Pension Funds

The Company contributes to the local state pension funds and social funds on behalf of its employees. The contributions are expensed as incurred. Contributions for the years ended December 31, 2012, 2011 and 2010 were 4,308, 3,572 and 1,839 respectively.

Income Taxes

Provisions are recorded in the consolidated financial statements for taxation of profits in accordance with Russian and other local legislation currently in force. The Company accounts for income taxes under the liability method. Deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future.

The Company accounts for uncertain tax positions and reflects liabilities for unrecognized income tax benefits together with corresponding interest and penalties in the consolidated statement of comprehensive income as income tax expense.

Earnings per Share

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

Diluted earnings per share are computed by dividing adjusted net earnings available to shareholders by the weighted-average number of ordinary shares outstanding during the period increased to include the number of additional ordinary shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options and convertible debt instruments. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method (for stock options) and "if-converted" method (for convertible debt).

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company deposits available cash with various banks in Russia. Deposit insurance is either not offered or only offered in de minimis amounts in respect of bank deposits within Russia. To manage the concentration of credit risk, the Company allocates available cash to domestic branches of international banks and a limited number of Russian banks. A majority of these Russian banks are either owned or controlled by the Russian Government. Management periodically reviews the creditworthiness of the banks in which it deposits cash, cash equivalents and short-term investments.

The Company extends credit to certain counterparties, principally international and national telecommunications operators, for roaming services, and to certain dealers. The Company minimizes its exposure to the risk by ensuring that credit risk is spread across a number of counterparties, and by continuously monitoring the credit standing of counterparties based on their credit history and credit ratings reviews. Other preventive measures to minimize credit risk include obtaining advance payments, bank guarantees and other security.

Fair Value Measurement

US GAAP standards establish a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. These levels include:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Company, using available market information, appropriate valuation methodologies and management's estimates determines the approximate fair values of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Derivative Instruments and Hedging Activities

The Company records all derivative instruments on the balance sheet at their respective fair values. On the date a derivative contract is executed, and depending on the specific facts and circumstances, the derivative may be designated as a fair value hedge, cash flow hedge or foreign currency hedge of net investment in a foreign operation.

The Company has derivatives which it designated as cash flow hedges and derivatives which it did not designate as hedges ***(Note 16)***.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of comprehensive income. For derivative instruments that are not designated as hedges or do not qualify as hedged transactions, the changes in the fair value are reported in the consolidated statement of comprehensive income.

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

Long-Term Incentive Program

Certain employees of the Company have been granted phantom share options. The value ascribed to the full package of each grant is based on the value of the Company calculated using operating results and net debt of the Company. The awards are contingent on the recipients' continuing employment with the Company and are settled in cash. The vesting period is every two years over a four year period. The compensation cost under the program is calculated based on the estimated Company value and the number of awards expected to vest and be accrued over the vesting period ***(Note 17)***.

Share-Based Compensation

The Company evaluates and records the cost of equity instruments, such as stock options under the Chief Executive Officer ("CEO") Long-Term Incentive Plan ***(Note 18)***, in the statement of comprehensive income as a compensation expense. The cost of the equity instruments is measured based on the fair value of the instruments determined as of the grant date and recognized over the vesting period, which ends on the date on which the relevant employee becomes fully entitled to the award.

Recent Accounting Pronouncements

Fair Value Measurements. In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, ***"Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs"***, which clarifies Topic 820, ***"Fair Value Measurements and Disclosures"***, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with US GAAP and International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS"). The amendment is effective for public entities for interim and annual periods beginning after December 15, 2011. The adoption of the guidance did not have a material impact on the Company's financial statements.

Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. In July 2012, the FASB issued ASU 2012-02, ***"Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment"***, which states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with ASC 350-30, ***Intangibles – Goodwill and Other, General Intangibles Other than Goodwill***. Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company does not expect ASU 2012-02 to have a material impact on its financial statements.

Technical Corrections and Improvements. In October 2012, the FASB issued ASU 2012-04, ***"Technical Corrections and Improvements"***, which includes substantive, limited-scope improvements. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections. This ASU includes amendments that identify when the use of fair value should be linked to the definition of fair value in Topic 820, ***Fair Value Measurement***, and contains conforming amendments to the Codification to reflect the measurement and disclosure requirements of Topic 820. These amendments are referred to as Conforming Amendments. The Conforming Amendments to U.S. GAAP included in this ASU are generally nonsubstantive in nature. Many of the amendments conform wording to be consistent with the terminology in Topic 820. The amendments in this ASU that will not have transition guidance will be effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. The Company does not expect ASU 2012-04 to have a material impact on its financial statements.

Offsetting Assets and Liabilities. In January 2013, the FASB issued ASU 2013-01, ***"Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities"***, which clarifies the scope of ASU No. 2011-11, ***"Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities"***. The amendment is effective for fiscal years beginning on or after January 1, 2013 and interim periods within those years. The Company does not expect ASU 2013-01 to have a material impact on its financial statements.

Comprehensive Income. In February 2013, the FASB issued ASU 2013-02, ***"Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income"***, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendment is effective for reporting periods beginning after December 15, 2012 and early adoption is permitted. The Company does not expect ASU 2013-01 to have a material impact on its financial statements.

3. SHAREHOLDERS' EQUITY

Ordinary Shares

In July 2012, the Company retired 200 of its treasury shares held by MegaFon Investments (Cyprus) Limited ("MICL"), a wholly-owned subsidiary of the Company.

In August 2012, the Federal Commission for Financial Markets, the Russian securities market regulator, registered a 1-to-100 split of the Company's shares. As a result, the total amount of issued shares of the Company became 620,000,000, each with a par value of 0.1 Rubles. Accordingly, all share and per share amounts for all periods presented in these consolidated financial statements and notes thereto, have been adjusted retroactively, where applicable, to reflect this share split.

Equity Transactions

In April 2012, the Company's shareholders agreed to a series of transactions to permit the payment of the Company's first dividend and re-organize the shareholding structure. The principal impacts of these agreements on the Company's financial position were as follows:

- the special dividend, paid on April 24, 2012, resulted in an aggregate distribution of 151,863 to the shareholders (or 245 Rubles per ordinary share at the exchange rate as of April 24, 2012); and
- on April 24, 2012, the Company re-purchased (through MICL) from Allaction Limited, part of the Alfa Group of companies, 89,279,700 or 14.4% of the Company's ordinary shares for 63,883, including transaction costs.

The dividend payment and the re-purchase of 14.4% of ordinary shares were financed from the Company's then existing cash and short-term investments, and additional borrowings of approximately 142,400, net of repayments. As a result of these transactions, the Company substantially depleted its working capital, including available cash and short-term investments, although these have subsequently been partially rebuilt through positive operating cash flows and additional borrowings. As of February 28, 2013, the Company believes it will continue to be able to generate significant operating cash flows and have access to undrawn lines of credit of approximately 87,168 that can be used to cover capital and operating expenditures ***(Note 14)***. Additionally, the Company can defer capital expenditures if necessary in order to meet short-term liquidity requirements. Accordingly, management believes that cash flows from operating and financing activities will be sufficient for the Company to meet its obligations as they become due.

On November 28, 2012, the Company completed an IPO in which it sold 26,839,411 treasury shares at a public offering price of $20 per ordinary share or 619 Rubles at the exchange rate as of November 28, 2012 (the "IPO price"). The Company received net cash proceeds of 16,384 after deducting underwriting discounts and commissions of 31 and other offering expenses of approximately 132. As of December 31, 2012 commission fees in amount of 212 are payable by the Company.

Accumulated Other Comprehensive Loss

The accumulated balances for each component of other comprehensive loss are as follows as of December 31:

	2012	2011	2010
Foreign currency translation adjustment, net of tax of nil	**(225)**	(291)	(261)
Derivative financial instruments, net of tax of nil	**(261)**	–	–
Total accumulated other comprehensive loss	**(486)**	(291)	(261)

4. BUSINESS COMBINATIONS

Acquisitions in 2012

VAS Media

In September 2012, the Company completed the acquisition of a 100% ownership interest in Felebior Holding Limited, which holds a 100% interest in a group of subsidiaries that supply multi-media content, ring tones, geo-positioning services, mobile payments and other VAS in Russia ("VAS Media") for a total consideration of 9,207, of which 528 was effectively a settlement of pre-existing payable for VAS Media services. Before the acquisition VAS Media partnered with the Company on a variety of projects, such as provision of MegaFon branded VAS to MegaFon customers ***(Note 26)***.

The primary reason for the acquisition was to strengthen the Company's position in the VAS market and to accelerate the development, implementation and launch of new services by the Company.

The acquisition of VAS Media was accounted for using the acquisition method. The valuation of certain acquired assets and liabilities assumed has not been finalized as of the date these consolidated financial statements were available to be issued; thus, the provisional measurements of certain intangible assets, deferred taxes and goodwill are subject to change.

The Company has consolidated the financial position and the results of operations of VAS Media from September 1, 2012.

The table below represents the preliminary allocation of the purchase price to the acquired net assets of VAS Media based on their estimated fair values.

	VAS Media
Cash and cash equivalents	240
Other current assets	305
Property, plant and equipment	36
Intangible assets	6
Goodwill	8,544
Other non-current assets	183
Total assets acquired	9,314
Current liabilities	(633)
Non-current liabilities	(2)
Total liabilities assumed	(635)
Total cash consideration transferred net of settlement of pre-existing payable	**8,679**

The goodwill recognized is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of VAS Media. Management is still assessing the allocation of goodwill among reporting units. None of the goodwill recognized is deductible for income tax purposes.

4. BUSINESS COMBINATIONS (CONTINUED)

Acquisitions in 2011

NetByNet

In June 2011, the Company completed the acquisition of a 100% ownership interest in Fairlie Holding and Finance Limited, which holds a 100% interest in a group of subsidiaries that provide broadband internet, IP telephony, IP TV and other multimedia services in Russia under the NetByNet brand ("NetByNet") for total consideration having a fair value of 8,731 as of the date of acquisition, consisting of cash consideration of 7,507 and contingent consideration of 1,224.

The primary reason for the acquisition was to facilitate the Company's entry into the broadband internet market in Moscow, the Moscow region and the Central Federal District, where the Company did not previously provide broadband internet services for end-customers.

Contingent consideration consisted of several payments due within approximately one year with the amounts due being linked to NetByNet's operating results for, and additional acquisitions made in, the year ending December 31, 2011. The Company estimated the fair value of the contingent consideration at 1,224 using a probability-weighted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. In June 2012, the Company paid a final settlement of all contingent consideration liability due in respect of the NetByNet acquisition ***(Note 15)***.

In January 2012, the principal shareholder of NetByNet joined the senior management of the Company and, in April 2012, became the Company's CEO ***(Note 26)***.

As of December 31, 2012, the Company's management believes that the carrying amount of the NetByNet reporting unit approximates its fair value. However, if the Company does not achieve planned cost savings assumed in the original fair value calculation, the Company may recognize an impairment loss.

UgraTel

In December 2011, the Company completed the acquisition of a 100% ownership interest in OJSC UgraTel ("UgraTel"), a provider of broadband internet and wireline telephony services in the Urals region of Russia, for a total cash consideration of approximately 2,421. The primary reason for the acquisition of UgraTel was to strengthen the Company's position in the wireline market in the Urals Federal District.

Other Acquisitions in 2011

Also in 2011, the Company acquired 100% ownership interests in a number of other alternative wireline and broadband internet service providers in certain regions of the Russian Federation.

	Web Plus	Nakhodka Telecom	ChebNet	Luchshe. Net	Total
Cash	47	196	610	318	1,171
Liability for deferred and contingent consideration	7	–	–	–	7
Total consideration	54	196	610	318	1,178

Acquisitions in 2010

Synterra

In June 2010, the Company completed the acquisition of a 100% ownership interest in CJSC Synterra ("Synterra"), an alternative provider of integrated telecommunications services in Russia, from Synterra Cyprus Limited and Burnham Advisors Limited for the total purchase price of $745 million, including cash consideration of approximately $298 million (9,259 at the exchange rate as of June 2, 2010), deferred and contingent consideration in the notional amount of up to $110 million (3,418 at the exchange rate as of June 2, 2010) and the net debt of Synterra as of the date of acquisition.

Synterra provides wireline services in Russia and holds licences for local and long-distance telephony services, data transmission, wireless broadband access services, and communication channels leasing. The primary reason for the acquisition was to further strengthen the Company's position in the wireline market and to realize future operating and cost synergies resulting from fixed-to-mobile convergence opportunities.

The acquisition-date fair values of each major class of consideration transferred are presented below:

Cash	9,267
Liability for deferred and contingent consideration	3,166
Total consideration transferred	12,433

Deferred and contingent consideration consists of an unconditional deferred payment amount of $43 million (1,336 at the exchange rate as of June 2, 2010) and several contingent payments aggregating up to $67 million (2,082 at the exchange rate as of June 2, 2010), payable on or prior to the third anniversary of the acquisition date. $70 million (2,175 at the exchange rate as of June 2, 2010) out of the total $110 million (3,418 at the exchange rate as of June 2, 2010) of deferred and contingent consideration bears interest at the rate of 2.75% per annum and the remaining $40 million (1,243 at the exchange rate as of June 2, 2010) is interest-free. Contingent payments depend upon satisfaction of certain conditions.

Metrocom

In October 2010, the Company completed the acquisition of a 100% ownership interest in CJSC Metrocom ("Metrocom"), a wireline operator which owns a backbone network in Saint Petersburg, for approximately 2,000 cash consideration. The primary reason for the acquisition was to strengthen the Company's position in the wireline market in Saint Petersburg.

Pro Forma Results of Operations (Unaudited)

The following unaudited pro forma data for the years ended December 31, 2012, 2011 and 2010 assume that the 2012, 2011 and 2010 acquisitions occurred on January 1, 2010. These pro forma amounts are provided for information purposes only and are not necessarily indicative of the results of future operations, nor of the actual results that would have been achieved had the acquisitions taken place at the beginning of 2010.

	(unaudited) Year ended December 31		
	2012	2011	2010
Revenues			
Total revenues as reported	272,637	242,608	215,515
VAS Media	195	242	61
Synterra	n/a	n/a	4,879
Metrocom	n/a	n/a	759
NetByNet	n/a	839	1,456
UgraTel	n/a	952	841
Other acquisitions	n/a	575	734
Total pro forma revenues	272,832	245,216	224,245

	(unaudited) Year ended December 31		
	2012	2011	2010
Net income			
Total net income as reported	38,306	43,579	49,172
VAS Media	702	1,050	681
Synterra	n/a	n/a	(194)
Metrocom	n/a	n/a	(3)
NetByNet	n/a	(132)	(401)
UgraTel	n/a	73	101
Other acquisitions	n/a	(22)	6
Total pro forma net income	39,008	44,548	49,362
Pro forma EPS – basic and diluted	69	72	80

5. EQUITY METHOD INVESTMENTS

Equity method investments as at December 31 are as follows:

Investee	Share, %	2012	2011	2010
Euroset	50.0	32,451	–	–
News Tube	37.6	182	–	–
Total		32,633	–	–

Euroset

In December 2012, MegaFon entered into agreements with Garsdale Services Investment Limited ("Garsdale"), a controlling shareholder of the Company, and Lefbord Investments Limited ("Lefbord") pursuant to which the Company subscribed for ordinary and redeemable preference shares in Lefbord representing 50% of its share capital for $535 million cash consideration, or 16,491 at the exchange rate as of December 6, 2012 (the "MegaFon Contribution"). Concurrently, Garsdale contributed certain equity holdings valued at $140 million (4,315 at the exchange rate as of December 6, 2012) and promissory notes pursuant to which Garsdale promises to pay Lefbord (or its assignees) in aggregate $395 million, 12,175 at the exchange rate as of December 6, 2012 (together, the "Garsdale Contribution").

Following these contributions by MegaFon and Garsdale, Lefbord acquired a 50% stake in Euroset, the largest wireless equipment retailer in the Russian Federation, from Alpazo Limited for consideration in the form of MegaFon Contribution and Garsdale Contribution. The remaining 50% of Euroset is indirectly owned by VimpelCom, a Russian telecommunications operator. Lefbord and VimpelCom exercise joint control over the investee with substantive approval rights allowing them to effectively participate in all of the significant decisions of Euroset.

The Company is required to make a further subscription for shares in Lefbord for up to $50 million (1,541 at the exchange rate as of December 6, 2012) to fund contingent consideration payable by Lefbord if certain targets are met by Euroset by June 30, 2013. If these targets are met, Garsdale will be required to make an equivalent subscription for shares in Lefbord thereby maintaining an equivalent 50% stake in Lefbord.

Pursuant to the agreements, the Company is required to purchase on or before December 6, 2013 (with the possibility for this obligation to be deferred until December 6, 2015), Garsdale's interest in Lefbord for $535 million (16,491 at the exchange rate as of December 6, 2012), plus interest at a rate of 8% per annum, plus any earn-out related payments made by Garsdale to Lefbord, increased by any additional contributions made to Lefbord by Garsdale and reduced by any payments received by Garsdale from Lefbord. The Company has the option to settle this obligation in cash or in its ordinary shares to be valued at the weighted-average market price for MegaFon GDRs for the six-month period prior to its purchase of Garsdale's remaining interest in Lefbord ("convertible debt instrument").

As a result of the obligation to acquire Garsdale's 50% interest in Lefbord, the Company has consolidated Lefbord and classified the convertible debt instrument payable to Garsdale as amounts due to related parties in the consolidated balance sheet as of December 31, 2012 *(Note 26)*. The transactions referred to above result in the holding by the Company of a 50% interest in Euroset by the Company. The liability and purchased put option components of convertible debt instruments that may be settled in cash upon conversion (at the discretion of the issuer) are accounted for separately.

