MEGAFON

Consolidated Financial Statements

Years ended December 31, 2008 and 2007
With Report of Independent Auditors

Report of Independent Auditors

The Board of Directors and Shareholders
OJSC MegaFon -

We have audited the accompanying consolidated balance sheets of OJSC MegaFon and subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OJSC MegaFon and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

We also reviewed the translation of the statements mentioned above to United States dollars on the basis described in Note 2. In our opinion, such statements have been properly translated on such basis.

/s/ Ernst and Young LLC

Moscow, Russia

April 15, 2009

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Consolidated Balance Sheets

(In millions of Rubles)

	December 31, 2007	December 31, 2008	2008 Convenience translation, thousands US$
Assets			
Current assets:			
Cash and cash equivalents	4,259	**6,465**	**$ 220,046**
Short-term investments	21,710	**33,738**	**1,148,317**
Accounts receivable, net of allowance for doubtful accounts of 222 and 511 at December 31, 2007 and 2008, respectively	5,443	**5,617**	**191,182**
Accounts receivable, related parties *(Note 16)*	104	**81**	**2,757**
Inventory	468	**2,352**	**80,053**
VAT receivable	2,372	**2,640**	**89,856**
Deferred tax assets *(Note 14)*	1,111	**1,167**	**39,720**
Prepaid expenses	2,878	**4,942**	**168,207**
Other current assets	826	**1,227**	**41,763**
Total current assets	39,171	**58,229**	**1,981,901**
Property, plant and equipment, net of accumulated depreciation of 53,078 and 75,515 at December 31, 2007 and 2008, respectively *(Note 4)*	102,817	**128,691**	**4,380,165**
Goodwill and intangible assets:			
Goodwill *(Note 3)*	–	**363**	**12,355**
Intangible assets, net of accumulated amortization of 12,884 and 14,411 at December 31, 2007 and 2008, respectively *(Note 5)*	12,745	**13,149**	**447,543**
Net goodwill and intangible assets	12,745	**13,512**	**459,898**
Other non-current assets	2,216	**2,317**	**78,862**
Total assets	156,949	**202,749**	**$ 6,900,826**

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

MegaFon

Consolidated Balance Sheets (continued)

(In millions of Rubles)

	December 31, 2007	December 31, 2008	2008 Convenience translation, thousands US$
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	5,436	**5,993**	**$ 203,980**
Accounts payable to equipment suppliers	3,061	**5,633**	**191,726**
Accounts payable, related parties *(Note 16)*	519	**365**	**12,423**
Accrued compensation and social contributions	1,415	**2,031**	**69,128**
Subscribers' prepayments	5,794	**6,182**	**210,412**
Taxes payable	1,245	**1,012**	**34,445**
VAT payable	556	**2,187**	**74,437**
Deferred revenue	499	**247**	**8,407**
Loans from shareholders *(Note 7)*	433	**97**	**3,302**
Current portion of long-term debt *(Note 6)*	10,130	**15,660**	**533,008**
Other current liabilities	834	**516**	**17,563**
Total current liabilities	29,922	**39,923**	**1,358,831**
Debt, less current portion *(Note 6)*	26,003	**16,223**	**552,171**
Loans from shareholders, less current portion *(Note 7)*	2,877	**3,647**	**124,130**
Deferred tax liabilities, less current portion *(Note 14)*	1,680	**2,159**	**73,484**
Asset retirement obligations *(Note 4)*	2,235	**2,349**	**79,951**
Other non-current liabilities	397	**322**	**10,961**
Total liabilities	63,114	**64,623**	**2,199,528**
Minority interest	35	**–**	**–**
Shareholders' equity:			
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)	581	**581**	**19,775**
Reserve fund	17	**17**	**579**
Additional paid-in capital	13,875	**13,875**	**472,253**
Retained earnings	79,591	**123,910**	**4,217,438**
Accumulated other comprehensive loss	(264)	**(257)**	**(8,747)**
Total shareholders' equity	93,800	**138,126**	**4,701,298**
Total liabilities and shareholders' equity	156,949	**202,749**	**$ 6,900,826**

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

MegaFon

Consolidated Statements of Operations

(In millions of Rubles)

	Years ended December 31,		
	2007	**2008**	**2008**
			Convenience translation, thousands US$
Revenue (including related party amounts) *(Notes 10, 16)*	140,450	**175,451**	**$ 7,053,603**
Cost of services (excluding depreciation and amortization and including related party amounts) *(Notes 11, 16)*	26,304	**35,427**	**1,424,261**
Gross margin	114,146	**140,024**	**5,629,342**
Sales and marketing expenses (excluding depreciation and amortization) *(Note 12)*	13,647	**16,455**	**661,535**
Operating expenses (excluding depreciation and amortization and including related party amounts) *(Notes 13, 16)*	28,640	**35,454**	**1,425,346**
Depreciation, amortization and accretion	24,401	**27,994**	**1,125,434**
Operating income	47,458	**60,121**	**2,417,027**
Other income/(expense):			
Interest expense	(2,476)	**(1,831)**	**(73,611)**
Interest income	1,102	**2,840**	**114,176**
Other gain, net	5	**18**	**724**
Gain/(loss) on derivatives *(Note 8)*	(406)	**2,322**	**93,351**
Foreign currency exchange gain/(loss)	896	**(3,700)**	**(148,750)**
Total other expenses, net	(879)	**(351)**	**(14,110)**
Income before income taxes and minority interest	46,579	**59,770**	**2,402,917**
Provision for income taxes *(Note 14)*	12,633	**15,474**	**622,096**
Minority interest	(20)	**(23)**	**(925)**
Net income	33,966	**44,319**	**$ 1,781,746**

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

MegaFon

Consolidated Statements of Cash Flows

(In millions of Rubles)

	Years ended December 31, 2007	2008	2008 Convenience translation, thousands US$
Cash flows from operating activities:			
Net income	33,966	**44,319**	**$ 1,781,746**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	24,401	**27,994**	**1,125,434**
(Gain)/loss on derivatives	406	**(2,322)**	**(93,351)**
Net foreign exchange (gain)/loss	(896)	**3,700**	**148,750**
Minority interest in net loss of a subsidiary	(20)	**(23)**	**(925)**
Bad debt expense	99	**321**	**12,905**
Provision for deferred income taxes	(593)	**144**	**5,789**
Amortization of deferred finance charges	968	**649**	**26,092**
Changes in assets and liabilities:			
Accounts receivable	(567)	**290**	**11,659**
Inventory	(43)	**(1,837)**	**(73,852)**
Prepayments and other current assets	(1,172)	**(1,439)**	**(57,852)**
Accounts payable and accrued expenses	849	**13**	**523**
Subscribers' prepayments	279	**378**	**15,197**
VAT, net	1,333	**1,313**	**52,786**
Net cash provided by operating activities	59,010	**73,500**	**2,954,901**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets	(35,894)	**(50,200)**	**(2,018,175)**
Proceeds from sale of property, plant and equipment	218	**351**	**14,111**
Acquisitions of subsidiaries, net of cash acquired	–	**(1,169)**	**(46,997)**
Increase in short-term investments	(21,172)	**(10,304)**	**(414,249)**
Other investing activities	(47)	**(16)**	**(643)**
Net cash used in investing activities	(56,895)	**(61,338)**	**(2,465,953)**
Cash flows from financing activities:			
Proceeds from long-term debt	6,305	**2,570**	**103,321**
Repayments of long-term debt	(10,822)	**(12,798)**	**(514,514)**
Deferred finance charges paid	(176)	**(13)**	**(523)**
Net cash used in financing activities	(4,693)	**(10,241)**	**(411,716)**
Effect of exchange rate changes on cash and cash equivalents	(128)	**285**	**11,458**
Net (decrease) increase in cash and cash equivalents	(2,706)	**2,206**	**88,690**
Cash and cash equivalents at the beginning of the year	6,965	**4,259**	**171,223**
Cash and cash equivalents at the end of the year	4,259	**6,465**	**$ 259,913**
Supplemental cash flow information:			
Cash paid during the year for income taxes	14,013	**15,388**	**$ 618,639**
Cash paid during the year for interest	2,532	**2,071**	**83,260**
Non-cash financing and investing activities:			
Equipment purchased under credit *(Note 6)*	1,835	**110**	**4,422**

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

MegaFon

Consolidated Statements of Shareholders' Equity

(In millions of Rubles, except share amounts)

	Common stock						
	Shares	**Amount**	**Reserve fund**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total**
Balances as of December 31, 2006	**6,200,002**	**581**	**17**	**13,875**	**45,309**	**(247)**	**59,535**
Comprehensive income:							
Net income	–	–	–	–	33,966	–	**33,966**
Pensions costs (net of tax effect of zero)	–	–	–	–	–	(17)	**(17)**
Total accumulated comprehensive income/(loss)	–	–	–	–	33,966	(17)	**33,949**
Effect of adoption of FIN No.48	–	–	–	–	316		**316**
Balances as of December 31, 2007	**6,200,002**	**581**	**17**	**13,875**	**79,591**	**(264)**	**93,800**
Comprehensive income:							
Net income	–	–	–	–	44,319	–	**44,319**
Foreign currency translation adjustment	–	–	–	–	–	(6)	**(6)**
Pensions costs (net of tax effect of zero)	–	–	–	–	–	13	**13**
Total accumulated comprehensive income/(loss)	–	–	–	–	44,319	7	**44,326**
Balances as of December 31, 2008	**6,200,002**	**581**	**17**	**13,875**	**123,910**	**(257)**	**138,126**

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

(In millions of Rubles, unless otherwise indicated)

1. Description of Business

Open Joint Stock Company ("OJSC") MegaFon (the "Company" or "MegaFon") was formed in the Russian Federation on May 22, 2002 as a result of the renaming and reorganizing of OJSC North-West GSM and integrating under one brand with Closed Joint Stock Company ("CJSC") Sonic Duo, CJSC Mobicom-Kavkaz, CJSC Mobicom-Centre, CJSC Mobicom-Novosibirsk, CJSC Mobicom-Khabarovsk, CJSC Mobicom-Kirov, OJSC MSS-Povolzhie, CJSC Volzhsky GSM and CJSC Uralsky GSM.

