Interim condensed consolidated financial statements
(Unaudited)

For the six months ended 30 June 2015

Contents

KPMG

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Auditors' Report on Review of Interim condensed consolidated financial statements

To the Board of Directors and Shareholders

PJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC MegaFon (the "Company") and its subsidiaries (the "Group") as at 30 June 2015, and the related interim condensed consolidated statement of comprehensive income for the three- and six-month periods ended 30 June 2015, the related interim condensed consolidated statements of changes in equity and cash flows for the six-month period ended 30 June 2015, and notes to the interim condensed consolidated financial statements (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 June 2015 and for the three- and six-month periods ended 30 June 2015 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

КПМГ
KPMG
МОСКВА

Akylbek Y. A.

Director, power of attorney dated 16 March 2015 No. 77/15

JSC "KPMG"

29 July 2015

Moscow, Russian Federation

Entity: PJSC MegaFon

Registered by Committee of external economic relations under the Saint Petersburg Town Council on 17 June 1993, Registration No. AOL 51-92.

Entered in the Unified State Register of Legal Entities on 15 July 2002 by Saint Petersburg Central District Inspectorate of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027809169585, Certificate series 78 No. 004009033.

30 Kadashevskaya Emb., Moscow 115035.

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

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Interim condensed consolidated statement of comprehensive income

(In millions of Rubles)

	Note	Three months ended 30 June 2015 (Unaudited)	Three months ended 30 June 2014 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)
Revenues		**76,141**	**76,666**	**150,124**	**151,542**
Operating expenses					
Cost of revenues		18,846	19,658	38,728	39,531
Sales and marketing expenses	8	4,286	3,875	7,864	7,743
General and administrative expenses	9	18,272	18,835	36,831	37,467
Depreciation		11,981	11,809	24,115	23,726
Amortisation		1,845	1,972	3,645	4,018
Loss on disposal of non-current assets	6	149	347	233	489
Total operating expenses		**55,379**	**56,496**	**111,416**	**112,974**
Operating profit		**20,762**	**20,170**	**38,708**	**38,568**
Finance costs		(3,719)	(3,893)	(7,547)	(7,445)
Finance income		573	419	1,494	461
Share of loss of associates and joint ventures		(510)	(396)	(559)	(668)
Other non-operating expenses	11	(265)	(822)	(2,476)	(1,127)
(Loss)/gain on financial instruments, net		(439)	899	(601)	961
Foreign exchange gain/(loss), net		696	1,579	(2,365)	(3,296)
Profit before tax		**17,098**	**17,956**	**26,654**	**27,454**
Income tax expense	10	4,158	4,026	6,337	6,249
Profit for the period		**12,940**	**13,930**	**20,317**	**21,205**

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

Interim condensed consolidated statement of comprehensive income (continued)

(In millions of Rubles, except per share amounts)

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Other comprehensive income/(loss)				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation difference, net of tax	100	294	121	(18)
Net movement on cash flow hedges, net of tax	20	18	(30)	108
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**120**	**312**	**91**	**90**
Total comprehensive income for the period, net of tax	**13,060**	**14,242**	**20,408**	**21,295**
Profit/(loss) for the period				
Attributable to equity holders of the Company	13,001	13,886	20,403	21,114
Attributable to non-controlling interest	(61)	44	(86)	91
Total comprehensive income/(loss) for the period				
Attributable to equity holders of the Company	13,082	14,129	20,482	21,223
Attributable to non-controlling interest	(22)	113	(74)	72
Earnings per share, Rubles				
Basic, profit for the period attributable to equity holders of the Company	22	24	34	37
Diluted, profit for the period attributable to equity holders of the Company	22	24	34	36

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

MegaFon

Interim condensed consolidated statement of financial position

(In millions of Rubles)