Accordingly, the Company allocated the total of 1,118 to the purchased put option, being its cost at the date the convertible debt instrument was issued. The Company will use fair value to account for the changes in the fair value of the respective financial instrument going forward. Further, as the result of allocating 1,118 to the cost of purchased put option, the Company assigned 321 to the respective debt. After these allocations the total amount of the Company's investment in Euroset amounted to 32,185.

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

Cash, net of allocation to purchased put option	15,694
Due to related parties *(Note 26)*	16,491
Total consideration transferred	32,185

Contingent consideration of up to $100 million (3,082 at the exchange rate as of December 6, 2012) will be reflected as an additional investment at the time the targets are met and amounts became payable under the arrangement.

The primary reason for the investment in Euroset was to realize benefits from synergies related to a reduction of subscriber acquisition costs of the Company due to implementation of revenue sharing model, procurement savings and prominent marketing of MegaFon services and products in Euroset outlets.

The acquisition was recorded under the equity method of accounting, that is the investment in the equity method investee was initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Company's share of net earnings and other comprehensive income of the investee.

The total preliminary estimated share of the Company in the fair value of identifiable net assets acquired amounted to 13,718. The excess of the consideration transferred over the Company's share in the fair value of identifiable net assets of Euroset amounted to 18,467.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31 are as follows:

	2012	2011	2010
Rubles	1,654	2,386	2,126
US dollars	704	406	228
Euros	29	95	313
Total cash and cash equivalents	2,387	2,887	2,667

7. SHORT-TERM INVESTMENTS

Short-term investments as at December 31 are as follows:

Bank deposits denominated in	2012	2011	2010
Rubles	5,116	26,641	32,280
US dollars	17,130	50,938	23,772
Euros	–	6,501	7,502
Norwegian krones	–	429	–
Total short-term investments	22,246	84,509	63,554

8. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31 are as follows:

	2012	2011	2010
Local subscribers	4,361	2,797	3,140
Dealers	3,108	2,153	1,396
Interconnection charges	1,715	4,848	2,160
Roaming charges receivable	281	298	393
Other receivables	815	898	799
Less: allowance for doubtful accounts	(1,259)	(1,447)	(1,029)
Total accounts receivable	9,021	9,547	6,859

The following summarizes the changes in the allowance for doubtful accounts for the years ended December 31:

	2012	2011	2010
Balance at beginning of year	1,447	1,029	861
Bad debt expense	1,319	1,437	1,182
Accounts receivable written off	(1,507)	(1,019)	(1,014)
Balance at end of year	1,259	1,447	1,029

9. INVENTORY

Inventory as at December 31 is as follows:

	2012	2011	2010
Handsets and accessories	3,357	2,220	1,380
USB modems	718	1,052	728
Information materials	178	406	298
SIM-cards	274	206	201
Other	750	667	474
Total inventory	5,277	4,551	3,081

10. OTHER CURRENT ASSETS

Other current assets as at December 31 are as follows:

	2012	2011	2010
Roaming rebates received	3,255	636	410
Prepayments for services	2,343	2,402	3,135
Euroset settlement put option *(Note 5)*	1,118	–	–
Deferred expenses	240	415	459
Prepaid taxes, other than income	183	148	101
VAT from advances paid for long-lived assets	169	698	423
Prepayments for inventory	631	300	1,104
Interest receivable	85	3,006	987
Assets held for sale	4	154	–
Derivatives *(Note 16)*	–	–	196
Other	438	228	299
Other current assets	8,466	7,987	7,114

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31 is as follows:

	2012	2011	2010
Cost:			
Buildings, structures and leasehold improvements	**63,065**	52,931	44,029
Telecommunications network	**307,181**	272,352	231,559
Vehicles, office and other equipment	**23,062**	20,229	17,828
	393,308	345,512	293,416
Accumulated depreciation	**(201,984)**	(164,765)	(130,876)
Construction in-progress	**24,059**	42,971	32,332
Property, plant and equipment, net	**215,383**	223,718	194,872

Included in construction in-progress are advances to suppliers of network equipment of 3,299, 5,338 and 4,507 as at December 31, 2012, 2011 and 2010, respectively.

Software and licences for base stations and billing systems are included in the balances of telecommunications network assets. The net book value of such software was 7,861, 7,324 and 5,991 as at December 31, 2012, 2011 and 2010, respectively.

Interest capitalized was 1,885 (out of the total interest expense of 9,096), 1,224 (out of the total interest expense of 1,930) and 799 (out of the total interest expense of 1,636) for the years ended December 31, 2012, 2011 and 2010, respectively.

Asset Retirement Obligations

The following table describes the changes to the asset retirement obligations liability:

	2012	2011	2010
Balance at beginning of year	**5,248**	4,304	3,303
Revision in estimated cash flows	**(1,347)**	–	47
Net increase in liability during the year	**362**	453	542
Accretion expense	**542**	491	412
Balance at end of year	**4,805**	5,248	4,304

The accretion expense was included in depreciation in the consolidated statements of comprehensive income.

12. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying value of goodwill for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Balance at beginning of year	**15,393**	7,041	498
Acquisitions *(Note 4)*	**8,544**	9,050	6,543
Measurement period adjustments	**13**	(698)	–
Balance at end of year	**23,950**	15,393	7,041

Intangible assets as at December 31 are as follows:

		Cost			Accumulated amortization		
	Average useful lives, years	2012	2011	2010	2012	2011	2010
Operating licences	10	**20,034**	19,478	19,483	**(15,925)**	(14,959)	(13,773)
Frequencies	6	**5,309**	5,484	4,773	**(1,731)**	(1,500)	(1,276)
Software	4	**9,486**	7,254	4,486	**(5,881)**	(3,639)	(2,103)
Marketing related intangible assets	2	**3,535**	3,535	3,535	**(1,371)**	(668)	(218)
Customer base	9	**2,889**	2,907	2,057	**(951)**	(726)	(560)
Numbering capacity	1	**1,839**	1,798	1,882	**(1,622)**	(1,603)	(1,550)
Trademarks	4	**707**	671	295	**(316)**	(116)	(26)
Other intangible assets	4	**3,731**	3,362	3,372	**(1,660)**	(1,606)	(1,132)
Total intangible assets	6	**47,530**	44,489	39,883	**(29,457)**	(24,817)	(20,638)

Amortization expense for the succeeding five years is expected to be as follows:

2013 – 5,108; 2014 – 3,972; 2015 – 1,952, 2016 – 1,373 and 2017 – 1,207.

Operating Licences

Operating licences, primarily consisting of nationwide 3G licence, 4G licence and several GSM 900/1800 standard licences are integral to the wireless operations of the Company and any inability to extend existing licences on the same or comparable terms could materially affect the Company's business. While operating licences are issued for a fixed period, renewals of these licences previously had occurred routinely and at nominal cost. The Company determines that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in licence renewal, or even an outright refusal to renew. The weighted-average period until the next renewal date of GSM 900/1800 standard licences is approximately 2 years. GSM 900/1800 standard licences are amortized on a sum-of-the-years'-digits basis over the period of 10 years which reflects the pattern the economic benefits of these operating licences are consumed or otherwise used up and assumes a gradual decrease in the number of GSM 900/1800 standard subscribers.

3G and 4G licences were obtained at nominal cost but require the Company to meet certain conditions, including capital commitments and coverage requirements *(Note 27)*.

Marketing Related Intangible Assets

In April 2009, the Company and OJSC Rostelecom ("Rostelecom") entered into an agreement with the Organizational Committee of the 2014 XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi to acquire rights and licences to use the Olympic mascot, logos and other Olympic symbols and, in the case of the Company, to be referred to as "the General Mobile Partner of the 2014 XXII Olympic Winter Games". Under the agreement the Company committed to a payment of $65 million (1,974 at the exchange rate as of December 31, 2012) in cash to be made in several installments from 2009 through 2014.

In addition, the Company and Rostelecom are jointly responsible to provide equal amounts of services in-kind of up to a combined total of $130 million (3,948 at the exchange rate as of December 31, 2012) from 2009 through 2014. The management of the Company believes that the risk of non-performance by Rostelecom of its responsibilities under the agreement is remote.

The Company obtained the rights and licences in 2009, at which time the Company assumed a liability with a net present value of future cash installments of 1,334 and deferred revenue with a fair value of 1,516 (Level 3).

The recognition of the intangible asset is treated as a non-cash item to the extent of the amount of the liability and deferred revenue recorded. The intangible asset is amortized using the reverse sum-of-the-years'-digits method over a period of approximately 5 years.

The fair value of deferred revenue recognized by the Company was estimated using the Discounted Cash Flow ("DCF") analysis (Level 3). The basis for the Company's cash flow assumptions included forecasted amounts and timing of services to be provided under the agreement. The Company used 7% as a discount rate.

13. ACCOUNTS PAYABLE

Accounts payable as at December 31 are as follows:

	2012	2011	2010
Dealers	1,710	2,258	1,134
Interconnection charges	1,562	2,329	1,668
Rent and utilities	874	726	566
Advertising	745	584	317
Channels rental	650	686	542
Payables for inventory	509	471	426
Network repairs and maintenance	472	484	221
Content providers	793	900	514
Roaming charges payable	279	363	446
Other payables	1,037	820	687
Total accounts payable	**8,631**	9,621	6,521

14. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as at December 31 is as follows:

	Currency	Interest Rate	Maturity	2012	2011	2010
(1) Ruble Bonds	Ruble	8.05%	2022 with a put option in 2014	**10,000**	–	–
Bank Loans:						
(2) VTB Bank	Ruble	MosPrime+2.20%	2013	**11,000**	–	–
(3) Sberbank	Ruble	9.02%	2015–2016	**46,693**	–	–
(4) Sberbank	Ruble	8.71%	2014–2015	**29,512**	–	–
(5) Gazprombank	Ruble	9.05%	2016	**6,300**	–	–
(6) Nordic Investment Bank	Euro	EURIBOR+2.05%	2019	**3,218**	–	–
(7) Nordea Bank Moscow	US dollar	LIBOR+2.0%	2015	**1,519**	1,610	1,524
(8) UniCredit Bank Moscow	US dollar	LIBOR+3.5%	2013–2013	**304**	805	4,762
Equipment Financings:						
(9) China Development Bank and Bayerische Landesbank	US dollar	LIBOR+1.1% to +2.7%	2013–2016	**26,848**	25,042	10,017
(10) BNP Paribas London branch and Nordea Bank Finland	US dollar	2.91% to 4.54%	2013–2016	**5,776**	9,239	8,034
(11) Bayerische Landesbank, Bayerische Landesbank Filiale Di Milano, Commerzbank Aktiengesellschaft	Euro	3.74% and EURIBOR+0.35%	2013–2015	**2,277**	3,490	4,655
(12) Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken	US dollar	1.92%	2013–2018	**2,842**	1,078	–
(13) Cisco Systems Finance International	US dollar	3.50% to 4.11%	Repaid in 2012	**–**	1,219	–
(14) Nordic Investment Bank, Nordea Bank Finland and Bayerische Landesbank	US dollar	LIBOR+0.85% to +2.2%	Repaid in 2012	**–**	358	1,016
(15) Citibank N.A. London branch and ING Bank	Euro	4.27%	Repaid in 2011	**–**	–	1,824
Other				**133**	868	1,089
Total debt				**146,422**	43,709	32,921
Less current portion				**(19,881)**	(7,415)	(12,171)
Non-current portion				**126,541**	36,294	20,750

To finance the payment of a dividend to our shareholders and the re-purchase of the Company's ordinary shares ***(Note 3)***, in April 2012, MegaFon entered into certain new financing facilities, pursuant to which the Company incurred additional borrowings (net of repayments) in an aggregate principal amount of approximately 142,400 million rubles.

These additional borrowings included a facility with Barclays Bank PLC, BNP Paribas and Citibank, N.A., London branch ("Bridge Facility"), under which the Company drew $1.5 billion (equivalent to 45,559 million rubles at the exchange rate as of December 31, 2012) in April 2012. The Bridge Facility was voluntarily repaid in full in June and July 2012 using part of the proceeds from the facilities entered into with Sberbank referred to in the table above.

(1) Ruble Bonds

In October 2012, the Company, through MegaFon-Finance LLC, a wholly-owned subsidiary of MegaFon, issued ruble-denominated bonds in an aggregate principal amount of 10,000. The bonds are due for bullet repayment in 2022, subject to a two-year put option. The coupon rate for the bonds was set at 8.05% per annum, payable semiannually, for two years period subject to revision thereafter. The net proceeds of the bonds issue were applied immediately to prepay in part the loan from VTB Credit Facility.

(2) VTB Bank

In April 2012, the Company entered into a revolving credit facility with VTB Bank ("VTB Credit Facility") for up to 30,000. The VTB Credit Facility was fully drawn for a one-year period subject to an interest rate of 3-months MosPrime plus 2.2% which is payable every three months. Subsequently, in October 2012 the Company issued ruble-denominated bonds in an aggregate principal amount of 10,000. The net proceeds of this issue were applied immediately to prepay in part of the VTB Credit Facility. In December 2012, the Company further prepaid 9,000 of the VTB Credit Facility.

(3, 4) Sberbank

In April 2012, the Company entered into two credit facility agreements with Sberbank, one for up to the Ruble equivalent of $1 billion (equivalent to 30,373 million rubles at the exchange rate as of December 31, 2012) and the other for up to the Ruble equivalent of $1.5 billion (equivalent to 45,559 million rubles at the exchange rate as of December 31, 2012) (together, the "Sberbank Credit Facilities"). As of December 31, 2012, the Company has fully drawn both the $1 billion Credit Facility in the amount of 29,512 and the $1.5 billion Credit Facility in the amount of 46,693. A payment of 564 as an arrangement fee was made for the Sberbank Credit Facilities.

(5) Gazprombank

In April 2012, the Company and Gazprombank modified the terms of the existing revolving credit facility agreement ("Gazprombank Credit Facility") by increasing the debt limit on the facility from 15,000 to 30,000. The Gazprombank Credit Facility is subject to fees of 0.15% per annum on the amount of the unutilized balance. On April 18, 2012, the Company drew the entire 30,000 and subsequently, on April 25, 2012, voluntarily repaid 23,700. The Gazprombank Credit Facility carries an interest rate of 9.05% per annum which is payable every three months. The interest rate can be changed by Gazprombank unilaterally in an event of revision of the refinancing rate by the Central Bank of Russia. The principal is due for repayment in September 2016.

The principal purpose of the VTB Credit Facility, the Sberbank Credit Facilities, the Gazprombank Credit Facility and the Bridge Facility was the funding of the dividend payout and the re-purchase of shares by the Company. Any excess is being used to fund operating, investment and financial activities. The covenants of these Credit Facilities are substantially consistent with those which the Company has in its other existing loan agreements.

14. SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

(6) Nordic Investment Bank

In June 2012, the Company entered into a credit facility with Nordic Investment Bank ("NIB Credit Facility") for up to 80 million Euros (equivalent to 3,218 million rubles at the exchange rate as of December 31, 2012). The NIB Credit Facility carries interest at a rate of EURIBOR plus 2.05% per annum. The NIB Credit Facility is subject to payment of a commitment fee of 0.4% per annum on the amount of the unutilized balance and a front-end fee of 0.25% on the principal amount. The NIB Credit Facility can only be used for updating the network of the Company in the Moscow region and other regions of Russia preparing for the launch of 4G/LTE. In September 2012, the Company fully drew the NIB Credit Facility.

Other

As at December 31, 2012, the amount due from the Company to certain equipment suppliers was of 1,487 at the exchange rate as of December 31, 2012. The Company intends to pay this amount using the proceeds from China Development Bank and Bayerische Landesbank facility and Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken facility. In the accompanying consolidated balance sheet as at December 31, 2012 the Company has classified the amount due to these equipment suppliers as short-term and long-term debt according to the applicable repayment schedules.

The following is the summary of aggregate maturities of long-term debt at December 31, 2012:

2013	19,881
2014	33,138
2015	51,859
2016	39,983
2017	818
Thereafter	743
Total	146,422

At December 31, 2012, the Company's debt is denominated in the following currencies:

	Borrowing currency	Millions of Rubles
Rubles	104,770	104,770
US dollars (in millions)	1,188	36,090
Euros (in millions)	138	5,562
Total long-term debt		146,422

Covenant Requirements

All financing facilities contain restrictive covenants, which, among other things, limit the Company's ability to incur debt, encumber assets, undertake mergers and acquisitions and make material changes in the nature of the business without prior consent from the required majority of lenders. In addition, these financing facilities require the Company to meet various financial covenants.

As at December 31, 2012, the Company's total undrawn credit facilities were as follows:

	Currency	Interest Rate	Fee rates	Available until	Available amount
Bank Loans:					
Gazprombank	Ruble	Either fixed (6% to 9%) or floating (MosPrime3M+1.5% to +2.5%)	0.15%	2016	23,700
VTB Bank	Ruble	MosPrime3M+2.2%	–	2016	19,000
UniCredit Bank Moscow	Ruble	Either fixed or floating. Depends on the tenor of the loan, market conditions	–	2015	11,000
Nordea Bank	Ruble	Either fixed (5.1% to 9.1%) or floating (MosPrime3M+1.75% to +2%)	0.40%	2016	5,500
Equipment Financings:					
China Development Bank	US dollar	LIBOR+2.4%	0.30%	2016	26,791
Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken	US dollar	1.92%	0.18%	2013	1,177
Total					87,168

15. SETTLEMENT OF CONTINGENT CONSIDERATION

In June 2012, the Company paid approximately $43.6 million (1,431 at the exchange rates as of payment dates) in full and final settlement of all contingent consideration liability due in respect of the NetByNet acquisition completed in June 2011 *(Notes 4, 26)*. There were no significant changes to original estimates on any of the contingent consideration settled or outstanding during the three years ended December 31, 2012. The only balance of contingent consideration remaining unpaid as at December 31, 2012 is 2,769 in respect of the Synterra acquisition completed in 2010.