MegaFon is a provider of a broad range of voice, data and other wireless telecommunications services to businesses, other telecommunications service providers and retail subscribers. MegaFon also sells handsets and accessories to dealers and final customers.

The Company and its subsidiaries have operating licenses for all Federal Districts of the Russian Federation, covering 100% of its population. MegaFon has built and is expanding a nationwide mobile communications network that operates on the dual band GSM-900/1800 standard and is also operating an IMT-2000/UMTS network in St. Petersburg and the Leningrad region, as well as the Kaliningrad, Arkhangelsk, Pskov, Vologda, Novgorod, and Murmansk regions, and in Karelia and Dagestan. In addition, the Company owns 75% of TT-Mobile, its subsidiary in the Republic of Tajikistan which provides services on GSM-900/1800 and IMT-2000/UMTS standards.

As at December 31, 2008, MegaFon included the following operating entities:

Company	Ownership interest	Region / License area	Date operations started or acquired
MegaFon:			
(NW GSM branch)	N/A	St. Petersburg and Leningrad region	December 1994
Subsidiaries:			
Sonic Duo	100%	Moscow and Moscow Region	November 2001
MSS-Povolzhie	100%	Volzhsky Federal District	August 1999
Mobicom-Centre	100%	Central Federal District	December 2002
Uralsky GSM	100%	Ural Federal District	June 2002
Mobicom-Kavkaz	100%	Southern Federal District	January 2001
Mobicom-Novosibirsk	100%	Siberian Federal District	December 2003
Mobicom-Khabarovsk	100%	Far East Federal District	March 2004
TT-Mobile	75%	Republic of Tajikistan	October 2001
InCore *(Note 3)*	100%	Moscow	August 2008
VideoFon *(Note 3)*	100%	St. Petersburg and Leningrad region	September 2008
T-Pay *(Note 3)*	100%	St. Petersburg and eight regions of Russia	September 2008
Absolut *(Note 3)*	100%	Moscow	December 2008

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Basis of Presentation

The statutory accounting records of the Company and its subsidiaries, except TT-Mobile, are maintained in Rubles and are prepared in accordance with the accounting requirements provided for under Russian accounting and tax legislation. The accounting records of TT-

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

Mobile are maintained in Tajikistan Somoni and are prepared in accordance with the accounting requirements provided for under Tajikistan accounting and tax legislation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying consolidated financial statements differ from statutory financial statements used in Russia and Tajikistan as they reflect certain adjustments, recorded in the entities' accounts, which are necessary to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments are related to (1) revenue recognition; (2) recognition of interest expense and other operating expenses; (3) deferred income taxes; (4) valuation and depreciation of property, plant and equipment and intangible assets; (5) business combinations; (6) consolidation and accounting for subsidiaries; (7) accounting for derivatives; (8) foreign currency translation; and (9) valuation allowances for unrecoverable assets.

As further discussed in "Foreign Currency Translation" below, effective January 1, 2007, the Company changed its reporting currency from the US dollar to the Ruble.

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

Principles of Consolidation

Wholly-owned and majority-owned subsidiaries where the Company has operating and financial control are consolidated.

Minority interest represents the minority owner's proportionate share of the equity in TT-Mobile. When losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, the excess is not recorded to minority interest since there is no obligation of the minority interest to absorb such losses. The Company has absorbed all losses applicable to the minority interest in TT-Mobile. If future earnings do materialize, the Company shall be credited to the extent that such losses were previously absorbed.

All significant inter-company accounts and transactions are eliminated upon consolidation. Results of subsidiaries acquired and accounted for by the purchase method have been included in operations from the relevant date of acquisition.

Use of Estimates in Preparation of Financial Statements

The preparation of consolidated financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reported period. Significant estimates, among others, include the allocation of purchase price to the fair value of net assets acquired in connection with business combinations, useful lives related to tangible and intangible assets, deferred revenue, asset retirement obligations, fair value of

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

derivative financial instruments, recoverability of deferred tax assets, income tax provision and allowance for doubtful accounts. Actual results could differ from these estimates.

Foreign Currency Translation

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

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

Prior to January 1, 2007, the reporting currency of the Company was the US dollar. Effective January 1, 2007, the Company changed its reporting currency from the US dollar to the Ruble as the Ruble is the prime economic environment in which substantially all of the Company's operations are conducted.

The US dollar amounts disclosed in the accompanying consolidated financial statements are presented solely for the convenience of the reader. The consolidated balance sheet has been translated at the exchange rate of 29.3804 Rubles per US dollar, the exchange rate determined by the Central Bank of the Russian Federation as of December 31, 2008. Given the significant devaluation of the Ruble in the fourth quarter of 2008, the consolidated statements of operations and cash flows have been translated at the exchange rate of 24.8740 Rubles per US dollar which represents the average exchange rate for the year ended December 31, 2008. In prior periods such convenience translation of the consolidated statements of operations and cash flows was performed using the exchange rate at the end of the period, whereas for 2008, the Company believes that use of the average exchange rate results in a more relevant convenience translation.

In the beginning of 2009, the Russian Central Bank devalued the Ruble against the major currencies. The Russian ruble depreciated against the US dollar, from 29.3804 Rubles per US dollar at January 1, 2009 to 33.3887 at April 15, 2009, the date of the consolidated financial statements issuance, which represents a 13.6% decline in the Russian currency value.

Cash and Cash Equivalents

From time to time, the Company may hold cash on hand and deposits in banks with an original maturity of three months or less which are classified as cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Short-Term Investments

The Company classifies investments and time deposits with an original maturity of more than three months but less than twelve months from the date of purchase, that the Company may hold from time to time, as short-term investments. Short-term investments are shown at cost

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

which approximates fair value. The carrying amount of short-term investments is reduced to recognize any decline in value which is other than temporary.

Accounts Receivable

Accounts receivable are shown at their net realizable value which approximates fair value. The Company makes judgments as to the collectability of accounts receivable based on historical trends and future expectations. To determine the allowance for doubtful accounts, management reviews specific customer risks and the Company's accounts receivable aging. The allowance for doubtful accounts is estimated by applying estimated loss percentages against the aging of accounts receivable.

Inventories

Inventories, which primarily consist of telephone handsets, accessories for resale, SIM-cards and prepaid phone cards, are stated at the lower of cost or market. Cost is determined using the first in, first-out method.

Value-Added Tax

Value Added Tax ("VAT") related to revenues is generally payable to the tax authorities on an accrual basis when invoices are issued to customers or cash received. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. VAT related to purchases, which will be offset against VAT related to revenues within the following year, is recognized in the consolidated balance sheets on a gross basis.

Management periodically reviews the recoverability of VAT receivable and believes the amount reflected in the consolidated financial statements is fully recoverable within one year except for 60 and 57, which is classified as part of other non-current assets as of December 31, 2008 and 2007, respectively.

Deferred Finance Charges

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. Interest expense incurred during the construction phase of a project is capitalized as part of property, plant and equipment until the project is completed and the

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

asset is placed into service. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings and structures	7 to 45 years
Switching equipment, including billing systems	3 to 7 years
Base stations, including software	7 years
Fiber-optic equipment	20 years
Other network equipment	5 to 7 years
Vehicles and office equipment	3 to 5 years

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

Repair and maintenance costs are expensed as incurred, while updates and improvements are capitalized. Interest costs are capitalized with respect to qualifying construction projects and the capitalization period begins when "qualifying expenditures" are made, development activities are underway and interest cost is being incurred.

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

Asset Retirement Obligations

The Company accounts for asset retirement obligations in accordance with Statement on Financial Accounting Standard ("SFAS") No. 143, "*Accounting for Asset Retirement Obligations*". SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the estimated retirement period of 25 years. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. The Company has certain legal obligations related to rented sites for base stations and masts, which fall within the scope of SFAS No. 143. These legal obligations include requirements to restore the real estate upon which the base stations and masts are located.

The Company annually evaluates whether there are any indicators which suggest that the estimated cash flows underlying the liability have changed materially. If such indicators exist the Company re-estimates the timing and amount of the cash flows and accounts for the effect of such changes in accordance with the provisions of SFAS No. 143.

