MEGAFON

Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2008 and 2007

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Contents

MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles, except as stated)

	Note	December 31, 2007	September 30, 2008	September 30, 2008 Convenience translation, thousands US $
Assets				
Current assets:				
Cash and cash equivalents	**3**	4,259	**10,383**	**$ 411,267**
Short-term investments	**3**	21,710	**35,914**	**1,422,539**
Accounts receivable, net of allowance for doubtful accounts of 222 and 304 at December 31,2007 and September 30, 2008, respectively		5,443	**6,025**	**238,648**
Accounts receivable, related parties		104	**65**	**2,575**
Inventory		468	**1,940**	**76,843**
VAT receivable		2,372	**2,331**	**92,330**
Deferred tax asset	**4**	1,111	**1,248**	**49,432**
Prepayments and other current assets		3,704	**4,144**	**164,142**
Total current assets		39,171	**62,050**	**2,457,776**
Property and equipment, net of accumulated depreciation of 53,076 and 68,421 at December 31, 2007 and September 30, 2008, respectively		102,817	**114,017**	**4,516,169**
Goodwill and intangible assets:				
Goodwill	**10**	–	**355**	**14,061**
Intangible assets, net of accumulated amortization of 12,883 and 14,654 at December 31, 2007 and September 30, 2008, respectively		12,745	**12,778**	**506,132**
Net goodwill and intangible assets		12,745	**13,133**	**520,193**
Other non-current assets		1,764	**1,479**	**58,582**
Total assets		156,497	**190,679**	**$ 7,552,720**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable		5,436	**6,896**	**$ 273,148**
Accounts payable and accruals to equipment suppliers		3,061	**3,971**	**157,290**
Accounts payable, related parties		519	**572**	**22,657**
Subscribers' prepayments		5,794	**5,304**	**210,089**
Deferred revenue		499	**498**	**19,726**
Accrued liabilities		3,790	**7,879**	**312,084**
Loans from shareholders		433	**502**	**19,884**
Debt-current portion		10,130	**8,022**	**317,748**
Other current liabilities		260	**131**	**5,189**
Total current liabilities		29,922	**33,775**	**1,337,815**
Long-term debt, less current portion		26,003	**23,813**	**943,224**
Loans from shareholders, less current portion		2,877	**3,092**	**122,473**
Long-term deferred tax liabilities	**4**	1,228	**945**	**37,431**
Other non-current liabilities		2,632	**3,564**	**141,168**
Total liabilities		62,662	**65,189**	**2,582,111**
Minority interest		35	**2**	**79**
Shareholders' equity:				
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**	**23,013**
Reserve fund		17	**17**	**673**
Additional paid-in capital		13,875	**13,875**	**549,583**
Retained earnings		79,591	**111,279**	**4,407,678**
Accumulated other comprehensive loss		(264)	**(264)**	**(10,417)**
Total shareholders' equity		93,800	**125,488**	**4,970,530**
Total liabilities and shareholders' equity		156,497	**190,679**	**$ 7,552,720**

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

MegaFon

Condensed Consolidated Statements of Operations

(In millions of Rubles, except as stated)