The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model for Synterra acquisition and not discounted cash flow model for NetByNet and Web Plus acquisition. These fair value measurements are based on significant inputs not observable in the market and thus represent a Level 3 measurement. The significant unobservable inputs used are 6% discount rate for Synterra acquisition and several probability adjusted contingent payments for all acquisitions. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

16. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates and foreign currency exchange rates. The Company uses derivative contracts, primarily interest rate swaps and foreign currency swaps, to manage those risks.

Cash Flow Hedges of Interest Rate Risk

The Company's objective in using interest rate derivatives is to add certainty and stability to its interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying principal amount of long-term debt.

Interest rate swaps are recorded on the balance sheet at fair value (Level 2). The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in other comprehensive income/(loss) and is subsequently reclassified into earnings in the period that the hedged forecast transaction affects earnings. There has been no ineffective portion in the reporting years. The fair values of the swaps are based on a forward yield curve and represent the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

As at December 31 the Company had the following outstanding interest rate swaps stated at their notional amounts that were designated as cash flow hedges of interest rate risk:

	2012		2011		2010	
Original currency	Millions of original currency	Millions of Rubles	Millions of original currency	Millions of Rubles	Millions of original currency	Millions of Rubles
Euro	**34**	**1,368**	57	2,375	–	–
US Dollar	**666**	**20,228**	246	7,920	–	–

Non-Designated Hedges of Foreign Currency Risk

In 2010, the Company entered into a number of dual-currency deposits with various banks. The dual-currency deposits are financial instruments which combine features of a time deposit and a sold foreign currency put option. The dual-currency deposits were settled either in the original deposit currency (Euro or US Dollar) or in another pre-agreed currency (Ruble, US Dollar or Euro). The purpose of entering into these financial instruments was yield enhancement on the Company's foreign currency cash investments.

The respective embedded derivative financial instrument (put option) was bifurcated and measured at fair value using the Black-Scholes model (Level 2).

In the third quarter of 2006 and the second quarter of 2007, the Company entered into several long-term fixed-to-fixed rate cross-currency swaps. These derivative financial instruments were used to limit exposure to changes in foreign currency exchange rates on certain long-term debt denominated in foreign currencies.

The swaps effectively converted, using the then-effective foreign currency exchange rates, some of the Company's outstanding fixed-to-fixed rate long-term US dollar and Euro denominated loans into synthetically equivalent Ruble long-term loans with fixed rates ranging from 3.95% to 6.65%. The carrying amount of such long-term loans was 972 as at December 31, 2010. These long-term loans were repaid in 2011.

For accounting purposes, the Company has chosen not to designate these derivatives as hedging instruments and, therefore has reported all gains and losses from the change in fair value of these derivative financial instruments directly in the consolidated statements of comprehensive income.

The derivatives are valued using standard valuation techniques. The principal technique used to value these instruments is through comparing the foreign currency exchange rates at the time that the derivatives were acquired to the forward exchange rates quoted in the existing market which is inactive as of the valuation date. The key inputs include interest rate yield curves, foreign exchange spot and forward rates. The fair value of these derivatives includes the effects of the counterparty's non-performance risk, including credit risk.

All of the foreign currency derivatives have been fully settled in 2011.

The table below presents the fair value of the Company's derivative financial instruments and their classification as of December 31:

	Balance sheet location	2012	2011	2010
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other current liabilities	(135)	–	–
Interest rate swaps	Other non-current liabilities	(126)	–	–
Total		(261)	–	–
Derivatives not designated as hedges:				
Foreign currency swaps	Other current assets	–	–	196
Total		–	–	196

The table below (in which "OCI" means other comprehensive income) presents the effect of the Company's derivative financial instruments on the consolidated statements of comprehensive income for the years ended December 31:

	2012	2011	2010
Interest rate swaps designated as cash flow hedges:			
Amount of loss recognized in OCI	(311)	–	–
Amount of loss reclassified from accumulated OCI into interest expense	50	–	–
Total	(261)	–	–
Derivatives not designated as hedges:			
Amount of realized and unrealized gain/(loss) recognized in gain/(loss) on derivatives:			
Put options sold	–	–	65
Foreign currency swaps	–	(51)	(268)
Total loss on derivatives, net	–	(51)	(203)

At December 31, 2012, the amount recorded in other comprehensive income/(loss) which is expected to be reclassified to interest expense in the next twelve months is 122.

16. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value Measurements

The carrying value of financial instruments, including cash, cash equivalents, accounts receivable and accounts payable approximates the fair value of these items due to the short-term nature of these amounts.

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

	Euroset settlement put option	Derivative financial instruments	Total assets	Contingent considera-tion liability	Derivative financial instruments	Total liabilities
Level 1	–	–	–	–	–	–
Level 2	–	–	–	–	(268)	(268)
Level 3	1,118	–	1,118	(2,769)	–	(2,769)
Total December 31, 2012	1,118	–	1,118	(2,769)	(268)	(3,037)
Level 1	–	–	–	–	–	–
Level 2	–	–	–	–	–	–
Level 3	–	–	–	(4,379)	–	(4,379)
Total December 31, 2011	–	–	–	(4,379)	–	(4,379)
Level 1	–	–	–	–	–	–
Level 2	–	196	196	–	–	–
Level 3	–	–	–	(3,181)	–	(3,181)
Total December 31, 2010	–	196	196	(3,181)	–	(3,181)

As of December 31, 2012, 2011 and 2010, the fair value (Level 3) of fixed and variable rate short-term and long-term debt (based on future cash flows discounted at current market rates) was as follows at December 31:

	2012		2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Total debt	146,422	147,381	43,709	44,102	32,921	33,235

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

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks. The Company manages these risks and monitors their exposure on a regular basis.

17. LONG-TERM INCENTIVE PROGRAM

In April 2008, the Company's Board of Directors approved a long-term motivation and retention program. The program provides that certain key executive and senior level employees will be eligible for awards of phantom share options. The phantom share options have been awarded under the 2008 Grant, the 2009 Grant, the 2010 Grant and the 2011 Grant. Under all grants, the value ascribed to the full package of phantom share options for which options may be awarded is 1.1% of the value of the Company, which in turn is calculated as six times operating income before depreciation and amortization (OIBDA) reduced by debt, net of cash and cash equivalents and short-term investments (net debt). The awarded phantom share options vest every two years over a four-year period and are contingent upon the recipient's continuing employment with the Company and increase in the value of the Company. The in-the-money phantom share options are settled in cash upon vesting.

The following table summarizes information as at December 31, 2012 regarding outstanding phantom share options exercisable upon maturity:

	Number of phantom share options granted (in millions)	Total unrecognized compensation cost	Compensation expense, inclusive of all related taxes for the year ended December 31,		
			2012	2011	2010
2008 Grant	**4,068**	–	**37**	308	344
2009 Grant	**4,530**	24	**131**	155	524
2010 Grant	**4,349**	105	**238**	500	43
2011 Grant	**3,642**	102	**166**	–	–
Total	**16,589**	231	**572**	963	911

The total amounts of obligation included in accrued compensation liability of the accompanying consolidated financial statements as at December 31, 2012, 2011 and 2010 were 559, 1,604 and 1,026, respectively.

18. SHARE-BASED COMPENSATION

CEO Long-Term Incentive Plan

As part of a long-term incentive plan approved by the Company's Board of Directors in November 2012, Mr Tavrin, the CEO of the Company, agreed to purchase, within 30 days of the Company's IPO *(Note 3)*, 7,750,000 of the Company's treasury shares at the IPO price of $20 per share. In December 2012, Mr Tavrin exercised this option.

Pursuant to the plan, Mr Tavrin is also given three options to buy up to a further 7,750,000 treasury shares on each of his employment anniversary dates in May 2013, May 2014 and May 2015 at the IPO price. The options can be exercised, in whole or in part, on those dates or subsequently. Any unexercised portion of the options will continue to be capable of being exercised in whole or in part until they lapse in May 2017. Their exercise is subject to Mr Tavrin's continued employment with the Company and Mr Tavrin's holding at least a 1.25% interest in the Company on the relevant exercise date.

The strike price of the options is subject to potential adjustment at the discretion of the Company's Board of Directors in case the Company declares a special dividend or a dividend that materially exceeds the contemplated dividend policy. Mr Tavrin agreed not to hold more than 5% of authorized share capital of the Company at any time prior to May 2017.

The awards are classified as equity. The fair value of the options has been estimated using the Black-Scholes model. The fair value of each grant is estimated on the date of grant. The Company used the following significant assumptions to estimate the fair value. Expected volatility was estimated based on the average historical volatility of publicly traded guideline companies over the period equal to the expected life of the option granted and other factors. The dividend yield was included into the model based on expected dividend payments. The risk free rate was determined on the basis of U.S. Treasury yield curve rates with a remaining term to maturity equal to the expected life of the options, approximated by line yield curve function based on publicly available data. The expected term of the options was determined as an average of vesting term and original contractual term ("simplified method") since the Company has limited employee share option exercises and the available data does not demonstrate consistent exercise behavior.

18. SHARE-BASED COMPENSATION (CONTINUED)

The following table illustrates the major assumptions of the Black-Scholes model for the options for the year ended December 31, 2012:

Expected term, years	2.5–3.5
Expected volatility	32.9%–39.5%
Expected dividend yield	7.5%
Risk free interest rate	0.12%–0.38%

The following table summarizes the weighted-average exercise prices and number of options:

	Number of options	Weighted-average exercise prices per option	
		US Dollars	Rubles
Outstanding as at January 1, 2012	–	–	–
Granted	31,000,000	20.00	619
Exercised	(7,750,000)	23.88	735
Forfeited	–	–	–
Expired	–	–	–
Outstanding as at December 31, 2012	**23,250,000**	**23.80**	**723**
Exercisable as at December 31, 2012	–	–	–

The table below summarizes the weighted-average grant date fair value of options:

Nonvested as at January 1, 2012	–
Granted	2,070
Forfeited	–
Vested (recognized compensation cost)	(315)
Nonvested as at December 31, 2012	1,755

Long-Term Incentive Program 2012

In October 2012, the Company's Board of Directors approved a long-term motivation and retention program for certain key executive and senior level employees under which the parties which will be selected to participate are awarded phantom share options. In the aggregate, the value ascribed to the full package of phantom share options for which options may be awarded is 1.1% of the share capital of OJSC MegaFon (equal to 7,000,000 phantom shares) at the base price of $17.86 per share. The plan has a three-year duration and the awarded share options shall vest in April-May 2014 and 2015 and be settled in cash upon vesting. Payments shall be made on the basis of the difference between the base price and the weighted-average price of the Company's shares in the period between January 15 and March 15 of the relevant year of vesting. Vesting of the options is contingent upon the recipient's continuing employment with the Company. As of December 31, 2012 no options have been granted under the program.

19. TAXES PAYABLE

Taxes payable as at December 31 are as follows:

	2012	2011	2010
Social charges	**1,190**	1,035	314
Property tax	**735**	814	680
Unified Service Fund	**652**	617	558
Personal income tax	**155**	132	100
Income tax	**17**	372	29
Other	**138**	86	23
Total taxes payable	**2,887**	3,056	1,704

20. INCOME TAXES

The following presents the significant components of the Company's provision for income taxes for the years ended December 31:

	2012	2011	2010
Current income taxes	**8,466**	11,470	8,722
Deferred income tax expense	**3,065**	850	3,240
Total provision for income taxes	**11,531**	12,320	11,962

Income taxes represent the Company's provision for profit tax. Income tax is calculated at 20% of taxable profit for the years ended December 31, 2012, 2011 and 2010, respectively.

Starting from January 1, 2012 a new provision in Russian tax legislation that permits the taxpayers to calculate income taxes on a consolidated basis was introduced. If certain requirements are met, the corporate taxpayers are allowed to create a Consolidated Taxpayers' Group ("CTG"). The CTG is able to reduce taxable profits by offsetting tax losses generated by the CTG participants against profits generated by the other CTG members. In April 2012 the Company created the CTG which included OJSC "MegaFon" and three of its subsidiaries. The Company's management believes that creation of the CGT does not result in significant changes of tax burden of the Company for the purpose of these consolidated financial statements.

The reconciliation between the provision for income taxes reported in the consolidated financial statements versus the provision for income taxes computed by applying the Russian enacted statutory tax rate to income before income taxes and noncontrolling interests is as follows:

	2012	2011	2010
Income before income taxes and noncontrolling interests	**49,891**	55,905	61,186
Statutory income tax rate	**20%**	20%	20%
Theoretical provision for income taxes	**9,978**	11,181	12,237
Non-deductible expenses	**1,093**	691	579
Effect of intragroup transactions	**852**	115	(578)
(Recognized)/unrecognized tax benefits	**(421)**	437	(530)
Effect of income tax preferences	**–**	(565)	(220)
Net change in valuation allowance	**–**	293	462
Other differences	**29**	168	12
Provision for income taxes	**11,531**	12,320	11,962

20. INCOME TAXES (CONTINUED)

An increase in non-deductible expenses during the year ended December 31, 2012, was mainly due to social infrastructure expenses ***(Notes 26, 27)*** and share-based compensation expenses ***(Note 18)***.

The effect of intragroup transactions, in the table above, represents the tax consequences of intragroup transactions with shares of subsidiaries (in 2010 and 2011) and taxable intragroup income (2012).

The effect of income tax preferences represents the impact of lower income tax rates for the Company under applicable regional laws of the Russian Federation. These laws provide that income tax exemptions up to 6.5% are granted to entities which make capital investments, agreed with regional administrations, within the respective region and participate in various social projects. These exemptions are granted on an annual basis.

As at December 31, 2012, the tax years from 2010 to 2012 remained subject to examination by the tax authorities.

For income tax purposes of the Russian Federation and Tajikistan, certain of the Company's subsidiaries have loss carry-forwards incurred from 2009 through 2012, which may be carried forward to offset future taxable income for ten and three years, respectively. The use of these carry-forwards is not restricted in 2012 or in future years. As at December 31, 2012, these subsidiaries had carry-forwards available aggregating approximately 7,098 with a related tax benefit of 1,420 of which 68 expires in 2019, 768 in 2020, 307 in 2021, 243 in 2022 and 34 in 2025.

The amounts reported in the accompanying consolidated financial statements at December 31 consisted of the following:

	2012	2011	2010
Deferred tax assets:			
Revenue recognition	769	802	726
Loss carry-forwards	1,419	1,473	1,164
Accrued compensation	914	1,135	579
Accrued expenses	821	697	883
Other assets	361	260	263
Less: valuation allowance	(463)	(755)	(462)
Total deferred tax assets	3,821	3,612	3,153
Deferred tax liabilities:			
Intangible assets	1,291	1,337	1,645
Property, plant and equipment	12,743	9,640	7,707
Derivative financial instruments	–	22	37
Other liabilities	717	472	348
Total deferred tax liabilities	14,751	11,471	9,737
Net deferred tax liabilities	10,929	7,859	6,584
Add non-current deferred tax assets	932	712	506
Add current deferred tax assets	1,270	1,972	1,166
Total long-term deferred tax liabilities	13,131	10,543	8,256

As of December 31, 2012, 2011 and 2010, the Company recognized and recorded in prepaid income taxes an income tax benefit of 2,017, 3,963 and 2,323, respectively, related to acceleration of depreciation of property, plant and equipment for tax purposes. The recognition of the income tax benefit decreased the tax basis of property, plant and equipment with corresponding increase in the related non-current deferred tax liability. In November 2012, the Company won its litigation with the tax authorities with regards to its right to use accelerated depreciation of certain property, plant and equipment for tax purposes. Accordingly, the tax benefit recognized in prepaid income taxes decreased as it became realized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2012	2011	2010
Balance at beginning of year	269	15	–
Additions based on tax positions related to current year	–	21	–
Additions based on tax positions related to prior years	–	518	5
Additions based on tax of acquired entities	–	150	10
Reduction in tax positions	(166)	(435)	–
Balance at end of year	103	269	15

As of December 31, 2012, 2011 and 2010, the Company included accruals for uncertain tax positions in the amount of 103, 269 and 15, respectively, as a reduction of prepaid income taxes. No penalties or interest have been accrued in relation to unrecognized tax benefits as the Company has prepaid income tax in excess of the provisions for unrecognized tax benefits.

21. REVENUES

Revenues for the years ended December 31 are as follows:

	2012	2011	2010
Wireless revenues	241,375	218,994	202,837
Wireline revenues	17,938	15,194	7,496
Sales of handsets and accessories	13,324	8,420	5,182
Total revenues	272,637	242,608	215,515

22. COST OF REVENUES

Costs of revenues for the years ended December 31 are as follows:

	2012	2011	2010
Cost of services	54,649	47,644	41,648
Cost of handsets and accessories sold	12,399	11,252	6,775
Total cost of revenues	67,048	58,896	48,423

23. SALES AND MARKETING EXPENSES

Sales and marketing expenses for the years ended December 31 are as follows:

	2012	2011	2010
Advertising	8,136	7,432	6,924
Dealer commissions	7,098	9,061	8,465
Cash collection commissions	4,513	5,348	4,082
Total sales and marketing expenses	19,747	21,841	19,471

24. OPERATING EXPENSES

Operating expenses for the years ended December 31 are as follows:

	2012	2011	2010
Salaries and social charges	26,656	23,604	19,061
Rent	12,243	10,765	8,603
Operating taxes	6,684	5,829	5,177
Network repairs and maintenance	5,196	5,162	4,322
Radio frequency fees	3,940	3,527	2,963
Utilities	3,850	3,275	2,628
Professional services	1,886	1,967	1,361
Office maintenance	1,839	1,743	1,407
Social infrastructure expenses *(Notes 26, 27)*	1,816	–	–
Bad debt expense	1,319	1,437	1,182
Vehicle costs	647	650	555
Materials and supplies	238	321	189
Insurance	88	113	111
Other expenses	2,084	2,656	2,288
Total operating expenses	68,486	61,049	49,847

Rent represents expenses relating to the operating leases of premises for offices, base stations and switches.

