MegaFon

Interim condensed consolidated financial statements
(Unaudited)

For the six months ended 30 June 2013

Contents

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Report on review of interim condensed consolidated financial statements

The Board of Directors and Shareholders
OJSC MegaFon

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of OJSC MegaFon and its subsidiaries (hereinafter collectively referred to as the "Company") as of 30 June 2013 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three and six-month periods then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

6 August 2013

MegaFon

Interim condensed consolidated statement of comprehensive income

(In millions of Rubles)

	Note	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
		(Unaudited)		(Unaudited)	
Revenues					
Wireless services		63,570	59,537	123,173	115,285
Wireline services		4,673	4,407	9,195	8,834
Sales of equipment and accessories		3,987	2,704	7,586	5,489
Total revenues		**72,230**	**66,648**	**139,954**	**129,608**
Operating expenses					
Cost of services		13,865	13,821	26,549	27,310
Cost of equipment and accessories		3,865	2,655	6,969	5,315
Sales and marketing expenses	9	4,119	5,352	7,021	10,421
General and administrative expenses	10	16,079	16,664	32,732	32,871
Depreciation		11,068	11,412	22,355	22,555
Amortisation		1,378	1,276	2,724	2,623
Loss on disposal of non-current assets	6	108	541	245	735
Total operating expenses		**50,482**	**51,721**	**98,595**	**101,830**
Operating profit		**21,748**	**14,927**	**41,359**	**27,778**
Finance costs	7	(2,808)	(1,976)	(5,574)	(2,262)
Finance income		769	301	1,187	892
Share of loss of associates and joint ventures		(41)	—	(186)	—
Other non-operating (expense)/income		(29)	(52)	39	(67)
Gain on financial instruments		130	—	56	—
Foreign exchange loss, net		(2,228)	(9,912)	(3,044)	(11,352)
Profit before tax		**17,541**	**3,288**	**33,837**	**14,989**
Income tax expense	11	3,915	1,583	7,570	4,023
Profit for the period		**13,626**	**1,705**	**26,267**	**10,966**

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	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Other comprehensive income/(loss)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Foreign currency translation difference, net of tax of nil	(105)	(121)	(182)	(33)
Net movement on cash flow hedges, net of tax	135	(124)	135	(168)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**30**	**(245)**	**(47)**	**(201)**
Total comprehensive income for the period, net of tax	**13,656**	**1,460**	**26,220**	**10,765**
Profit for the period				
Attributable to equity holders of the Company	13,581	1,667	26,205	10,925
Attributable to non-controlling interest	45	38	62	41
Total comprehensive income for the period				
Attributable to equity holders of the Company	13,637	1,452	26,203	10,732
Attributable to non-controlling interest	19	8	17	33
Earnings per share, Rubles				
Basic, profit for the period attributable to ordinary equity holders of the Company	24	3	46	19
Diluted, profit for the period attributable to ordinary equity holders of the Company	23	3	45	19

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 2013 (Unaudited)	31 December 2012 (Audited)
Assets			
Non-current assets			
Property and equipment	6	204,456	215,549
Intangible assets, other than goodwill		15,226	16,991
Goodwill		23,950	23,950
Investments in associates and joint ventures		35,476	35,662
Non-current financial assets	7	200	—
Non-current non-financial assets		1,279	1,956
Deferred tax assets		2,721	2,573
Total non-current assets		**283,308**	**296,681**
Current assets			
Inventory		6,718	5,277
Current non-financial assets		5,998	5,990
Prepaid income taxes		1,673	5,066
Trade and other receivables		13,937	12,515
Other current financial assets	7	49,688	23,449
Cash and cash equivalents		24,920	2,387
Total current assets		**102,934**	**54,684**
Total assets		**386,242**	**351,365**
Equity and liabilities			
Equity			
Equity attributable to equity holders of the Company		112,267	117,355
Non-controlling interests		486	518
Total equity		**112,753**	**117,873**
Non-current liabilities			
Loans and borrowings	7	139,345	125,575
Other non-current financial liabilities	7	682	501
Non-current non-financial liabilities		1,763	1,843
Provisions		6,120	5,724
Deferred tax liabilities		12,267	12,333
Total non-current liabilities		**160,177**	**145,976**
Current liabilities			
Trade and other payables		20,786	23,247
Dividends payable	4	36,968	—
Loans and borrowings	7	10,983	20,457
Other current financial liabilities	7	25,271	23,282
Current non-financial liabilities		19,272	20,513
Income taxes payable		32	17
Total current liabilities		**113,312**	**87,516**
Total equity and liabilities		**386,242**	**351,365**