	Note	Three months ended September 30, 2007	Three months ended September 30, 2008	2008 Convenience translation, thousands US $	Nine months ended September 30, 2007	Nine months ended September 30, 2008	2008 Convenience translation, thousands US $
Revenue	5	38,094	**46,801**	**$ 1,853,769**	101,699	**127,010**	**$ 5,030,816**
Cost of services, excluding depreciation and amortization	6	7,077	**9,357**	**370,627**	19,181	**24,978**	**989,369**
Gross margin		31,017	**37,444**	**1,483,142**	82,518	**102,032**	**4,041,447**
Sales and marketing expenses	7	3,585	**4,420**	**175,074**	9,619	**12,315**	**487,792**
Operating expenses	8	7,239	**9,117**	**361,121**	20,396	**26,443**	**1,047,397**
Depreciation and amortization		5,974	**6,790**	**268,949**	17,464	**20,168**	**798,847**
Operating income		14,219	**17,117**	**677,998**	35,039	**43,106**	**1,707,411**
Other (income)/expense:							
Interest expense		632	**402**	**15,923**	1,889	**1,401**	**55,493**
Interest income		(316)	**(833)**	**(32,995)**	(612)	**(2,107)**	**(83,457)**
Other income, net		(23)	**(53)**	**(2,099)**	(47)	**(83)**	**(3,288)**
Foreign currency (gain)/loss		(455)	**701**	**27,766**	(547)	**532**	**21,072**
Total other (income)/expense		(162)	**217**	**8,595**	683	**(257)**	**(10,180)**
Income before income taxes and minority interest		14,381	**16,900**	**669,403**	34,356	**43,363**	**1,717,591**
Income taxes	4	4,019	**4,563**	**180,739**	9,612	**11,708**	**463,749**
Minority interest		(10)	**(13)**	**(515)**	(19)	**(33)**	**(1,307)**
Net income		10,372	**12,350**	**$ 489,179**	24,763	**31,688**	**$ 1,255,149**

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

MegaFon

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles, except as stated)

	Note	Nine months ended September 30,		
		2007	2008	2008 Convenience translation, thousands US $
Cash flows from operating activities:				
Net income		24,763	**31,688**	**$ 1,255,149**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		17,464	**20,168**	**798,847**
Foreign currency (gain)/loss		(547)	**532**	**21,072**
Minority interest in net loss of a subsidiary		(19)	**(33)**	**(1,307)**
Deferred tax benefit		(899)	**(529)**	**(20,953)**
Amortization of deferred finance charges and other non-cash items		886	**1,067**	**42,263**
Changes in assets:				
Accounts receivable		(837)	**(88)**	**(3,486)**
Inventory		48	**(1,427)**	**(56,523)**
VAT receivable		767	**50**	**1,980**
Prepayments and other current assets		192	**(399)**	**(15,804)**
Changes in liabilities:				
Accounts payable		1,346	**763**	**30,222**
Deferred revenue		(366)	**73**	**2,892**
Subscribers' prepayments		(824)	**(490)**	**(19,409)**
Accrued liabilities		1,954	**4,101**	**162,439**
Net cash provided by operating activities		43,928	**55,476**	**2,197,382**
Cash flows from investing activities:				
Purchases of property and equipment and intangible assets		(21,568)	**(28,768)**	**(1,139,489)**
Proceeds from sale of property and equipment		144	**39**	**1,545**
Acquisitions, net of cash acquired	**10**	–	**(1,168)**	**(46,264)**
Increase in short-term investments		(10,376)	**(14,162)**	**(560,951)**
Other investing activities		(20)	**–**	**–**
Net cash used in investing activities		(31,820)	**(44,059)**	**(1,745,159)**
Cash flows from financing activities:				
Proceeds from long-term debt		6,473	**2,391**	**94,707**
Repayments of long-term debt		(6,511)	**(7,692)**	**(304,677)**
Other financing activities		(161)	**–**	**–**
Net cash used in financing activities		(199)	**(5,301)**	**(209,970)**
Effect of exchange rate changes on cash and cash equivalents		(97)	**8**	**317**
Net increase in cash and cash equivalents		11,812	**6,124**	**242,570**
Cash and cash equivalents at the beginning of the period		6,965	**4,259**	**168,697**
Cash and cash equivalents at the end of the period		18,777	**10,383**	**$ 411,267**
Supplemental cash flow information:				
Cash paid during the period for income taxes		9,327	**10,893**	**$ 431,467**
Cash paid during the period for interest, net of amounts capitalized		1,430	**1,156**	**45,789**
Non-cash financing and investing activities:				
Equipment purchased under credit		1,835	**39**	**1,545**

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

1. Financial Presentation and Disclosures

Open joint stock company MegaFon (the "Company" or "MegaFon") is a provider of a broad range of wireless telecommunication services to businesses, other telecommunications service providers and retail subscribers.