25. EARNINGS PER SHARE

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

	2012	2011	2010
Numerator:			
Net income attributable to MegaFon	38,306	43,579	49,172
Add back: interest expense on convertible debt *(Note 5)*	72	–	–
Net income attributable to MegaFon	38,378	43,579	49,172
Denominator:			
Weighted-average ordinary shares outstanding	561,293,092	620,000,200	620,000,200
Effect of dilutive securities:			
Employee stock options *(Note 18)*	66,839	–	–
Assumed debt conversion *(Note 5)*	1,610,297	–	–
Weighted average diluted shares outstanding	562,970,228	620,000,200	620,000,200
EPS – basic, Rubles	68	70	79
EPS – diluted, Rubles	68	70	79

26. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with its equity investees, shareholders and their affiliates. The outstanding receivable and payable balances and the annual revenues and costs are as follows:

	As at December 31,		
	2012	2011	2010
Due from related parties			
USM Holdings Group	850	24	17
TeliaSonera Group	154	42	61
Alfa Group	—	38	17
Euroset	82	—	—
Total amounts due from related parties	1,086	104	95
Non-current advances to related parties			
USM Holdings Group	681	—	—
Total non-current advances to related parties	681	—	—
Due to related parties			
USM Holdings Group	17,558	373	286
TeliaSonera Group	53	92	118
Euroset	57	—	—
Total amounts due to related parties	17,668	465	404

	For the years ended December 31,		
	2012	2011	2010
Revenues			
USM Holdings Group	101	1	64
TeliaSonera Group	179	235	290
Alfa Group	—	—	3
Total revenues, related parties	280	236	357
Cost of revenues			
USM Holdings Group	63	428	29
TeliaSonera Group	724	954	1,191
Total cost of revenues, related parties	787	1,382	1,220
Sales and marketing expenses			
Euroset	51	—	—
Total sales and marketing expenses, related parties	51	—	—
Operating expenses			
USM Holdings Group	2,912	1,158	994
TeliaSonera Group	1	1	15
Alfa Group	264	155	71
Total operating expenses, related parties	3,177	1,314	1,080

26. RELATED PARTY TRANSACTIONS (CONTINUED)

TeliaSonera Group

The outstanding balances and transactions with TeliaSonera Group relate to operations with a shareholder of the Company, TeliaSonera, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. Revenues and cost of services principally related to roaming agreements between MegaFon and members of the TeliaSonera Group located outside Russia and a wireline interconnection agreement with TeliaSonera International Carrier Russia.

Alfa Group

The outstanding balances and transactions with Alfa Group relate to operations with Altimo, AlfaStrakhovanie and Alfa Bank, members of Alfa Group who held a 25.1% interest in the Company through its member subsidiary Allaction Limited until April 24, 2012, when Allaction Limited ceased to hold any shareholding in the Company and ceased to be a related party ***(Note 3)***. Operating expenses from transactions with the Alfa Group mainly related to an agreement with Altimo, a member of the Alfa Group, for the provision of legal and personnel services and with AlfaStrakhovanie, another member of the Alfa Group, for the provision of employees' medical and health insurance in 2012. The amounts on deposit accounts with Alfa Bank as at December 31, 2011 and 2010 were 7,239 and 6,553, respectively.

USM Holdings Group

The outstanding balances and transactions with USM Holdings Group relate to operations with AF Telecom Holding LLC, a shareholder of the Company, Garsdale, its direct owner, USM Holdings Limited, indirect owner of Garsdale and their consolidated subsidiaries.

The Company entered into an agreement with Telecominvest, a member of the USM Holdings Group, for provision of legal and personnel services effective from 2009. This agreement was renewed in 2010, 2011 and 2012. In addition, the Company purchased billing system and related support services from PeterService, another member of the USM Holdings Group, in the amount of 1,970, 2,013 and 1,759 during the years ended December 31, 2012, 2011 and 2010, respectively.

In February 2012, the Company entered into a MVNO agreement with Scartel, which operates under the "Yota" brand, for the joint development and provision of 4G/LTE services in Russia. The MVNO agreement enables the Company to provide 4G/LTE services to its customers using the frequencies and network of Scartel and enables Scartel to use network infrastructure of MegaFon to provide voice services to its customers. In March and April 2012, the Company prepaid Scartel an aggregate amount of $50 million (1,519 at the exchange rate as of December 31, 2012) for the provision of future interconnection services under the MVNO agreement. Starting from July 2012, both MegaFon and Scartel became indirect subsidiaries of Garsdale, a subsidiary of USM Holdings. As a result, Scartel became a related party of MegaFon. Before that date, Scartel was not one of the Company's related parties. 721 of the advance amount were included in current amounts due to related parties and 681 were included in non-current advances to related parties in the accompanying consolidated balance sheets as at December 31, 2012.

At the time of the acquisition of VAS Media ***(Note 4)***, a member of the Company's Board of Directors and the spouse of a member of the Company's management beneficially owned an aggregate of approximately 13% of Felebior Holding Limited. In addition, other sellers of significant interests in Felebior Holding Limited have from time to time been associated with companies in the USM Holdings Group. The transaction was unanimously approved by Board of Directors of the Company.

Cost of revenues for the eight months ended August 31, 2012 were 2,582 and for the years ended December 31, 2011 and 2010 were 2,518 and 1,375, respectively, related to services the Company received from VAS Media. The amounts of revenue and net income of VAS Media included in the Company's accompanying consolidated statement of comprehensive income from September 1 to December 31, 2012 were 1,640 and 449, respectively. These amounts are shown before elimination of intercompany transactions, which were mainly revenues from services provided by VAS Media to the Company of 1,521.

In 2011 the Company acquired 100% of shares of Web Plus from Telecominvest for a total consideration of 54 ***(Note 4).***

The amount on deposit accounts with Round Bank as at December 31, 2012 was 450.

In 2012, the Company became a member of the non-for-profit Partnership "Development, Innovations, Technologies" (the "Partnership") which was established by companies in the USM Holdings Group. The Partnership is required to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by the Company and not recorded in the accompanying consolidated balance sheets. The Company contributed 1,050 to the Partnership during the year ended December 31, 2012 and 766 was payable as of December 31, 2012.

Euroset

Beginning from December 2012, Euroset is the Company's equity method investee ***(Note 5)***. In December 2012, the Company entered into a dealership agreement with Euroset which qualifies as a related party transaction.

CEO

In June 2012, the Company paid $43.6 million (equivalent to 1,431 million rubles at the exchange rates as of the payment dates) in full and final settlement of all contingent consideration liability for the NetByNet acquisition ***(Note 4).*** A portion of this liability has been paid to a company the beneficiary of which is the CEO of the Company, Mr Tavrin. Mr Tavrin was not a related party at the time of NetByNet acquisition in June 2011.

27. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Russian Environment and Current Economic Situation

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required for a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government. The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support its economy in order to overcome the consequences of the global financial and liquidity crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, significant capital flight, access to capital and the cost of such capital, any or all of which could negatively affect the Company's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above, or in others, could negatively affect the Company's results and financial position in a manner not currently determinable.

3G Licence Capital Commitments

In May 2007, MegaFon was awarded a licence that expires on May 21, 2017, for the provision of 3G wireless communications services for the entire territory of the Russian Federation. The 3G licence was granted subject to certain capital and other commitments. The three major conditions were that the Company builds a specified number of base stations that support 3G standards, starts commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also builds a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the licence. As of November 8, 2012, the Company believes it is in full compliance with these licence conditions, including constructing the number of base stations required at this time.

4G Licence Capital Commitments

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

Under the terms and conditions of this licence, the Company is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by 2019. The Company is also obligated to make capital expenditures of at least 15,000 annually toward the 4G/LTE roll-out until the network is fully deployed, to clear frequencies currently allocated to the military at its own cost and to compensate other operators for surrendering frequencies in an aggregate amount of 401. In July 2012, the Company has fully paid the compensation due to the other operators. It is currently not able to reasonably estimate the amount of the cost of clearing military frequencies.

27. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES (CONTINUED)

Social Infrastructure Expenses

The Company may be required to maintain certain social infrastructure assets which are not owned by the Company and not recorded in the consolidated financial statements as well as to incur education, science and other social costs. Such activities are conducted in collaboration with non-governmental charity organizations. These expenses are presented as part of the operating expenses in the consolidated statements of comprehensive income.

Taxation

Russian tax, currency and customs legislation are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to transactions and activities of the Company may be challenged by the relevant regional and federal authorities. Recent events within Russia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. Therefore, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the current year. Under certain circumstances reviews may cover longer periods.

The Company's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Company's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ. As of February 28, 2013, the Company's management estimated the possible effect of additional operating taxes, before fines and interest, if any, on these consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately 227.

Litigation

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

Apple Commitment

In August 2008, the Company entered into a two-year fixed commitment with Apple Sales International ("Apple"), an Irish affiliate of Apple Computer Inc., to purchase a total of one million unlocked iPhone handsets over a two-year period for further resale in Russia. The Company fulfilled this requirement with respect to the fourth quarter of 2008, but due to the significantly reduced handset demand caused by the economic crisis in Russia, the Company experienced difficulty re-selling these iPhones. While the Company placed several orders for iPhone handsets thereafter, none of these orders fulfilled the minimum quarterly requirement for the applicable quarters.

The contract with Apple terminated in August 2010 and, since such date, Apple has not asserted any claim against the Company with respect to any alleged non-fulfillment of its obligation to purchase iPhone handsets, and the Company has no basis to believe that any such claim will be asserted.

28.SEGMENT INFORMATION

The Company manages its business primarily based on eight geographical operating segments within Russia, which provide a broad range of voice, data and other telecommunication services, including wireless and wireline services to clients, interconnection, data transmission and VAS. The Company evaluates the performance of its operating segments based on revenue and operating income before depreciation and amortization (OIBDA). Operating segments with similar economic characteristics have been aggregated into an integrated telecommunication services segment, which is the only reportable segment. The remaining operating segments, including less significant subsidiaries and retail, do not meet the quantitative thresholds for reportable segments. Less than 1% of the Company's revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

29. SUBSEQUENT EVENTS

In February 2013, a total number of 2,233,000 phantom share options were granted to certain key executive and senior level employees under the 2012 long-term incentive program ***(Note 18)***.

APPENDICES

APPENDIX № 1

RELATED PARTY TRANSACTIONS CLOSED BY MEGAFON OJSC IN 2012

Governance body that approved transaction	Material terms of transaction	Related Parties
Extraordinary General Shareholders Meeting dated 15.02.2012	Revolving Loan Agreement between MegaFon OJSC (Borrower) and MegaFon Finance LLC (Lender) № 6001 Parties: MegaFon OJSC (Borrower) and MegaFon Finance LLC (Lender). Loan amount: RUB 30 000 000 000. Loan Maturity Date: 10 (Ten) years with possible prolongation. Interest Rate: up to 12 % (Twelve Percent) p.a. Price of transaction: RUB 66 000 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Transactions to Provide Surety from MegaFon OJSC (Surety) for Performance of Obligations by MegaFon Finance LLC (Issuer) under Ruble Bonds Issue. Parties: MegaFon OJSC (Surety) for Performance of Obligations by MegaFon Finance LLC (Issuer). Price of transaction: RUB 66 000 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Non-Exclusive Rights for Use of Software and Technical Support between MegaFon OJSC and PETER-SERVICE CJSC № 717. Parties: MegaFon OJSC and PETER-SERVICE CJSC. Price of transaction: RUB 7 500 000 000.	Telecominvest OJSC, OLYMP LLC
	Master Dealer Agreement between MegaFon OJSC and MegaFon Retail OJSC № 1/1 dated 01.05.2010. Parties: MegaFon OJSC and MegaFon Retail OJSC . MegaFon Retail OJSC shall provide full range of services to MegaFon OJSC related to subscriber acquisition and subscriber care, including but not limited to: • Execution of communication services agreements, collection and processing of subscribers applications. • Collection of payments for communication services, also via payment cards. • Execution of equipment sale and purchase agreements provided by the Operator. • Set up branded stores. • Placement of branded visual elements at retailers. • Marketing campaigns. • Internet store. MegaFon OJSC shall provide activation kits to MegaFon Retail OJSC. Transaction price is: RUB 42 252 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
Extraordinary General Shareholders Meeting dated 07.03.2012	Master Dealer Agreement between MegaFon OJSC (Operator) and MegaLabs OJSC (Partner) dated 30.04.2010. Parties: MegaFon OJSC (Operator) and MegaLabs OJSC (Partner) MegaLabs CJSC undertakes to provide MegaFon OJSC with the following services, including, but not limited to: • Universal IVR, Video IVR (Technical support). • MegaFon's Corporate Web-site (Provision of access to the equipment, technical support). • Video call termination (Technical support). • "Heavy Content" store (www.trava.ru) (Provision of access to the content). • Change of dial tone (Provision of access to the platform, technical support services). • Mobile TV (Technical support). MegaFon OJSC undertakes to provide MegaLabs CJSC with the following services, including, but not limited to: • SAP (Consultancy services, including introduction and maintenance of the SAP system). • Quipment colocation and technical support (Colocation and technical support of MegaLabs's equipment by MegaFon OJSC). Price of transaction: RUB 31 015 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
Extraordinary General Shareholders Meeting dated 16.05.2012	Revolving Loan Agreement between MegaFon OJSC (Lender) and MEGAFON INVESTMENTS (CYPRUS) LIMITED (Borrower) Nº 10. Parties: MegaFon OJSC (Lender) and MEGAFON INVESTMENTS (CYPRUS) LIMITED (Borrower). Loan amount: US$ 2 200 000 000. Loan maturity: 3 years. Interest rate: 7,5% p.a. Price of transaction: US$ 2 695 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
Extraordinary General Shareholders Meeting dated 09.07.2012	Transaction (a series of related transactions) comprising a major transaction which also constitutes an interested party transaction comprising related transactions (hereinafter – the **"Transaction"**: Underwriting Agreement (hereinafter – the **"Underwriting Agreement") Parties to the transaction (beneficiaries of the transaction)**: (a) the Company, (b) Sonera Holding B.V., (c) MEGAFON INVESTMENS (CYPRUS) LIMITED, and (d) Goldman Sachs International, Morgan Stanley & Co. International plc, TD Investments Limited (name being changed to SIB (Cyprus) Limited), Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, VTB Capital plc and/or their affiliates, as underwriters (hereinafter – the **"Joint Bookrunners"**) and other persons that may be specified as underwriters in the Underwriting Agreement or any schedules thereto (together with the Joint Bookrunners – the **"Underwriters"**); and (e) other persons who enjoy the benefits of the indemnification and contribution provisions under the terms of the Underwriting Agreement and/or who are indicated in the Underwriting Agreement and other agreements relating to the Transaction as its parties and/or beneficiaries. The price (monetary value) of assets that may be, directly or indirectly, disposed of by the Company, including the amount of all of the Company's obligations, as a result of the execution and performance of a major transaction which also constitutes an interested party transaction (a series of related transactions referred to in paragraphs (1)-(2) above) exceeds 50 (fifty) per cent of the balance sheet value of the Company's assets as per the Company's accounts as at the latest accounting date prepared in accordance with Russian accounting standards."	Sonera Holding B.V., MEGAFON INVESTMENS (CYPRUS) LIMITED, Contact-S LLC
	D & O liability insurance agreements of MegaFon OJSC, the insurer is Ingosstrakh OJSIC. Parties: MegaFon OJSC and Ingosstrakh OJSIC (the Insurer). Price of transaction: US$ 375 000.	I. Tavrin, G. Vermishyan, M. Dubin, I. Likhova, E. Ostrovsky, A. Serebryanikova, K. Solodukhin, L. Tkachuk, V. Velichko, A. Grigoriev, A. Eremkin, Y. Zhuravel, P. Korchagin, A. Kurdanov, D. Malyshev, L. Nyberg, T. Kivisaari, C. Edstrom, S. Soldatenkov, J. Erixon, J. Rudberg, V. Streshinsky, Telecominvest OJSC, Olymp LLC
Extraordinary General Shareholders Meeting dated 15.10.2012	Amendment of the existing terms and conditions of the Revolving Loan Agreement between MegaFon OJSC (the Lender) and MEGAFON INVESTMENTS (CYPRUS) LIMITED (the Borrower): change of the currency of the loan agreement from US Dollars to RUB. Parties: MegaFon OJSC (the Lender) and MEGAFON INVESTMENTS (CYPRUS) LIMITED (the Borrower). All other provisions of the agreement remain in effect and unamended. Loan amount: RUB 64 895 160 000. Tenor: 3 years. Interest rate: 7.5% per annum. Price of transaction: RUB 79 496 571 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V., MEGAFON INVESTMENTS (CYPRUS) LIMITED