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 2013 and 30 June 2012

		Attributable to equity holders of the Company									
		Ordinary shares		Treasury shares							
	Note	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 2012		**620,000,200**	**526**	**—**	**—**	**12,567**	**260,957**	**(53)**	**273,997**	**523**	**274,520**
Net profit		—	—	—	—	—	10,925	—	10,925	41	10,966
Other comprehensive loss		—	—	—	—	—	—	(193)	(193)	(8)	(201)
Total comprehensive income							**10,925**	**(193)**	**10,732**	**33**	**10,765**
Dividends		—	—	—	—	—	(151,863)	—	(151,863)	—	(151,863)
Purchase of treasury shares		—	—	89,279,700	(63,883)	—	—	—	(63,883)	—	(63,883)
Issuance of written put option over the Company's ordinary shares		—	—	—	—	—	(46,973)	—	(46,973)	—	(46,973)
As of 30 June 2012 (unaudited)		**620,000,200**	**526**	**89,279,700**	**(63,883)**	**12,567**	**73,046**	**(246)**	**22,010**	**556**	**22,566**
As of 1 January 2013		**620,000,000**	**526**	**54,690,089**	**(39,133)**	**12,567**	**143,468**	**(73)**	**117,355**	**518**	**117,873**
Net profit		—	—	—	—	—	26,205	—	26,205	62	26,267
Other comprehensive loss		—	—	—	—	—	—	(2)	(2)	(45)	(47)
Total comprehensive income							**26,205**	**(2)**	**26,203**	**17**	**26,220**
Share-based compensation expense	8	—	—	—	—	—	—	808	808	—	808
Sale of treasury shares upon exercise of stock options	8	—	—	(7,750,000)	5,545	—	(676)	—	4,869	—	4,869
Dividends	4	—	—	—	—	—	(36,968)	—	(36,968)	—	(36,968)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(49)	(49)
As of 30 June 2013 (unaudited)		**620,000,000**	**526**	**46,940,089**	**(33,588)**	**12,567**	**132,029**	**733**	**112,267**	**486**	**112,753**

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 2013	2012
	(Unaudited)	
Operating activities		
Profit before tax	33,837	14,989
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Depreciation	22,355	22,555
Amortisation	2,724	2,623
Loss on disposal of non-current assets	245	735
Gain on financial instruments	(56)	—
Net foreign exchange loss	3,044	11,352
Share of loss of associates and joint ventures	186	—
Change in impairment allowance for receivables	481	813
Finance costs	5,574	2,262
Finance income	(1,187)	(892)
Share-based compensation	808	—
Other non-operating (expense)/income	(39)	67
Working capital adjustments:		
Increase in inventory	(1,409)	(164)
Increase in trade and other receivables	(1,398)	(4,560)
Increase in current non-financial assets	(8)	(5,400)
(Decrease)/increase in trade and other payables	(420)	6,396
Decrease in current non-financial liabilities	(1,834)	(337)
Change in VAT, net	(316)	1,444
Income tax paid	(6,216)	(8,637)
Income tax refunded	2,189	5,514
Interest received	462	3,695
Interest paid, net of interest capitalised	(4,330)	(926)
Net cash flows from operating activities	**54,692**	**51,529**
Investing activities		
Purchase of property, equipment and intangible assets	(14,373)	(24,868)
Proceeds from sale of property and equipment	117	206
Payment of deferred and contingent consideration	—	(1,490)
Net change in short-term and long-term demand deposits	(24,428)	80,374
Net cash flows (used in)/from investing activities	**(38,684)**	**54,222**
Financing activities		
Proceeds from borrowings, net of fees paid	26,153	173,727
Repayment of borrowings	(24,561)	(50,268)
Dividends paid to equity holders of the Company	—	(151,863)
Purchase of treasury shares	—	(63,883)
Payment of liability for marketing related licences	(299)	(193)
IPO transaction fees paid	(212)	—
Proceeds from exercise of stock options	4,869	—
Dividends paid to non-controlling interests	(49)	—
Other	403	—
Net cash flows from/(used in) financing activities	**6,304**	**(92,480)**
Net increase in cash and cash equivalents	22,312	13,271
Net foreign exchange difference	221	(737)
Cash and cash equivalents at beginning of period	2,387	2,887
Cash and cash equivalents at end of period	**24,920**	**15,421**

