MEGAFON

Consolidated Financial Statements

Years ended December 31, 2011 and 2010
With Report of Independent Auditors

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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, 2011 and 2010, 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, 2011 and 2010, 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.

Ernst & Young LLC

February 29, 2012

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Consolidated Balance Sheets

(In millions of Rubles)

	Note	December 31, 2010	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents	4	2,667	**2,887**
Short-term investments	5	63,554	**84,509**
Accounts receivable, net of allowance for doubtful accounts of 1,029 and 1,447 at December 31, 2010 and December 31, 2011, respectively	6	6,859	**9,547**
Accounts receivable, related parties	23	95	**104**
Inventory	7	3,081	**4,551**
Prepaid income taxes		6,975	**6,957**
VAT receivable		2,562	**1,779**
Deferred tax assets	18	1,166	**1,972**
Prepaid expenses and other current assets	8	7,114	**7,987**
Total current assets		94,073	**120,293**
Long-term bank deposits	9	305	**2,002**
Property, plant and equipment, net of accumulated depreciation of 130,876 and 164,765 at December 31, 2010 and December 31, 2011, respectively	10	194,872	**223,718**
Goodwill and intangible assets:			
Goodwill	3, 11	7,041	**15,393**
Intangible assets, net of accumulated amortization of 20,638 and 24,817 at December 31, 2010 and December 31, 2011, respectively	11	19,245	**19,672**
Deferred tax assets	18	506	**712**
Deferred finance charges		665	**729**
Deferred expenses, long-term portion		760	**949**
Total assets		317,467	**383,468**

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

MegaFon

Consolidated Balance Sheets (continued)

(In millions of Rubles)

	Note	December 31, 2010	December 31, 2011
Liabilities			
Current liabilities:			
Accounts payable	12	6,521	**9,621**
Accounts payable to equipment suppliers		10,308	**8,034**
Accounts payable, related parties	23	404	**465**
Current portion of liability for marketing related licenses	11	382	**402**
Current portion of liability for deferred and contingent consideration	14	1,450	**2,550**
Accrued compensation and social contributions		3,028	**6,187**
Subscribers' prepayments		7,303	**7,895**
Taxes payable	17	1,516	**2,229**
VAT payable		1,294	**2,965**
Current portion of deferred revenue		552	**954**
Current portion of long-term debt	13	12,171	**7,415**
Other current liabilities		845	**1,256**
Total current liabilities		45,774	**49,973**
Debt, less current portion	13	20,750	**36,294**
Deferred tax liabilities	18	8,256	**10,543**
Asset retirement obligations	10	4,304	**5,248**
Liability for marketing related licenses, less current portion	11	893	**621**
Liability for deferred and contingent consideration, less current portion	14	1,731	**1,829**
Deferred revenue, less current portion		1,968	**1,569**
Other non-current liabilities		665	**759**
Total liabilities		84,341	**106,836**
Equity			
MegaFon shareholders' equity:			
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**
Reserve fund		17	**17**
Additional paid-in capital		13,855	**13,852**
Retained earnings		218,371	**261,950**
Accumulated other comprehensive loss		(261)	**(291)**
Total MegaFon shareholders' equity		232,563	**276,109**
Noncontrolling interests		563	**523**
Total equity		233,126	**276,632**
Total liabilities and equity		317,467	**383,468**

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

MegaFon

Consolidated Statements of Operations

(In millions of Rubles)

	Note	Years ended December 31, 2010	**2011**
Revenues (including related party amounts)	19, 23	215,515	**242,608**
Cost of services (excluding depreciation and amortization and including related party amounts)	20, 23	48,423	**58,896**
Gross margin		167,092	**183,712**
Sales and marketing expenses (excluding depreciation and amortization)	21	19,471	**21,841**
Operating expenses (excluding depreciation and amortization and including related party amounts)	22, 23	49,847	**61,049**
Depreciation	10	35,035	**42,377**
Amortization	11	3,839	**5,299**
Operating income		58,900	**53,146**
Other income/(expense):			
Interest expense	10	(837)	**(706)**
Interest income		4,008	**3,591**
Other gain, net		18	**30**
Loss on derivatives, net	15	(203)	**(51)**
Foreign currency exchange loss, net		(700)	**(105)**
Total other income, net		2,286	**2,759**
Income before income taxes and noncontrolling interests		61,186	**55,905**
Provision for income taxes	18	11,962	**12,320**
Net income		49,224	**43,585**
Net income attributable to noncontrolling interests		(52)	**(6)**
Net income attributable to MegaFon		49,172	**43,579**