Governance body that approved transaction	Material terms of transaction	Related Parties
Extraordinary General Shareholders Meeting dated 06.11.2012	Subscription Agreement relating to 50% of the outstanding voting shares of Lefbord Investments Limited between MegaFon OJSC and Lefbord Investments Limited. Parties: MegaFon OJSC and Lefbord Investments Limited. Price of transaction: 3 000 EUR.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited
	Subscription Agreement relating to redeemable preferred premium shares of Lefbord Investments Limited between MegaFon OJSC and Lefbord Investments Limited with the purpose of financing the acquisition by Lefbord Investments Limited of the outstanding voting shares of Euroset Holding N.V. (Netherlands) equal to 25% of the charter capital of Euroset Holding N.V., as well as all other transactions related to this Agreement. Parties: MegaFon OJSC and Lefbord Investments Limited. Price of transaction: US$ 590 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited
	Agreement relating to Lefbord Investments Limited between Garsdale Services Investment Limited, MegaFon OJSC, MEGAFON INVESTMENTS (CYPRUS) LIMITED and Lefbord Investments Limited Parties: Garsdale Services Investment Limited, MegaFon OJSC, MEGAFON INVESTMENTS (CYPRUS) LIMITED and Lefbord Investments Limited. Price of transaction is: US$ 1 330 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, MEGAFON INVESTMENTS (CYPRUS) LIMITED, Sonera Holding B.V., V.Y. Streshinsky
	Corporate Governance Agreement relating to Euroset Holding N.V. between Ararima Enterprises Limited (Cyprus), Lefbord Investments Limited, Euroset Holding N.V., Garsdale Services Investment Limited, MegaFon OJSC and Vimpel-Communications OJSC as a transaction related to the Shareholders' Agreement relating to Lefbord Investments Limited, as well as all other transactions related to the Corporate Governance Agreement relating to Euroset Holding N.V. Parties: Ararima Enterprises Limited (Cyprus), Lefbord Investments Limited, Euroset Holding N.V., Garsdale Services Investment Limited, MegaFon OJSC and Vimpel-Communications OJSC. Price of transaction: US$ 1 330 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, V.Y. Streshinsky
	Deed of Guarantee and Indemnity between Lefbord Investments Limited, Garsdale Services Investment Limited and MegaFon OJSC Price of transaction: US$ 55 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, V.Y. Streshinsky
Board meeting № 160 (224) dated 10.01.2012	Service Agreement between MegaFon OJSC and Telecominvest OJSC. Parties: MegaFon OJSC and Telecominvest OJSC. Price of transaction: US$ 5 000 000.	Telecominvest OJSC, OLYMP LLC, S.V. Soldatenkov, V.Y. Streshinskiy, A. Eloholma, Sonera Holding B.V., Kontakt-S LLC, Telia International Aktiebolag, Telia International Management
	Service Agreement between MegaFon OJSC and Altimo LLC. Parties: MegaFon OJSC and Altimo LLC. Price of transaction: US$ 5 000 000.	ALLACTION LIMITED
	Service Agreement between MegaFon OJSC and TeliaSonera AB. Parties: MegaFon OJSC and TeliaSonera AB. Price of transaction: US$ 5 000 000.	Sonera Holding B.V, Kontakt-S LLC, Telia International Aktiebolag), Telia International Management, Telecominvest OJSC