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

1. General

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

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

2. Basis of preparation

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

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

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

The interim condensed consolidated financial statements were authorised for issue by the Company's Chief Executive Officer ("CEO") and Chief Accountant on 6 August 2013.

3. Significant accounting policies

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

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

4. Dividends

On 28 June 2013, the Annual General Meeting of Shareholders of the Company approved the payment of a dividend in the amount of 54.17 Rubles per ordinary share for the second, third and fourth quarters of 2012. On the same date the shareholders also approved an interim dividend distribution for the first quarter of 2013 in the amount of 10.34 Rubles per ordinary share. The total sum allocated to the dividend payment is 36,968.

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 (“VAS”). The Chief Operating Decision Maker (“CODM”) evaluates the performance of the Group’s operating segments based on revenue and operating income before depreciation and amortisation. Total assets and liabilities are not allocated to operating segments and not analysed by the CODM. Operating segments with similar economic characteristics have been aggregated into an integrated telecommunication services segment, which is the only reportable segment. The remaining operating segments, including less significant subsidiaries and retail business, do not meet the quantitative thresholds for reportable segments. Less than 1% of the Group’s revenues and results are generated by segments outside of Russia. No single customer represents 10% or more of the consolidated revenues.

Seasonality of operations

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

6. Property and equipment

During the six months ended 30 June 2013, the Group acquired assets with a cost of 11,328 (the six months ended 30 June 2012: 18,599). Assets (other than those classified as held for sale) with a net book value of 330 were disposed of by the Group during the six months ended 30 June 2013 (the six months ended 30 June 2012: 1,021), resulting in a net loss on disposal of 245 (in the six months ended 30 June 2012: 735).

7. Financial assets and liabilities

New derivative financial instrument

In May 2013, the Company entered into a cross-currency swap agreement with a notional amount of $293 million (9,584 at the exchange rate as of 30 June 2013) that limits the exposure from changes in foreign currency exchange rates on certain long-term debt.

The Group has reported all gains and losses from the change in fair value of these derivative financial instruments directly in the consolidated statement of comprehensive income. Total gain recorded in 'Gain on financial instruments' in respect of the derivative was 200 for the period ended 30 June 2013.

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 2013 (Unaudited)	**31 December 2012**	**30 June 2013 (Unaudited)**	**31 December 2012**
Financial assets				
Financial assets at fair value through profit or loss:				
Euroset settlement put option	1,061	1,118	1,061	1,118
Cross-currency swap	200	—	200	—
Loans and receivables	48,627	22,331	48,627	22,331
Total	**49,888**	**23,449**	**49,888**	**23,449**
Financial liabilities				
Financial liabilities at amortised cost:				
Loans and borrowings	150,328	146,032	151,950	146,991
Convertible debt instrument	18,438	16,812	18,438	16,812
Liability for marketing related licences	418	682	418	682
Long-term accounts payable	490	—	489	—
Contingent consideration	6,292	5,806	6,292	5,806
Interest rate swaps designated as cash flow hedges	176	261	176	261
Due to employees and related social charges, non-current portion	139	222	139	222
Total	**176,281**	**169,815**	**177,902**	**170,774**

7. Financial assets and liabilities (continued)

The Group, using available market information and appropriate valuation methodologies, where they exist, has determined the estimated fair values of its financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. While management has used available market information in estimating the fair value of its financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

