MEGAFON

Condensed Consolidated Financial Statements
(Unaudited)

Three and nine months ended September 30, 2009 and 2008
With Independent Accountant's Report

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent Accountant's Report

The Board of Directors and Shareholders
OJSC MegaFon -

We have reviewed the condensed consolidated balance sheet of OJSC MegaFon and subsidiaries as of September 30, 2009, and the related condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2009 and 2008. This condensed financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OJSC MegaFon and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 15, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLC

November 30, 2009

Contents

Condensed Consolidated Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets 3
Condensed Consolidated Statements of Operations 5
Condensed Consolidated Statements of Cash Flows 6
Notes to Unaudited Condensed Consolidated Financial Statements 7

MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles)

	December 31, 2008	September 30, 2009 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	6,465	**26,081**
Short-term investments	33,738	**51,890**
Accounts receivable, net of allowance for doubtful accounts of 511 and 1,310 at December 31, 2008 and September 30, 2009, respectively	5,698	**4,385**
Inventory	2,352	**1,009**
VAT receivable	2,640	**2,060**
Deferred tax assets	1,167	**969**
Prepaid expenses	4,942	**5,616**
Other current assets	1,227	**1,338**
Total current assets	58,229	**93,348**
Property, plant and equipment, net of accumulated depreciation of 75,515 and 94,799 at December 31, 2008 and September 30, 2009, respectively	128,691	**129,742**
Goodwill and intangible assets, net of accumulated amortization of 14,411 and 16,490 at December 31, 2008 and September 30, 2009, respectively *(Notes 3, 10)*	13,512	**16,737**
Other non-current assets	2,317	**2,630**
Total assets	202,749	**242,457**

MegaFon

Condensed Consolidated Balance Sheets (continued)

(In millions of Rubles)

	December 31, 2008	September 30, 2009 (Unaudited)
Liabilities		
Current liabilities:		
Accounts payable	6,263	**6,224**
Accounts payable to equipment suppliers	5,728	**2,520**
Current portion of liability for marketing related licenses *(Note 10)*	—	**286**
Accrued compensation and social contributions	2,031	**2,423**
Subscribers' prepayments	6,182	**4,925**
Taxes payable	1,012	**2,985**
VAT payable	2,187	**3,256**
Deferred revenue	247	**234**
Loans from shareholders	97	**3,910**
Current portion of long-term debt	15,660	**16,616**
Other current liabilities	516	**1,154**
Total current liabilities	39,923	**44,533**
Debt, less current portion	16,223	**19,464**
Loans from shareholders, less current portion	3,647	—
Deferred tax liabilities, less current portion	2,159	**2,472**
Asset retirement obligations	2,349	**3,010**
Liability for marketing related licenses, less current portion *(Note 10)*	—	**1,055**
Deferred revenue, less current portion *(Note 10)*	64	**1,595**
Other non-current liabilities	258	**220**
Total liabilities	64,623	**72,349**
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	13,875	**13,875**
Retained earnings	123,910	**155,410**
Accumulated other comprehensive loss	(257)	**(259)**
Total MegaFon shareholders' equity	138,126	**169,624**
Noncontrolling interest	—	**484**
Total equity	138,126	**170,108**
Total liabilities and equity	202,749	**242,457**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See independent accountant's report

