

MEGAFON

Condensed Consolidated Financial Statements (Unaudited)

Three and six months ended June 30, 2011 and 2010 With Independent Accountants' Report



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Independent Accountant's Report

The Board of Directors and Shareholders OJSC MegaFon

We have reviewed the condensed consolidated balance sheet of OJSC MegaFon and subsidiaries as of June 30, 2011, and the related condensed consolidated statements of operations and cash flows for the three and six months ended June 30, 2011 and 2010. This condensed financial information is the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial information referred to above for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OJSC MegaFon and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

August 15, 2011

Ernst & Young LLC

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Condensed Consolidated Balance Sheets

(In millions of Rubles)

	Note	December 31, 2010	June 30, 2011 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents		2,667	3,646
Short-term investments		63,554	75,735
Accounts receivable, net of allowance for doubtful accounts of 1,029 and 1,246 at December 31, 2010 and June 30, 2011,			
respectively		6,954	8,115
Inventory		3,081	4,285
VAT receivable		2,562	1,948
Deferred tax assets		1,166	1,666
Prepaid expenses and other current assets	_	14,089	12,766
Total current assets		94,073	108,161
Property, plant and equipment, net of accumulated depreciation of 130,876 and 147,244 at December 31, 2010 and June 30, 2011, respectively		194,872	203,852
Goodwill and intangible assets: Goodwill Intangible assets, net of accumulated amortization of 20,638 and 22,917 at December 31, 2010 and	4	7,041	15,093
June 30, 2011, respectively		19,245	19,111
Deferred tax assets		506	467
Other non-current assets	-	1,730	3,025
Total assets	=	317,467	349,709

Condensed Consolidated Balance Sheets (continued)

(In millions of Rubles)

	Note	December 31, 2010	June 30, 2011 (Unaudited)
Liabilities			
Current liabilities:			
Accounts payable		6,832	9,020
Accounts payable to equipment suppliers Current portion of liability for marketing related		10,401	7,270
licenses Current portion of liability for deferred and	5	382	359
contingent consideration	6	1,450	2,422
Accrued compensation and social contributions		3,028	4,706
Subscribers' prepayments		7,303	6,350
Taxes payable		1,516	1,870
VAT payable		1,294	2,675
Current portion of deferred revenue	5	552	698
Current portion of long-term debt		12,171	14,066
Other current liabilities	_	845	752
Total current liabilities		45,774	50,188
Debt, less current portion		20,750	27,334
Deferred tax liabilities		8,256	7,656
Asset retirement obligations Liability for marketing related licenses,		4,304	4,821
less current portion Liability for deferred and contingent consideration,	5	893	715
less current portion	6	1,731	1,549
Deferred revenue, less current portion	5	1,968	1,951
Other non-current liabilities	-	665	888
Total liabilities		84,341	95,102
Equity			
MegaFon shareholders' equity: Common stock (par value of 10 Rubles, 6,200,002			
shares authorized, issued and outstanding)		581	581
Reserve fund		17	17
Additional paid-in capital		13,855	13,855
Retained earnings		218,371	239,805
Accumulated other comprehensive loss	_	(261)	(217)
Total MegaFon shareholders' equity		232,563	254,041
Noncontrolling interests	-	563	566
Total equity	-	233,126	254,607
Total liabilities and equity	=	317,467	349,709

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

See independent accountants' report

Condensed Consolidated Statements of Operations

(In millions of Rubles) (Unaudited)