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

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

	Euroset settlement put option	Cross-currency swap	**Total financial assets**	Contingent considera-tion	Interest rate swaps	**Total financial liabilities**
30 June 2013						
Level 1	—	—	—	—	—	—
Level 2	—	200	**200**	—	(176)	**(176)**
Level 3	1,061	—	**1,061**	(6,292)	—	**(6,292)**
Total as of 30 June 2013	**1,061**	**200**	**1,261**	**(6,292)**	**(176)**	**(6,468)**
31 December 2012						
Level 1	—	—	—	—	—	—
Level 2	—	—	—	—	(261)	**(261)**
Level 3	1,118	—	**1,118**	(5,806)	—	**(5,806)**
Total as of 31 December 2012	**1,118**	—	**1,118**	**(5,806)**	**(261)**	**(6,067)**

Valuation techniques and assumptions

The fair values of interest rate swaps 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 as appropriate.

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

7. Financial assets and liabilities (continued)

and risk-free rate determined on the basis of the U.S. Treasury yield curve rates with a remaining term to maturity equal to the expected life of the option.

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

Loans and borrowings

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

Finance costs expense increased from 2,262 for the six months ended 30 June 2012 to 5,574 for the six months ended 30 June 2013 due to the increase in loans and borrowings as a result of the shareholder restructuring and dividend payment in April 2012.

8. Share-based compensation

Long-term incentive programme 2012

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

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

The respective awards are classified as a liability. The fair value of the options has been estimated using the Monte Carlo model. The fair value of each grant is estimated at the end of each reporting period. The expected volatility is estimated based on the average historical volatility of publicly traded guideline companies over the period equal to the expected life of the options granted. The dividend yield is included in the model based on expected dividend

8. Share-based compensation (continued)

payments. The risk free rate is determined on the basis of U.S. Treasury yield curve rates with a remaining term to maturity equal to the expected life of the options. The expected term of the options equals their vesting term as the options are settled in cash at the end of vesting period.

The fair value of options granted during the six months ended 30 June 2013 is 369 Rubles. The compensation expense recognised in the reporting period in the interim condensed consolidated statement of comprehensive income is 188.

CEO long-term incentive plan

In May 2013, a company owned by the Company's CEO, Mr Ivan Tavrin, exercised an option granted by MegaFon Investments (Cyprus) Limited, a wholly-owned subsidiary of the Company ("MICL") and acquired an additional 7,750,000 shares, or 1.25% of the total issued shares of the Company. The shares were acquired at the IPO offer price, corresponding to $20 per share, for the total cash consideration of 4,869. As a result of the completion of the transaction, the interest of Mr. Tavrin in the Company has increased to 2.5%, and the interest of MICL has been reduced to 7.57%.

The following table summarises number of options under the CEO long-term incentive plan:

Outstanding as of 1 January 2013	23,250,000
Exercised	(7,750,000)
Outstanding as of 30 June 2013	**15,500,000**
Exercisable as of 30 June 2013	—

The weighted-average share price at the date of excersise of the options was $31.05 (975 Rubles) per share.

The table below summarises grant date fair value of options:

Nonvested as of 1 January 2013	1,755
Vested (recognised compensation expense)	(808)
Nonvested as of 30 June 2013	**947**

None of the stock options were granted, forfeited or expired during the six months ended 30 June 2013.

9. 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	
	2013	2012	2013	2012
Advertising	1,751	2,060	2,533	4,020
Dealer commissions	1,314	2,043	2,373	4,181
Cash collection commissions	1,054	1,249	2,115	2,220
Total sales and marketing expenses	**4,119**	**5,352**	**7,021**	**10,421**

10. General and administrative expenses

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

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Compensation expenses and related social charges	6,454	6,512	13,513	12,967
Rent	3,113	3,004	6,253	5,969
Operating taxes	1,798	1,756	3,473	3,285
Network repairs and maintenance	1,252	1,284	2,513	2,459
Utilities	1,013	899	2,021	1,800
Radio frequency fees	1,019	1,024	1,967	2,038
Office maintenance	399	449	810	894
Change in allowance account for trade and other receivables	239	334	481	813
Professional services	191	460	453	849
Vehicle costs	163	166	311	325
Materials and supplies	35	26	93	118
Insurance	11	23	35	45
Social infrastructure expenses *(Note 13)*	—	330	—	330
Other expenses	392	397	809	979
Total general and administrative expenses	**16,079**	**16,664**	**32,732**	**32,871**

11. 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**	
	2013	**2012**	**2013**	**2012**
Current income tax	4,747	2,243	7,755	4,792
Deferred income tax	(832)	(660)	(185)	(769)
Total income tax expense	**3,915**	**1,583**	**7,570**	**4,023**

12. Related parties

As of 30 June 2013 and 31 December 2012, the Group is primarily owned by USM Group, the ultimate controlling party of the Company, and TeliaSonera Group, another major shareholder with significant influence over the Group. Alfa Group held an equity interest in the Company until 24 April 2012.