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, 2010	Years ended December 31, 2011
Cash flows from operating activities:		
Net income attributable to MegaFon	49,172	**43,579**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,035	**42,377**
Amortization	3,839	**5,299**
Net loss on derivatives	203	**51**
Net foreign exchange loss	700	**105**
Net income attributable to noncontrolling interests	52	**6**
Bad debt expense *(Notes 6, 22)*	1,182	**1,437**
Provision for deferred income taxes *(Note 18)*	3,240	**850**
Amortization of deferred finance charges	180	**196**
Changes in assets and liabilities:		
Accounts receivable	(1,927)	**(3,870)**
Inventory	(1,606)	**(1,414)**
Prepayments and other current assets	(3,555)	**(1,053)**
Accounts payable and accrued expenses	448	**6,962**
Deferred revenue	151	**3**
Subscribers' prepayments	18	**392**
VAT, net	(519)	**2,375**
Net cash provided by operating activities	86,613	**97,295**
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(63,860)	**(73,332)**
Proceeds from sale of property, plant and equipment	743	**449**
Acquisitions of subsidiaries, net of cash acquired of 849 and 274 for the years ended December 31, 2010 and 2011, respectively *(Note 3)*	(10,418)	**(10,825)**
Increase in short-term investments and long-term deposits	(15,275)	**(18,948)**
Other investing activities	(11)	**—**
Net cash used in investing activities	(88,821)	**(102,656)**
Cash flows from financing activities:		
Proceeds from long-term debt	13,728	**21,486**
Repayments of long-term debt	(20,105)	**(14,365)**
Deferred finance charges paid	(208)	**(260)**
Repayments of contingent consideration *(Note 14)*	—	**(491)**
Repayments of liability for marketing related licenses *(Note 11)*	(329)	**(385)**
Purchase of noncontrolling interest in consolidated subsidiaries	(100)	**(40)**
Dividends paid to noncontrolling interests	(147)	**—**
Net cash provided/(used in) financing activities	(7,161)	**5,945**
Effect of exchange rate changes on cash and cash equivalents	(514)	**(364)**
Net increase/(decrease) in cash and cash equivalents	(9,883)	**220**
Cash and cash equivalents at beginning of year	12,550	**2,667**
Cash and cash equivalents at end of year	2,667	**2,887**
Supplemental cash flow information:		
Cash paid during the year for income taxes	11,858	**10,914**
Interest paid during the year, net of interest capitalized	158	**114**
Non-cash activities		
Deferred consideration for acquisition of subsidiaries *(Notes 3, 14)*	3,166	**1,231**
Revenue from in-kind services *(Note 11)*	71	**170**

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

Consolidated Statements of Shareholders' Equity

(In millions of Rubles, except share amounts)

	MegaFon shareholders' equity								
	Common stock								
	Shares	Amount	Reserve fund	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total attributable to MegaFon	Noncontrolling interests	Total
Balances at December 31, 2009	**6,200,002**	**581**	**17**	**13,870**	**169,199**	**(255)**	**183,412**	**502**	**183,914**
Comprehensive income:									
Net income	–	–	–	–	49,172	–	49,172	52	**49,224**
Foreign currency translation adjustment	–	–	–	–	–	(6)	(6)	(2)	**(8)**
Total comprehensive income							**49,166**	**50**	**49,216**
Acquisitions *(Note 3)*	–	–	–	–	–	–	–	214	**214**
Purchase of noncontrolling interests	–	–	–	(15)	–	–	(15)	(56)	**(71)**
Dividends paid to noncontrolling interests	–	–	–	–	–	–	–	(147)	**(147)**
Balances at December 31, 2010	**6,200,002**	**581**	**17**	**13,855**	**218,371**	**(261)**	**232,563**	**563**	**233,126**
Comprehensive income:									
Net income	–	–	–	–	43,579	–	43,579	6	**43,585**
Foreign currency translation adjustment	–	–	–	–	–	(30)	(30)	(9)	**(39)**
Total comprehensive income							**43,549**	**(3)**	**43,546**
Purchase of noncontrolling interests	–	–	–	(3)	–	–	(3)	(37)	**(40)**
Balances at December 31, 2011	**6,200,002**	**581**	**17**	**13,852**	**261,950**	**(291)**	**276,109**	**523**	**276,632**

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 MegaFon (the "Company" or "MegaFon") is a leading universal telecommunications operator in the Russian Federation ("Russia") which provides a broad range of voice, data and other telecommunication services to businesses, other telecommunication service providers and retail subscribers. The Company has licenses to operate in all regions of Russia, covering a population of approximately 143 million. The Company intends, wherever possible, to offer its integrated telecommunication services under the "MegaFon" brand, although some services still carry local brand names because of recent acquisitions. In addition to its operations in Russia, the Company provides mobile services through its subsidiaries in the Republic of Tajikistan ("Tajikistan"), the Republic of Abkhazia ("Abkhazia") and the Republic of South Ossetia ("South Ossetia").

In Russia, MegaFon has constructed and continues to operate a nationwide wireless communications network that operates under the dual band GSM 900/1800 standard. In May 2007, the Company was awarded a license for the provision of 3G wireless telephony services based on IMT-2000/UMTS standards throughout the entire territory of Russia that expires on May 21, 2017. As of December 31, 2011, the Company is providing and expanding 3G services in almost all of the regions throughout Russia.

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

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Basis of Presentation

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

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

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

The Company evaluated subsequent events up to February 29, 2012, the date these financial statements were available to be issued.

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

Use of Estimates in Preparation of Financial Statements

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

Principles of Consolidation

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

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

Business Combinations

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

Foreign Currency Translation

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

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

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Accounts Receivable

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

Inventories

Inventories, which primarily consist of telephone handsets, accessories, USB modems and SIM-cards, are stated at the lower of cost or market value. Cost is determined using the 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. VAT incurred on purchases may be offset, subject to certain restrictions, against VAT related to revenues, or can be reclaimed in cash from the tax authorities under certain circumstances. As of December 31, 2011, the VAT enacted statutory rate was 18% in Russia and Tajikistan and 10% in Abkhazia and South Ossetia.

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

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

Deferred Finance Charges

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

Long-term deposits

Time deposits intended to be held for more than twelve months from the balance sheet date, absent any withdrawal restrictions, are classified as non-current assets. The carrying value of long-term deposits approximates their fair value.

Property, Plant and Equipment

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

The estimated useful lives are as follows:

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

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

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

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

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

Asset Retirement Obligations

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

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

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

Goodwill

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

Intangible Assets

Intangible assets, which are stated at cost, consist principally of operating licenses, frequencies, numbering capacity, customer base and marketing related licenses.

Operating licenses and frequencies provide the Company with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. The Company capitalizes payments made to third party suppliers to acquire access to the resources and for use of telephone numbering capacity. These assets (except for GSM 900/1800 standard wireless licenses and marketing related licenses (see *Note 11*)) are generally amortized on a straight-line basis over their estimated useful lives, generally from four to ten years.