Goodwill and Intangible Assets

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in purchase business combinations and is not amortized. The Company has acquired identifiable intangible assets through its acquisition of interests in various enterprises. The cost of acquired entities at the date of acquisition is allocated to identifiable assets and the

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

excess of the total purchase price over the amount assigned to identifiable assets is recorded as goodwill.

Intangible assets, which are stated at cost, consist principally of numbering capacity, licenses, frequencies and software. These assets are amortized on a straight-line basis over their estimated useful lives, generally four to seventeen years. In accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets"*, the Company continues to evaluate the amortization period to determine whether events or circumstances warrant revised amortization periods. Additionally, the Company considers whether the carrying value of such assets should be reduced based on the expected future benefits.

Long-lived Assets Impairment

In accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-lived Assets",* long-lived assets to be held and used by the Company are reviewed to determine whether an event or change in circumstances indicates that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether impairment has occurred through the use of an undiscounted cash flows analysis of assets at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using a discounted cash flow analysis or other valuation techniques. No such losses were recognized in the years ended December 31, 2008 and 2007.

Goodwill Impairment Assessment

Prior to the third quarter of 2008, the Company did not have any goodwill on its consolidated balance sheet. Goodwill will be reviewed annually, as of the beginning of the fourth quarter, for impairment or whenever it is determined that impairment indicators exist. The Company determines whether an impairment has occurred by assigning goodwill to the reporting units identified in accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets"*, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If goodwill impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No such losses were recognized during the year ended December 31, 2008.

Interest Free Loans from Shareholders

The Company accounts for interest free loans from non-controlling shareholders in accordance with Accounting Principles Board Opinion No. 21, *"Interest on Receivables and Payables"*. Accordingly, these loans are recorded at their estimated present values based on the Company's incremental borrowing rate. The related imputed interest is recorded as

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

additional paid-in capital in the consolidated statements of shareholders' equity. The accretion of imputed interest is included as interest expense in the accompanying consolidated statements of operations.

Interest and Penalties on Unrecognized Tax Benefits

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Revenue Recognition

Revenues are categorized as follows:

- Revenue from subscribers, including subscription fees, usage charges, fees for value-added services and fees charged to subscribers for roaming outside MegaFon's network;
- Roaming fees charged to other wireless operators for guest roamers utilizing MegaFon's network;
- Revenue from interconnection charges;
- Connection fees;
- Sales of handsets and accessories; and
- Other revenues.

Revenues are stated net of any VAT charged to customers.

Subscription Fees

The Company recognizes monthly subscription fees as revenue in the period when the service is provided.

Usage Charges and Value Added Services Fees

Usage charges consist of fees based on airtime or data services used by the subscriber. The Company recognizes revenues related to usage charges and value added services in the period when the services are provided.

The Company recognizes revenue from value added services on a gross basis when the Company is the primary obligor and is responsible for providing the service and on a net basis when the Company is acting as an agent on behalf of the service provider and the service provider is responsible for providing the service.

Subscribers' Prepayments

Amounts received from subscribers in advance of services being provided are deferred and recognized as revenue when the services are provided.

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

Prepaid Phone Cards

Prepaid phone cards allow subscribers to make a predetermined monetary amount of wireless phone calls and take advantage of other value added services. At the time that the prepaid phone card is purchased, the receipt of cash is recorded as a subscriber prepayment. Revenues are recognized in the period when services are rendered. Unused value relating to prepaid phone cards is recognized as revenue when the prepaid phone card expires.

Roaming Fees

The Company charges roaming fees to other wireless operators for “guest” roamers utilizing MegaFon’s network. The Company recognizes revenues from roaming fees in the period when the services are provided.

Interconnection fees

The Company rents telecommunication channels to the other telecommunications operators in Russia. In addition, the Company charges other operators for terminating traffic on the Company’s network *(see Note 10)*. The Company records these charges as interconnection revenue. The Company recognizes revenue from rent and termination of traffic in the period when the services are provided.

Connection Fees

Connection fees consist of non-refundable charges received from subscribers at the time of service initiation. The Company defers revenue from initial connection fees and recognizes them as revenue over the estimated average subscriber lives. These estimated average subscriber lives differ by region and by type of tariff plans and range from eight to twenty months.

Sales of handsets and accessories

The Company recognizes revenues from the sale of handsets and accessories upon the transfer of handsets and accessories to dealers and customers.

Other

Among other services, the Company provides technical support to the other telecommunications operators in Russia. The Company recognizes revenue from technical support in the period when the services are provided.

Arrangements with Multiple Deliverables

Certain of the Company’s commercial arrangements constitute contractual arrangements with multiple deliverables. In accordance with the Emerging Issues Task Force Consensus No. 00-21, *“Revenue Arrangements with Multiple Deliverables”*, the Company allocates the

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

consideration received from a subscriber to the separate units of accounting inherent in the contract based on their relative fair values.

Discounts and Commissions to Dealers

Dealers purchase service contracts and prepaid phone cards from the Company at a discount and resell them to subscribers at prices set by the Company. In addition, dealers collect payments for services from subscribers and remit them to the Company. In turn, the Company pays a commission to the dealers which is determined as a percentage of amounts collected. The respective discounts and commissions are recorded as a part of sales and marketing expenses.

The Company also pays a commission to the dealers for each subscriber connected, depending on the region, class or type of subscriber connected and other factors, including average revenue per subscriber for certain time periods. The Company recognizes the entire estimated commission payable when the subscriber is connected by the dealer.

Advertising Costs

Advertising costs are expensed as incurred *(see Note 12).*

Government Pension Funds

The Company contributes to the local state pension funds and social funds on behalf of all Russian employees. In Russia, all social contributions, including contributions to the pension fund, were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee. The contributions are expensed as incurred. Contributions for the years ended December 31, 2008 and 2007 were 1,161 and 959, respectively.

Retirement Benefit Obligations

One of the Company's subsidiaries has a noncontributory defined benefit pension plan that covers approximately half of the employees in that subsidiary. The net pension benefit obligation and the related periodic net pension cost are based on, among other things, assumptions of the discount rate, estimated return on plan assets, salary increases and the mortality of participants. The Company applies the provisions of SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)".*

Income Taxes

Provisions are recorded in the consolidated financial statements for taxation of profits in accordance with Russian legislation currently in force. The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "*Accounting for Income Taxes"*. Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and

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

liabilities and are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on the reversals of the various taxable temporary differences, tax-planning strategies and expectations of future taxable income.

The Company does not provide for deferred taxes on the undistributed earnings of its subsidiaries, as such earnings are not anticipated to be distributed in a taxable manner.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. ("FIN") 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes"*. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In addition, FIN No. 48 states that income taxes should not be accounted for under the provisions of SFAS No. 5, "*Accounting for Contingencies" (See Note 14).*

Business Combinations

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying assets, including intangible assets and liabilities assumed based on their respective estimated fair values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, license and other asset lives and market multiples, among other items. The results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition.

Concentration of Credit Risk

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

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

The Company extends credit to certain counterparties, principally international and national telecommunications operators, for roaming services, and to certain dealers, and establishes an allowance for doubtful accounts for specific accounts that it believes represent a potentially significant credit risk. MegaFon's credit risk arising from its trade accounts receivable from dealers is mitigated due to the large number of dealers. Management periodically reviews the history of payments and credit worthiness of the dealers. The Company generally requires its subscribers to prepay for services, except for corporate subscribers that it deems reliable. The Company generally does not require collateral to extend credit to its customers.

Comprehensive Income

SFAS No. 130, "*Reporting Comprehensive Income*", requires the reporting of comprehensive income in addition to net income. Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources.

The components of accumulated other comprehensive income, net of tax are as follows:

	For the years ended December 31,	
	2007	**2008**
Net income, as reported	33,966	**44,319**
Foreign currency translation adjustment	—	**(6)**
Defined benefit pension plan	(17)	**13**
Comprehensive income	33,949	**44,326**

Fair Value Measurement

The Company follows the provisions of SFAS No. 157, *"Fair Value Measurements"*, and considers the following three levels of inputs to measure the fair value:

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

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

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

The fixed-rate cross-currency swaps are valued using standard valuation techniques as no quoted market prices exist for the instruments. The principal technique used to value these instruments is through comparing the foreign currency exchange rates at the time that the derivatives were acquired to the forward exchange rates quoted in the existing market which is inactive as of the valuation date. The key inputs include interest rate yield curves, foreign exchange spot and forward rates. The fair value of fixed-rate cross-currency swaps includes the effects of the counterparty's non-performance risk, including credit risk.

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

Stock-Based Compensation

The Company accounts for stock-based awards pursuant to SFAS No. 123(R), *"Share-Based Payment"*. As the stock-based awards granted by the Company to its employees are settled in cash they are accounted for as liability awards. The measurement of the liability and compensation cost of outstanding stock-based awards is based on the intrinsic value of the awards and is remeasured each period through the date of settlement. Compensation cost is recognized over the requisite service period of each separately vesting portion of the award based on the proportionate amount of the requisite service that has been rendered to date.