	Note	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Assets			
Non-current assets			
Property and equipment	6	219,442	224,655
Intangible assets, other than goodwill		54,821	57,427
Goodwill		32,270	32,292
Investments in associates and joint ventures		34,385	34,944
Non-current financial assets	7	808	2,863
Non-current non-financial assets		2,268	2,053
Deferred tax assets		728	782
Total non-current assets		**344,722**	**355,016**
Current assets			
Inventory		7,557	6,484
Current non-financial assets		7,692	5,161
Prepaid income taxes		2,623	3,713
Trade and other receivables		16,503	16,260
Other current financial assets	7	16,858	48,887
Cash and cash equivalents		61,965	22,223
Total current assets		**113,198**	**102,728**
Total assets		**457,920**	**457,744**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		168,562	157,689
Non-controlling interests		(4)	144
Total equity		**168,558**	**157,833**
Non-current liabilities			
Loans and borrowings	7	142,398	156,319
Other non-current financial liabilities	7	1,910	1,270
Non-current non-financial liabilities		1,640	1,712
Provisions		5,299	4,958
Deferred tax liabilities		18,158	19,572
Total non-current liabilities		**169,405**	**183,831**
Current liabilities			
Trade and other payables		33,570	36,549
Dividends payable	4	9,609	—
Loans and borrowings	7	49,037	51,149
Other current financial liabilities	7	7,888	7,731
Current non-financial liabilities		19,486	20,493
Income taxes payable		367	158
Total current liabilities		**119,957**	**116,080**
Total equity and liabilities		**457,920**	**457,744**

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

Interim condensed consolidated statement of changes in equity

(In millions of Rubles)

For the six months ended 30 June 2015 and 30 June 2014

	Attributable to equity holders of the Company									
	Ordinary shares		Treasury shares							
	Number of shares	Amount	Number of shares	Amount	Capital surplus	Retained earnings	Other capital reserves	Total	Non-controlling interests	Total equity
As of 1 January 2014	**620,000,000**	**526**	**46,940,089**	**(33,588)**	**12,567**	**157,986**	**543**	**138,034**	**271**	**138,305**
Net profit	—	—	—	—	—	21,114	—	21,114	91	21,205
Other comprehensive income/(loss)	—	—	—	—	—	—	109	109	(19)	90
Total comprehensive income	—	—	—	—	—	**21,114**	**109**	**21,223**	**72**	**21,295**
Share-based compensation	—	—	—	—	—	—	689	689	—	689
Dividends	—	—	—	—	—	(38,428)	—	(38,428)	—	(38,428)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(49)	(49)
As of 30 June 2014 (unaudited)	**620,000,000**	**526**	**46,940,089**	**(33,588)**	**12,567**	**140,672**	**1,341**	**121,518**	**294**	**121,812**
As of 1 January 2015	**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**161,422**	**561**	**157,689**	**144**	**157,833**
Net profit/(loss)	—	—	—	—	—	20,403	—	20,403	(86)	20,317
Other comprehensive income	—	—	—	—	—	—	79	79	12	91
Total comprehensive income/(loss)	—	—	—	—	—	**20,403**	**79**	**20,482**	**(74)**	**20,408**
Dividends	—	—	—	—	—	(9,609)	—	(9,609)	—	(9,609)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(74)	(74)
As of 30 June 2015 (unaudited)	**620,000,000**	**526**	**24,299,033**	**(17,387)**	**12,567**	**172,216**	**640**	**168,562**	**(4)**	**168,558**

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

MegaFon

Interim condensed consolidated statement of cash flows

(In millions of Rubles)

	Six months ended 30 June	
	2015	2014
	(Unaudited)	
Operating activities		
Profit before tax	26,654	27,454
Adjustments to reconcile profit before tax to net operating cash flows:		
Depreciation	24,115	23,726
Amortisation	3,645	4,018
Loss on disposal of non-current assets	233	489
Loss/(gain) on financial instruments, net	601	(961)
Net foreign exchange loss	2,365	3,296
Share of loss of associates and joint ventures	559	668
Change in impairment allowance for receivables and other non-financial assets	948	764
Finance costs	7,547	7,445
Finance income	(1,494)	(461)
Equity-settled share-based compensation	—	689
Working capital adjustments:		
(Increase)/decrease in inventory	(1,073)	409
Increase in trade and other receivables	(1,255)	(2,998)
(Increase)/decrease in current non-financial assets	(1,710)	278
Decrease in trade and other payables	(1,863)	(3,186)
Decrease in current non-financial liabilities	(2,513)	(2,991)
Change in VAT, net	190	2,194
Income tax refunded	153	172
Income tax paid	(6,496)	(7,437)
Interest received	1,538	399
Interest paid, net of interest capitalised	(6,828)	(6,239)
Net cash flows received from operating activities	**45,316**	**47,728**
Investing activities		
Purchase of property, equipment and intangible assets	(21,946)	(27,429)
Proceeds from sale of property and equipment	186	526
Payment of contingent consideration	(97)	(36,330)
Net change in short-term demand deposits	31,404	39,459
Acquisition of subsidiaries, net of cash acquired	—	(146)
Net cash flows received from/(used in) investing activities	**9,547**	**(23,920)**
Financing activities		
Proceeds from borrowings, net of fees paid	12,191	23,158
Repayment of borrowings	(25,778)	(5,817)
Dividends paid to non-controlling interests	(74)	(49)
Payment of liability for marketing related licences	—	(184)
Net cash flows (used in)/received from financing activities	**(13,661)**	**17,108**
Net increase in cash and cash equivalents	41,202	40,916
Net foreign exchange difference	(1,460)	(3,817)
Cash and cash equivalents at beginning of period	22,223	9,939
Cash and cash equivalents at end of period	**61,965**	**47,038**