Governance body that approved transaction	Material terms of transaction	Related Parties
	Revolving Loan Agreement between MegaFon OJSC (Lender) and TT mobile CJSC (Borrower) № L00190310. Parties: MegaFon OJSC (Lender) and TT mobile CJSC (Borrower). Loan amount: US$ 125 900 000. Tenor: 6 years. Interest rate: 20% per annum. Price of transaction US$ 276 980 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V., V.V. Ermakov.
	Loan Agreement between MegaFon OJSC (Lender) and TT mobile CJSC (Borrower) dated 15.05.2009. Parties: MegaFon OJSC (Lender) and TT mobile CJSC (Borrower). Loan amount: US$ 21,300,000. Tenor: till 2017 incl. Interest rate: 20% per annum. Price of transaction: US$ 55 380 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V., V.V. Ermakov
	Loan Agreement between MegaFon OJSC (Lender) and TT mobile CJSC (Borrower) dated 10.05.2007. Parties: MegaFon OJSC (Lender) and TT mobile CJSC (Borrower). Loan amount: US$ 5 000 000. Tenor: till 2017 incl. Interest rate: 9 % per annum. Price of transaction: US$ 9 500 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V., V.V. Ermakov
	Revolving Loan Agreement between MegaFon OJSC (Lender) and OSTELEKOM CJSC (Borrower) № 150814. Parties: MegaFon OJSC (Lender) and OSTELEKOM CJSC (Borrower) Loan amount: RUB 662 000 000. Tenor: 3 years. Interest rate: 10 % per annum. Price of transaction: RUB 860 600 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving Loan Agreement between MegaFon OJSC (Lender) and Pskov GTS OJSC (Borrower). Parties: MegaFon OJSC (Lender) and Pskov GTS OJSC (Borrower). Loan amount: RUB 20 000 000. Tenor: till 2013 incl. Interest rate: 8 % per annum. Price of transaction: RUB 23 200 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving Loan Agreement between MegaFon OJSC and Synterra-South CJSC. Parties: MegaFon OJSC and Synterra-South CJSC. The Loan Agreement between MegaFon OJSC and Synterra-South CJSC becomes Revolver Loan Agreement. Loan amount: RUB 26 600 000. Tenor: 4 years. Interest rate: 8 % per annum. Price of transaction: RUB 35 112 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving Loan Agreement between MegaFon OJSC (Lender) and MegaFon Retail OJSC (Borrower). Parties: MegaFon OJSC (Lender) and MegaFon Retail OJSC (Borrower). Loan amount: RUB 2 110 000 000. Tenor: 3 years. Interest rate: 8% per annum. Price of transaction: RUB 2 616 400 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving Loan Agreement between MegaFon OJSC (Lender) and Web Plus CJSC (Borrower). Parties: MegaFon OJSC (Lender) and Web Plus CJSC (Borrower). Loan amount: RUB 106 200 000. Tenor: 3 years. Interest rate: 8% per annum. Price of transaction: RUB 131 688 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Revolving Loan Agreement between MegaFon OJSC (Lender) and MegaLabs CJSC (Borrower). Parties: MegaFon OJSC (Lender) and MegaLabs CJSC (Borrower). Loan amount: RUB 3 600 000 000. Tenor: 3 years. Interest rate: 8% per annum. Price of transaction: RUB 4 464 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements (Multilateral Agreement) on Surety of MegaFon OJSC (Surety) for Performance of Obligations of Synterra CJSC (Debtor) under Government Contracts. Parties: MegaFon OJSC (Surety), Synterra CJSC (Debtor) and Government organizations. Price of transaction: RUB 2 000 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements on Interconnection of Telecom Networks between MegaFon OJSC and Synterra CJSC Nº PV-208, Nº 15937, Nº 20179. Parties: MegaFon OJSC and Synterra CJSC. Price of transaction: RUB 21 792 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interconnection Agreement between MegaFon OJSC and Synterra-South CJSC Nº 147/10-FZTC-TD. Parties: MegaFon OJSC and Synterra-South CJSC Price of transaction: RUB 7 500 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interconnection Agreement between MegaFon OJSC and Nakhodka Telecom LLC Nº 1717. Parties: MegaFon OJSC and Nakhodka Telecom LLC. Price of transaction : RUB 21 600 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Provision of Access to the GRX Network between MegaFon OJSC and TeliaSonera International Carrier Finland Oy dated 23.12.2002 with the purpose to provide GPRS international roaming services. Parties: MegaFon OJSC and TeliaSonera International Carrier Finland Oy. Price of transaction: 3 442 700 EUR.	Sonera Holding B.V., Kontakt-S LLC, Telia International Aktiebolag, Telia International Management AB, Telecominvest OJSC
	Agreement on Provision of Telecom Channels between MegaFon OJSC (Customer) and Synterra Media CJSC (Contractor) Nº 0050/11-US. Parties: MegaFon OJSC (Customer) and Synterra Media CJSC (Contractor). Price of transaction: RUB 153 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements for Provision of Communication Channels between MegaFon OJSC (Contractor) and Synterra-South CJSC (Customer) Nº 04/06-07, Nº AK-01. Parties: MegaFon OJSC (Contractor) and Synterra-South CJSC (Customer). Price of transaction: RUB 12 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement for Provision of Communication Channels between MegaFon OJSC (Contractor) and Nakhodka Telecom LLC (Customer) Nº 102-B/10. Parties: MegaFon OJSC (Contractor) and Nakhodka Telecom LLC (Customer). Price of transaction: RUB 45 360 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements on Communication Node Operation and Maintenance between MegaFon OJSC (Customer) and Synterra-South LLC (Contractor) Nº 1/11 – ТОУС, Nº 2/11 - ТОУС. Parties: MegaFon OJSC (Customer) and Synterra-South LLC (Contractor). Price of transaction: RUB 4 760 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Interrelated Agreements on replacement of party under the Agreements on services of colocation, maintenance and operation of equipment between MegaFon OJSC, Synterra CJSC and counterparties of Synterra CJSC. Parties: MegaFon OJSC, Synterra CJSC and counterparties of Synterra CJSC. Price of transaction: RUB 10 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements on provision of telecom services between MegaFon OJSC and Synterra Media CJSC № 5782, № 6921, № 16046, № 17136, № 18333. Parties: MegaFon OJSC and Synterra Media CJSC. Price of transaction: RUB 466 560 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Provision of Data Centre Services between MegaFon OJSC (Contractor) and Synterra CJSC (Customerr). Parties: MegaFon OJSC (Contractor) and Synterra CJSC (Customer). Price of transaction: RUB 500 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement for Equipment Location between MegaFon OJSC (Contractor) and Nakhodka Telecom LLC (Customer). Parties: MegaFon OJSC (Contractor) and Nakhodka Telecom LLC (Customer). Price of transaction: RUB 4 140 830.	Telecominvest OJSC, OLYMP LLC,ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Non-Exclusive Rights for Use of Software and Technical Support between MegaFon OJSC and PETER-SERVICE CJSC № 717. Parties: MegaFon OJSC and PETER-SERVICE CJSC. Price of transaction: RUB 7 500 000 000.	Telecominvest OJSC, OLYMP LLC
	Agreement for FOCLs Design and Survey / Construction and Installation and other construction works between MegaFon OJSC (Customer) and Synterra-South LLC (Contractor) № 01/11. Parties: MegaFon OJSC (Customer) and Synterra-South LLC (Contractor). Price of transaction: RUB 200 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	License Agreement on Brand Usage Rights between MegaFon OJSC (Licensee) and Telecominvest OJSC (Licensor). Parties: MegaFon OJSC (Licensee) and Telecominvest OJSC (Licensor). Price of transaction: RUB 672 000 000.	Telecominvest OJSC, OLYMP LLC, S.V. Soldatenkov, V.Y. Streshinsky, A. Eloholma, Sonera Holding B.V., Kontakt-S LLC, Telia International Aktiebolag, Telia International Management AB
	Service Agreement for Joint Campaigns, Advertising, Branding and IT Services Provision between MegaFon OJSC and Sviazinform LLC № 01. Parties: MegaFon OJSC and Sviazinform LLC. Price of transaction: RUB 200 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Service Agreement for Joint Campaigns, Advertising, Branding and IT Services Provision between MegaFon OJSC and Internet Center LLC № 01. Parties: MegaFon OJSC and Internet Center LLC. Price of transaction: RUB 200 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and Pskov GTS OJSC. № 1. Parties: MegaFon OJSC and Pskov GTS OJSC. MegaFon OJSC shall provide to Pskov GTS OJSC services (including but not limited to): • interconnect of communication network and traffic transit services; • international long distance, national long distance, Intra-zonal telecommunications; • provision of communication channels; • lease of FO; • provision of lead conductors; • technical maintenance; • delivery of equipment, activation kits, payment cards; • lease of property. Pskov GTS OJSC shall provide to MegaFon OJSC services (including but not limited to): • interconnect of communication network and traffic transit services; • international long distance, national long distance, Intra-zonal telecommunications; • provision of communication channels; • lease of FO; • provision of lead conductors; • signing communication service agreements with subscribers on behalf of MegaFon OJSC; • MegaFon's subscribers care and consulting services; • sale of payment cards, equipment, activation kits under agency contracts; • collection of payments for communication services from subscribers; • advertisement and information services; • lease of property; • equipment placement. Price of transaction: RUB 1 728 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Master Agreement between MegaFon OJSC and Web Plus CJSC. № 1. Parties: MegaFon OJSC and Web Plus CJSC. MegaFon OJSC shall provide to Web Plus CJSC services (including but not limited to): • interconnect of communication network and traffic transit services; • interconnect of data networks to provide Internet access; • lease of FO; • provision of lead conductors; • provision of VPN data channels; • provision of digital communication channels Web Plus CJSC shall provide to MegaFon OJSC services (including but not limited to): • signing communication service agreements with subscribers on behalf of MegaFon OJSC; • MegaFon's subscribers care and consulting services; • attraction of fixed subscribers in St Petersburg and Leningrad region; • connection of subscribers to MegaFon's fixed network; • maintenance engineering of MegaFon's fixed subscribers; • collection of payments for communication services from subscribers; • maintenance of communication channels; • development of working documents on construction of internal telephony channels and broadband Internet access according to MegaFon's request for proposal; • construction and installation – new connections via ADSL; • construction of internal ducts and broadband Internet access in accordance with the developed and approved documents; • uninstallation works. Price of transaction: RUB 3 582 900 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and Metrocom CJSC Nº 06-2011м. Parties: MegaFon OJSC and Metrocom CJSC. MegaFon OJSC undertakes to provide Metrocom OJSC with services, including, without limitation, the following: • interconnection of data networks with the purpose of providing Internet access; • making possible to use the capacity of ports and other resources of the technological equipment; • joint performance of marketing actions; • technical support of the software and telecom equipment; • delivery of technological equipment. Metrocom CLSC undertakes to provide, among other services, the services for performing joint marketing campaigns. Price of transaction: RUB 2 073 600 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
Board meeting Nº 161 (225) dated 31.01.2012	Interrelated Agreements (Multilateral Agreement) on Cash Pooling between MegaFon OJSC, CB CITIBANK CJSC, CITIBANK N.A. DUBLIN and MegaFon's Subsidiaries. Parties: MegaFon OJSC, CB CITIBANK CJSC, CITIBANK N.A. DUBLIN and MegaFon's Subsidiaries. Price of transaction: US$ 48 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Service Agreement between MegaFon OJSC (Customer) and Synterra CJSC (Contractor) Nº 24697. Parties: MegaFon OJSC (Customer) and Synterra CJSC (Contractor). Price of transaction: RUB 177 900 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Internetwork Exchange of Multimedia Messages between MegaFon OJSC and JV Somoncom CJSC Nº О/У-02-205/2008 dated 15.10.2008. Parties: MegaFon OJSC and JV Somoncom CJSC. Price of transaction: RUB 720 110.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on Operation and Maintenance of Telecommunication Sites between MegaFon OJSC and Synterra CJSC Nº ETO/MFCTR-2011. Parties: MegaFon OJSC and Synterra CJSC. Price of transaction: RUB 470 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Master Agreement between MegaFon OJSC and Svyazinform LLC Nº 1. Parties: MegaFon OJSC and Svyazinform LLC. MegaFon OJSC undertakes to provide Svyazinform LLC with services, including, but not limited to: • interconnection of telecom networks and transit of traffic; • delivery of invoices and other correspondence to the offices of corporate subscribers. Svyazinform LLC undertakes to provide MegaFon OJSC with services, including, but not limited to: • interconnection of telecom networks and transit of traffic; • maintenance of local fiber optic lines. Price of transaction: RUB 39 630 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and Internet Center LLC Nº 1. Parties: MegaFon OJSC and Internet Center LLC. MegaFon OJSC undertakes to provide Internet Centre LLC with services, including, but not limited to: • provision of subscriber care services by contact centre employees; • delivery of invoices and other correspondence to the offices of corporate subscribers; • delivery of SIM-cards, equipment and uniform payment cards; • lease of technological resources; • provision of paid IP-traffic. Internet Centre LLC undertakes to provide MegaFon OJSC with services, including, but not limited to: • provision of subscriber care services by contact centre employees; • lease of technological resources; • provision of paid IP-traffic. Price of transaction: RUB 515 186 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Agreement on the Use of Trademarks between MegaFon OJSC (Licensor) and MegaFon Retail OJSC (Licensee). Parties: MegaFon OJSC (Licensor) and MegaFon Retail OJSC (Licensee). Price of transaction: 257 120 000 RUB.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Sublease Agreement between MegaFon OJSC (Lessee) and MegaFon-International CJSC (Sub-Lessee) Nº CA-MFI/2012. Parties: MegaFon OJSC (Lessee) and MegaFon-International CJSC (Sub-Lessee). Price of transaction: RUB 1 660 010.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Sublease Agreements between MegaFon OJSC (Lessee) and MegaLabs CJSC (Sub-Lessee) Nº 01/2012I, Nº 02/2012I. Parties: MegaFon OJSC (Lessee) and MegaLabs CJSC (Sub-Lessee). Price of transaction: RUB 616 593 540.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements (Multilateral Agreement) of Guarantee between MegaFon OJSC (Guarantor) and government bodies on performance of obligations of Synterra CJSC (Debtor) under government contracts. Parties: MegaFon OJSC (Guarantor), Synterra CJSC (Debtor) and government bodies. Price of transaction: RUB 2 023 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated Agreements (Multilateral Agreement) of Guarantee between MegaFon OJSC (Guarantor) on performance of obligations of Metrocom CJSC (Debtor) to government contractors under government contracts and to banks under bank guarantees to government contracts. Parties: MegaFon OJSC (Guarantor), Metrocom CJSC (Debtor) and government bodies. Price of transaction: RUB 637 800 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Consolidated Group of Taxpayers Agreement between MegaFon OJSC, Synterra CJSC, MegaLabs CJSC and MegaFon International CJSC. Parties: MegaFon OJSC, Synterra CJSC, MegaLabs CJSC and MegaFon International CJSC. Price of transaction: RUB 10 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
Board meeting Nº 166 (230) dated 18.04.2012	Revolving loan agreement between MegaFon OJSC (Borrower) and Ugratel OJSC (Lender) Nº 7001. Parties: MegaFon OJSC (Borrower) and Ugratel OJSC (Lender). Loan amount: RUB 130 000 000. Tenor: 1 year. Interest rate: 8% per annum. Price of transaction: RUB 140 400 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving loan agreement between MegaFon OJSC (Borrower) and Absolut Construction Company OJSC (Lender) Nº 700. Parties: MegaFon OJSC (Borrower) and Absolut Construction Company OJSC (Lender). Loan amount: RUB 216 000 000. Tenor: 3 years. Interest rate: 8% per annum. Price of transaction: RUB 267 840 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving loan agreement between MegaFon OJSC (Borrower) and Internet Center LLC (Lender) Nº 9001. Parties: MegaFon OJSC (Borrower) and Internet Center LLC (Lender). Loan amount: RUB 40 000 000. Tenor: 1 year. Interest rate: 8% per annum. Price of transaction: RUB 43 200 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Revolving loan agreement between MegaFon OJSC (Borrower) and Svyazinform LLC (Lender) Nº 8001. Parties: MegaFon OJSC (Borrower) and Svyazinform LLC (Lender). Loan amount: RUB 40 000 000. Tenor: 1 year. Interest rate: 8% per annum. Price of transaction: RUB 43 200 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated agreements (multilateral agreement) of guarantee between MegaFon OJSC (Guarantor), CITIBANK CJSC (Lender), and subsidiaries of MegaFon OJSC (Debtors). Parties: MegaFon OJSC (Guarantor), CITIBANK CJSC (Lender), and subsidiaries of MegaFon OJSC (Debtors). Price of transaction: RUB 590 000 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Interrelated agreements (multilateral agreement) on cash pooling between MegaFon OJSC, CITIBANK CJSC, CITIBANK N.A.DUBLIN and subsidiaries of MegaFon OJSC. Parties: MegaFon OJSC, CITIBANK CJSC, CITIBANK N.A.DUBLIN and subsidiaries of MegaFon OJSC. Price of transaction: US$ 86 400.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Telecommunication channels agreement between MegaFon OJSC (Customer) and INETERA LLC (Contractor) Nº 04/0054-M. Parties: MegaFon OJSC (Customer) and INETERALLC (Contractor). Price of transaction: RUB 1 100 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Telecommunication channels agreement between MegaFon OJSC and Synterra CJSC Nº 4200013036. Parties: MegaFon OJSC and Synterra CJSC, Price of transaction: RUB 2 939 200 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Software Support Agreement between MegaFon OJSC (Contractor) and Synterra CJSC (Customer) Nº SYNTERRA/SAP/2012. Parties: MegaFon OJSC (Contractor) and Synterra CJSC (Customer). Price of transaction: RUB 5 423 880.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Interrelated agreements on lease of non-residential premises between MegaFon OJSC and Synterra-South CJSC № СЮ-1-2011, № 59/12. Parties: MegaFon OJSC and Synterra-South CJSC. Price of transaction: RUB 546 550.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Master Agreement between MegaFon OJSC and Net By Net Holding LLC № 1. Parties: MegaFon OJSC and Net By Net Holding LLC. MegaFon OJSC shall undertake to provide services, and transfer property (rights) to Net By Net Holding LLC, including, but not limited to: • full range of agency services related to acquisition and care of Net By Net Holding's subscribers; • assignment of digital identifier to subscriber services; • interconnection and traffic transit; • interconnection of data networks; • providing telecom channels; • sale/purchase of optical fibers; • national/international long-distance telephone communication; • equipment supply; • software support; • lease of property. Net By Net Holding LLC shall undertake to provide services to MegaFon OJSC, including, but not limited to: • full range of agency services related to acquisition and care of MegaFon's subscribers; • interconnection and traffic transit; • software support; • lease of property. Price of transaction: RUB 536 167 260.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Master Agreement between MegaFon OJSC and TT mobile CJSC №1. Parties: MegaFon OJSC and TT mobile CJSC. MegaFon OJSC shall undertake to provide services, and transfer property (rights) to TT mobile CJSC, including, but not limited to: • interconnection of data networks and traffic transit; • providing telecom channels; • providing satellite communication channels; • Internet access through use of satellite communication channel; • access to technical resources of IMPS service platform; • subscriber care (receive/process subscriber call in the call-center, restore/replace SIM-cards); • international roaming; • international communication; • providing telecom equipment for use; • equipment maintenance; • supply of activation kits; • equipment supply. TT mobile CJSC shall undertake to provide services to MegaFon OJSC, including, but not limited to: • full range of dealer services related to acquisition and care of subscribers of MegaFon OJSC; • traffic transit; • international roaming; • advertising and information support. Price of transaction: RUB 86 500 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and Ugratel OJSC № 1. Parties: MegaFon OJSC and Ugratel OJSC. MegaFon OJSC shall undertake to provide services, transfer property (rights) to Ugratel OJSC, including, but not limited to: • interconnection of telecom networks and traffic transit; • supply of activation kits/ kits for remote replacement of SIM-cards. Ugratel OJSC shall undertake to provide services to MegaFon OJSC, including, but not limited to: • full range of dealer services related to acquisition and care of subscribers of MegaFon OJSC; • interconnection of telecom networks and traffic transit. Price of transaction: RUB 279 627 600.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Master Agreement between MegaFon OJSC and Nakhodka Telecom LLC № 1. Parties: MegaFon OJSC and Nakhodka Telecom LLC. MegaFon OJSC shall undertake to provide services and transfer property to Nakhodka Telecom LLC, including, but not limited to: • provision of telecom channels, • provision of virtual servers; • collocation of equipment in Data Center; • maintenance of billing system; • supply of telecom equipment; • operation and maintenance of equipment; • providing licenses for software; • maintenance of software, information system. Nakhodka Telecom LLC shall undertake to provide services and transfer property to MegaFon OJSC, including, but not limited to: • full range of agency services related to acquisition and care of MegaFon's subscribers; • provision of telecom channels; • supply of telecom equipment; • providing equipment for use. Price of transaction: RUB 26 250 000.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Change in material terms of Master Agreement between MegaFon OJSC and MegaLabs CJSC as of 30.04.2010: transfer to MegaLabs CJSC equipment (platforms and systems) and software licenses (hardware/software complexes). Parties: MegaFon OJSC and MegaLabs CJSC. All other provisions of the Master Agreement remained unchanged.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Change in material terms of Telecommunication Service Agreement between MegaFon OJSC and Lattelecom SIA № 15962: increase of capacity up to 20 Gb/s. Parties: MegaFon OJSC and Lattelecom SIA. All other provisions of the Master Agreement remained unchanged.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.
	Change in material terms of International Telecommunication Service Agreement between MegaFon OJSC and TT mobile CJSC № 7921/2011/DFS: to expand the existing volume of interconnection between the parties. Parties: MegaFon OJSC and TT mobile CJSC. All other provisions of the Master Agreement remained unchanged.	Telecominvest OJSC, OLYMP LLC, ALLACTION LIMITED, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
Board meeting № 168 (232) dated 20.04.2012	Agreement of termination in relation to the framework services agreement between MegaFon OJSC and Altimo LLC dated January 11, 2012. Parties: MegaFon OJSC and Altimo LLC. Price of transaction: RUB 10 000.	ALLACTION LIMITED
	Deed of undertaking between MegaFon OJSC (as Obligor), MEGAFON INVESTMENTS (CYPRUS) LIMITED (as Obligor and Beneficiary), TeliaSonera Aktiebolag and AF Telecom Holding Limited (as Addressees/Beneficiaries). The value is not defined, however, the valuation of rights and liabilities of MegaFon OJSC in case of its breaching the Deed of undertaking may be equal to an amount that is above 25%, but below 50% of the book value of the assets of MegaFon OJSC as calculated on the basis of the Company's financial statements as at 31 March 2012.	Telecominvest OJSC, ALLACTION LIMITED, Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited
	Deed of release between MegaFon OJSC, Altimo Holdings & Investments Limited, ALLACTION LIMITED, AF Telecom Holding Limited, AF Telecom Holding LLC, OLYMP LLC, Telecominvest OJSC, TeliaSonera Aktiebolag, Telia International Management AB, Telia International AB, TeliaSonera Finland Oyj, Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited and MEGAFON INVESTMENTS (CYPRUS) LIMITED. Parties: MegaFon OJSC, Altimo Holdings & Investments Limited, ALLACTION LIMITED, AF Telecom Holding Limited, AF Telecom Holding LLC, OLYMP LLC, Telecominvest OJSC, TeliaSonera Aktiebolag, Telia International Management AB, Telia International AB, TeliaSonera Finland Oyj, Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited and MEGAFON INVESTMENTS (CYPRUS) LIMITED. The value is not defined, however, the valuation of rights and liabilities of MegaFon OJSC under the Deed of release may be equal to an amount that is above 25%, but below 50% of the book value of the assets of MegaFon OJSC as calculated on the basis of the Company's financial statements as at 31 March 2012.	Telecominvest OJSC, ALLACTION LIMITED Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited
	Deed of guarantee and indemnity between MegaFon OJSC and Sonera Holding B.V. in relation to the Option agreement. Parties: MegaFon OJSC and Sonera Holding B.V. Price of transaction up to US$ 6 000 000 000, which is above 25%, but below 50 % of the book value of the Company's assets as calculated on the basis of the Company's most recent financial statements.	Telecominvest OJSC, ALLACTION LIMITED Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited
Board meeting № 173 (237) dated 08.06.2012	Change of material terms of Master Agreement № 1 between MegaFon OJSC and Web Plus CJSC: MegaFon OJSC plans to lease from Web Plus (with potential buy out), including but not limited to, equipment, PPE items (TV Broadcasting Network, Public Switched Telephone Network, Internet Access System, and other telecommunication networks) for the purpose of providing telecommunication services to its subscribers. Parties: MegaFon OJSC and Web Plus CJSC. All other provisions of the agreement remain in effect and unchanged.	Telecominvest Holdings Limited, Sonera Holding B.V.
	Change of material terms of Master Agreement № 06-2011 between MegaFon OJSC and Metrocom CJSC: MegaFon OJSC and Metrocom CJSC plan to lease from each other (including potential buy-out) equipment, telecommunication networks and other property. Parties: MegaFon OJSC and Metrocom CJSC. All other provisions of the agreement remain in effect and unchanged.	Telecominvest Holdings Limited, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Change of material terms of Master Agreement dated 30.04.2010 between MegaFon OJSC and MegaLabs CJSC: MegaLabs CJSC plans to lease out to MegaFon OJSC the equipment (platforms and systems) or provide access to, and transfer licenses or sublicenses for software (hardware and software complexes) to provide MegaFon's subscribers with services, ensure secrecy of communications and confidentiality of MegaFon subscribers' personal data, as well as to put the communication facilities into operation. Parties: MegaFon OJSC and MegaLabs CJSC. All other provisions of the agreement remain in effect and unchanged.	Telecominvest Holdings Limited, Sonera Holding B.V.
	Agreement on provision of legal (Due Diligence) of Euroset, between, including but not limited, MegaFon OJSC, Telecominvest OJSC and Freshfields Brukhaus Deringer LLP. Parties: MegaFon OJSC, Telecominvest OJSC and Freshfields Brukhaus Deringer LLP. Price of transaction: up to 350 000 US$.	Telecominvest OJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, V. Streshinsky, S. Soldatenkov, I. Tavrin
Board meeting Nº 179 (243) dated 07.09.2012	Revolving Loan Agreement between MegaFon OJSC (Borrower) and Ugratel OJSC (Lender) Nº 7001. Parties: MegaFon OJSC (Borrower) and Ugratel OJSC (Lender). Loan amount: RUB 300 000 000. Tenor: till 2014 incl. Interest rate: 8% per annum. Price of transaction: RUB 348 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Service Agreement between MegaFon OJSC and USM Advisers LLC. Parties: MegaFon OJSC and USM Advisers LLC. Price of transaction: US$ 4 760 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, V.Y. Streshinsky.
	Master Agreement between MegaFon OJSC and INETERA LLC Nº 1. Parties: MegaFon OJSC and INETERA LLC. MegaFon OJSC shall provide INETERA LLC with services, including, but not limited to, interconnection with telecommunication networks and transmission of traffic, as well as assignment of property (rights). INETERA LLC shall provide MegaFon OJSC with the following services, including but not limited to, the assignment of property (rights): • interconnection with telecommunication networks and transmission of traffic; • agency services related to acquisition of subscribers and servicing of subscribers; • provision of communication channels. Price of transaction: RUB 150 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and AQUAFON-GSM CJSC № 1. Parties: MegaFon OJSC and AQUAFON-GSM CJSC. MegaFon OJSC shall provide AQUAFON-GSM CJSC with the following services, including but not limited to, the assignment of property (rights): • interconnection with communication networks and transmission of voice traffic; • access to the technical resources of the service platform MMSC (center of multimedia messaging); • consulting and information services under the operations with the information control system SAP ERP 6.0; • granting of rights to access the SAP software; • provision of communication channels; • provision of roaming support. AQUAFON-GSM CJSC shall provide MegaFon OJSC with the following services, including, but not limited to, the assignment of property (rights): • interconnection with communication networks and transmission of voice traffic; • international roaming; • provision of L2VPN-based virtual communication channels; • provision of communication channels. Price of transaction: RUB 2 142 600 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V., V.V. Ermakov
Board meeting № 183 (247) dated 29.10.2012	Interrelated Agreements (Multilateral Agreement) on Sberbank Corpor@tion Services between MegaFon OJSC, Sberbank of Russia OJSC and MegaFon's Subsidiaries. Parties: MegaFon OJSC, Sberbank of Russia OJSC and MegaFon's Subsidiaries. Price of transaction: RUB 5 269.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Agreements (Multilateral Agreement) on consolidated balance between MegaFon OJSC, Sberbank of Russia OJSC and MegaFon's Subsidiaries. Parties: MegaFon OJSC, Sberbank of Russia OJSC and MegaFon's Subsidiaries. Price of transaction: RUB 3 600 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
Board meeting № 184 (248) dated 30.11.2012	Revolving loan agreement between MegaFon OJSC (Borrower) and VAS Pay LLC (Lender) № 1011. Parties: MegaFon OJSC (Borrower) and VAS Pay LLC (Lender). Loan amount: RUB 150 000 000. Tenor: 2 years. Interest rate: 8% per annum. Price of transaction: RUB 174 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Agreements (Multilateral Agreement) on Cash Pooling between MegaFon OJSC, CB CITIBANK CJSC, CITIBANK N.A. DUBLIN and MegaFon's Subsidiaries. Parties: MegaFon OJSC, CB CITIBANK CJSC, CITIBANK N.A. DUBLIN and MegaFon's Subsidiaries Price of transaction: US$ 116 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated agreements (multilateral agreement) of guarantee between MegaFon OJSC (Guarantor), CITIBANK CJSC (Lender), and subsidiaries of MegaFon OJSC (Debtors). Parties: MegaFon OJSC (Guarantor), CITIBANK CJSC (Lender), and subsidiaries of MegaFon OJSC (Debtors). Price of transaction: RUB 740 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Trademark License Agreement between MegaFon OJSC (Licensor) and MegaLabs CJSC (Licensee) № MF/ML-L01. Parties: MegaFon OJSC (Licensor) and MegaLabs CJSC (Licensee). Price of transaction: RUB 620 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Master Agreement between MegaFon OJSC and Ugratel OJSC Nº 1. Parties: MegaFon OJSC and Ugratel OJSC. MegaFon OJSC shall undertake to provide services, and transfer property (rights) to Ugratel OJSC, including, but not limited to: • interconnection of telecom networks and traffic transit; • provision of communication channels for use; • provision of FO in FOCLs for use; • provision of technological equipment for use; • allocation of equipment. Ugratel OJSC shall undertake to provide services to MegaFon OJSC, including, but not limited to: • interconnection of telecom networks and traffic transit; • provision of communication channels for use; • provision of FO in FOCLs for use; • provision of technological equipment for use; • allocation of equipment. Price of transaction: RUB 6 483 960 100.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Exclusive Rights Agreement for Software, Installation, Settings, Start Up, Consulting Services between MegaFon OJSC and PETER SERVICE CJSC Nº 1097-12. Parties: MegaFon OJSC and PETER SERVICE CJSC. Price of transaction: US$ 15 171 040.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited
	Service agreement on MMS exchange between MegaFon OJSC and TeliaSonera International Carrier Finland Oy dated 11.12.2002 Parties: MegaFon OJSC and TeliaSonera International Carrier Finland Oy. Price of transaction: EUR 1 165 200.	Sonera Holding B.V., Kontakt-S LLC
Board meeting Nº 185 (249) dated 06.12.2012	Revolving loan agreement between MegaFon OJSC (Lender) and MegaFon Retail OJSC (Borrower). Parties: MegaFon OJSC (Lender) and MegaFon Retail OJSC (Borrower). Loan amount: RUB 2 810 000 000. Tenor: to 06.03.2017 incl. Interest rate: 8% per annum. Price of transaction: RUB 3 934 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
Board meeting Nº 186 (250) dated 31.12.2012	Revolving loan Agreement between MegaFon OJSC (Borrower) and Metrocom CJSC (Lender) Nº 400 dated 11.05.2011. Parties: MegaFon OJSC (Borrower) and Metrocom CJSC (Lender) Loan amount: RUB 900 000 000. Tenor: to 16.05.2015 incl. Interest rate: 8% per annum. Price of transaction: RUB 1 188 000 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Revolving loan Agreement between MegaFon OJSC (Borrower) and Pskov GTS OJSC (Lender) dated 24.01.2011. Parties: MegaFon OJSC (Borrower) and Pskov GTS OJSC (Lender) Loan amount: RUB 20 000 000. Tenor: to 26.01.2015 incl. Interest rate: 8% per annum. Price of transaction: RUB 26 400 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Lease Agreement between MegaFon OJSC (Lessee) and Ugratel OJSC (Lessor) Nº 01/2013. Parties: MegaFon OJSC (Lessee) and Ugratel OJSC (Lessor). Price of transaction: RUB 44 100 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Lease Agreement between MegaFon OJSC (Lessor) and Metrocom CJSC (Lessee) Nº 01-MK/2013. Parties: MegaFon OJSC (Lessor) and Metrocom CJSC (Lessee). Price of transaction: RUB 5 028 440.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.