MegaFon

Condensed Consolidated Statements of Operations

(In millions of Rubles)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2009	2008	2009
Revenue *(Note 4)*	46,897	**47,444**	127,106	**133,518**
Cost of services (excluding depreciation and amortization) *(Note 5)*	9,357	**9,605**	24,978	**27,250**
Gross margin	37,540	**37,839**	102,128	**106,268**
Sales and marketing expenses (excluding depreciation and amortization) *(Note 6)*	4,420	**4,740**	12,315	**11,862**
Operating expenses (excluding depreciation and amortization) *(Note 7)*	9,033	**9,552**	26,226	**29,280**
Depreciation, amortization and accretion	6,874	**8,050**	20,385	**23,447**
Operating income	17,213	**15,497**	43,202	**41,679**
Other income/(expense):				
Interest expense	(402)	**(436)**	(1,401)	**(1,217)**
Interest income	833	**707**	2,107	**1,925**
Other gain/(loss), net	(43)	**5**	(13)	**(36)**
Gain/(loss) on derivatives, net *(Note 8)*	445	**18**	226	**(484)**
Foreign currency exchange loss	(1,146)	**(1,073)**	(758)	**(1,639)**
Total other income/(expense), net	(313)	**(779)**	161	**(1,451)**
Income before income taxes and noncontrolling interest	16,900	**14,718**	43,363	**40,228**
Provision for income taxes	4,563	**3,321**	11,708	**8,729**
Net income	12,337	**11,397**	31,655	**31,499**
Net income/(loss) attributable to noncontrolling interest	(13)	**18**	(33)	**(1)**
Net income attributable to MegaFon	12,350	**11,379**	31,688	**31,500**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See independent accountant's report

MegaFon

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles)
(Unaudited)

	Nine months ended September 30,	
	2008	**2009**
Net cash provided by operating activities	55,476	**61,655**
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(28,768)	**(25,707)**
Proceeds from sale of property, plant and equipment	39	**268**
Acquisitions of subsidiaries, net of cash acquired	(1,168)	**(648)**
Increase in short-term investments	(14,162)	**(17,136)**
Net cash used in investing activities	(44,059)	**(43,223)**
Cash flows from financing activities:		
Proceeds from long-term debt	2,391	**7,706**
Repayments of long-term debt	(7,692)	**(4,363)**
Other financing activities	—	**(294)**
Net cash provided by/(used in) financing activities	(5,301)	**3,049**
Effect of exchange rate changes on cash and cash equivalents	8	**(1,865)**
Net increase in cash and cash equivalents	6,124	**19,616**
Cash and cash equivalents at the beginning of the period	4,259	**6,465**
Cash and cash equivalents at the end of the period	10,383	**26,081**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
See independent accountant's report

1. Financial Presentation and Disclosures

Open Joint Stock Company MegaFon (the “Company” or MegaFon”) is a leading provider of a broad range of voice, data and other telecommunications services to businesses, other telecommunications service providers and retail subscribers in Russia, with licenses to operate in all regions of Russia, covering a population of approximately 142 million. In addition to the MegaFon’s operations in Russia, the Company provides mobile services through its subsidiaries in Tajikistan, Abkhazia and South Ossetia. MegaFon also sells handsets and accessories to dealers and final customers.

The accompanying condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) for interim financial reporting and do not include all disclosures required by US GAAP. The Company omitted certain disclosures which would substantially duplicate the disclosures contained in its 2008 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2008 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Company’s 2008 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows for the interim periods. The results of operations for the three and nine months ended September 30, 2009 are not indicative of the operating results for the full year. These financial statements include information updated and subsequent events evaluated through November 30, 2009.

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Foreign Currency Translation

The functional currency of the Company’s subsidiaries domiciled in Russia, the Republic of Abkhazia and the Republic of South Ossetia is the Russian Ruble (“RUR”) 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.

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

Income Taxes

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

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

The difference between income tax expense reported in the accompanying condensed consolidated financial statements and income before taxes for the nine months ended September 30, 2009 and 2008, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes.

The Company recognizes accrued interest and penalties related to unrecognized tax liabilities in income taxes. As of September 30, 2009, the tax years ended December 31, 2006, 2007 and 2008 remained subject to examination by the tax authorities.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The most significant estimates with regard to the accompanying condensed consolidated financial statements relate to the useful lives of tangible and intangible assets, revenue recognition, deferred revenue, collectability of accounts receivable, asset retirement obligations, fair value of derivative financial instruments, income tax provision and recoverability of deferred taxes.

Comparative Information

Certain prior period amounts have been reclassified to conform to the current period presentation.

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

Recent Accounting Pronouncements

Accounting Standards Codification. In June 2009, the FASB issued a standard that established the FASB ASC as the source of authoritative US GAAP for nongovernmental entities. All non-SEC accounting and reporting standards that existed at the ASC's effective date were superseded by the ASC. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates (ASUs). The ASC is effective for interim and annual periods ending after September 15, 2009.