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

	Three months ended 30 June		**Six months ended 30 June**	
	2013	**2012**	**2013**	**2012**
Revenues from USM Group	257	—	390	—
Revenues from TeliaSonera Group	161	48	246	82
Revenues from Euroset	62	—	62	—
	480	**48**	**698**	**82**
Services from USM Group	280	523	497	878
Services from TeliaSonera Group	233	220	445	386
Services from Euroset	236	—	330	—
Services from Alfa Group	—	7	—	263
	749	**750**	**1,272**	**1,527**

12. Related parties (continued)

	30 June 2013	31 December 2012
Due from USM Group	1,552	850
Due from TeliaSonera Group	185	154
Due from Euroset	162	82
	1,899	**1,086**
Due to USM Group	18,836	17,558
Due to TeliaSonera Group	275	53
Due to Euroset	29	57
	19,140	**17,668**

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2013 and 31 December 2012 are unsecured. There have been no guarantees provided or received for any related party receivables or payables. As of 30 June 2013 and 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

USM Group

The outstanding balances and transactions with USM Group relate to operations with Garsdale Services Investment Limited ("Garsdale"), which holds indirectly 50% plus 100 shares in the Company, USM Holdings Limited, an indirect owner of Garsdale, and their consolidated subsidiaries.

As of 30 June 2013 and 31 December 2012, amounts due to USM Group include 18,438 and 16,812, respectively, related to the Group's obligation to acquire Garsdale's 50% interest in Lefbord, which owns 50% of Euroset.

TeliaSonera Group

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

Alfa Group

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

12. Related parties (continued)

Euroset

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

13. Commitments, contingencies and uncertainties

Operating environment

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

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

3G licence capital commitments

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

The three major conditions were that the Group builds a specified number of base stations that support 3G standards, starts commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also builds a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the licence. As of 6 August 2013, the Group believes it is in full compliance with the 3G licence conditions.

4G/LTE licence capital commitments

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

Under the terms and conditions of this licence, the Group is obligated to provide 4G/LTE services in each population center with over 50,000 inhabitants in Russia by 2019. The Group is also obligated to make capital expenditures of at least 15,000 annually toward the 4G/LTE roll-out until the network is fully deployed, to clear frequencies currently allocated to the military at its own cost and to compensate other operators for surrendering frequencies in an aggregate

13. Commitments, contingencies and uncertainties (continued)

amount of 401. In 2012, the Group has fully paid the compensation due to the other operators. It is currently not able to reasonably estimate the amount of the cost of clearing military frequencies.

Social infrastructure expenses

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

Taxation

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

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

As of 6 August 2013, the Group's management estimated the possible effect of additional taxes, before fines and interest, if any, on these interim condensed consolidated financial statements, if the authorities were successful in enforcing different interpretations, in the amount of up to approximately 340.

Litigation

The Group is not a party to any material litigation, although in the ordinary course of business, some of the Group's subsidiaries may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which they operate. In the opinion of management, the Group's and its subsidiaries' 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.

14. Events after the reporting date

In July 2013, the Company fully paid dividends declared at the Annual General Meeting of Shareholders *(Note 4)*.

Also, in July 2013, the Group has settled with Synterra Cyprus Limited and Burnham Advisors Limited the contingent consideration due under the sale and purchase agreement dated as of 2 June 2010 for the acquisition of CJSC Synterra. The consideration under the settlement agreement consisted of the Group's 60% interest in CJSC Synterra-Media and its 100% interest in CJSC Absolut and a cash payment of $7 million (229 at the exchange rate as of 30 June 2013).