Governance body that approved transaction	Material terms of transaction	Related Parties
	Lease Agreement between MegaFon OJSC (Lessor) and Synterra CJSC (Lessee) № 52/AP. Parties: MegaFon OJSC (Lessor) and Synterra CJSC (Lessee). Price of transaction: RUB 4 825 080.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Lease Agreements between MegaFon OJSC (Lessor) and Construction Company Absolut CJSC (Lessee). Parties: MegaFon OJSC (Lessor) and Construction Company Absolut CJSC (Lessee). Price of transaction: RUB 1 363 482 310.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Lease and Sublease Agreements between MegaFon OJSC and MegaLabs CJSC № 01-МЛ/2013, № 02-МЛ/2013. Parties: MegaFon OJSC and MegaLabs CJSC. Price of transaction: RUB 744 801 290.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Lease and Sublease Agreements between MegaFon OJSC and MegaFon Retail OJSC № 01-MFR/2013, № 02-MFR/2013. Parties: MegaFon OJSC and MegaFon Retail OJSC. Price of transaction: RUB 100 223 730.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Lease and Sublease Agreements between MegaFon OJSC and Scartel LLC № 1. Parties: MegaFon OJSC and Scartel LLC. MegaFon OJSC shall undertake to provide telecommunication services to Scartel LLC related to provision of telecom channels, as well as other services, works, and to hand over property (rights). Scartel LLC shall undertake to provide advertising and information services to MegaFon OJSC, as well as other services, works, and to hand over property (rights). Price of transaction: RUB 55 960 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited
	Master Agreement between MegaFon OJSC and Metrocom CJSC № 06-2011м. Parties: MegaFon OJSC and Metrocom CJSC. MegaFon OJSC and Metrocom CJSC plan to provide to each other services, perform works, hand over property (rights), including but not limited to: • interconnection of data networks; • making possible to use the capacity of ports and other resources of the technological equipment; • joint performance of marketing actions; • supply of technology equipment; • colocation, operation, technical support and maintenance of networks and other property; • provision of telecom channels; • sale & purchase of property; • contractor services; • brokerage for performance of transactions; • agency services; • trust deed; • property storage; • temporary use (lease) of equipment, telecom networks and other property, including possibility of redemption. Price of transaction: RUB 2 073 700 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.
	Interrelated Agreements for Use of Trademarks between MegaFon OJSC (Licensor) and MegaFon Retail OJSC (Licensee) № 1/2012, № 2/2012. Parties: MegaFon OJSC (Licensor) and MegaFon Retail OJSC (Licensee). Price of transaction: RUB 54 241 000.	Telecominvest CJSC, AF Telecom Holding LLC, Telecominvest Holdings Limited, Sonera Holding B.V.

APPENDIX NO. 2

MAJOR TRANSACTIONS CLOSED BY MEGAFON OJSC IN 2012

Governance body that approved transaction	Material terms of transaction
Extraordinary General Shareholders Meeting dated 09.07.2012	Transaction (a series of related transactions) comprising a major transaction which also constitutes an interested party transaction comprising the following related transactions (hereinafter – the "Transaction"): Underwriting Agreement (hereinafter – the "Underwriting Agreement") Parties to the transaction (beneficiaries of the transaction): (a) the Company, (b) Sonera Holding B.V., (c) MEGAFON INVESMENTS (CYPRUS) LIMITED, and (d) Goldman Sachs International, Morgan Stanley & Co. International plc, TD Investments Limited (name being changed to SIB (Cyprus) Limited), Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, VTB Capital plc and/or their affiliates, as underwriters and other persons that may be specified as underwriters in the Underwriting Agreement or any schedules thereto (together with the Joint Bookrunners – the "Underwriters"); and (e) other persons who enjoy the benefits of the indemnification and contribution provisions under the terms of the Underwriting Agreement and/or who are indicated in the Underwriting Agreement and other agreements relating to the Transaction as its parties and/or beneficiaries. The price (monetary value) of assets that may be, directly or indirectly, disposed of by the Company, including the amount of all of the Company's obligations, as a result of the execution and performance of a major transaction which also constitutes an interested party transaction (a series of related transactions exceeds 50 (fifty) per cent of the balance sheet value of the Company's assets as per the Company's accounts as at the latest accounting date, prior to transaction/approval date prepared in accordance with Russian accounting standards".
Board meeting № 168 (232) dated 20.04.2012	Major transaction which is a related party party transaction at the same time. Deed of undertaking between MegaFon OJSC (as Obligor), MEGAFON INVESMENTS (CYPRUS) LIMITED (as Obligor and Beneficiary), TeliaSonera Aktiebolag and AF Telecom Holding Limited (as Addressees/Beneficiaries). The value is not defined, however, the valuation of rights and liabilities of MegaFon OJSC in case of its breaching the Deed of undertaking may be equal to an amount that is above 25%, but below 50% of the book value of the assets of MegaFon OJSC as calculated on the basis of the Company's financial statements as at 31 March 2012.
	Major transaction which is a related party party transaction at the same time. Deed of release between MegaFon OJSC, Altimo Holdings & Investments Limited, ALLACTION LIMITED, AF Telecom Holding Limited, AF Telecom Holding LLC, OLYMP LLC, Telecominvest OJSC, TeliaSonera Aktiebolag, Telia International Management AB, Telia International AB, TeliaSonera Finland Oyj, Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited and MEGAFON INVESMENTS (CYPRUS) LIMITED. Parties: MegaFon OJSC, Altimo Holdings & Investments Limited, ALLACTION LIMITED, AF Telecom Holding Limited, AF Telecom Holding LLC, OLYMP LLC, Telecominvest OJSC, TeliaSonera Aktiebolag, Telia International Management AB, Telia International AB, TeliaSonera Finland Oyj, Sonera Holding B.V., Kontakt-S LLC, Telecominvest Holdings Limited and MEGAFON INVESMENTS (CYPRUS) LIMITED. The value is not defined, however, the valuation of rights and liabilities of MegaFon OJSC under the Deed of release may be equal to an amount that is above 25%, but below 50% of the book value of the assets of MegaFon OJSC as calculated on the basis of the Company's financial statements as at 31 March 2012.
	Major transaction which is a related party party transaction at the same time. Deed of guarantee and indemnity between MegaFon OJSC and Sonera Holding B.V. in relation to the Option agreement. Parties: MegaFon OJSC and Sonera Holding B.V. Price of transaction up to US$ 6 000 000 000, which is above 25%, but below 50 % of the book value of the Company's assets as calculated on the basis of the Company's financial statements.

APPENDIX Nº 3
SUBSIDIARIES AND DEPENDENT COMPANIES
As of 31.12.2012

Subsidiaries

1) *TT mobile CJSC*
Location: *734043 Tajikistan, Dushanbe, 73/2 Khuvaydulloyeva st.*
Ownership, %: *75.*
Types of activity: *development, implementation, operation, development of mobile communication networks and provision of communication services in the territory of Tajikistan Republic.*

2) *MegaFon Finance LLC*
Location: *194014 Russia, St Petersburg, 48 Nekrasova st.*
Ownership, %: *100.*
Types of activity: *Implementation of investment projects, including projects in international and internal communication facility.*

3) *MegaFon International CJSC*
Location: *115035 Russia, Moscow, 30, Kadashevskaya embankment.*
Ownership, %: *100.*
Types of activity: *Provision of mobile communication services in various bandwidths, services of local and intra-zonal telephone communication beyond Russia.*

4) *MegaLabs CJSC*
Location: *119017 Russia, Moscow, 40, Bolshaya Ordynka st., bld. 4.*
Ownership, %: *100*
Types of activity: *Provision of data transmission communication services for the purposes of transmission of voice information, communication services in data transmission networks.*

5) *MegaFon Retail OJSC*
Location: *115035 Russia, Moscow, 30, Kadashevskaya embankment.*
Ownership, %: *100.*
Types of activity: *Wholesale and retail trade, creation of distribution chain.*

6) *ABSOLUT Construction Company CJSC*
Location: *115035 Russia, Moscow, 30, Kadashevskaya embankment.*
Ownership, %: *100.*
Type of activity: *Transactions with real-estate.*

7) *Debton Investments Limited*
Location: *6018 Cyprus, Larnaca, 4 Aphentrica Court office 2, Aphentricas.*
Ownership, %: *100.*
Type of activity: *Holding company.*

8) *Synterra CJSC*
Location: *119607 Russia, Moscow, 27, Michurinsky prospect, bld. 5.*
Ownership, %: *100.*
Type of activity: *Telecommunication services.*

9) *Metrokom CJSC*
Location: *199155 Russia, St Petersburg, 29, Odoevskogo st.*
Ownership, %: *100.*
Types of activity: *Communication services provision; development, designing, assembly and operation of communication networks for processing and transmission of data, voice information, radio- and television signals using facilities, utility systems and tunnels of the Metro of St Petersburg.*

10) *Pskovskaya Gorodskaya Telephonnaya Set' OJSC*
Location: *180007 Russia, Pskov, 23, Paromenskaya st.*
Ownership, %: *100.*
Type of activity: *Telecommunication services.*

11) *Web Plus CJSC*
Location: *191119 Russia, St Petersburg, 29, Kolomenskaya st.*
Ownership, %: *100.*
Type of activity: *Telecommunication services.*

12) *Fairlie Holding & Finance Limited*
Location: *British Virgin Islands, Road Town, Tortola, Porter Road, P.O. Box 3169 PMB 103 33.*
Ownership, %: *100.*
Type of activity: *Holding company.*

13) *Ugratel OJSC*
Location: *628403, Russia, Khanty-Mansiisk Autonomous Region – Yugra, Surgut, 32, 30 let pobedy st.*
Ownership, %: *100.*
Type of activity: *Communication services provision in the territory of Khanty-Mansiisk Autonomous Region.*

14) *MEGAFON INVESTMENTS (CYPRUS) LIMITED*
Location: *2406 Cyprus, Nicosia, Egkomi, LEDRA BUSINESS CENTER, Poseidonos, 1.*
Ownership, %: *100.*
Type of activity: *Holding company.*

15) *FELIBIOR HOLDINGS LIMITED*
Location: *2406 Cyprus, Nicosia, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1.*
Ownership, %: *100.*
Type of activity: *Investment activity.*

16) *Confectus Holdings Limited*
Location: *2406 Cyprus, Nicosia, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1.*
Ownership, %: *100.*
Type of activity: *Investment activity.*

Dependent companies

1) *VAS Pay LLC*
Location: *105005 Russia, Moscow, 15 corp.2, Akademika Tupoleva, 15, of. 12-15.*
Ownership, %: *40.*
Type of activity: *Telecommunication services.*

2) *Lefbord Investments Limited*
Location: *2406 Cyprus, Nicosia, Egkomi, LEDRA BUSINESS CENTER, Poseidonos 1.*
Ownership, %: *50.*
Type of activity: *Investment activity.*

APPENDIX Nº 4

COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT

1.	Shareholders shall be notified of holding of the general meeting of shareholders at least 30 days before the date when it is scheduled to be held, regardless of the nature of business included on its agenda, unless a longer notification period is required by law	Partly in effect	The Company's practice has been to send to shareholders the notice on convocation of the General Meeting of Shareholders not later than 20 days before of the date for such meeting, unless the agenda contains matters relating to the Company's re-organization, in which case the notice is sent no later than 30 days before the date of such meeting, subject always to some other deadline being specified by the Law
2.	The list of persons eligible to attend the general meeting of shareholders shall be available to shareholders for viewing from the date when notice of the general meeting of shareholders is given and until the meeting is closed, or, in the case of a meeting in absentia, until the final date for acceptance of ballots	Substantially in effect	The Company has established the practice of requiring that any person seeking to review the list of participants must be authorized to participate in the General Meeting of Shareholders and must hold at least one percent of the shares
3.	Information (materials) that must be provided during the period of preparation for the general meeting of shareholders shall be available to shareholders via electronic communication facilities, including the Internet	Substantially in effect	The Company has established the practice of sending such materials and information via E-mail to those Shareholders that have provided their email addresses to the Company or the Registrar prior to the General Meeting of Shareholders
4.	Any shareholder should be able to propose any business to be included on the agenda of a general meeting of shareholders or to request convening of a general meeting of shareholders without presentation of an excerpt from the shareholder register, if his/her/its title to stocks is recorded in the system for maintaining the shareholder register. If his/her/its title to stocks is recorded on a securities account, an excerpt from the securities account will be sufficient for exercise of the aforementioned title	In effect	Article 13.3 of the Charter states: "Proposals for inclusion of matters in the agenda and proposals for candidates for management bodies and other bodies of the Company can be submitted, and demands for convocation of an Extraordinary Meeting of Shareholders, can be made, by mailing such proposals or demands to the registered office of the Company or by delivering them to the registered office or any another department of the Company authorized to accept written correspondence addressed to the Company
5.	The charter or corporate documents of the joint stock company should require presence of the general director, management board members, members of the board of directors, members of the internal audit commission, and certified public accountants of the company at the general meeting of shareholders	Not in effect	The specified persons are usually present at all General Meetings of Shareholders of the Company; however, the Company has determined it is not necessary or desirable to require (and there are no provisions in the Charter or other internal corporate documents requiring) all such persons to attend every General Meeting of Shareholders
6.	Candidates should be present when the general meeting of shareholders elects members of the board of directors, the general director, members of management board, and members of the internal audit commission, and also when the certified public accountant of the joint-stock company is appointed	Not in effect	Candidates for election or approval are invited to the Company's General Meeting of Shareholders being held for such purpose, and are usually present at such meeting; however, there are no specific provisions in the Charter or other internal corporate documents requiring their presence

7.	Internal documents of the joint-stock company should contain a procedure for registration of persons attending the general meeting of shareholders	In effect	Article 13.6 of the Charter states: "The functions of the Secretary of the Company's General Meeting of Shareholders shall include organizing the registration of participants for each General Meeting of Shareholders." Article 7.4. of the Regulations on General Meeting of Shareholders of MegaFon states: "The Chairman of the General Meeting of Shareholders shall register shareholders based on the list of persons entitled to participate in the General Meeting of Shareholders. Registration must be completed within one hour"
8.	The charter of the joint-stock company should include authority of the board of directors to approve financial and business plans of the joint-stock company on an annual basis	In effect	Item 2, Article 15.2 of the Charter requires the Board of Directors to approve a budget for the succeeding year as well as any significant modifications and/ or amendments made thereto that are within its competence
9.	A risk management procedure for the joint-stock company, approved by the board of directors, should be in place	Partly in effect	The Company has established risk management division, with specific responsibility for risk management procedures
10.	The charter of the joint-stock company should include the right of the board of directors to suspend the authority of the general director, who was appointed by the general meeting of shareholders	Not in effect	The Charter does not provide for any exception from the law, which would give the right to the Board of Directors to suspend CEO's powers
11.	The charter of the joint-stock company should include the right of the board of directors to set requirements as to the level of qualifications and amount of remuneration payable to the general director, members of the management board, and managers of main structural divisions of the company	Partly in effect	Item 8, Article 15.2 of the Charter authorizes the Board of Directors to establish the level of remuneration and other benefits to be paid to the Chief Executive Officer of the Company
12.	The charter of the joint-stock company should include the right of the board of directors to approve the terms and conditions of agreements with the general director and members of the management board	In effect	Item 7, Article 15.2 of the Company's Charter provides for the right of the Board of Directors to approve the terms of the contract with the Chief Executive Officer. According to Article 18.3 of the Company's Charter, the composition of the Management Board, its meetings, its voting procedures, the rights and powers of the Management Board Members and other issues related to the Management Board's activities are defined by the Regulations for the Management Board, which are approved by the Company's General Meeting of Shareholders. According to Article 8.1 of the Regulations for the Management Board, the Board of Directors determines the amount of remuneration and reimbursement of expenses due to Members of the Management Board
13.	The charter or internal documents of the joint-stock company should require that board votes of the general director and members of the management board are not taken into account in voting on terms and conditions of agreements with the general director and members of the management board	Not applicable	The Company's Chief Executive Officer and Management Board Members are not members of the Company's Board of Directors
14.	The board of directors of the joint-stock company should include at least 3 independent directors who meet requirements of the Corporate Code of Conduct	Not in effect	In 2012 the Company had only one independent Director. As of March 4, 2013 the Company's Board of Directors has two independent directors, out of its total complement of seven, and anticipates maintaining this arrangement for the foreseeable future