The financial statements included herein are unaudited and 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 2007 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 2007 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 2007 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, 2008 are not indicative of the operating results for the full year. These financial statements include information updated through December 8, 2008.

The Company's functional currency is the Ruble.

The US dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader and have been translated at the exchange rate of 25.2464 Rubles per US dollar as of September 30, 2008, the exchange rate determined by the Central Bank of the Russian Federation as of such date. This translation should not be construed as representing that the Ruble amounts actually represent or have been, or could be, converted into US dollars at that exchange rate or at any other rate of exchange.

2. Summary of Significant Accounting Policies

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 Statement of Financial Accounting Standards ("SFAS") No. 109, "*Accounting for Income Taxes*". For interim reporting purposes, the Company also follows the provisions of Accounting Principles Board Opinion No. 28, "Interim Financial 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.

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.

Accounting for Uncertainty in Income Taxes

The Company has recognized certain income tax benefits that have a reasonable possibility of being successfully challenged by the tax authorities (also see Note 9). If these income tax positions are successfully challenged by the tax authorities, this could result in an increase in total unrecognized tax benefits of up to 427.

The Company recognizes accrued interest and penalties related to unrecognized tax liabilities in income taxes. As of September 30, 2008, the tax years ended December 31, 2005, 2006 and 2007 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, deferred revenue, asset retirement obligations, fair value of derivative financial instruments, income tax provision and recoverability of deferred taxes.

2. Summary of Significant Accounting Policies (continued)

Revision of remaining estimated useful lives

In 2007, the Company decided to replace certain telecommunications equipment. The de-installation of this equipment is expected to be completed by the end of 2008. As part of the arrangement to replace the equipment, certain items of this equipment will be sold. In connection with the decision to replace the equipment, the Company re-evaluated the remaining useful lives of such equipment, resulting in the useful lives being re-set to periods ranging from 18 to 24 months as of April 1, 2007. Subsequently, in October 2007, the Company revised its estimates of the remaining useful lives of such equipment, resulting in useful lives being re-set to periods ranging from 9 to 21 months. In connection with these revisions the Company recorded additional depreciation expense of approximately 441 for the nine months ended September 30, 2008. After taking into account this additional depreciation, the net book value of the assets to be sold as of September 30, 2008 was approximately 94. Equipment which will be replaced, but which was still in use as of September 30, 2008, was classified as property and equipment. The acceleration of depreciation expense had the effect of decreasing net income by approximately 335 for the nine months ended September 30, 2008, net of income tax.

Comprehensive Income

SFAS No. 130, "*Reporting Comprehensive Income*", requires the reporting of comprehensive income in addition to net income. Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources. For the nine months ended September 30, 2008 and 2007, total comprehensive income is equal to net income.

Comparative Information

Certain comparative information has been reclassified to conform to the current presentation.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financials Liabilities—Including an Amendment of FASB Statement No. 115*" ("SFAS No. 159"). This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on a contract-by-contract basis as long as it is applied to the contract in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective for fiscal years that begin after November 15, 2007. The Company has chosen not to elect the fair value option.

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 157-2 ("FSP No. 157-2") which delays the effective date of issued SFAS No. 157, "*Fair Value Measurements*" for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning January 1, 2009, and interim

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

periods within those fiscal years. The Company is currently evaluating the impact of adopting FSP No. 157-2 on its financial statements.

In October 2008, the FASB issued FSP No. 157-3 "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*" ("FSP No. 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP No. 157-3 is effective for all periods presented in accordance with SFAS No. 157. The Company is currently evaluating the impact of adopting FSP No. 157-3 on its financial statements.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*" ("SFAS No. 161"), which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the provisions of SFAS No. 161 to determine the potential impact, if any, the adoption will have on its financial statements.