Derivative Instruments and Hedging Activities

The Company follows the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Certain Hedging Activities"*, as amended. SFAS No. 133, as amended, requires that all derivative instruments be recorded on the balance sheet at their respective fair values. On the date a derivative contract is executed, and depending on the specific facts and circumstances, the derivative may be designated as a fair value hedge, cash flow hedge or foreign currency hedge of net investment in a foreign operation. For derivative instruments that are not designated as hedges or do not qualify as hedged transactions, the changes in the fair value are reported in the consolidated statement of operations. The Company does not hold or issue derivatives for trading purposes.

Comparative Information

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *"Fair Value Measurements"*. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 157-2 which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. For financial assets and financial liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In October 2008, the FASB issued FSP No. FAS 157-3, *"Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"*, which clarifies the

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

application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset. The Company adopted the standard for items that are recognized or disclosed at fair value beginning January 1, 2008. The adoption of SFAS No. 157 did not have a significant effect on the Company's consolidated financial statements or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *"Business Combinations"*. SFAS No. 141(R) significantly changes accounting for business combinations. Under SFAS No. 141(R) an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) changes the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. After the adoption of SFAS No. 141(R), the reversal of tax contingencies related to the Company's acquisitions will be recorded on its consolidated statement of operation and not as an adjustment to goodwill. The Company is currently evaluating the impact of SFAS No. 141(R) on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements"*. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement became effective for the Company on January 1, 2009. From the date of adoption the Company is required to report its noncontrolling interests as a separate component of shareholders' equity. Among other requirements, this statement requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of operation, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS No. 160 are to be applied prospectively. The adoption of SFAS No. 160 is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133"*. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 does not change the accounting treatment for derivative instruments. The Company is currently evaluating the impact of SFAS No. 161 on its consolidated financial statements.

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

In April 2008, the FASB issued FSP No. FAS 142-3, *"Determination of the Useful Life of Intangible Assets"*, which aims to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142, *"Goodwill and Other Intangible Assets",* and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), especially where the underlying arrangement includes renewal or extension terms. The FSP is effective prospectively for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the impact of FSP No. FAS 142-3 on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the United States Securities and Exchange Commission approval of the Public Company Accounting Oversight Board Auditing amendments to Interim Auditing Standard Section 411, *"The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles"*. The adoption of SFAS No. 162 will not have a significant impact on the Company's consolidated financial statements.

3. Business Combinations and Asset Purchase

InCore

In August 2008, the Company completed the acquisition of 100% ownership interest in CJSC InCore ("InCore"), a provider of ring back tone services, for approximately 1,025 cash consideration, including 2 of direct transaction costs. The primary reason for the acquisition was to provide ring back tone service directly to the Company's customers. The Company has consolidated the financial position and results of operations of InCore from the date of acquisition.

The Company's consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 531 to customer base which will be amortized over a period of 10 years, approximately 27 to software licenses which will be amortized over a weighted average period of approximately 10 years, approximately 302 to fixed assets which will be depreciated over a weighted average period of approximately 6 years, and approximately 110 to deferred tax liability. The excess purchase price over the fair value of the net tangible and intangible assets acquired of approximately 168 has been assigned to goodwill. The purchase price allocation will be finalized upon the completion of the valuation of the acquired fixed and intangible assets.

VideoFon

In September 2008, the Company completed the acquisition of 100% ownership interest in CJSC VideoFon ("VideoFon"), an exclusive retailer of the Company operating in St.

3. Business Combinations and Asset Purchase (continued)

Petersburg and the Leningrad region, for approximately 155 cash consideration, including 0.5 of direct transaction costs. The primary reason for the acquisition was to develop the Company's own dealership network. The Company has consolidated the financial position and results of operations of VideoFon from the date of acquisition.

The Company's consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 14 to fixed assets which will be depreciated over a weighted average period of approximately 12 years and approximately 28 to inventory. The excess of the purchase price over the fair value of the net assets acquired of approximately 136 has been assigned to goodwill. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets.

T-Pay

In September 2008, the Company completed the acquisition of 100% ownership interest in LLC T-Pay ("T-Pay"), a producer and distributor of prepaid phone cards, for approximately 103 in cash consideration, including 0.5 of direct transaction costs. The primary reason for the acquisition is to utilize T-Pay's large regional storage network and to reduce internal logistical and distribution cost. The Company has consolidated the financial position and the results of operations of T-Pay from the date of acquisition.

The Company's consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 34 to fixed assets which will be depreciated over a weighted average period of approximately 8 years, approximately 17 to software which will be amortized over a weighted average period of approximately 3 years, and approximately 52 to deferred tax asset. The excess of the purchase price over the fair value of the net assets acquired of approximately 59 has been assigned to goodwill. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets.

Absolut

In December 2008, the Company completed the acquisition of 100% ownership interest in CJSC Absolut ("Absolut") for approximately 2,347 cash consideration, including 4 of direct transaction costs *(see Note 16).* Absolut owns the building which houses the Company's corporate office in the center of Moscow. The acquisition of Absolut was accounted for as a purchase of an asset. The Company allocated 3,131 to fixed assets which will be depreciated over approximately 45 years and approximately 579 to deferred tax liability.

4. Property, Plant and Equipment

Property, plant and equipment are as follows:

	As of December 31, 2007	As of December 31, 2008
Cost:		
Buildings, structures and leasehold improvements	15,325	**26,327**
Telecommunications network	116,726	**146,762**
Vehicles, computers, office and other equipment	9,187	**12,084**
	141,238	**185,173**
Accumulated depreciation	(53,078)	**(75,515)**
Construction in-progress	14,657	**19,033**
Property, plant and equipment, net	102,817	**128,691**

Depreciation expense for the years ended December 31, 2008 and 2007 was 25,093 and 21,667, respectively.

Included in construction in-progress are advances to suppliers of network equipment of 3,729 and 1,943 as of December 31, 2008 and 2007, respectively.

Software and licenses for base stations and billing systems are included in the balances of telecommunications network assets. The net book value is 4,357 and 4,494 as of December 31, 2008 and 2007, respectively.

Interest capitalized was 830 (out of the total interest expense of 2,661) and 804 (out of the total interest expense of 3,280) for the years ended December 31, 2008 and 2007, respectively.

In 2007, the Company decided to replace certain telecommunications equipment. A majority of this equipment was de-installed in 2008. The Company accelerated depreciation of certain equipment which is not marketable and which the Company does not intend to use in its network operations. As a result of accelerating the depreciation, the Company recorded additional depreciation expense of 781 and 1,036 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, this equipment was fully depreciated. The acceleration of depreciation expense had the effect of decreasing net income by 625 and 787 for the years ended December 31, 2008 and 2007, respectively, net of income tax.

Asset Retirement Obligations

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

	As of December 31, 2007	As of December 31, 2008
Asset retirement obligations at the beginning of the year:	1,740	**2,235**
Revision in estimated cash flows	(335)	**(506)**
Net increase in liability during the year	616	**334**
Accretion expense	214	**286**
Asset retirement obligations at the end of the year	2,235	**2,349**

5. Intangible Assets

Intangible assets are as follows:

	Weighted average amortization period, years	As of December 31, 2007	2008
Cost:			
Operating licenses	12	18,920	**19,129**
Frequencies	17	2,247	**3,053**
Numbering capacity	10	2,138	**1,503**
Customer base	10	—	**576**
Other intangible assets	4	2,324	**3,299**
		25,629	**27,560**
Accumulated amortization		(12,884)	**(14,411)**
Intangible assets, net		12,745	**13,149**

Amortization expense for the years ended December 31, 2008 and 2007 was 2,615 and 2,520, respectively.

Amortization expense for the succeeding five years is expected to be as follows: 2009 – 2,542; 2010 – 2,317; 2011 – 2,053; 2012 – 1,810 and 2013 – 1,794.

6. Long-Term Loans

Long-term loans are as follows:

	As of December 31, 2007	2008
Nordea and Bayerische Hypo- und Vereinsbank AG loan (1)	416	—
Ruble Bonds (2)	3,000	—
Eurobonds (3)	8,296	**8,403**
Sberbank loans (4)	1,508	**495**
Citibank International Plc., ING BHF-Bank Aktiengesellschaft, and ING Bank N.V. loans (5)	2,732	**1,665**
Bayerische Landesbank, Bayerische Landesbank Filiale Di Milano, Commerzbank Aktiengesellschaft, Citibank N.A. London branch, and ING Bank N.V. loans (6)	11,507	**10,242**
Citibank N.A. London branch and ING Bank N.V. loan (7)	6,500	**5,622**
China Development Bank and Bayerische Landesbank (8)	126	**2,497**
Japan Bank for International Cooperation, Citibank N.A. Tokyo branch and Calyon Tokyo branch loan (9)	1,105	**1,028**
Nordic Investment Bank loan (10)	368	**441**
BNP Paribas London branch & Nordea Bank Finland PLC (11)	—	**71**
Other loans (12)	575	**1,419**
Total long-term loans	36,133	**31,883**
Less current portion	10,130	**15,660**
Non-current portion	26,003	**16,223**

6. Long-Term Loans (continued)

Loan repayments over the five year period beginning on January 1, 2009 are as follows:

2009	**15,660**
2010	**5,784**
2011	**4,518**
2012	**2,606**
2013	**1,851**
Thereafter	**1,464**
Total	**31,883**

Under certain conditions (see Note 7), prior consent from Lenders *(see Notes 6(5), (6), (7), (8), (9), (10) and (11))* may be required if the Company elects to prepay certain subordinated shareholder loans maturing in 2011.