Customer base is amortized reflecting the pattern in which the economic benefits are consumed or otherwise used up. Other intangible assets, such as software and trademarks, are amortized on a straight-line basis over their estimated useful lives.

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

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

Long-lived Assets Impairment

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

Goodwill Impairment Assessment

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

Revenue Recognition

Wireless Revenue

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

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

The content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers while gross revenues and related costs are recorded when the Company is a primary obligor in the arrangement. Service revenue is generally recognized when the services are rendered. Revenues are stated net of value-added tax charged to customers.

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

Revenue Recognition for Arrangements with Multiple Deliverables

The Company enters into multiple element revenue arrangements in which a customer may purchase a combination of equipment (e.g. USB modems, handsets) and telecommunication services (e.g. airtime, data, and other services).

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

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

The revised guidance establishes a selling price hierarchy for determining the selling price of each product or service included in a multiple-element sale arrangement. The selling price used for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. It replaces "fair value" with "selling price" in revenue allocation guidance and eliminates the residual method of allocation.

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

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

Revenue allocated to the delivered equipment and related costs are recognized in the profit and loss account at the time of sale provided that other conditions for revenue recognition are met. Amounts allocated to telecommunication services are deferred and recognized as revenue over the period of rendering the services.

Wireline Revenue

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

Advertising Costs

Advertising costs are expensed as incurred *(see Note 21).*

Government Pension Funds

The Company contributes to the local state pension funds and social funds on behalf of its employees. The contributions are expensed as incurred. Contributions for the years ended December 31, 2011 and 2010 were 2,300 and 1,619, respectively.

Income Taxes

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

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

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, accounts receivable and long-term deposits. 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

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

allocates available cash to domestic branches of international banks and a limited number of Russian banks. A majority of these Russian banks are either owned or controlled by the Russian Government. Management periodically reviews the creditworthiness of the banks in which it deposits cash, cash equivalents and short-term investments.

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

Fair Value Measurement

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

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

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

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

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

Derivative Instruments and Hedging Activities

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

The Company has derivatives which it designated as cash flow hedges and derivatives which it did not designate as hedges *(see Note 15)*. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. 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 uses derivatives to manage interest rate and foreign currency risk exposures. The Company does not hold or issue derivatives for trading purposes.

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

Long-Term Incentive Program

Certain employees of the Company have been granted phantom share options. The value ascribed to the full package of each grant is based on the value of the Company calculated using operating results and net debt of the Company. The awards are contingent on the recipients' continuing employment with the Company and are settled in cash. The vesting period is every two years over a four year period. The compensation cost under the program is calculated based on the estimated Company value and the number of awards expected to vest and be accrued over the vesting period *(see Note 16)*.

Comparative Information

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

Recent Accounting Pronouncements

Disclosures – Offsetting Assets and Liabilities. In December 2011, the FASB issued ASU 2011-11, *"Disclosures about Offsetting Assets and Liabilities"*, which enhances disclosures by requiring improved information about financial instruments and derivative instruments that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. The amendment is effective for fiscal years beginning on or after January 1, 2013 and interim periods within those annual periods. The Company does not expect ASU 2011-11 to have a material impact on its financial statements.

Goodwill Impairment Testing. In August 2011, the FASB issued ASU 2011-08, "*Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment"*, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendment is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.

The Company has adopted the amendment starting from the impairment review performed in the fourth quarter of 2011. The adoption of the guidance did not have a material impact on the Company's financial statements.

In December 2010, the FASB issued ASU 2010-28, "*Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts",* which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendment is

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

effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011. The Company is currently evaluating the impact of this amendment on its financial statements.

Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income"*, which gives an entity the option to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity.

In December 2011, the FASB issued ASU 2011-12, "*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*", which deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. ASU 2011-05, as amended by ASU 2011-12, is effective for non-public entities for fiscal years ending on or after December 15, 2012 and interim and annual periods thereafter. The Company does not expect ASU 2011-05 to have a material impact on its financial statements.

Fair Value Measurements. In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"*, which clarifies Topic 820, "*Fair Value Measurements and Disclosures*", but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed.

This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with US GAAP and International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS).

The amendment is effective for non-public entities for annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this ASU on its financial statements.

Receivables. In April 2011, the FASB issued ASU 2011-02, "*Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring"*, which provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendment is effective for non-public entities for annual periods ending on or after December 15, 2012 and for interim periods within those annual periods. Early adoption is

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

permitted. The Company does not expect this amendment to have a material impact on its financial statements.

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

3. Business Combinations

Acquisitions in 2011

NetByNet

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

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

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

The Company estimated the fair value of the contingent consideration at 1,224 using a probability-weighted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement.

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

As a part of liabilities assumed in the acquisition of NetByNet, the Company recognized tax contingencies of 560 which were included in non-current liabilities. In the fourth quarter of 2011 tax contingencies provision has been reduced by 493. This reduction has been recorded through goodwill as a measurement period adjustment *(Note 11)*.

3. Business Combinations (continued)

UgraTel

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

The Company has consolidated the financial position of UgraTel from December 31, 2011.

The acquisitions of NetByNet and UgraTel were accounted for using the acquisition method. The valuation of certain assets and liabilities assumed for both the NetByNet and UgraTel acquisitions have not been finalized as of the date these consolidated financial statements were issued; thus, the provisional measurements of certain intangible assets, deferred taxes and goodwill are subject to change. The table below represents the preliminary allocation of the purchase price to the acquired net assets of NetByNet and UgraTel based on their estimated fair values.