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

1. General

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

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2014.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual International Financial Reporting Standards ("IFRS") financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2014 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2014 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Group's 2014 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting periods in accordance with IAS 34, *Interim Financial Reporting*.

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

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 29 July 2015.

3. Significant accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2014.

4. Dividends

On 30 June 2015 the Annual General Meeting of Shareholders of the Company approved the payment of dividends for the 2014 financial year in the amount of 9,609, or 16.13 Rubles per ordinary share (or GDR).

5. Segment information

The Group manages its business primarily based on eight geographical operating segments within Russia, which provide a broad range of voice, data and other telecommunication services, including wireless and wireline services to clients, interconnection services, data transmission services and value added services. The Chief Operating Decision Maker ("CODM") evaluates the performance of the Group's operating segments based on revenue and operating income before depreciation and amortisation ("OIBDA"). Total assets and liabilities are not allocated to operating segments and not analysed by the CODM. Operating segments with similar economic characteristics have been aggregated into an integrated telecommunication services segment, which is the only reportable segment. Less than 1% of the Group's revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

Reconciliation of consolidated OIBDA to consolidated profit before tax for the three and six months ended 30 June:

	Three months ended 30 June		**Six months ended 30 June**	
	2015	**2014**	**2015**	**2014**
OIBDA	**34,737**	**34,298**	**66,701**	**66,801**
Depreciation	(11,981)	(11,809)	(24,115)	(23,726)
Amortisation	(1,845)	(1,972)	(3,645)	(4,018)
Loss on disposal of non-current assets	(149)	(347)	(233)	(489)
Finance costs	(3,719)	(3,893)	(7,547)	(7,445)
Finance income	573	419	1,494	461
Share of loss of associates and joint ventures	(510)	(396)	(559)	(668)
Other non-operating expenses, net	(265)	(822)	(2,476)	(1,127)
(Loss)/gain on financial instruments, net	(439)	899	(601)	961
Foreign exchange gain/(loss), net	696	1,579	(2,365)	(3,296)
Profit before tax	**17,098**	**17,956**	**26,654**	**27,454**

Seasonality of operations

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

5. Segment information (continued)

in the second half of the year. This information is provided to allow for a better understanding of the Group's results; however, management has concluded that these impacts on the results are not 'highly seasonal' as considered by IAS 34.

6. Property and equipment

During the six months ended 30 June 2015, the Group acquired assets with a cost of 19,471 (30 June 2014: 20,140). Assets with a net book value of 566 were disposed of by the Group during the six months ended 30 June 2015 (30 June 2014: 491), resulting in a net loss on disposal of 191 (30 June 2014: 356). Interest capitalised was 707 and 835 for the six months ended 30 June 2015 and 2014, respectively.

7. Financial assets and liabilities

Amended derivative financial instrument

In February 2015 the Group amended its cross-currency swap agreement with a remaining notional amount of $217 million (12,049 at the exchange rate as of 30 June 2015) by changing the swap rate for all the remaining swap payments. The change resulted in an additional charge to the '(Loss)/gain on financial instruments, net' line in profit or loss for the six months ended 30 June 2015.

The terms of the swap agreement did not meet the requirements for hedge accounting, therefore the Group has reported all gains and losses from the change in fair value of this derivative financial instrument directly in profit or loss. Total loss recorded in profit or loss in respect of the derivative was 1,167 for the period ended 30 June 2015 (30 June 2014: 388).

Loans and borrowings

In March 2015 the Group drew down approximately $93.5 million (5,191 at the exchange rate as of 30 June 2015) under the $150 million agreement for equipment financing signed in February 2014. As of 30 June 2015, this credit facility has been fully drawn.