At December 31, 2008, the Company's debt was denominated in the following currencies:

	Borrowing currency	Millions of Rubles
Rubles	612	**612**
US dollars (in millions)	580	**17,054**
Euros (in millions)	343	**14,217**
Total long-term loans		**31,883**

(1) Nordea and Bayerische Hypo- und Vereinsbank AG ("Nordea/HVB")

In November 2004, the Company entered into a loan agreement with Nordea/HVB for approximately $51 million (1,434 at the exchange rate as of November 30, 2004). The loan was guaranteed by EKN, a Swedish export credit agency. The loan carried interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 0.8% per annum. The Nordea/HVB loan agreement required the Company to make semi-annual payments, including accrued interest, from 2005 through 2008. As of December 31, 2008, the Company has fully repaid the Nordea/HVB loan.

(2) Ruble Bonds

In April 2004, the Company issued 1.5 billion of Ruble bonds at face value. The bonds carried interest at a rate of 9.28% per annum payable semi-annually. The Company redeemed these bonds at maturity in April 2007.

In April 2005, the Company issued 3 billion of Ruble bonds at face value. The bonds carried interest at a rate of 9.25% per annum payable semi-annually. The Company redeemed these bonds at maturity in April 2008.

6. Long-Term Loans (continued)

(3) Eurobonds

In December 2004, MegaFon S.A., a wholly-owned subsidiary of the Company, issued $375 million (10,406 at the exchange rate as of December 31, 2004) of loan participation notes (the “Eurobonds”) at face value. The Eurobonds carry interest at a rate of 8% per annum payable semi-annually and mature in December 2009. The proceeds from the Eurobonds were used to finance a loan from MegaFon S.A. to the Company on substantially the same terms and conditions as the Eurobonds. Deferred financing costs of 178 were capitalized in connection with this loan.

During 2007 and 2008, the Company repurchased $89 million face value of its Eurobonds (2,322 at the exchange rates as of the transaction dates) for approximately 2,292. In connection with the repurchase of these Eurobonds, the Company recognized a gain in the amount of 58 for the year ended December 31, 2008 and a loss in the amount of 28 for the year ended December 31, 2007.

(4) Sberbank

The Company has entered into several credit facilities with Sberbank at various interest rates and maturities. In August 2007, the interest rate on all loans was re-set to 7.5% per annum. The credit facilities mature at dates varying from 2006 through 2010.

(5) Citibank International Plc., ING BHF-Bank Aktiengesellschaft and ING Bank N.V.

Citibank International Plc. and ING BHF-Bank Aktiengesellschaft and Siemens AG (“Hermes Credit Facility”); Citibank International plc. and ING Bank N.V. and Ericsson AB (“EKN Credit Facility”); Citibank International plc. and ING Bank N.V. and Nokia Corporation (“Finnvera Credit Facility”)

In October 2003, the Company entered into the Hermes Credit Facility for up to 75.4 million Euros (2,629 at the exchange rate as of October 31, 2003). The Hermes Credit Facility can only be used to purchase Siemens AG equipment. The Hermes Credit Facility carries interest at a rate of approximately 4% per annum. The Hermes Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2004 through 2011. The Hermes Credit Facility is guaranteed by Hermes, a German export credit agency. A payment of 4.8 million Euros (167 at the exchange rate as of the date of payment) was required to obtain the guarantee and has been capitalized as deferred finance charges.

In May 2004, the Company entered into the EKN Credit Facility for up to $54 million (1,549 at the exchange rate as of May 31, 2004). The EKN Credit Facility can only be used to purchase Ericsson equipment. The EKN Credit Facility carries interest at a rate of approximately 4% per annum. The EKN Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2004 through 2009. The EKN Credit Facility is guaranteed by EKN, a Swedish export credit agency.

In May 2004, the Company entered into the Finnvera Credit Facility for up to $135 million (3,913 at the exchange rate as of May 31, 2004). The Finnvera Credit Facility can only be

6. Long-Term Loans (continued)

used to purchase Nokia Corporation equipment. The Finnvera Credit Facility carries interest at a rate of approximately 4% per annum. The Finnvera Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2004 through 2009. The Finnvera Credit Facility is guaranteed by Finnvera, a Finnish export credit agency.

A payment of $14 million (406 at the exchange rate as of the date of payment) was required to obtain the guarantees for the EKN Credit Facility and the Finnvera Credit Facility and has been capitalized as deferred finance charges.

(6) Bayerische Landesbank, Bayerische Landesbank Filiale Di Milano, Commerzbank Aktiengesellschaft, Citibank N.A. London branch, and ING Bank N.V.

Bayerische Landesbank, Commerzbank Aktiengesellschaft and Siemens AG ("Hermes II Credit Facility"); Bayerische Landesbank, Commerzbank Aktiengesellschaft and Bayerische Landesbank Filiale Di Milano and Siemens Mobile Communications Spa ("SACE Credit Facility"); Citibank, N.A. London branch, ING Bank N.V. and several other financial institutions and Nokia Corporation ("Finnvera II Credit Facility").

In June 2005, the Company entered into the Hermes II Credit Facility for up to 185 million Euros (6,387 at the exchange rate as of June 30, 2005). The Hermes II Credit Facility can only be used to purchase Siemens AG equipment. The Hermes II Credit Facility carries interest at a rate of Euribor plus 0.35% per annum. The Hermes II Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2006 through 2014. The Hermes II Credit Facility is guaranteed by Hermes, a German export credit agency.

In June 2005, the Company entered into the SACE Credit Facility for up to 74.5 million Euros (2,572 at the exchange rate as of June 30, 2005). The SACE Credit Facility can only be used to purchase Siemens Mobile Communications SpA equipment. The SACE Credit Facility carries interest at a rate of approximately 4% per annum. The SACE Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2006 through 2015. The SACE Credit Facility is guaranteed by SACE, an Italian export credit agency.

In June 2005, the Company entered into the Finnvera II Credit Facility for up to $321.5 million (9,217 at the exchange rate as of June 30, 2005). The Finnvera II Credit Facility can only be used to purchase Nokia Corporation equipment. The Finnvera II Credit Facility carries interest at a rate of approximately 4% per annum. The Finnvera II Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2005 through 2010. The Finnvera II Credit Facility is guaranteed by Finnvera, a Finnish export credit agency.

A payment of $45.2 million (1,288 at the exchange rate as of date of payment), in the aggregate, was required to obtain guarantees for these credit facilities and has been capitalized as deferred finance charges.

6. Long-Term Loans (continued)

(7) Citibank N.A. London branch and ING Bank N.V.

In June 2006, the Company entered into the Finnvera III Credit Facility for up to 218 million Euros (7,407 at the exchange rate as of June 30, 2006). The Finnvera III Credit Facility can only be used to purchase Nokia Corporation equipment. The Finnvera III Credit Facility carries interest at a rate of approximately 4.3% per annum. The Finnvera III Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2007 through 2011. The Finnvera III Credit Facility is guaranteed by Finnvera, a Finnish export credit agency. Several payments aggregating 6.5 million Euros (225 at the exchange rate as of the dates of payment) were required to obtain the guarantee. These payments were capitalized as deferred finance charges as of each payment date.

(8) China Development Bank and Bayerische Landesbank ("China Development Bank II Credit Facility")

In October 2007, the Company entered into the China Development Bank II Credit Facility for up to $85 million (2,102 at the exchange rate as of October 31, 2007). The China Development Bank II Credit Facility can only be used to purchase Huawei equipment. The China Development Bank II Credit Facility carries interest at a rate of LIBOR plus 1.1% per annum. The China Development Bank II Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2009 through 2014.

(9) Japan Bank for International Cooperation, Citibank N.A. Tokyo branch and Calyon Tokyo branch ("JBIC Credit Facility")

In January 2006, the Company entered into the JBIC Credit Facility for up to $50 million (1,406 at the exchange rate as of January 31, 2006). The JBIC Credit Facility can only be used to purchase NEC Corporation equipment and limited local content. Tranche A of the JBIC Credit Facility in the amount of $30 million carries interest at a rate of 6.87% per annum. Tranche B of the JBIC Credit Facility in the amount of $20 million carries interest at a rate of LIBOR plus 0.45% per annum. The JBIC Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2008 through 2012.

(10) Nordic Investment Bank ("NIB Credit Facility")

In October 2004, the Company entered into the NIB Credit Facility for up to $30 million (863 at the exchange rate as of October 31, 2004). In June 2006, the NIB Credit Facility was amended to increase the amount of the facility from $30 million to $50 million (1,354 at the exchange rate as of June 30, 2006). The NIB Credit Facility carries interest at a rate of LIBOR plus 0.85% - 2.20% per annum depending on the international corporate ratings received by the Company from Fitch, S&P and Moody's. The NIB Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2007 through 2012.