	NetByNet	**UgraTel**
Cash and cash equivalents	190	58
Other current assets	201	101
Tangible assets:		
Telecommunications network	2,055	1,812
Other equipment	70	66
Identifiable intangible assets:		
Trademarks	295	53
Customer base	633	29
Computer software	32	9
Numbering capacity	5	4
Long-term deposits	—	2
Goodwill	7,355	503
Total assets acquired	**10,836**	**2,637**
Debt, including current portion	(1,218)	—
Current liabilities	(612)	(197)
Non-current liabilities	(275)	(19)
Total liabilities assumed	**(2,105)**	**(216)**
Total consideration transferred	**8,731**	**2,421**

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

The weighted-average useful lives of NetByNet trademarks and customer base are 3.0 and 10.6 years, respectively. The weighted-average useful lives of UgraTel trademarks and customer base are 1.5 and 10.0 years, respectively.

3. Business Combinations (continued)

Other acquisitions

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

The purchase price allocation of these companies had not been finalized as of the date of these financial statements as the Company had not completed the valuation of individual assets of these companies. The table below represents the preliminary allocation of the purchase price to the acquired net assets of the acquired operators based on their estimated fair values.

	Web Plus	**Nakhodka Telecom**	**ChebNet**	**Luchshe. Net**	**Total**
Month of acquisition	June	November	November	December	
Federal District	North-West	Far East	Volga	Central	
Net working capital	(120)	10	22	(103)	**(191)**
Tangible assets	177	80	236	169	**662**
Identifiable intangibles assets	—	30	328	90	**448**
Goodwill	—	83	188	223	**494**
Bargain purchase gain	(2)	—	—	—	**(2)**
Deferred tax liabilities	(1)	(7)	(104)	(39)	**(151)**
Non-current liabilities	—	—	(60)	(22)	**(82)**
Total consideration	**54**	**196**	**610**	**318**	**1,178**

The total consideration for Web Plus includes cash consideration of 47 and deferred contingent consideration of 7. Other acquisitions were made for cash consideration paid on the date of acquisition. The goodwill recognized is attributable primarily to the economic potential of the regions in which the acquired companies operate and expected synergies from the acquisitions. Management is still assessing the allocation of goodwill among reporting units. None of the goodwill recognized is deductible for income tax purposes.

Acquisitions in 2010

Synterra

In June 2010, the Company completed the acquisition of a 100% ownership interest in CJSC Synterra ("Synterra"), an alternative provider of integrated telecommunications services in Russia, from Synterra Cyprus Limited and Burnham Advisors Limited for the total purchase price of $745 million, including cash consideration of approximately $298 million (9,267 at the exchange rate as of June 2, 2010), deferred and contingent consideration in the notional amount of up to $110 million (3,418 at the exchange rate as of June 2, 2010) and the net debt of Synterra as of the date of acquisition.

3. Business Combinations (continued)

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

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

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

Deferred and contingent consideration consists of an unconditional deferred payment amount of \$43 million (1,336 at the exchange rate as of June 2, 2010) and several contingent payments aggregating up to \$67 million (2,082 at the exchange rate as of June 2, 2010), payable on or prior to the third anniversary of the acquisition date. \$70 million (2,175 at the exchange rate as of June 2, 2010) out of the total \$110 million (3,418 at the exchange rate as of June 2, 2010) of deferred and contingent consideration bears interest at the rate of 2.75% per annum and the remaining \$40 million (1,243 at the exchange rate as of June 2, 2010) is interest-free. Contingent payments depend upon satisfaction of certain conditions. *(Note 14)*

Metrocom

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

4. Cash and Cash Equivalents

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

	2010		2011	
	Original currency	**Millions of rubles**	**Original currency**	**Millions of rubles**
Rubles	2,126	2,126	**2,386**	**2,386**
US dollars (in millions)	7	228	**13**	**406**
Euros (in millions)	8	313	**2**	**95**
Total cash and cash equivalents		2,667		**2,887**

5. Short-Term Investments

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

	2010		2011	
Bank deposits denominated in	**Original currency**	**Millions of rubles**	**Original currency**	**Millions of rubles**
Rubles	32,280	32,280	**26,641**	**26,641**
US dollars (in millions)	780	23,772	**1,582**	**50,938**
Euros (in millions)	186	7,502	**156**	**6,501**
Norwegian krones (in millions)	—	—	**80**	**429**
Total short-term investments		63,554		**84,509**

6. Accounts Receivable

Accounts receivable as at December 31 are as follows:

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

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

	2010	2011
Balance at the beginning of the year	861	**1,029**
Bad debt expense	1,182	**1,437**
Accounts receivable written off	(1,014)	**(1,019)**
Allowance for doubtful accounts at the end of the year	1,029	**1,447**

7. Inventory

Inventory as at December 31 is as follows:

	2010	2011
Handsets and accessories	1,380	**2,220**
USB modems	728	**1,052**
Information materials	298	**406**
SIM-cards	201	**206**
Other	474	**667**
Total inventory	3,081	**4,551**

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets as at December 31 are as follows:

	2010	2011
Prepayments for services	3,545	**3,038**
Interest receivable	987	**3,006**
VAT from advances paid for long-lived assets	423	**698**
Deferred expenses	459	**415**
Prepayments for inventory	1,104	**300**
Assets held for sale	—	**154**
Prepaid taxes, other than income	101	**148**
Derivatives *(Note 15)*	196	—
Other	299	**228**
Total prepaid expenses and other current assets	7,114	**7,987**

9. Long-Term Bank Deposits

Long-term bank deposits as at December 31 are as follows:

	2010		2011	
	Original currency	**Millions of Rubles**	**Original currency**	**Millions of Rubles**
Rubles	—	—	**2,002**	**2,002**
US dollars (in millions)	10	305	—	—
Total long-term bank deposits		305		**2,002**