	_	Three months ended June 30,				Six mo	
	Note	2010	2011	2010	2011		
Revenue	7	52,215	58,557	98,958	113,713		
Cost of services (excluding depreciation and amortization)	8 _	11,681	14,055	21,377	26,843		
Gross margin		40,534	44,502	77,581	86,870		
Sales and marketing expenses (excluding depreciation and amortization) Operating expenses (excluding depreciation and	9	5,045	5,052	9,546	8,732		
amortization)	10	11,783	14,214	22,907	29,095		
Depreciation and accretion		8,251	10,673	15,998	21,010		
Amortization	_	931	1,266	1,820	2,490		
Operating income		14,524	13,297	27,310	25,543		
Other income/(expense):							
Interest expense		(229)	(120)	(347)	(455)		
Interest income		980	955	2,010	1,775		
Other gain/(loss), net		27	(45)	49	(39)		
Gain/(loss) on derivatives, net		(62)	16	(303)	(40)		
Foreign currency exchange gain/(loss), net	_	48	(27)	(579)	(65)		
Total other income, net	_	764	779	830	1,176		
Income before income taxes and noncontrolling interest		15,288	14,076	28,140	26,719		
Provision for income taxes	_	3,062	2,738	5,639	5,296		
Net income		12,226	11,338	22,501	21,423		
Net (gain)/loss attributable to noncontrolling		(2)	_	_			
interest	_	(3)	5	5	11		
Net income attributable to MegaFon	_	12,223	11,343	22,506	21,434		

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles) (Unaudited)

		led June 30,	
	Note	2010	2011
Net cash provided by operating activities		40,635	45,965
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets Proceeds from sale of property, plant and equipment Acquisitions of subsidiaries, net of cash acquired of 833 and 192 for the six months ended June 30, 2010 and		(19,864) 527	(33,879) 89
2011, respectively Increase in short-term investments	3	(8,434) (12,988)	(7,853) (13,545)
Net cash used in investing activities Cash flows from financing activities:		(40,759)	(55,188)
Proceeds from long-term debt Repayments of long-term debt Deferred finance charges paid Net cash provided by/(used in) financing activities	_	8,586 (11,977) (120) (3,511)	14,222 (3,393) (191) 10,638
Effect of exchange rate changes on cash and cash equivalents	_	(451)	(436)
Net increase/(decrease) in cash and cash equivalents Cash and cash equivalents at the beginning of the period	_	(4,086) 12,550	979 2,667
Cash and cash equivalents at the end of the period		8,464	3,646

Notes to Unaudited Condensed Consolidated Financial Statements

(In millions of Rubles, unless otherwise indicated)

1. Financial Presentation and Disclosures

Open Joint Stock Company MegaFon (the "Company" or "MegaFon") is a leading universal telecommunications operator in Russia and provides a broad range of voice, data and other telecommunication services to businesses, other telecommunication service providers and retail subscribers, with licenses to operate in all regions of Russia, covering a population of approximately 142 million. The Company intends, wherever possible, to offer its integrated telecommunication services under the "MegaFon" brand, although some services still carry local brand names because of recent acquisitions. In addition to its operations in Russia, the Company provides mobile services through its subsidiaries in the Republic of Tajikistan ("Tajikistan"), the Republic of Abkhazia ("Abkhazia") and the Republic of South Ossetia ("South Ossetia").

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 license 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. As of June 30, 2011, the Company is providing and expanding 3G services in almost all of the regions throughout Russia.

The Company holds licenses for local and long-distance telephony services, data transmission, wireless broadband access services, and communication channels leasing covering the whole territory of the Russian Federation. The Company has its own land-line and satellite transmission network.

The accompanying condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") for interim financial reporting and do not include all disclosures required by US GAAP. The Company omitted certain disclosures which would substantially duplicate the disclosures contained in its 2010 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 2010 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Company's 2010 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods. The results of operations for the six months ended June 30, 2011 are not indicative of the operating results for the full year. These financial statements include information updated and subsequent events evaluated through August 15, 2011, the date these interim condensed consolidated financial statements were available to be issued.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

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).

In 2010, the Company allocated consideration received from subscribers to the separate units of accounting based on their relative fair values. The allocated revenue was recognized in accordance with the type of the element.

In October 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC") issued Accounting Standards Update ("ASU") 2009-13, "*Multiple-Deliverable Revenue Arrangements*", which addresses how revenues should be allocated among all products and services included in the Company's multiple element sales arrangements. ASU 2009-13 is effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010. Accordingly, the Company adopted ASU 2009-13 for all sales entered into or significantly modified starting from January 1, 2011.

The revised guidance establishes a selling price hierarchy for determining the selling price of each product or service included in a multiple element sale arrangement. The selling price used for each deliverable will be 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. It replaces "fair value" with "selling price" in revenue allocation guidance and eliminates the residual method of allocation.