In April 2007, the NIB Credit Facility was amended to increase the amount of the facility from $50 million to $100 million (2,569 at the exchange rate as of April 30, 2007). In addition, the NIB Credit Facility was converted to a revolving loan facility, and Nordea and Bayerische Landesbank were added to the lending group.

6. Long-Term Loans (continued)

As of December 31, 2008, $63 million (1,851 at the exchange rate as of December 31, 2008) remained undrawn under the NIB Credit Facility.

(11) BNP Paribas London branch, Nordea Bank Finland PLC, Calyon Bank Helsinki branch and KFW Impex Bank ("Finnvera IV Credit Facility")

In November 2008, the Company entered into the Finnvera IV Credit Facility for up to the US dollar equivalent of 177.7 million Euros (6,322 at the exchange rate as of November 30, 2008). The Finnvera IV Credit Facility can only be used to purchase Nokia Siemens Networks ("NSN") equipment. The Finnvera IV Credit Facility carries interest at a rate of 4.54% per annum. The Finnvera IV Credit Facility requires the Company to make semi-annual payments, plus accrued interest, from 2010 through 2014. The Finnvera IV Credit Facility is guaranteed by Finnvera, a Finnish export credit agency. Several payments aggregating to $10.7 million (364 at the exchange rate as of December 31, 2008) constitute the Finnvera IV guarantee premium, which will be paid in proportion to the amount of the draw down of the Credit Facility. These payments will be capitalized as deferred finance charges as they are made.

In January 2009, the Company drew down $73.6 million (equivalent of 52.5 million Euros) under the Finnvera IV Credit Facility.

As of December 31, 2008, the Company has an amount due to NSN of 71. The Company intends to pay this amount using the proceeds from Finnvera IV Credit Facility. The Company has classified the amount due to NSN as long-term debt in accompanying consolidated balance sheet as of December 31, 2008.

(12) Other

In addition to the above, the Company has entered into various other credit facilities with maturities from 2006 through 2012 as follows:

Svyazbank – three credit facilities with an aggregate principal amount of 468. As of December 31, 2008, these credit facilities are fully drawn. These credit facilities carry interest at rates between 11% and 12% per annum.

UniCredit Bank - $25 million (614 at the exchange rate as of August 31, 2008) credit facility with $22 million (646 at the exchange rate as of December 31, 2008) outstanding. This credit facility carries interest at a rate of LIBOR plus 3.5% per annum.

Transcontinental Mobile Investment Ltd. (*see Note 16*) - $2 million (63 at the exchange rate as of August 31, 2002) credit facility. As of December 31, 2008, this credit facility was fully drawn. This credit facility carries interest at a rate of 6% per annum.

Huawei Technologies – $4.4 million (129 at the exchange rate as of December 31, 2008), of which approximately $4.1 million is non-interest bearing and the remaining amount carries interest at a rate of 5% per annum.

6. Long-Term Loans (continued)

Covenant Requirements

The Eurobonds, Hermes, EKN, Finnvera, Hermes II, Finnvera II, SACE, Finnvera III, China Development Bank II, JBIC, NIB and Finnvera IV Credit Facilities *(see Notes 6 (3), (5), (6), (7), (8), (9), (10) and (11) above)* place various restrictions on the Company related to incurrence of debt, negative pledges, mergers and acquisitions, and material changes in the business without prior consent from the lenders. The Credit Facilities also require the Company to meet various financial and non-financial covenants, including several restrictions related to financial condition.

Undrawn Credit Facilities

In August 2006, the Company entered into a revolving credit facility with UniCredit Bank ("UniCredit Facility") (formerly International Moscow Bank) for up to 4 billion Rubles. As of December 31, 2008, the Company has not borrowed under the UniCredit Facility. The UniCredit Facility carries a rate of interest that depends on the tenor of the loan selected on each drawdown. However, the interest rate cannot exceed 8.25%. The amounts drawn under the UniCredit Facility are to be repaid no later than two years from the date the amounts are drawn. The final maturity is August 2011.

7. Loans from Shareholders

Long-term loans from shareholders are as follows:

	As of December 31,	
	2007	**2008**
Telecominvest (1)	947	**1,194**
TeliaSonera (2)	1,402	**1,791**
IPOC (3)	527	**—**
Amikitia Investments Limited (3)	—	**662**
CT Mobile (4)	434	**97**
Total long-term loans	3,310	**3,744**
Less current portion	433	**97**
Non-current portion	2,877	**3,647**

Shareholder loan repayments over the three-year period beginning on January 1, 2009 are as follows:

2009	**97**
2010	**—**
2011	**3,800**
Total repayments	**3,897**
Unamortized discount	**(153)**
Total long-term loans	**3,744**

7. Loans from Shareholders (continued)

In November 2004, the Company entered into amendments to existing loan agreements with Telecominvest, TeliaSonera and IPOC which capitalized the accrued but unpaid interest on certain loans, extended the maturity of these loans to the earlier of September 30, 2011 or a date ninety days after the payment in full of the Hermes, EKN and Finnvera Credit Facilities *(see Note 6(5))*, and re-set the interest rate on these loans to six-month LIBOR plus 4%, effective September 2004. The repayment of these shareholder loans is subordinated to the Hermes, EKN, Finnvera Credit Facilities and to the Eurobonds *(see Notes 6(3) and (5))*. In addition, the repayment of these subordinated shareholder loans may require prior written consent from the other Lenders *(see Notes 6 (6), (7), (8), (9), (10) and (11))*.

(1) Telecominvest

During 2001 to 2003, the Company entered into several loan agreements with Telecominvest aggregating $28.2 million (829 at the exchange rate as of December 31, 2008). The loans carry interest at rates between 6% and 10% per annum. The original maturities of the loans were from 2004 through 2009. In November 2004, the loans were extended and amended as discussed above.

(2) TeliaSonera

During 2001 to 2003, the Company entered into several loan agreements with affiliates of TeliaSonera aggregating $45 million (1,322 at the exchange rate as of December 31, 2008).

The loans carry interest at rates between at 0% and 10% per annum. The original maturities of the loans were from 2004 through 2009. In November 2004, the loans were extended and amended as discussed above.

(3) IPOC and Amikitia Investments Limited

In 2003, the Company entered into several loan agreements with IPOC aggregating $16 million (470 at the exchange rate as of December 31, 2008). The loans carry interest at a rate of 6% per annum. The original maturity of the loans was July 2004. In November 2004, the loans were extended and amended as discussed above. In December 2008, the Company received notice from IPOC that, in conjunction with its liquidation, all of its rights in respect of the loans have been assigned to Amikitia Investments Limited, an affiliate of Telecominvest.

(4) CT Mobile

In 2001, Sonic Duo, a wholly-owned subsidiary of the Company, entered into three Ruble denominated interest-free loan agreements with CT Mobile aggregating 624. The loans have no stated maturity. The first two loans with an aggregate principal of 527 were callable by CT Mobile not earlier than December 31, 2008 and the third loan was callable by CT Mobile not earlier than December 31, 2030. In December 2008, Sonic Duo paid the first two loans in the amount of 527 and in February 2009, Sonic Duo paid the third loan in the amount of 97.

8. Derivative Financial Instruments

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

The swaps effectively converted, using the then-effective foreign currency exchange rates, some of the Company's outstanding fixed-to-fixed rate long-term US dollar and Euro denominated loans (specifically the EKN, Finnvera, Finnvera II and Finnvera III Credit Facilities) into synthetically equivalent Ruble long-term loans with fixed rates ranging from 3.95% to 6.65%. The carrying amount of such long-term loans was approximately $217 million and 117 million Euro as of December 31, 2007 (9,512 at the exchange rate as of December 31, 2007) and $115 million and 87 million Euro as of December 31, 2008 (7,006 at the exchange rate as of December 31, 2008).

For accounting purposes, the Company has chosen not to designate these fixed to fixed rate cross-currency swaps as hedging instruments and, therefore reports all gains and losses from the change in fair value (Level 2) of these derivative financial instruments directly in the consolidated statements of operations.

Derivative financial instruments were recorded at fair value as of December 31, 2008 and included in other current and non-current assets in the amount of 888 and 1,342, respectively.

As of December 31, 2007 these derivative financial instruments were included in other non-current assets in the amount of 191, other current liabilities in the amount of 260, and in other non-current liabilities in the amount of 176.

9. Long-Term Incentive Program

In April 2008, the Company's Board of Directors approved a long-term motivation and retention program. The program provides that certain key executive and senior level employees will be eligible for awards of options to acquire phantom shares at an exercise price of 1 Ruble each. A maximum of 4,554 million phantom share options will be awarded to all participants. The value ascribed to the full package of phantom share options for which options may be awarded is 1.1% of the value of the Company, which in turn is calculated as six times earnings before interest, taxes, depreciation and amortization (EBITDA) reduced by debt, net of cash and cash equivalents (net debt). The value of the phantom shares will be re-calculated as of December 31, 2009 and participants in the program will be permitted to exercise 50% of their options, assuming continued employment by the Company, in May 2010. The value of the remaining 50% of options will be re-calculated again as of December 31, 2011 and participants in the program will be permitted to exercise the remainder of their options, assuming continued employment by the Company, in May 2012. The in-the-money phantom share options will be settled in cash.