10. Property, Plant and Equipment

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

	2010	2011
Cost:		
Buildings, structures and leasehold improvements	44,029	**52,931**
Telecommunications network	231,559	**272,352**
Vehicles, computers, office and other equipment	17,828	**20,229**
	293,416	**345,512**
Accumulated depreciation	(130,876)	**(164,765)**
Construction in-progress	32,332	**42,971**
Property, plant and equipment, net	194,872	**223,718**

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

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

10. Property, Plant and Equipment (continued)

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

Asset Retirement Obligations

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

	2010	2011
Asset retirement obligations at the beginning of the year:	3,303	**4,304**
Revision in estimated cash flows	47	—
Net increase in liability during the year	542	**453**
Accretion expense	412	**491**
Asset retirement obligations at the end of the year	4,304	**5,248**

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

11. Goodwill and Intangible Assets

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

	2010	2011
Balance at the beginning of the year:	498	**7,041**
Acquisitions *(Note 3)*	6,543	**9,050**
Measurement period adjustments *(Note 3)*	—	**(698)**
Balance at the end of the year	7,041	**15,393**

Intangible assets as at December 31 are as follows:

	Weighted average amortization period, years	Cost		Accumulated amortization	
		2010	2011	2010	2011
Operating licenses	10	19,483	**19,478**	(13,773)	**(14,959)**
Frequencies	6	4,773	**5,484**	(1,276)	**(1,500)**
Software	5	4,486	**7,254**	(2,103)	**(3,639)**
Marketing related intangible assets	3	3,535	**3,535**	(218)	**(668)**
Customer base	8	2,057	**2,907**	(560)	**(726)**
Numbering capacity	10	1,882	**1,798**	(1,550)	**(1,603)**
Trademarks	4	295	**671**	(26)	**(116)**
Other intangible assets	5	3,372	**3,362**	(1,132)	**(1,606)**
Total intangible assets		39,883	**44,489**	(20,638)	**(24,817)**

11. Goodwill and Intangible Assets (continued)

Amortization expense for the succeeding five years is expected to be as follows:
2012 – 3,850; 2013 – 3,431; 2014 – 2,908; 2015 – 1,254 and 2016 – 1,073.

Operating licenses

Operating licenses, primarily consisting of a single nationwide 3G license and several GSM 900/1800 standard licenses are integral to the wireless operations of the Company and any inability to extend existing licenses on the same or comparable terms could materially affect the Company's business. While operating licenses are issued for a fixed period, renewals of these licenses previously had occurred routinely and at nominal cost. The Company determines that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in license renewal, or even an outright refusal to renew. The weighted-average period until the next renewal date is approximately 2 years.

In July 2011, the Company reassessed the expected residual amortization period for its GSM 900/1800 standard wireless licenses from 2½ years to 10 years and changed the amortization method of these licenses from straight-line to sum-of-the-years'-digits basis. Such method of amortization reflects the pattern in which the economic benefits of these operating licenses are consumed or otherwise used up and assumes a gradual decrease in the number of GSM 900/1800 standard subscribers during the following 10 years.

These modifications are recorded as a change in accounting estimate and applied prospectively beginning July 1, 2011. The revision resulted in a decrease in amortization expense in the amount of 256 and a corresponding increase in net income of 205 for the year ended December 31, 2011.

The terms of the 3G license require the Company to meet certain conditions, including capital commitments and coverage requirements and is amortized on a straight-line basis over the same period as the GSM 900/1800 standard wireless licenses *(see Note 24).*

Marketing Related Intangible Assets

In April 2009, the Company and OJSC Rostelecom ("Rostelecom") entered into an agreement with the Organizational Committee of the 2014 XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi to acquire rights and licenses to use the Olympic mascot, logos and other Olympic symbols and, in the case of the Company, to be referred to as "the General Mobile Partner of the 2014 XXII Olympic Winter Games". Under the agreement the Company committed to a payment of \$65 million (2,093 at the exchange rate as of December 31, 2011) in cash to be made in several installments from 2009 through 2014.

In addition, the Company and Rostelecom are jointly responsible to provide equal amounts of services in-kind of up to a combined total of \$130 million (4,185 at the exchange rate as of December 31, 2011) from 2009 through 2014. The management of the Company believes that the risk of non-performance by Rostelecom of its responsibilities under the agreement is remote.

11. Goodwill and Intangible Assets (continued)

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

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

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

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

	Liability for marketing related assets	**Deferred revenue**
Balance at January 1, 2011	1,275	1,542
Accrued interest	91	—
Repayments	(385)	—
Revenue recognized in earnings	—	(170)
Foreign currency exchange adjustment	42	—
Balance at December 31, 2011	1,023	1,372
Less current portion	(402)	(288)
Non-current portion	**621**	**1,084**

12. Accounts Payable

Accounts payable as at December 31 are as follows:

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

(In millions of Rubles, unless otherwise indicated)

13. Long-Term Debt

Long-term debt as at December 31 is as follows:

	Classification	Currency	Nominal Annual Effective Interest Rate	Maturity	2010	2011
(1) China Development Bank and Bayerische Landesbank	Equipment finance	US dollar	LIBOR plus 1.1% to 2.7%	2012 - 2016	10,017	**25,042**
(2) BNP Paribas London branch and Nordea Bank Finland	Equipment finance	US dollar	2.91% to 4.54%	2012 - 2016	8,034	**9,239**
(3) Bayerische Landesbank, Bayerische Landesbank Filiale Di Milano, Commerzbank Aktiengesellschaft	Equipment finance	Euro	3.74% and EURIBOR plus 0.35%	2012 - 2015	4,655	**3,490**
(4) Nordea Bank Moscow	Bank loan	US dollar	LIBOR plus 2.0%	2015	1,524	**1,610**
(5) Cisco Systems Finance International	Equipment finance	US dollar	3.50% to 4.11%	2012 - 2016	—	**1,219**
(6) Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken	Equipment finance	US dollar	1.92%	2013 - 2018	—	**1,078**
(7) UniCredit Bank Moscow	Bank loan	US dollar	LIBOR plus 3.5%	2012 - 2013	4,762	**805**
(8) Nordic Investment Bank, Nordea Bank Finland and Bayerische Landesbank	Revolving credit facility	US dollar	LIBOR plus 0.85% to 2.2%	2012	1,016	**358**
(9) Japan Bank for International Cooperation	Equipment finance	US dollar	6.87% and LIBOR plus 0.45%	2012	457	**161**
(10)Citibank N.A. London branch and ING Bank N.V. loans	Equipment finance	Euro	4.27%	Repaid in 2011	1,824	—
Other loans					632	**707**
Total long-term debt					32,921	**43,709**
Less current portion					(12,171)	**(7,415)**
Non-current portion					20,750	**36,294**

13. Long-Term Debt (continued)

As at December 31, 2011, the Company has an amount due to certain equipment suppliers of 1,480 at the exchange rate as of December 31, 2011. The Company intends to pay this amount using the proceeds from certain debt facilities available to the Company *(Items (1) and (2) above)*. In the accompanying consolidated balance sheet as at December 31, 2011 the Company has classified the amount due to these equipment suppliers as short-term and long-term debt according to the applicable repayment schedules.

The following is the summary of aggregate maturities of long-term debt at December 31, 2011:

2012	**7,415**
2013	**8,112**
2014	**7,685**
2015	**11,742**
2016	**8,133**
Thereafter	**622**
Total	**43,709**

At December 31, 2011, the Company's debt is denominated in the following currencies:

	Borrowing currency	Millions of Rubles
Rubles	**667**	**667**
US dollars (in millions)	**1,204**	**38,768**
Euros (in millions)	**103**	**4,274**
Total long-term debt		**43,709**

Covenant Requirements

Certain of the debt facilities referred to above *(Items (1), (2), (3), (4), (5), (6), (8), (9) and (10) above)* place various restrictions on the Company with regards to taking on debt, negative pledges, mergers and acquisitions, and material changes in the business without prior consent from the lenders. These debt facilities also require the Company to meet various financial and non-financial covenants, including several restrictions relating to financial condition.

(In millions of Rubles, unless otherwise indicated)

13. Long-Term Debt (continued)

As at December 31, 2011, the Company's total undrawn credit facilities related to the following agreements:

	Classification	Currency	Nominal Annual Effective Rate	Commitment fee rates	Availability period	Available amount
China Development Bank	Equipment finance	US dollar	LIBOR plus 2.4%	0.30%	2012 - 2014	**33,204**
Gazprombank	Revolving credit facility	Ruble	Either fixed (6% to 9%) or floating (MosPrime3M plus 1.5% to MosPrime3M plus 2.5%)	0.15%	2012 - 2016	**15,000**
UniCredit Bank Moscow	Bank loan	Ruble	Depends on the tenor of the loan selected on each drawdown and market conditions and can either be fixed or floating	No fees	2012 - 2015	**11,000**
Nordea Bank	Bank loan	Ruble	Either fixed (5.1% to 9.1%) or floating (MosPrime3M plus 1.75% to MosPrime3M plus 2%)	0.40%	2012 - 2016	**5,500**
Fortis Bank, Nordea Bank Finland and Skandinaviska Enskilda Banken	Equipment finance	US dollar	1.92%	0.18%	2012 - 2013	**3,422**
Cisco Systems Finance International	Equipment finance	US dollar	4.11%	No fees	2012	**338**
Total						**68,464**

(In millions of Rubles, unless otherwise indicated)

14. Liability for deferred and contingent consideration

The following table presents movements in liability for deferred and contingent consideration (Level 3):

	Synterra	NetByNet	Web Plus	Total
Balance at January 1, 2011	3,181	—	—	**3,181**
Acquisitions (*Note 3*)	—	1,429	7	**1,436**
Accrued interest	133	—	—	**133**
Repayments	(491)	—	—	**(491)**
Adjustment to contingent consideration (included in earnings)	(62)	9	—	**(53)**
Measurement period adjustments	—	(205)	—	**(205)**
Foreign currency exchange adjustment	178	199	1	**378**
Balance at December 31, 2011	2,939	1,432	8	**4,379**
Less current portion	(1,110)	(1,432)	(8)	**(2,550)**
Non-current portion	**1,829**	—	—	1,829

15. Derivative Financial Instruments and Fair Value Measurement

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

Foreign currency derivatives

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

The respective embedded derivative financial instrument, which is the put option, is bifurcated and measured at fair value using the Black-Scholes model (Level 2). For accounting purposes, the Company reports all gains and losses from the change in fair value of these derivative financial instruments directly in the consolidated statements of operations.

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

15. Derivative Financial Instruments and Fair Value Measurement (continued)

The swaps effectively converted, using the then-effective foreign currency exchange rates, some of the Company's outstanding fixed-to-fixed rate long-term US dollar and Euro denominated loans into synthetically equivalent Ruble long-term loans with fixed rates ranging from 3.95% to 6.65%. The carrying amount of such long-term loans was 972 as at December 31, 2010. These long-term loans were repaid in 2011. For accounting purposes, the Company has chosen not to designate these derivatives as hedging instruments and, therefore has reported all gains and losses from the change in fair value (Level 2) of these derivative financial instruments directly in the consolidated statements of operations.

Gains/(losses) on derivatives for the years ended December 31 are as follows:

	2010	2011
Put options sold	65	—
Foreign currency swaps	(268)	**(51)**
Total loss on derivatives, net	(203)	**(51)**

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

Fair value of these derivative financial instruments in the consolidated balance sheet as at December 31, 2010 was 196 and was recorded in other current assets. The derivatives have been fully settled in 2011.