In June 2015 the Company signed a new credit facility agreement for up to Euro 150 million (9,228 at the exchange rate as of 30 June 2015). The credit facility must be used to finance purchases of equipment and related services and requires the Group to make semi-annual payments, including accrued interest, over the period from 2015 to 2024. As of the date of authorisation of these interim condensed consolidated financial statements, no amount has been drawn under this credit facility.

Ruble bonds

In April 2015 the Group decided to repay its Series BO-04 Ruble bonds in full at the end of the second coupon period. The payment of the principal amount of 15,000 was made in May 2015.

7. Financial assets and liabilities (continued)

Fair values

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

		Carrying amount		**Fair value**	
		30 June 2015 (Unaudited)	**31 December 2014**	**30 June 2015 (Unaudited)**	**31 December 2014**
Financial assets					
Financial assets at fair value through profit or loss:					
Cross-currency swaps not designated as hedges	Level 2	1,156	1,533	1,156	1,533
Financial assets at fair value through OCI:					
Cross-currency swap designated as cash flow hedge	Level 2	1,523	2,082	1,523	2,082
Loans and receivables at amortised cost:					
Short-term bank deposits	Level 2	14,987	47,534	14,987	47,534
Bank promissory note	Level 2	—	601	—	601
Total financial assets		**17,666**	**51,750**	**17,666**	**51,750**
Financial liabilities					
Financial liabilities at amortised cost:					
Loans and borrowings	Level 2	169,185	170,104	166,109	161,981
Ruble bonds	Level 1	22,250	37,364	20,081	34,664
Deferred consideration for Scartel	Level 3	7,360	7,257	7,360	7,257
Long-term accounts payable	Level 3	1,012	1,181	1,012	1,181
Finance lease obligations	Level 3	951	144	951	144
Contingent consideration	Level 3	24	150	24	150
Financial liabilities at fair value through profit or loss:					
Cross-currency swap not designated as hedge	Level 2	308	16	308	16
Financial liabilities at fair value through OCI:					
Interest-rate swaps designated as cash flow hedges	Level 2	117	215	117	215
Cross-currency swaps designated as cash flow hedges	Level 2	26	33	26	33
Due to employees and related social charges, non-current	Level 3	—	5	—	5
Total financial liabilities		**201,233**	**216,469**	**195,988**	**205,646**

7. Financial assets and liabilities (continued)

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

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

While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Fair values of the Group’s loans and borrowings and other liabilities carried at amortised cost, except for market quoted Ruble bonds, are determined by a discounted cash flow method using a discount rate that reflects the issuer’s borrowing rate as at the end of the reporting period. The own nonperformance risk as at 30 June 2015 and 31 December 2014 was assessed to be insignificant.

During the six months ended 30 June 2015 there were no transfers between levels of the fair value hierarchy.

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

Valuation techniques and assumptions

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

8. Sales and marketing expenses

Sales and marketing expenses for the three and six months ended 30 June are as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2015	**2014**	**2015**	**2014**
Dealer commissions for connection of new subscribers	1,929	1,273	3,602	2,788
Advertising	1,746	1,636	2,932	3,078
Cash collection and other commissions	611	966	1,330	1,877
Total sales and marketing expenses	**4,286**	**3,875**	**7,864**	**7,743**

9. General and administrative expenses

General and administrative expenses for the three and six months ended 30 June are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	**2014**	**2015**	**2014**
Employee benefits and related social charges	6,310	7,163	13,292	14,297
Rent	4,148	3,850	8,282	7,570
Operating taxes	1,757	1,837	3,433	3,472
Utilities	1,382	1,248	2,724	2,423
Network repairs and maintenance	1,317	1,546	2,588	2,919
Radio frequency fees	1,258	1,310	2,513	2,559
Office maintenance	675	520	1,279	1,047
Change in allowance account for trade and other receivables and advances to suppliers	467	315	948	764
Professional services	306	249	440	406
Vehicle costs	189	195	357	409
Materials and supplies	39	41	118	102
Insurance	16	18	28	35
Other expenses	408	543	829	1,464
Total general and administrative expenses	**18,272**	**18,835**	**36,831**	**37,467**

10. Income tax

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

The major components of income tax expense for the three and six months ended 30 June in the interim condensed consolidated statement of comprehensive income are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	**2014**	**2015**	**2014**
Current income tax	4,545	2,956	7,683	5,507
Deferred income tax	(387)	1,070	(1,346)	742
Total income tax expense	**4,158**	**4,026**	**6,337**	**6,249**

11. Related parties

As of 30 June 2015 and 31 December 2014, the Group is primarily owned by USM Group, an indirect controlling shareholder, and TeliaSonera Group, another major shareholder with significant influence over the Group, a publicly owned Swedish company.