As of December 31, 2008, the Company has granted 4,455 million phantom share options to its employees and recorded compensation expense of approximately 53 inclusive of all related taxes.

9. Long-Term Incentive Program (continued)

As of December 31, 2008, total unrecognized compensation cost related to non-vested phantom share options is 1,225, which is expected to be recognized over a weighted-average period of four years.

10. Revenues

Revenues for the years ended December 31 are as follows:

	2007	2008
Revenues from local subscribers	119,388	**146,689**
Roaming charges to other wireless operators	2,342	**2,120**
Revenues from interconnection charges	17,885	**24,383**
Connection fees	370	**248**
Sales of handsets and accessories	9	**1,252**
Other revenues	456	**759**
Total revenues	140,450	**175,451**

11. Cost of Services

Cost of services for the years ended December 31 are as follows:

	2007	2008
Interconnection charges	23,472	**30,625**
Cost of SIM-cards	877	**1,232**
Roaming expenses	1,946	**2,207**
Cost of handsets and accessories sold	9	**1,363**
Total cost of services	26,304	**35,427**

12. Sales and Marketing Expenses

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

	2007	2008
Advertising and Promotions	5,971	**7,471**
Commissions to dealers for connection of new subscribers	4,946	**5,573**
Commissions to dealers for distribution of prepaid cards and cash collection from subscribers	2,730	**3,411**
Total sales and marketing expenses	13,647	**16,455**

13. Operating Expenses

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

	2007	2008
Salaries and social charges	8,797	**11,365**
Rent	5,522	**7,182**
Network repair and maintenance	3,186	**3,784**
Operating taxes	3,818	**4,035**
Materials and supplies	381	**378**
Office maintenance	1,222	**1,504**
Professional services	766	**953**
Radio frequency fees	1,695	**2,270**
Insurance	291	**257**
Other expenses, net	2,962	**3,726**
Total operating expenses	28,640	**35,454**

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

14. Income Taxes

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

	2007	2008
Current income taxes	13,226	**15,330**
Deferred income tax expense/(benefit)	(593)	**144**
Total income taxes	12,633	**15,474**

Income taxes represent the Company's provision for profit tax. Profit tax is calculated at 24% of taxable profit in 2008 and 2007, in accordance with the laws of the Russian Federation.

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

	2007	2008
Provision for income taxes computed on income before income taxes and minority interest at statutory rate of 24%	11,179	**14,345**
Non-deductible expenses	1,151	**1,197**
Other differences	303	**117**
Effect of change in income tax rate	—	**(185)**
Provision for income taxes reported in the consolidated financial statements	12,633	**15,474**

14. Income Taxes (continued)

Effective January 1, 2009 the income tax rate for businesses in Russia decreases from 24% to 20%. The following deferred tax balances were calculated by applying the presently enacted statutory tax rate of 20% applicable to the period in which the temporary differences between the carrying amounts and tax base of assets and liabilities are expected to reverse.

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

	2007	**2008**
Deferred tax assets:		
Revenue recognition	366	**367**
Fixed assets and other intangible assets	938	**712**
Loss carry-forwards	831	**553**
Other	683	**671**
Total deferred tax assets	2,818	**2,303**
Deferred tax liabilities:		
Licenses	2,288	**1,599**
Derivative financial instruments	46	**446**
Other	601	**1,156**
Total deferred tax liabilities	2,935	**3,201**
Net deferred tax liabilities	117	**898**
Add non-current deferred tax assets	452	**94**
Add current deferred tax assets	1,111	**1,167**
Total long-term deferred tax liabilities	1,680	**2,159**

For Russian income tax purposes, certain of the Company's subsidiaries have net operating loss carry-forwards ("NOLs") incurred from 2001 through 2008, which may be carried forward ten years to offset future taxable income. The use of these NOLs is not restricted in 2009 or in future years. As of December 31, 2008, these subsidiaries had NOLs available for carry-forward aggregating approximately 2,764 with a related tax benefit of 553 of which 67 expires in 2013, 95 in 2014, 162 in 2015, 92 in 2016, 49 in 2017 and 88 in 2018.

No valuation allowance has been recorded in regard to the deferred tax asset in respect of the NOLs as the Company anticipates utilizing these NOLs. The Company plans to legally merge all of its major operating Russian subsidiaries. Such merger would allow the offset of the NOLs of loss-making subsidiaries with the taxable income of profit-making subsidiaries *(see Note 20).*

As of January 1, 2007, the Company adopted the provisions of FIN No. 48 (*See Note 2*). In connection with the adoption of FIN No. 48, the Company recognized an asset representing a position expected to be taken in the future. In December 2008, the Company de-recognized the asset in the amount of 400 as the Company decided not to pursue this position.

14. Income Taxes (continued)

Although the Company believes it is more likely than not that all recognized income tax benefits would be sustained upon examination, the Company has recognized certain income tax benefits that have a reasonable possibility of being successfully challenged by the tax authorities *(see Note 19).* If the tax authorities successfully challenge these income tax positions, it could possibly change the amount of the unrecognized income tax benefits. However, the Company does not believe that it is reasonably possible that this will occur.

15. Valuation and Qualifying Accounts

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

	2007	**2008**
Balance at the beginning of the year	143	**222**
Bad debt expense	99	**321**
Accounts receivable written off	(20)	**(32)**
Allowance for doubtful accounts at the end of the year	222	**511**

16. Related Party Transactions

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

	As of December 31,	
	2007	**2008**
Accounts receivable, related parties		
TeliaSonera (1)	35	**31**
Azercell Telekom B.M (4)	8	**14**
Turkcell Iletisim (3)	10	**12**
Peterservice (5)	2	**13**
Other	49	**11**
Total accounts receivable, related parties	104	**81**
Accounts payable, related parties		
TeliaSonera (1)	8	**10**
Peterservice (5)	461	**323**
Turkcell Iletisim (3)	3	**12**
Other	47	**20**
Total accounts payable, related parties	519	**365**

16. Related Party Transactions (continued)

	For the years ended December 31, 2007	2008
Revenues		
TeliaSonera (1)	182	**151**
Turkcell Iletisim (3)	64	**84**
Mezhregion Transit Telecom (7)	706	—
Skylink (6)	391	—
Other	262	**178**
Total revenues, related parties	1,605	**413**
Cost of services		
TeliaSonera (1)	48	**44**
Turkcell Iletisim (3)	87	**122**
Telecominvest (2)	—	**125**
Peterservice (5)	118	**101**
Mezhregion Transit Telecom (7)	1,000	—
Skylink (6)	83	—
Other	99	**70**
Total cost of services, related parties	1,435	**462**
Operating expenses		
Telecominvest (2)	129	—
Peterservice (5)	222	**405**
Absolut (8)	91	—
Kelly Services (9)	159	**26**
Other	79	**12**
Total operating expenses, related parties	680	**443**

In October 2008, IPOC disposed of its interest in Telecominvest to AF Telecom Holding LLC. In November 2008, IPOC disposed of its 8% direct interest in MegaFon to OOO Olymp. As a result of these transactions, IPOC no longer has any interest, direct or indirect, in MegaFon, and the direct and indirect interests which it held are now owned in their entirety by OOO Olymp.

(1) *TeliaSonera* - primarily settlements on roaming services.

(2) *Telecominvest* - payments for delivery of invoices to customers.

(3) *Turkcell Iletisim* - primarily settlements on roaming services. Turkcell Ilitisim is an affiliate of TeliaSonera.

(4) *Azercell Telekom B.M* - primarily settlements on roaming services. Azercell Telekom B.M is an affiliate of TeliaSonera.

16. Related Party Transactions (continued)

(5) *Peterservice* - primarily installation and maintenance of information and billing systems (purchase of billing systems from Peterservice in the amount of 621 and 1,202 in 2008 and 2007, respectively). Peterservice is an affiliate of Telecominvest.

(6) *Skylink* - settlements on roaming and telecommunications services. Skylink was an affiliate of IPOC. In August 2007, entities affiliated with IPOC sold their entire interest in Skylink to a third party and Skylink ceased to be an affiliate of the Company.

(7) *Mezhregion Transit Telecom* - payments for telecommunications services. This company was an affiliate of Telecominvest and IPOC. In June 2007, entities affiliated with IPOC and Telecominvest sold their entire interest in *Mezhregion Transit Telecom* to a third party, and that company ceased to be an affiliate of MegaFon.

(8) *Mezon Invest and Absolut* - payments for rent. Mezon Invest and Absolut were affiliates of Telecominvest and IPOC. In May 2007, entities affiliated with IPOC and Telecominvest sold their entire interest in Mezon Invest to a third party, and that company ceased to be an affiliate of MegaFon. In 2007, Absolut ceased to be an affiliate of the Company. In December 2008, the Company acquired 100% ownership interest in Absolut *(see Note 3).*

(9) *Kelly Services* - payments for outsourcing of personnel. This company was an affiliate of one of the members of the Board of Directors. In April 2008, Kelly Services ceased to be a related party to the Company.