Business Combinations. In December 2007, the FASB issued new guidance on business combinations (ASC 805), which significantly changed the accounting for business combinations and added new disclosure requirements. It requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction at the acquisition-date fair value. The guidance also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. This guidance became effective for the Company as of January 1, 2009, and was applied for the 2009 acquisitions (see Note 3). The adoption of this guidance did not have a significant impact on the Company's financial statements.

In April 2009, the FASB issued guidance on accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies (ASC 805). It provides guidance on initial recognition and measurement and subsequent measurement, accounting for and disclosure of such assets and liabilities. This guidance became effective for the Company as of January 1, 2009. The adoption of this guidance did not have a material impact on the Company's financial statements.

Noncontrolling Interests. In December 2007, the FASB issued guidance that establishes new accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary (ASC 810). This guidance 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 guidance 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 operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. The guidance requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements are to be applied prospectively. The Company has adopted the guidance and the required reclassifications and disclosures have been made in its financial statements.

Fair Value Measurement and Disclosures. In April 2009, the FASB issued staff positions that require enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments (ASC 820). These staff positions are effective for interim and

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

annual reporting periods ending after June 15, 2009, and did not have a material impact on the Company's financial statements (see Note 8).

In August 2009, the FASB issued ASU No. 2009-05, "*Measuring Liabilities at Fair Value*", which provides additional guidance on fair value measurement of liabilities. The new guidance provides clarification on the measurement and reporting of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. This guidance is effective for the first reporting period beginning after August 2009. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Derivatives and Hedging. In March 2008, the FASB issued new disclosure requirements for derivative instruments and hedging activities (ASC 815), which require additional disclosures about an entity's strategies and objectives for using derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance is effective for the Company from January 1, 2009. The adoption of the guidance did not have a significant impact on the Company's financial statements.

Intangible assets. In April 2008, the FASB issued guidance on determining the useful life of intangible assets (ASC 350). This guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. Under this guidance, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The adoption of this guidance did not have a significant impact on the Company's financial statements.

Subsequent events. In May 2009, the FASB issued an accounting standard (ASC 855) which establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard is effective on a prospective basis for interim or annual financial periods ending after June 15, 2009. The adoption of the standard did not have a significant effect on the Company's financial statements.

Transfers and Servicing. In June 2009, the FASB issued a new standard on the accounting for transfers of financial assets (ASC 860), which removes the qualifying special-purpose entity concept, includes a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and changes the de-recognition criteria for a transfer to be accounted for as a sale, and requires significant additional disclosure. This standard is effective for new transfers of financial assets beginning January 1, 2010. Since the Company historically does not have significant transfers of financial assets, the adoption of this standard is not expected to have a material impact on the Company's financial statements.

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

Variable Interest Entities ("VIE"). In June 2009, the FASB issued an accounting standard that amends the consolidation guidance for variable-interest entities (ASC 810). The amendments will significantly affect the overall consolidation analysis under the existing guidance. Accordingly, an enterprise will need to reconsider its previous conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statements disclosures are required. For the Company, this standard becomes effective January 1, 2010. The Company is currently evaluating the impact of the new standard on its financial statements.

Revenue Arrangements with Multiple Deliverables. In October 2009, the FASB issued ASU No. 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. It establishes a selling price hierarchy for determining the selling price of each product or service included in a sale arrangement. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence 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. ASU No. 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010. The FASB permits early adoption of ASU No. 2009-13, applied retrospectively, to the beginning of the year of adoption. The Company is currently evaluating the impact of this standard on its financial statements.

3. Business Combination

In March 2009, the Company completed the acquisition of 100% ownership interest in Debton Investment Limited ("Debton") for approximately 932 cash consideration. Debton owns 51% of CJSC Aquafon GSM ("Aquafon"), a mobile operator in the Republic of Abkhazia, which owns GSM 900/1800 and UMTS licenses, frequencies and numbering capacity, and 51% of CJSC Ostelecom ("Ostelecom"), a company holding a mobile license and frequencies in the Republic of South Ossetia. The Company has consolidated the financial position and the results of operations of Debton, including Aquafon and Ostelecom, from the date of acquisition.