Interest rate swaps

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

In 2011, the Company entered into a number of interest rate swap agreements with total notional amount of 56.5 million Euros (2,354 at the exchange rate as of December 31, 2011) and $245.5 million (7,904 at the exchange rate as of December 31, 2011), of which all, but $45.5 million (1,465 at the exchange rate as of December 31, 2011), were designated as cash flow hedges of interest rate risk.

Interest rate swaps are recorded on the balance sheet at fair value (Level 2). The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in other comprehensive income/(loss) and is subsequently reclassified into

15. Derivative Financial Instruments and Fair Value Measurement (continued)

earnings in the period that the hedged forecast transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. 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.

As at December 31, 2011 the fair value of the Company's interest rate swaps was immaterial. The fair value of the swaps is based on a forward yield curve and represents the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

Fair value measurements

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

The following tables summarize the valuation of the Company's financial assets and liabilities measured at fair value on a recurring basis by the fair value hierarchy at December 31, 2011 and 2010:

	2010				2011			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:								
Derivative financial instruments	—	196	—	196	—	—	—	—
Total assets	**—**	**196**	**—**	**196**	**—**	**—**	**—**	**—**
Liabilities at fair value:								
Liability for deferred and contingent consideration	—	—	3,181	3,181	—	—	4,379	4,379
Total liabilities	**—**	**—**	**3,181**	**3,181**	**—**	**—**	**4,379**	**4,379**

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

	2010		2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	32,921	33,235	**43,709**	**44,102**

15. Derivative Financial Instruments and Fair Value Measurement (continued)

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.

16. Long-Term Incentive Program

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

The following table summarizes information as at December 31, 2011 regarding outstanding phantom share options exercisable upon maturity:

	Number of phantom share options granted (in millions)	Total unrecognized compensation cost	Compensation expense, inclusive of all related taxes for the year ended December 31, 2010	2011
2008 Grant	4,068	74	344	**308**
2009 Grant	4,530	181	524	**155**
2010 Grant	4,349	396	43	**500**
Total	12,947	651	911	**963**

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

17. Taxes Payable

Taxes payable as at December 31 are as follows:

	2010	2011
Property tax	680	**814**
Unified Service Fund	558	**617**
Income tax	29	**372**
Social charges	126	**208**
Personal income tax	100	**132**
Other	23	**86**
Total taxes payable	1,516	**2,229**

18. Income Taxes

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

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

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

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

	2010	2011
Income before income taxes and noncontrolling interests	61,186	**55,905**
Statutory income tax rate	20%	**20%**
Theoretical provision for income taxes	12,237	**11,181**
Non-deductible expenses	579	**691**
Effect of income tax preferences	(220)	**(565)**
(Recognized)/unrecognized tax benefits	(530)	**437**
Net change in valuation allowance	462	**293**
Effect of intragroup capital gains/(losses)	(578)	**115**
Other differences	12	**168**
Provision for income taxes reported in the consolidated financial statements	11,962	**12,320**

18. Income Taxes (continued)

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

The effect of capital gains and losses, in the table above, represents the tax consequences of intragroup transactions with shares of subsidiaries.

As at December 31, 2011, the tax years from 2007 to 2011 remained subject to examination by the tax authorities.

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

	2010	**2011**
Deferred tax assets:		
Revenue recognition	726	**802**
Loss carry-forwards	1,164	**1,473**
Accrued compensation and social contributions	579	**1,135**
Accrued expenses	883	**697**
Other assets	263	**260**
Less: valuation allowance	(462)	**(755)**
Total deferred tax assets	3,153	**3,612**
Deferred tax liabilities:		
Intangible assets	1,645	**1,337**
Property, plant and equipment	7,707	**9,640**
Derivative financial instruments	37	**22**
Other liabilities	348	**472**
Total deferred tax liabilities	9,737	**11,471**
Net deferred tax liabilities	6,584	**7,859**
Add non-current deferred tax assets	506	**712**
Add current deferred tax assets	1,166	**1,972**
Total long-term deferred tax liabilities	8,256	**10,543**

For income tax purposes of the Russian Federation and Tajikistan, certain of the Company's subsidiaries have loss carry-forwards incurred from 2002 through 2011, which may be carried forward to offset future taxable income for ten and three years, respectively. The use of these carry-forwards is not restricted in 2011 or in future years. As at December 31, 2011, these subsidiaries had carry-forwards available aggregating approximately 7,078 with a related tax benefit of 1,473 of which 105 expires in 2013, 188 in 2014, 73 in 2019, 767 in 2020, 298 in 2021 and 42 in 2025.

18. Income Taxes (continued)

As of December 31, 2011 and 2010, the Company recognized and recorded in prepaid income taxes an income tax benefit of 3,963 and 2,323, respectively, related to acceleration of depreciation of property, plant and equipment for tax purposes. The recognition of the income tax benefit decreased the tax basis of property, plant and equipment with corresponding increase in the related non-current deferred tax liability. In spite of the current litigation with the tax authorities, the Company believes that this tax position meets the more-likely-than-not recognition criterion.