The adoption of ASU 2009-13 did not have a material impact on the Company's financial statements and is not expected to have a material impact on its financial statements in the future, because for substantially all of the multiple element arrangements the Company continues to use VSOE to determine the relative selling price of the service element of the arrangements and best estimate of the selling price to determine the relative selling price of the equipment element of the arrangements.

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.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements (continued)

Income Taxes

Provision for income taxes is made in the financial statements for taxation of profits in accordance with Russian legislation currently in force. The Company accounts for income taxes using the liability method required by the FASB in ASC 740, "Income Taxes". For interim reporting purposes, the Company also follows the provisions of accounting standard ASC 270, "Interim Reporting", which requires the Company to account for income taxes based on the Company's estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis.

The rate so determined is based on the currently enacted tax rate applicable to the Company, and includes estimates of the annual tax effect of items that do not have tax consequences and the realization of certain deferred tax assets.

The difference between income tax expense reported in the accompanying condensed consolidated financial statements and income before taxes for the six months ended June 30, 2011 and 2010, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes, recognized tax benefits and preferences.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income taxes. As of June 30, 2011, the tax years ended December 31, 2008, 2009 and 2010 remained subject to examination by the tax authorities.

Comparative Information

Certain prior year amounts have been reclassified to conform to the presentation adopted in the current year.

Comprehensive income

ASC 220, "Comprehensive Income", requires the reporting of comprehensive income in addition to net income. Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Comprehensive income for all period presented in the accompanying condensed consolidated financial statements approximates net income.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements (continued)

Recent Accounting Pronouncements

Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income", which gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment is effective for non-public entities for fiscal years ending on or after December 15, 2012 and interim and annual periods thereafter. The Company does not expect ASU 2011-05 to have a material impact on its financial statements.

Fair Value Measurements. In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. 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 IFRSs. The amendment is effective for non-public entities for annual periods ending after December 15, 2011. The Company is currently evaluating the impact of this ASU on its financial statements

Receivables. In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring", which provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendment is effective for non-public entities for annual periods ending on or after December 15, 2012 and for interim periods within those annual periods. Early adoption is permitted. The Company does not expect ASU 2011-02 to have a material impact on its financial statements.

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", which improves disclosure requirements that facilitate financial statement users' evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, the allowance for credit losses and changes in the allowance for credit losses. ASU 2010-20 will be effective for interim and annual reporting periods ending on or after December 15, 2011. The Company does not expect ASU 2010-20 to have a material impact on its financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements (continued)

Goodwill Impairment. In December 2010, the FASB issued ASU 2010-28, "Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts", which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011. The Company is currently evaluating the impact, if any, of ASU 2010-28 on its financial statements.

3. Business combinations

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 under NetByNet brand in Russia ("NetByNet") for the total consideration transferred at fair value of 8,936, including cash consideration of 7,507, contingent consideration of 1,429, and estimated net debt and working capital adjustments of NetByNet as of the date of acquisition.

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

Contingent consideration consists of several payments due within approximately one year with the amounts due being linked to NetByNet's operating results and acquisitions for the year ending December 31, 2011.

The Company estimated the fair value of the contingent consideration at 1,429 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.

The acquisition of NetByNet was accounted for using the acquisition method. The purchase price allocation for the acquisition has not been finalized as of the date these interim condensed consolidated financial statements were issued, as the Company has not completed the valuation of individual assets of NetByNet. The table below represents the preliminary allocation of the purchase price to the acquired net assets of NetByNet based on their estimated fair values and the associated estimated useful lives of long-lived assets.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

3. Business combinations (continued)

	Weighted- average useful life, years	Total amounts as of the date of acquisition
Cash and cash equivalents		190
Other current assets		336
Tangible assets:		
Telecommunications network	8.0	2,055
Other equipment	7.0	70
Identifiable intangible assets:		
Trademarks	3.0	295
Customer lists	10.6	633
Computer software	4.5	32
Numbering capacity	10.0	5
Goodwill		8,052
Total assets acquired		11,668
Debt, including current portion		(1,233)
Current liabilities		(694)
Non-current liabilities		(805)
Total liabilities assumed		(2,732)
Total consideration transferred		8,936

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

As a part of liabilities assumed in the business combination, the Company recognized tax contingencies of 514 which are included in non-current liabilities.