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

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

3. Cash and Short-Term Investments

The Company deposits available cash with various banks. Deposit insurance is either not offered or only offered in *de minimis* amounts in respect of bank deposits within Russia. To manage its concentration of credit risk, the Company allocates its available cash to a limited number of Russian banks and domestic branches of international banks. A majority of these Russian banks are state owned. Management periodically reviews the credit worthiness of the banks in which it deposits cash, cash equivalents and short-term investments.

4. Income Taxes

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

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, 2008 and 2007, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes.

5. Revenues

Revenues for the nine months ended September 30 are comprised of:

	2007	2008
Revenues from local subscribers	86,712	**106,839**
Revenues from interconnection charges	12,575	**17,753**
Roaming charges to other wireless operators	1,789	**1,596**
Connection fees	288	**227**
Other revenues	335	**595**
Total revenues	101,699	**127,010**

6. Cost of Services

Cost of services for the nine months ended September 30 is comprised of:

	2007	2008
Interconnection charges	17,040	**22,121**
Roaming expenses	1,521	**2,014**
Cost of SIM-cards	620	**843**
Total cost of services	19,181	**24,978**

7. Sales and Marketing Expenses

Sales and marketing expenses for the nine months ended September 30 are comprised of:

	2007	2008
Advertising	4,189	**5,239**
Commissions to dealers for connection of new subscribers	3,483	**4,747**
Commissions to dealers for distribution of prepaid cards and for cash collection from subscribers	1,947	**2,329**
Total sales and marketing expenses	9,619	**12,315**

8. Operating Expenses

Operating expenses for the nine months ended September 30 are comprised of:

	2007	2008
Salaries and social charges	6,458	**8,469**
Rent	3,970	**5,174**
Operating taxes	2,580	**3,351**
Network repairs and maintenance	2,201	**2,748**
Radio frequency fees	1,211	**1,659**
Office maintenance	830	**1,068**
Professional services	499	**630**
Business travel	352	**502**
Materials and supplies	286	**266**
Insurance	214	**192**
Other expenses	1,795	**2,384**
Total operating expenses	20,396	**26,443**

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

9. Commitments and Contingencies

Operating Environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt

9. Commitments and Contingencies (continued)

Operating Environment (continued)

for Russian banks and companies, there continues to be uncertainty regarding the economy, general business conditions, access to capital and the marginal cost of such capital for the Company and its counterparties and as well as consumer purchase patterns, which could 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.

Commitment

In August 2008, the Company entered into a two-year fixed commitment with Apple Sales International, 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.

Taxation

Russian tax, currency and customs legislation are subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation 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. It is not practical to determine the amount of claims that may be asserted, if any, or the likelihood of any unfavorable outcome. 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.

The Company is currently engaged in litigation with the Russian tax authorities in regard to claims issued by the tax authorities in November 2007. The Russian tax inspectorate claimed that the Company owes additional taxes of approximately 315 mainly related to income tax and Value Added Tax ("VAT"), including fines and penalties, for interconnection settlements for the years ended December 31, 2004, 2005 and 2006. The Company paid the amount claimed to the respective federal and local budgets and in January 2008 filed a lawsuit against the tax inspectorate disputing the claims. In the opinion of the Company's management, it is more likely than not that the Company will sustain its position as a result of the court proceedings.

9. Commitments and Contingencies (continued)

Taxation (continued)

The Company's wholly-owned Moscow based subsidiary CJSC Sonic Duo ("Sonic Duo") has been engaged in litigation with the Russian tax authorities in regard to claims issued by the tax authorities in June 2008.The Russian tax inspectorate claimed that Sonic Duo owes additional taxes of approximately 404 mainly related to income tax and VAT, including fines and penalties, for interconnection settlements for the years ended December 31, 2005 and 2006. In June 2008 Sonic Duo paid the amount claimed to the respective federal and local budgets and filed a lawsuit against the tax inspectorate disputing the claim. In November 2008, the court ruled in favor of Sonic Duo by dismissing the tax inspectorate's claim in the amount of 390. The tax authorities may appeal this decision to a higher court. In the opinion of the Company's management, it is more likely that not that the Company will sustain its position as a result of appeal proceedings, if they take place.