The primary reason for this acquisition was to facilitate the Company's entry into the mobile telephony market in the Republics of Abkhazia and South Ossetia, where the Company did not previously have a license to conduct mobile services.

The Company's condensed 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. The fair value of acquired identifiable net assets amounted to approximately 1,300. The Company has assigned approximately 877 to goodwill and intangible assets, approximately 571 to property and equipment and approximately 145 to deferred tax liability. The fair value of the noncontrolling interest is approximately 522. The

3. Business Combination (continued)

purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets.

4. Revenues

Revenues for the nine months ended September 30 are as follows:

	2008	2009
Revenues from subscribers	106,839	**110,402**
Revenues from interconnection charges	17,753	**18,938**
Roaming charges to other wireless operators	1,596	**1,342**
Connection fees	227	**58**
Sales of handsets and accessories	136	**1,678**
Other revenues	555	**1,100**
Total revenues	127,106	**133,518**

5. Cost of Services

Cost of services for the nine months ended September 30 are as follows:

	2008	2009
Interconnection charges	22,121	**22,880**
Roaming expenses	1,836	**1,676**
Cost of SIM-cards	843	**952**
Cost of handsets and accessories sold	121	**1,711**
Other costs	57	**31**
Total cost of services	24,978	**27,250**

6. Sales and Marketing Expenses

Sales and marketing expenses for the nine months ended September 30 are as follows:

	2008	2009
Advertising	5,239	**4,270**
Commissions to dealers for connection of new subscribers	4,747	**5,229**
Commissions to dealers for distribution of prepaid cards and for cash collection from subscribers	2,329	**2,363**
Total sales and marketing expenses	12,315	**11,862**

7. Operating Expenses

Operating expenses for the nine months ended September 30 are as follows:

	2008	2009
Salaries and social charges	8,469	**9,667**
Rent	5,174	**6,551**
Operating taxes	3,351	**3,357**
Network repairs and maintenance	2,748	**2,796**
Radio frequency fees	1,659	**1,969**
Bad debt expense	267	**1,084**
Office maintenance	1,068	**997**
Professional services	630	**472**
Materials and supplies	266	**202**
Inventory write-down *(Note 11)*	—	**339**
Insurance	192	**120**
Other expenses	2,402	**1,726**
Total operating expenses	26,226	**29,280**

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

8. Derivative Financial Instruments and Fair Value Measurements

Gains/(losses) on derivatives for the nine months ended September 30 are as follows:

	2008	2009
Put options sold	—	**247**
Foreign currency swaps	226	**(731)**
Total gain/(loss) on derivatives, net	226	**(484)**

The Company measures financial assets and financial liabilities at fair value on a recurring basis.

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.

8. Derivative Financial Instruments and Fair Value Measurements (continued)

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.

In 2009, 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) depending on which currency has depreciated relative to the other currency since the date of entering into the dual-currency deposit. All dual-currency deposits bear over-the-market interest rates which include a put option premium payable upon settlement. The purpose of entering into these financial instruments is for yield enhancement on the Company's foreign currency cash investments. As of September 30, 2009, the Company held Euro 79 million (3,477 million Rubles at the exchange rate as of September 30, 2009) and $419 million (12,609 million Rubles at the exchange rate as of September 30, 2009) of deposits which are classified as cash and cash equivalents in the consolidated balance sheets.

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. As of September 30, 2009, the fair value of such bifurcated derivative financial instruments was included in other current liabilities.

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 7,006 as of December 31, 2008 and 5,140 as of September 30, 2009.

For accounting purposes, the Company has chosen not to designate these derivatives 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. As of September 30, 2009, the fair value of such derivative financial instruments was included in other current and other non-current assets.

8. Derivative Financial Instruments and Fair Value Measurements (continued)

The derivatives 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 these derivatives includes the effects of the counterparty's non-performance risk, including credit risk.