15.	Persons should be disqualified from serving on the board of directors of the joint-stock company, if they were ever found guilty of any economic crime or crime against government, the interests of government or local authorities, or if they have been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market	In effect	
16.	Persons should be disqualified from serving on the board of directors of the joint-stock company if they are a shareholder, general director (manager), member of any management body or employee of a legal entity, which is a competitor of the joint-stock company	In effect	
17.	The charter of the joint-stock company should require the board of directors to be elected by cumulative voting	In effect	Article 15.7 of the Charter states: "Election of the Board of Directors shall be made by the General Meeting of Shareholders with cumulative voting"
18.	Internal documents of the joint-stock company should require members of the board of directors to refrain from any actions that will or may potentially cause a conflict between their interests and the interests of the company, and to disclose information concerning such a conflict, should it occur	In effect	Article 6.6 of the Regulations for the Board of Directors sets forth the following responsibilities of the Board of Directors: For the purpose of avoiding conflicts of interest when the Board of Directors takes decisions, the members of the Board shall be obliged to disclose fully and timely the following: 1) at minimum once a quarter, information on all legal entities in which a member of the Board of Directors, separately or jointly with persons affiliated with him or her, owns 20 (twenty) or more percent of the voting shares (participatory interests) and/or has a position in its management bodies; 2) information on any specific interest in the transactions in which the Company is engaged that the applicable member of the Board is or should be aware of; 3) information on any of the Company's securities owned by the applicable member of the Board of Directors as well as information on the disposal and/or purchase of such securities; 4) information on any intention to buy participatory interests/shares in the charter capital of legal entities competing with the Company or to be elected to any of the management bodies of legal entities competing with the Company
19.	The internal documents of the joint-stock company should require members of the board of directors to notify the board in writing of their intention to close any transactions with securities of the company or of its subsidiaries (affiliates), and to disclose any information on transactions closed by them with such securities	In effect	In addition to the Regulations of the Board of Directors mentioned above, Article 4 of the Company's Regulations on the procedure for access to MegaFon's insider information, rules for protection of confidentiality of such information and control of compliance with statutory requirements for counteracting the unlawful use of insider information and market manipulation, members of the governing bodies of the Company must disclose information on the following: ownership of securities of the Company or its subsidiaries and/or the sale and/or purchase of securities of the Company or its subsidiary. Such disclosure must be made to the Corporate Secretary. Similar provisions are contained in the Company's Share Trading Policy
20.	The internal documents of the joint-stock company should require the board of directors to hold meetings at least once every six weeks	Substantially in effect	Article 5.2 of the Regulations for the Board of Directors states: "Meetings of the Board of Directors shall be held on a regular basis in accordance with the operations plan approved by the Board of Directors but at least once every quarter"

21.	The board of directors of the joint-stock company should meet at least once every six weeks in any year, for which a company annual report is compiled	Substantially in effect	
22.	The internal documents of the joint-stock company should contain procedures to be followed at meetings of the board of directors	In effect	Article 5 of the Regulations for the Board of Directors provides guidance on the procedures for the holding of Board Meetings
23.	Internal documents of the joint-stock company should stipulate that any transactions by the company with value in excess of 10 percent of company assets should be approved by the board of directors, except for transactions in the normal course of business	Partly in effect	Article 16 of the Charter specifies the matters that fall within the competence of the Board of Directors of the Company, as follows: approval of transactions or groups of interrelated transactions connected with the Company's acquisition, alienation or opportunity for alienation, directly or indirectly, of property (including property rights), where the value of such property (including the aggregate value of property which is the subject of any interrelated transactions) or the amount of liabilities to be assumed by the Company upon entering into such transaction (or groups of transactions) exceeds US$ 50.000.000 (Fifty million)
24.	Internal documents of the joint-stock company should include the right of members of the board of directors to receive information from executive bodies and managers of structural divisions of the company, which is necessary for them to discharge their functions, as well as sanctions for failure to provide such information	Partly in effect	Article 6.1.1 of the Regulations for the Board of Directors states: "Each Board Member shall be entitled to require that the General Director and other officials of the Company provide information (materials) and clarifications on issues relating to the Company's performance, where such information is necessary for decisions to be taken by the Board of Directors"
25.	A committee of the board of directors in charge of strategic planning should be created, or the function of such a committee should be vested in another committee (other than the audit committee and HR and remuneration committee)	In effect	The Board of Directors has established a Financial and Strategy Committee
26.	A committee of the board of directors in charge of audit (audit committee) should be created, which makes recommendations to the board of directors on choice of a certified public accountant for the joint-stock company and liaises with the accountant and with the internal audit commission of the company	In effect	The Audit Committee of the Board of Directors has been established and operates in the required manner
27.	The audit committee should include only independent and non-executive directors	Partly in effect	All members of the current Audit Committee are non-executive, while two of them are independent
28.	The audit committee should be headed by an independent director	In effect	
29.	The internal documents of the joint-stock company should stipulate right of access for all members of the audit committee to any company documents and information, on condition that they do not disclose confidential information	Applied in practice	The Audit Committee members have full access to any documents and information of the Company

30.	A committee of the board of directors for human resources and remuneration should be created, with, the functions of identifying criteria for selection of candidates to the board of directors and developing a remuneration policy	Partly in effect	Partly in effect as far as the Company's remuneration policy is concerned. The Company has established a Remuneration and HR Development Committee of the Board of Directors
31.	The HR and remuneration committee should be headed by an independent director	Not in effect	
32.	No officers of the joint-stock company should serve on the HR and remuneration committee	In effect	
33.	A committee of the board of directors in charge of risk should be created or the functions of such a committee should be vested in another committee (other than the audit committee and the HR and remunerations committee)	Not in effect	The Company has established a risk management division, and risk committee which includes Company's top managers
34.	A committee of the board of directors should be created for settlement of corporate conflicts or the functions of such a committee should be vested in another committee (other than the audit committee and the HR and remuneration committee)	Not in effect	Article 6.6 of the Regulations for the Board of Directors sets forth various procedures intended to detect and resolve conflicts of interest affecting Board members
35.	No officers of the joint-stock company should serve on the committee for settlement of corporate conflicts	Not in effect	
36.	The committee for settlement of corporate conflicts should be managed by an independent director	Not in effect	
37.	There should be internal documents approved by the board of directors of the joint-stock company, setting out a procedure for creation and functioning of committees of the board of directors	In effect	The Charter and Regulations (which have been approved by the Board of Directors) contain provisions that regulate the activities of the Board committees
38.	The charter of the joint-stock company should define a quorum of the board of directors in such a way that attendance of independent directors at meetings of the board of directors is obligatory	Not in effect	
39.	There should be a collegiate executive body (management board) of the joint-stock company	In effect	Article 18.3 of the Charter states: "The Management Board shall be the collegial executive body of the Company"
40.	The charter or internal documents of the joint-stock company should require that any transactions with real estate and obtaining of loans by the company must be approved by the management board, unless such transactions are classified as major transactions as treated as normal business activities of the company	Not in effect	
41.	Internal documents of the joint-stock company should contain a procedure for approval of operations, which are outside the company's business plan	In effect	The Charter and other Regulations (which have been approved by the Board of Directors) contain provisions that regulate the activities of the Board committees

42.	Executive bodies should not include any person who is a shareholder, general director (manager), member of any management body, or employee of a legal entity, which is a competitor of the joint-stock company	In effect	
43.	Executive bodies of the joint-stock company should not include any person who has been found guilty of any economic crime or crime against government, the interests of government or local authorities, or if they have been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market. If the office of the sole executive body is executed by a management organization or a manager, the general director and management board members of the management organization or the manager should meet the aforementioned requirements for the general director and members of the management board of the joint-stock company itself	Not applicable	The Company is not managed by a managing company or a separate manager
44.	The charter or internal documents of the joint-stock company should prohibit any management organization (manager) from exercising analogous functions in a competitor company or from being involved in any property relationships with the company, other than providing management services	Not applicable	The Company is not managed by a managing company or a separate manager
45.	Internal documents of the joint-stock company should include the obligation of executive bodies to avoid any acts, which will or may cause a conflict between their interests and interests of the company, as well as the obligation to notify the Board of Directors should such a conflict arise	Not in effect	
46.	The charter or internal documents of the joint-stock company should include criteria for selection of a management organization (a manager)	Not applicable	The current framework of the Company's corporate governance does not provide for transfer of the powers of the sole executive body to a management organization (manager)
47.	Executive bodies of the joint-stock company shall provide monthly reports on their work to the board of directors	Substantially in effect	Management reports on all aspects of the Company's performance and operations are presented at every Board meeting
48.	Agreements between the joint-stock company, on the one hand, and the general director (management organization, manager) and members of the management board, on the other hand, should assign liability for violation of regulations concerning use of confidential and official information	In effect	The contracts of the Company's top managers all contain provisions requiring them to safeguard the Company's commercial secrets. Also, according to Article 19.3 of the Charter, all the Company's employees who have access to the Company's confidential information are obliged to keep such information confidential

49. The joint-stock company should have a special officer (company secretary), whose job is to ensure compliance of bodies and officers of the company with procedural requirements that guarantee exercise of rights and lawful interests of company shareholders	In effect	The Company has appointed a Corporate Secretary, and the Regulations governing its operations include the requirement to ensure the protection of shareholders rights and interests
50. The charter or internal documents of the joint-stock company should include a procedure for appointment (election) and specify responsibilities of the company secretary	In effect	Item 3.1 of the Corporate Secretary Regulations provides that: "The Corporate Secretary shall be elected by the decision taken by a simple majority of the Board of Directors of the Company. The Board of Directors shall determine the term of engagement of the Corporate Secretary. Candidates for the position of the Corporate Secretary shall be nominated by the members of the Board of Directors and/or the CEO of the Company"
51. The charter of the joint-stock company should specify requirements for any candidate to the post of company secretary	Applied in practice	Item 4.1 of the Corporate Secretary Regulations states that: "The Corporate Secretary shall have the expertise required to perform the assigned functions of the position and shall enjoy the trust of shareholders and members of the Board of Directors of the Company"
52. The charter or internal documents of the joint-stock company should require approval of any major transaction prior to execution thereof	Applied in practice	The Company maintains the practice of preliminary approvals for major transactions
53. It should be obligatory for the joint-stock company to hire an independent appraiser to assess the market value of property, which is the subject of a major transaction	Applied in practice	The Company's practice is to engage an independent appraiser where required or appropriate
54. The charter of the joint-stock company should prohibit any actions during the process of acquisition of large share stakes in the company (takeover), which aim to protect the interests of executive bodies (members thereof) and members of the board of directors, and should also prohibit any actions that tend to worsen the situation of shareholders. In particular, the board of directors should not be allowed to issue any additional stocks, securities convertible into stocks, or to purchase stocks or securities granting the right to purchase stocks of the company, until the proposed final date for acquisition of stocks or securities, even if the right to take such a decision is granted to the board by the charter	Not in effect	
55. The charter of the joint-stock company should require an independent appraiser to be hired for assessment of the current market value of stocks and possible changes in their market value that may result from any merger	Applied in practice	The Company's practice is to engage an independent appraiser where required or appropriate

56.	The charter of the joint-stock company should not exempt the purchaser from the obligation to make an offer to shareholders to purchase ordinary stocks of the company held by them (and securities convertible into ordinary stocks) in the case of a share purchase or merger	In effect	
57.	The charter or internal documents of the joint stock company should include a requirement to engage an independent appraiser to determine the conversion rate of stocks in case of reorganization	Applied in practice	
58.	There should be an internal document approved by the board of directors that determines rules and approaches of the joint-stock company to disclosure of information (a regulation on information policy)	Applied in practice.	The Company does not have any formal Information Disclosure Policy; however, it has many internal regulations dealing with disclosure of information
59.	Internal documents of the joint-stock company should require disclosure of information concerning the purpose of stock placements, persons intending to purchase the stocks, including large shareholdings, and information as to whether senior executive officers of the company will take part in acquisition of the stocks to be placed	Applied in practice.	The Company is subject to laws and regulations in Russia and other countries which require disclosure of all of the information mentioned (and more), and complies fully with those laws and regulations
60.	Internal documents of the joint-stock company should contain a list of information, documents, and materials to be provided to shareholders for transaction of business included on the agenda of the general meeting of shareholders	In effect	Items 4.3 – 4.7 of the Regulations for General Meeting of Shareholder regulate the procedures for submitting information and materials to shareholders in the course of preparation for a General Meeting of Shareholder
61.	The joint-stock company should have a web site on the Internet and disclose information about itself on this site on a regular basis	In effect	
62.	Internal documents of the joint-stock company should require disclosure of information on transactions by the company with persons who are, pursuant to the charter, senior executive officers of the company, as well as on transactions of the company with organizations, in which senior executive officers of the company directly or indirectly hold 20 or more percent of authorized capital or which can be otherwise significantly influenced by such persons	Applied in practice	All the related party transactions are approved either by the Board of Directors or by the General Meeting of Shareholders and such information is disclosed

63.	Internal documents of the joint stock company should require disclosure of information on all transactions, which may affect the market value of stocks of the company	Applied in practice	The Company is subject to Russian laws, as well as regulations of stock exchanges in Russian and other countries which require disclosure of all of the information mentioned (and more), and complies fully with those requriments
64.	There should be an internal document approved by the board of directors related to use of significant information on the activities of the joint stock company, stocks, and other securities of the company and transactions therewith, if such information is not in the public domain and its disclosure may materially affect the market value of the company's stocks and other securities	In effect	The Company's Inside Information regulations and Share Trading Policy, adopted by the Board of Directors, prohibits trading in the Company's shares on the basis of undisclosed confidential and/or inside information, or the disclosure (including the "tipping" of third parties) of confidential information whose disclosure could affect the Company's share price
65.	There should be procedures, approved by the board of directors, for internal control over financial and business activities of the joint-stock company	In effect	
66.	There should be a special division of the joint-stock company (the internal control and audit service), which ensures that internal control procedures are complied with	In effect	The Company has an active Internal Audit Department that is in charge of assessing compliance with its internal control procedures
67.	Internal documents of the joint-stock company should require the board of directors to define the structure and content of the company's internal control and audit service	In effect	Item 3.2 of the Regulations for Internal Audit provides that the organization, structure and personnel of the Internal Audit Department should be determined and approved in accordance with recommendations from the Audit Committee
68.	The internal control and audit service should not include any person who has been found guilty of any economic crime or crime against government, the interests of government or local authorities, or who has been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market	In effect	
69.	The internal control and audit service should not include any persons who serve on executive bodies of the joint-stock company or persons who are shareholders, the general director (manager), members of management bodies, or employees of a legal entity, which is a competitor of the company	In effect	
70.	Internal documents of the joint-stock company should specify a time limit for presentation of documents and materials to the internal control and audit service for appraisal of any completed financial or business transaction, and should also specify liability of company officers and employees for failure to present such documents and materials within the prescribed time	Not in effect	

71.	Internal documents of the joint-stock company should oblige the internal control and audit service to notify the audit committee of any violations that may be discovered and, if there is no such committee, to notify the board of directors	In effect	Item 4.7 of the Regulations for Internal Audit provides that the Internal Audit Director shall regularly report on the Internal Audit activities to the Audit Committee. The form of the report and timeline shall be determined by the Audit Committee. The Internal Audit Director must also report to the Audit Committee and the CEO on any events identified that create a threat to the security of the Company and/or damage the interests of shareholders of the Company
72.	The Charter of the joint-stock company should oblige the internal control and audit service to make a preliminary appraisal of advisedness of operations that were not foreseen in the financial and business plan of the joint-stock company (non-standard operations)	Not in effect	
73.	Internal documents of the joint-stock company should include a procedure for approval of any non-standard operation by the board of directors	In effect	If changes are made to the Company's approved budget, they must be specifically and separately approved by the Company's Board
74.	There should be an internal document approved by the board of directors defining the procedure for audit of financial and business activities of the joint-stock company by the internal audit commission	In effect	The Revision Commission procedures are governed by the Regulations for the Company's Revision Commission, which include provision for review of the Company's business and operations
75.	The audit committee should give an assessment of the opinion of the certified public accountant prior to its presentation to shareholders at the general meeting of shareholders	In effect	
76.	There should be an internal document approved by the board of directors, by which the board of directors is governed when making recommendations on the amount of dividends to be paid (regulation on dividend policy)	In effect	The Company's dividend policy was approved by the Board of Directors of the Company on June 8, 2012
77.	The regulation on dividend policy should include a procedure for determining a minimum share of net profit of the joint-stock company to be applied in payment of dividends, and should define the conditions, in which dividends on preference stocks, as prescribed in the company charter, are not paid or are paid only in part	In effect	
78.	Information on the dividend policy of the joint stock company and changes to it should be published in a periodical, publication of which is prescribed by the company charter for publishing of announcements of general meetings of shareholders, and should also be placed on the company web site in the Internet	In effect	

APPENDIX Nº 5
MEGAFON'S USE OF FUEL AND ENERGY RESOURCES IN 2012

	Consumption	Costs, '000 RUB
1. Fuel and industrial fluids		
Boiler fuels		
Diesel fuel, '000 litres	58.0	
Diesel fuel, tonnes	48.2	1,474.0
Gas (including condensate), '000 m^3	393.8	1,678.5
Technical equipment		
Fuel, litres	2,387,810.3	62,222.2
Fuel, tonnes	100,930,0	2,918.9
Oil and process fluids, litres	4,023.0	776.0
2. Utilities services		
Electricity, '000 kW*h	859,794.0	3,076,963.7
Heat, Gcals	1,853.8	2,342.0

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