The Company's wholly-owned subsidiary CJSC Ural GSM ("Ural GSM") is engaged in litigation with the Russian tax authorities in regard to claims issued by the tax authorities in September 2008. The Russian tax inspectorate claimed that Ural GSM owes additional taxes of approximately 74 mainly related to income tax and VAT, including fines and penalties, for interconnection settlements for the years ended December 31, 2005, 2006 and 2007. The Company plans to appeal all items contained in the claim. In the opinion of the Company's management, it is more likely than not that the Company will sustain its position as a result of the court proceedings.

In addition, certain of the Company's other subsidiaries are currently undergoing tax audits by the tax authorities. It is possible that as a result of such audits tax claims similar to those made against the Company and its subsidiaries may arise. Management believes that the Company and its subsidiaries are in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

Litigation

The Company is not a party to any material litigation, although some of its subsidiaries have been sued as a result of disputes arising in the ordinary course of their business and operations.

Management believes that the ultimate resolution of the matters mentioned above will not have a material effect on the Company's results of operations, financial position, and operating plans.

10. Business Combinations

InCore

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

10. New Acquisitions (continued)

InCore (continued)

The Company's financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 531 to customer base which will be amortized over a period of 3 years, approximately 28 to software licenses which will be amortized over a weighted average period of approximately 10 years, approximately 326 to property and equipment which will be depreciated over a weighted average period of approximately 6 years, and approximately 136 to deferred tax liability. The excess purchase price over the fair value of the net tangible and intangible assets acquired of approximately 158 million has been assigned to goodwill. The purchase price allocation will be finalized upon the completion of the valuation of the acquired fixed and intangible assets.

VideoFon

In September 2008, the Company acquired 100% ownership interest in CJSC VideoFon ("VideoFon"), an exclusive retailer of the Company operating in St.Petersburg and the Leningrad region, for approximately 155 cash consideration, including 0.5 of direct transaction costs. The primary reason for the acquisition was to develop the Company's own dealership network. The Company has consolidated the financial position and results of operations of VideoFon from the date of acquisition.

The Company's consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 14 to property and equipment which will be depreciated over a weighted average period of approximately 12 years and approximately 28 to inventory. The excess of the purchase price over the fair value of the net assets acquired of approximately 133 has been assigned to goodwill. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets.

T-Pay

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

The Company's consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately 11 to property and equipment which will be depreciated over a weighted average period of approximately 8 years, approximately 17 to software which will be amortized over a weighted average period of approximately 3 years, and approximately 30 to deferred tax assets. The excess of the purchase price over the fair value of the net assets acquired of approximately 64 has been

10. New Acquisitions (continued)

T-Pay (continued)

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

11. 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 are expected to be awarded in 2008 (2008 Plan) and 2009 (2009 Plan). Under both plans, the value of phantom shares for which options are awarded will be linked to a percentage of the value of the Company calculated using a formula at the beginning of each respective year. The awarded phantom share options will vest every two years over 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.

As of September 30, 2008, the Company has not yet granted any phantom share options to its employees.

12. Subsequent Events

Subsequent to September 30, 2008, the Company repurchased a total of approximately 873 face value of its Eurobonds (at the exchange rates as of the transaction dates) for approximately 851. In the accompanying balance sheet at September 30, 2008, the carrying amount of Eurobonds purchased is classified as current liabilities. In connection with this Eurobonds repurchase, the Company will recognize a gain in the amount of approximately 47 in its consolidated financial statements for the year ending December 31, 2008.

In November 2008, the President of the Russian Federation signed a law reducing the income tax rate for businesses from 24% to 20% effective from January 1, 2009. The Company will adjust deferred tax assets and liabilities for the effect of the change in the tax rates in the period of enactment.

In November 2008, the Company has signed an agreement for the acquisition of 100% of CJSC Construction Company Absolute, which houses the Company's corporate office in central Moscow, for approximately 2,418 cash consideration.