Fair values of these derivative financial instruments in the condensed consolidated balance sheets are presented below:

	December 31, 2008	September 30, 2009
Other current assets	888	**569**
Other non-current assets	1,342	**594**
Other current liabilities	—	**279**

As of September 30, 2009, the fair value of variable rate debt approximates its carrying value. The carrying value and fair value of fixed rate long-term loans (based on future cash flows discounted at current market rates) was as follows at September 30, 2009:

	Carrying amount	Fair Value
Long-term debt	39,990	40,284

The fair value of other financial instruments not included in the table above approximates carrying amount.

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 phantom share options. The phantom share options can be awarded under the 2008 Plan and 2009 Plan. Under both plans, 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 and short-term investments (net debt). The awarded phantom share options will 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 will be settled in cash upon vesting.

9. Long Term Incentive Program (continued)

As of September 30, 2009, there were 3,902 million phantom share options under the 2008 Plan granted to employees. The Company recorded compensation expense of approximately 573 inclusive of all related taxes for the nine months ended September 30, 2009.

As of November 30, 2009, the Company has not yet granted any phantom share options under the 2009 Plan to its employees.

As of September 30, 2009, total unrecognized compensation cost related to non-vested granted and outstanding phantom share options is approximately 879 which is expected to be recognized over a weighted-average period of 3 years.

10. Marketing Related Intangible Assets

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 and, in the case of the Company, to be referred to as "the General Mobile Partner of the 2014 XXII Olympic Winter Games". Under the agreement the Company committed to a payment of $65 million (1,956 million Rubles at the exchange rate as of September 30, 2009) 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 equal amounts of services in-kind of up to a combined total of $130 million (3,912 million Rubles at the exchange rate as of September 30, 2009) from 2009 through 2014. The management of the Company believes that the risk of non-performance by the other telecommunications operator of its responsibilities under the agreement is remote.

The Company did not obtain the rights and licenses until the third quarter of 2009, at which time the Company recognized an intangible asset of 3,317, a liability at the net present value of future cash installments of 1,334 and deferred revenue at fair value of 1,516. The recognition of the intangible asset is treated as non-cash item to the extent of the amount of the liability and deferred revenue recorded. The intangible asset will be amortized using the reverse sum-of-the-years'-digits method for approximately 4.5 years.

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

11. Commitments, Contingencies and Uncertainties

Russian Environment and Current Economic Situation

Russia continues to undertake economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian

11. Commitments, Contingencies and Uncertainties (continued)

economy is largely dependent upon the continuation of these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Recently Russia, like many other countries, has been experiencing economic instability. Since Russia produces and exports large amounts of oil and metals, its economy is particularly vulnerable to prices of energy and commodities in the world market. Hence, the recent decreases in such international prices from the previous high levels experienced in early 2008 have adversely affected and may continue to adversely affect the Russian economy. The Russian economic instability has caused declines in the value of shares traded on its stock exchanges, devaluation of the national currency, accelerating capital flight, increasing unemployment, and declining gross domestic product. Russia has been impacted by the ongoing global financial and economic crisis, including frozen capital markets, heightened risk aversion, significantly reduced liquidity in the banking sector and tightened credit conditions generally. While the Russian government, like many other governments, has taken a number of stabilization measures to provide liquidity and credit to Russian banks and companies, and also to prop up general employment and consumer income, there continues to be uncertainty regarding the economy, general business conditions, access to capital and the general economic health of the consumer, all of which could continue to adversely affect the Company's 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" mobile 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 will have to build a certain number of base stations that support 3G standards, will have to 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 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 November 30, 2009, the Company is in full compliance with these license conditions, including constructing the required number of base stations required at this time.

Taxation

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

11. Commitments, Contingencies and Uncertainties (continued)

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

Based on tax examinations of other telecommunications companies operating in Russia, the 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, the tax authorities are claiming additional taxes which are currently being disputed in the courts by these Russian telecommunications companies.

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' liabilities, 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.

Commitments

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 due to significantly reduced demand as a result of the economic crisis in Russia, the Company did not purchase any iPhones from Apple during the nine months of 2009 and through November 30, 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.

11. Commitments, Contingencies and Uncertainties (continued)

In June 2009, the Company recorded an inventory write down to lower-of-cost-or-market value of 242 related to its iPhones stock. The write-down was recorded as operating expense in the consolidated statements of operations.