The Company has consolidated the financial position and the results of operations of NetByNet from June 1, 2011.

Web Plus

In June 2011, the Company completed the acquisition of a 100% ownership interest in CJSC Web Plus ("Web Plus"), an alternative provider of broadband internet services in St. Petersburg, from OJSC Telecominvest, a related party, for a total cash consideration of \$2.2 million (61 at the exchange rate as of June 6, 2011) of which \$0.5 million (14 at the exchange rate as of June 6, 2011) is deferred and will be paid within one year contingent upon certain conditions. The acquisition date fair value of the purchase consideration in the amount of 54 has been provisionally allocated between the net assets acquired based on their estimated fair values of 58, which resulted in bargain purchase gain of 4.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

3. Business combinations (continued)

The Company has consolidated the financial position and the results of operations of Web Plus from June 1, 2011.

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 offers wireline services in Russia and holds licenses 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.

The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The key assumptions used are as follows: 6% discount rate and several probability adjusted contingent payments.

The acquisition of Synterra was accounted for using the acquisition method. The goodwill recognized is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of Synterra.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

3. Business combinations (continued)

The Company has consolidated the financial position and the results of operations of Synterra from June 1, 2010.

4. Goodwill

The changes in the carrying value of goodwill for the six months ended June 30, 2011 are as follows:

	June 30, 2011
Balance at January 1, 2011:	7,041
Acquisitions (Note 3)	8,052
Balance at the end of the period	15,093

5. 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 licenses 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 (1,825 at the exchange rate as of June 30, 2011) 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 (3,649 at the exchange rate as of June 30, 2011) 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 licenses in the third quarter of 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. 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 includes forecasted amounts and timing of services to be provided under the agreement. The Company used 7% as a discount rate.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

5. Marketing Related Intangible Assets (continued)

The following table presents a reconciliation of the beginning and ending balances of liabilities for marketing related assets:

	Liability for marketing related assets	Deferred revenue
Balance at January 1, 2011	1,275	1,542
Accrued interest	37	,
Repayments	(163)	_
Revenue recognized	_	(67)
Foreign currency exchange adjustment	(75)	_
Balance at June 30, 2011	1,074	1,475
Less current portion	(359)	(214)
Non-current portion	715	1,261

6. Liability for deferred and contingent consideration

The following table presents movements in liability for deferred and contingent consideration:

	Synterra	NetByNet	Web Plus
Balance at January 1, 2011	3,181		_
Acquisitions (<i>Note 3</i>)	_	1,429	7
Accrued interest	100	_	_
Repayments	(491)	_	_
Adjustment to contingent			
consideration	(62)		_
Foreign currency exchange			
adjustment	(213)	20	
Balance at June 30, 2011	2,515	1,449	7
Less current portion	(966)	(1,449)	(7)
Non-current portion	1,549	_	

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

7. Revenues

Revenues for the three and six months ended June 30 are as follows:

	Three months ended June 30,			
	2010	2011	2010	2011
Wireless revenues	42,718	45,110	81,760	87,821
Revenues from interconnection charges	7,191	8,364	13,662	15,880
Wireline revenues	1,081	3,293	1,301	6,526
Sales of handsets and equipment	1,170	1,683	2,109	3,140
Other revenues	55	107	126	346
Total revenues	52,215	58,557	98,958	113,713

8. Cost of Services

Cost of services for the three and six months ended June 30 are as follows:

	Three months ended June 30,				
	2010	2011	2010	2011	
Interconnection charges	9,727	10,530	17,816	20,322	
Cost of handsets and equipment sold	1,138	2,417	2,009	4,476	
Roaming expenses	441	499	923	890	
Cost of SIM-cards	306	208	550	375	
Other costs	69	401	79	780	
Total cost of services	11,681	14,055	21,377	26,843	