19. Revenues

Revenues for the years ended December 31 are as follows:

	2010	2011
Wireless revenues from local subscribers	171,853	**183,876**
Revenues from interconnection charges	29,144	**35,530**
Wireline revenues	7,496	**13,060**
Sales of handsets and equipment	5,182	**8,420**
Roaming charges to other wireless operators	1,628	**1,592**
Other revenues	212	**130**
Total revenues	215,515	**242,608**

20. Cost of Services

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

	2010	2011
Interconnection charges	39,836	**45,867**
Cost of handsets and accessories sold	5,643	**10,343**
Roaming expenses	1,764	**1,741**
Cost of SIM-cards	1,132	**909**
Other costs	48	**36**
Total cost of services	48,423	**58,896**

21. Sales and Marketing Expenses

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

	2010	2011
Advertising	6,924	**7,432**
Commissions to dealers for connection of new subscribers	8,465	**9,061**
Commissions to dealers for cash collection from subscribers	4,082	**5,348**
Total sales and marketing expenses	19,471	**21,841**

22. Operating Expenses

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

	2010	2011
Salaries and social charges	19,061	**23,604**
Rent and utilities	11,231	**14,040**
Operating taxes	5,177	**5,829**
Network repairs and maintenance	4,322	**5,162**
Radio frequency fees	2,963	**3,527**
Office maintenance	1,407	**1,743**
Bad debt expense	1,182	**1,437**
Professional services	1,361	**1,967**
Vehicle costs	555	**650**
Materials and supplies	189	**321**
Insurance	111	**113**
Other expenses	2,288	**2,656**
Total operating expenses	49,847	**61,049**

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

23. 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 and costs are as follows:

	As at December 31,	
	2010	2011
Accounts receivable, related parties		
TeliaSonera	61	**42**
Alfa Group	17	**38**
AF Telecom Holding	17	**24**
Total accounts receivable, related parties	95	**104**

	As at December 31,	
	2010	2011
Accounts payable, related parties		
TeliaSonera	118	**92**
AF Telecom Holding	286	**373**
Total accounts payable, related parties	404	**465**

23. Related Party Transactions (continued)

	For the years ended December 31, 2010	2011
Revenues		
TeliaSonera	290	**235**
Alfa Group	3	**—**
AF Telecom Holding	64	**1**
Total revenues, related parties	357	**236**
Cost of services		
TeliaSonera	1,191	**954**
AF Telecom Holding	29	**428**
Total cost of services, related parties	1,220	**1,382**
Operating expenses		
TeliaSonera	15	**1**
Alfa Group	71	**155**
AF Telecom Holding	994	**1,158**
Total operating expenses, related parties	1,080	**1,314**

The outstanding balances and transactions with TeliaSonera relate to operations with a shareholder of the Company, TeliaSonera, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. The Company has roaming settlements with Turkcell Iletisim, Azercell Telekom B.M, Latvijas Mobilais SIA, Somoncom JV, Indigo Tajikistan, GSM Kazakhstan LLP, Elion Ettevotted Aktsiaselts, Omnitel Telecommunications Network, Omnitel Lithuania, AS EMT, NetCom GSM, FE Coscom LLC, Geocell Ltd., Moldcell S.A., Xfera Moviles S.A., and wireline interconnection agreement with TeliaSonera International Carrier Russia.

The outstanding balances and transactions with Alfa Group relate to operations with a shareholder of the Company, Allaction Limited, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. The Company has an agreement with Altimo for provision of legal and personnel services and also maintains bank deposit accounts with Alfa Bank. The amounts on deposit as at December 31, 2011 and 2010 were 7,239 and 6,553, respectively.

The outstanding balances and transactions with AF Telecom Holding relate to operations with a shareholder of the Company, Telecominvest, its consolidated subsidiaries, its direct owners and their consolidated subsidiaries. MegaFon has an agreement with Telecominvest for provision of legal and personnel services. The Company purchased billing system and related support services from Peterservice in the amount of 1,759 during 2010 and 2,013 during 2011. Also, in 2011, MegaFon conducted operations with Centre Media Technology, a content and service provider and a subsidiary of Telecominvest.

In 2011 the Company acquired 100% of shares of Web Plus from Telecominvest for a total consideration of 54 *(see Note 3)*.

24. Commitments, Contingencies and Uncertainties

Leases

The Company has various cancelable and non-cancelable operating lease agreements for land, equipment and office. Future minimum lease payments under non-cancelable operating leases with terms of one year or more, as at December 31, 2011, are as follows:

2012	93
2013	88
2014	74
2015	46
2016 and thereafter	118
Total	**419**

Russian Environment and Current Economic Situation

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial and liquidity crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, significant capital flight, access to capital and the cost of such capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

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

Telecom licenses capital commitments

In May 2007, MegaFon was awarded a license that expires on May 21, 2017, for the provision of 3G wireless radiotelephony communications services for the entire territory of the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The three major conditions are that the Company build a specified number of base stations that support 3G standards, start commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the license. As of February 29, 2012, the Company is in full compliance with these license conditions, including constructing the number of base stations required at this time.

24. Commitments, Contingencies and Uncertainties (continued)

Taxation

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

During the year ended December 31, 2011 tax audits have been completed for Synterra and a few of its subsidiaries for the years 2007-2009. As a result of these tax audits, the tax authorities claimed 312 of additional taxes mainly related to income tax. The Company paid the amount of additional taxes. However, the Company has started legal proceedings to recover 298 of above additional taxes and believes that it is more likely than not that the tax positions stated in the income tax returns will be sustained.

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

Litigation

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

Apple Commitment

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

24. Commitments, Contingencies and Uncertainties (continued)

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

Replacement of certain telecommunication equipment

During the year ended December 31, 2011, the Company continued replacing certain telecommunication equipment. The net book value of equipment to be replaced is 1,235 at December 31, 2011. Substantially all of this equipment is still in use and continues to be classified in property, plant and equipment. Equipment with book value of 466 is planned to be replaced in 2012-2013 and the Company accelerated depreciation for that equipment which resulted in additional depreciation expense of 865 for the twelve months ended December 31, 2011.

With respect to the remaining part of the equipment with book value of 769 the Company is currently evaluating whether this equipment can be re-utilized or sold, and continues to depreciate it in accordance with the current policies.