Alfa Bank – The Company maintains bank deposit accounts with Alfa Bank, an affiliate of CT Mobile. As of December 31, 2008, the amounts on deposit were 2,206.

As described in Note 7, as of December 31, 2008, the Company had loans from the following shareholders: Telecominvest, TeliaSonera, Amikitia and CT Mobile. The Company also has a loan from Transcontinental Mobile Investment Ltd., which was an affiliate of CT Mobile at the time that the loan was made. CT Mobile asserts that Transcontinental Mobile Investment Ltd. was not an affiliate in 2008 and 2007.

In connection with loans from shareholders, the Company recognized interest expense of 187 and 271 during the years ended December 31, 2008 and 2007, respectively.

17. Guarantees

The Company issued guarantees to several banks for loans to certain employees through January 2013. As of December 31, 2008, the amount outstanding under these loans is 50. The Company would be required to perform under the applicable guarantee if any of the employees do not repay the principal, interest, or make any other payment specified in his or her loan agreement. Management believes that the fair value of these guarantees and the related potential liability are insignificant.

18. Fair Value of Financial Instruments and Risk Management

The fair value of financial instruments, including cash and cash equivalents, derivative financial instruments, which are included in current assets and liabilities, accounts receivable and accounts payable approximates the carrying value of these items due to the short-term nature of these amounts.

As of December 31, 2008 and 2007, the fair value of variable rate debt approximates its carrying value. The fair value of fixed rate long-term loans (based on future cash flows discounted at current market rates) was as follows at December 31:

	2007		2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	39,443	39,579	**35,627**	**35,387**

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

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

19. Commitments, Contingencies and Uncertainties

Leases

The Company has various cancelable and non-cancelable operating lease agreements for equipment and office space with terms ranging from 2009 to 2014.

Future minimum lease payments under non-cancelable operating leases with terms of one year or more, as of December 31, 2008, are as follows:

2009	**132**
2010	**127**
2011	**121**
2012	**116**
2013 and thereafter	**109**
Total	**605**

19. Commitments, Contingencies and Uncertainties (continued)

Russian Environment and Current Economic Situation

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.

Recently Russia, like many other countries, is experiencing economic instability. This instability has been characterized by a steep decline in the value of shares traded on its stock exchanges, devaluation of its currency, accelerating capital flight and a forecasted decline in gross domestic product in 2009. The ongoing global credit crisis and the related turmoil in the global financial system have had and may continue to have a material negative impact on the Russian economy. This ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the economy, general business conditions, access to capital and the marginal cost of such capital for the Company and its counterparties as well as consumer purchase patterns, which could affect the Company's financial position, results of operations and business prospects. Additionally, because Russia produces and exports large amounts of oil, its economy is particularly vulnerable to the price of oil on the world market and recent decreases in international oil prices has adversely affected and may continue to adversely affect its economy.

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 April 2007, MegaFon was awarded a license for the provision of "3G" mobile radiotelephony communications services for the entire territory of the Russian Federation that expires on May 21, 2017. The 3G license was granted subject to certain capital commitments. The three major conditions are that the Company will have to build a certain number of base stations that support 3G standards and will have to start commercial exploitation of the 3G technology in 82 regions at various dates over the period from May 2008 through May 2010, and also will have to 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 April 15, 2009, the date of consolidated financial statements issuance, the Company has complied with its 2008 obligations, and has brought into operations all the base stations as originally scheduled. In 2009, the Company continues the planned construction of base stations in compliance with the license requirements.

19. 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 the transactions and activity of the Company may be challenged by the relevant regional and federal authorities.

Based on tax examinations of other telecommunications companies operating in Russia, tax authorities are currently focusing on a number of specific areas, which include, but are not limited to revenues from interconnection charges. As a result of such examinations, tax authorities are claiming additional taxes which are currently being disputed in the courts by these Russian telecommunications companies.

The Company is engaged in litigation with the Russian tax inspectorate in regard to claims issued by the tax inspectorate in November 2007. The Russian tax inspectorate claimed that the Company owes additional taxes of approximately 315 mainly related to income tax and VAT, including fines and penalties, for interconnection settlements for the years ended December 31, 2004, 2005 and 2006. The Company paid the amount claimed to the respective Russian tax inspectorate. In January 2008, the Company filed a lawsuit against the tax inspectorate disputing the claims. In December 2008, the first instance court ruled in favor of the Company by dismissing the tax inspectorate's claim. In January 2009, the tax inspectorate appealed this decision. In February 2009, the second instance court ruled in favor of the Company by dismissing the tax inspectorate's claim. Based on the second instance court's decision, the Company has the right to claim back related taxes, fines and penalties from the respective Russian tax inspectorate. In March 2009, the tax authorities appealed the decision of the second instance court to the third instance court. Currently, the Company does not consider an unfavorable outcome probable for this claim and believes that it is more likely than not that it will sustain its position.

The Company's wholly-owned Moscow based subsidiary CJSC Sonic Duo ("Sonic Duo") is engaged in litigation with the Russian tax inspectorate in regard to claims issued by the tax inspectorate in June 2008. The Russian tax inspectorate claimed that Sonic Duo owes additional taxes of approximately 404 mainly related to income tax and VAT, including fines and penalties, for interconnection settlements for the years ended December 31, 2005 and 2006. Sonic Duo paid the amount claimed to the respective Russian tax inspectorate. In June 2008, Sonic Duo filed a lawsuit against the tax inspectorate disputing the claims. In November 2008, the first instance court ruled in favor of Sonic Duo by dismissing the tax inspectorate's claim in the amount of 390. In February 2009, the tax inspectorate appealed this decision. In March 2009 the second instance court ruled in favor of Sonic Duo by dismissing the tax inspectorate's claim. Based on the second instance court's decision, Sonic Duo has the right to claim back related taxes, fines and penalties from the respective Russian tax inspectorate. The tax authorities may appeal this decision to a third instance court. Currently, the Company does not consider an unfavorable outcome probable for this claim and believes that it is more likely than not that it will sustain its position.

The Company's wholly-owned subsidiary CJSC Uralsky GSM ("Uralsky GSM") is engaged in litigation with the Russian tax inspectorate in regard to claims issued by the tax

19. Commitments, Contingencies and Uncertainties (continued)

inspectorate in September 2008. The Russian tax inspectorate claimed that Uralsky GSM owes additional taxes of approximately 74 mainly related to income tax and VAT, including fines and penalties, for interconnection settlements for the years ended December 31, 2005, 2006 and 2007. In December 2008 the Company filed a lawsuit against the tax inspectorate disputing the claim. Currently, the Company does not consider an unfavorable outcome probable for this claim and believes that it is more likely than not that it will sustain its position.

In addition, certain of the Company's other subsidiaries are currently undergoing tax audits by the tax authorities. It is possible that as a result of such audits tax claims similar to those made against the Company and its subsidiaries may arise.

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.

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 3G iPhone handsets over a two-year period for further resale in Russia. The Company fulfilled its requirement with respect to the fourth quarter of 2008 but, because of its inability to re-sell all of the iPhones purchased from Apple because of significantly reduced demand as a result of the economic crisis in Russia, the Company did not purchase any iPhones from Apple in the first quarter of 2009. The Company is in discussions with Apple and believes that Apple is amenable to certain revisions to the quarterly purchase requirement to reflect the decline in sales in Russia, although to date the terms of this have not been discussed in detail. In the event that no revision can be agreed, it is possible that Apple could declare the Company to be in default under the Agreement and bring a claim against the Company. In light of the aforementioned uncertainty, the Company is not able to estimate the amount of loss, if any, that the Company may sustain.

20. Reorganization

In December 2008, the shareholders of the Company approved a merger of seven of its wholly-owned subsidiaries (CJSC Sonic Duo, OJSC MSS-Povolzhie, CJSC Mobicom-Kavkaz, CJSC Mobicom-Centre, CJSC Uralsky GSM, CJSC Mobicom-Novosibirsk and CJSC Mobicom-Khabarovsk) into OJSC MegaFon. The Company plans to complete the merger by July 1, 2009.

21. Subsequent Events

In March 2009, the Company completed the acquisition of 100% ownership interest in Debton Investment Limited ("Debton"). Debton owns 51% of CJSC Aquafon GSM, a mobile operator in the Republic of Abkhazia and 51% of CJSC Ostelecom, a mobile operator in the Republic of South Ossetia for approximately 935 cash consideration.

In April 2009, the Company and another telecommunications operator 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. Under the agreement the Company committed to a payment of $65 million in cash to be made in several installments from 2009 through 2014. In addition, the Company and the other telecommunications operator are jointly responsible to provide services in-kind of up to $130 million.

In March 2009, the Company entered into an eighteen-month distribution contract with one of the largest Russian mobile retailers to connect approximately 7.2 million subscribers for approximately $146 million cash consideration, of which approximately $97 million will be prepaid during the second quarter of 2009.