9. Sales and Marketing Expenses

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

	Three months ended June 30,		Six months ended June 30,	
- -	2010	2011	2010	2011
Advertising	1,634	1,869	3,141	3,233
Commissions to dealers for connection of new subscribers	2,363	2,071	4,391	3,445
Commissions to dealers for cash collections	1.040	4 4 4 4 4	2.014	
from subscribers	1,048	1,112	2,014	2,054
Total sales and marketing expenses	5,045	5,052	9,546	8,732

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

10. Operating Expenses

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

		Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011	
	4.440		0.776	44 =0 =	
Salaries and social charges	4,449	5,734	8,776	11,735	
Rent	2,695	3,394	5,227	6,728	
Operating taxes	1,275	1,445	2,426	2,814	
Network repairs and maintenance	1,061	1,159	1,938	2,341	
Radio frequency fees	672	875	1,425	1,730	
Office maintenance	468	384	833	706	
Bad debt expense	232	305	530	739	
Professional services	283	310	436	678	
Vehicle costs	136	157	266	297	
Materials and supplies	46	79	89	137	
Insurance	25	28	53	56	
Other expenses	441	344	908	1,134	
Total operating expenses	11,783	14,214	22,907	29,095	

Rent represents expenses related to the lease of premises for offices, base stations and switches.

11. Long-Term Debt

In June 2011, the Company entered into the China Development Bank VI Credit Facility ("CDB VI") for up to \$500 million (14,038 at the exchange rate as of June 30, 2011) and the China Development Bank VII Credit Facility ("CDB VII") for up to \$500 million (14,038 at the exchange rate as of June 30, 2011). CDB VI and CDB VII can only be used to purchase Huawei equipment.

CDB VI carries interest at a rate of LIBOR plus 2.4% per annum and requires the Company to make semi-annual payments, plus accrued interest, in the period from 2013 to 2016. As of June 30, 2011, no amount has been drawn under this Credit Facility.

CDB VII cannot be drawn until either CDB VI is fully drawn or June 2012, whichever occurs first. CDB VII carries interest at a rate of LIBOR plus 2.4% per annum and requires the Company to make semi-annual payments of principal, plus accrued interest, in the thirty-six month period starting two years after the date on which CDB VII will first be drawn.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

12. 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 2010 and during the six months ended June 30, 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group'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 could negatively affect the Company's results and financial position in a manner not currently determinable.

Telecom licenses capital commitments

In May 2007, MegaFon was awarded a license that expires on May 21, 2017, for the provision of 3G wireless radiotelephony communications services for the entire territory of the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The three major conditions were that the Company build a specified number of base stations that support 3G standards, start commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the license. As of August 15, 2011, the Company is in full compliance with these license conditions, including constructing the number of base stations required at this time.

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 preceeding the current year. Under certain circumstances reviews may cover longer periods.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

12. Commitments, Contingencies and Uncertainties (continued)

During six months ended June 30, 2011 tax audits have been completed for Synterra and few of its subsidiaries for years 2007-2009. As a result of these tax audits, tax authorities claimed additional taxes amounting to 312 mainly related to income tax and VAT. The Company settled the amount claimed in full. The Company intends to appeal these items and believes that it is more likely than not that the tax positions stated in the income tax return will be sustained.

Management believes that the Company and its subsidiaries are in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

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.

Even though the contract expired in August 2010 there can be no assurance that Apple will not bring a claim against the Company in respect of the contract. In light of the uncertainty as to whether a claim will be made and, if made, as to the amount which Apple may be able to claim, the Company is not able to estimate the amount of loss, if any, that the Company may sustain.

Replacement of certain telecommunication equipment

During the six months ended June 30, 2011 the Company continued replacing certain telecommunications equipment. The net book value of equipment planned to be replaced is 1,803 at June 30, 2011. Substantially all of this equipment is still in use and continues to be classified in property, plant and equipment. Part of the equipment with net book value of 775 is planned to be replaced in 2011. The Company accelerated depreciation for that equipment which resulted in additional depreciation expense of 855 for the six months ended June 30, 2011.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

12. Commitments, Contingencies and Uncertainties (continued)

With respect to the remaining part of the equipment with book value of 1,028 the Company is currently evaluating whether this equipment can be re-utilized or sold, and continues to depreciate it in accordance with the current policies.