11. Related parties (continued)

In August 2014 USM Holdings Limited ("USMHL"), a non-public entity and the parent company of the USM Group, announced a restructuring amongst its shareholders. As a result of this restructuring the voting interest held by Mr Alisher Usmanov, which previously enabled him to control USMHL, has been reduced to a 48% voting interest.

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

	Three months ended 30 June		Six months ended 30 June	
	2015	**2014**	**2015**	**2014**
Revenues from USM Group	5	6	11	11
Revenues from TeliaSonera Group	127	152	303	312
Revenues from Euroset	16	20	22	44
	148	**178**	**336**	**367**
Services from USM Group	292	176	452	374
Services from TeliaSonera Group	402	526	815	866
Services from Euroset	278	317	566	706
	972	**1,019**	**1,833**	**1,946**
Other non-operating expenses from USM Group	—	789	1,826	1,089

	30 June 2015	31 December 2014
Due from USM Group	1,004	13
Due from TeliaSonera Group	297	388
Due from Euroset	328	379
	1,629	**780**
Due to USM Group	8,657	7,476
Due to TeliaSonera Group	478	638
Due to Euroset	24	3
	9,159	**8,117**

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2015 and 31 December 2014 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 30 June 2015 and 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

11. Related parties (continued)

USM Group

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

Amounts due to USM Group mainly represent the deferred consideration for the Scartel acquisition (*Note 7*).

The Group purchased billing system and related support services from PeterService, a member of the USM Group, in the amount of 962 and 302 during the six months ended 30 June 2015 and 2014, respectively.

The Group is a member of the not-for-profit partnership "Development, Innovations, Technologies" (the "Partnership") which was established by companies in the USM Group. The Partnership may determine to incur education, science and other social costs as well as to maintain certain social infrastructure assets in Skolkovo Innovation Centre which are not owned by MegaFon and not recorded in the consolidated statement of financial position. The Group's accrued contributions to the Partnership of 1,826 during the six months ended 30 June 2015 and 1,089 during the six months ended 30 June 2014 are included into other non-operating expenses in the interim condensed consolidated statement of comprehensive income.

TeliaSonera Group

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

Euroset

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

12. Commitments, contingencies and uncertainties

Operating environment

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

During 2014 and the six months ended 30 June 2015, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian

12. Commitments, contingencies and uncertainties (continued)

Ruble, as well as sanctions imposed on Russia by several countries. The Ruble interest rates have increased significantly and as of 30 June 2015 the key rate of the Central Bank of Russia was at 11.5%.

The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

4G/LTE licence capital commitments

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

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

Equipment purchases agreements

In April 2014 and December 2014 the Group entered into two separate 7-year agreements with two suppliers to purchase equipment and software for 2G/3G/4G network construction and modernisation. The software usage agreements contain various termination options, however the Group is specifically committed under the agreements to pay at least 3 years’ worth of fees plus an amount equal to 50-60% of the fees for years four through seven of the agreements for each base station in use as at the date of termination while receiving a credit against these commitments for fees already paid. The amount of the commitments at 30 June 2015 is 8,810 (31 December 2014: 9,206).

Social infrastructure expenses

From time to time, the Group may determine to maintain certain social infrastructure assets which are not owned by the Group and not recorded in the consolidated financial statements as well as to incur education, science and other social costs. Such activities are conducted in collaboration with non-governmental charity organisations. These expenses are presented in other non-operating expenses in the interim condensed consolidated statements of comprehensive income *(Note 11)*.

12. Commitments, contingencies and uncertainties (continued)

Taxation

Russian tax, currency and customs legislation are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to transactions and activities of the Group may be challenged by the relevant regional and federal authorities.

Recent events within Russia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. Therefore, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the current year. Under certain circumstances reviews may cover longer periods.

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ.

As of 30 June 2015 the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of approximately 942 (31 December 2014: 925).

Litigation

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