MEGAFON

Condensed Consolidated Financial Statements

Three and six months ended June 30, 2008 and 2007

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MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles, except as stated)

	Note	December 31, 2007	June 30, 2008	June 30, 2008 Convenience translation, thousands US $
Assets				
Current assets:				
Cash and cash equivalents	3	4,259	**11,452**	**$ 488,206**
Short-term investments	3	21,710	**27,783**	**1,184,407**
Accounts receivable, net of allowance for doubtful accounts of 285 in 2008 and 222 in 2007		5,443	**5,609**	**239,115**
Accounts receivable, related parties		104	**134**	**5,713**
Inventories		468	**486**	**20,718**
VAT receivable		2,372	**2,198**	**93,702**
Deferred tax assets	4	1,111	**1,353**	**57,679**
Prepayments and other current assets		3,704	**4,120**	**175,638**
Total current assets		39,171	**53,135**	**2,265,178**
Property, plant and equipment, net of accumulated depreciation of 62,852 in 2008 and 53,076 in 2007		102,817	**108,671**	**4,632,716**
Intangible assets, net of accumulated amortization of 13,980 in 2008 and 12,883 in 2007		12,745	**12,351**	**526,531**
Other non-current assets		1,764	**1,451**	**61,857**
Total assets		156,497	**175,608**	**$ 7,486,282**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable		5,436	**6,567**	**$ 279,955**
Accounts payable and accruals to equipment suppliers		3,061	**3,741**	**159,481**
Accounts payable, related parties		519	**415**	**17,692**
Subscribers' prepayments		5,794	**5,166**	**220,230**
Deferred revenue, current portion		499	**446**	**19,013**
Accrued liabilities		3,790	**6,588**	**280,851**
Loans from shareholders, current portion		433	**478**	**20,377**
Debt, current portion		10,130	**7,013**	**298,969**
Other current liabilities		260	**366**	**15,603**
Total current liabilities		29,922	**30,780**	**1,312,171**
Debt, net of current portion		26,003	**24,702**	**1,053,062**
Loans from shareholders		2,877	**2,827**	**120,517**
Other non-current liabilities		2,632	**3,444**	**146,820**
Deferred tax liabilities	4	1,228	**702**	**29,927**
Total liabilities		62,662	**62,455**	**2,662,497**
Commitments and contingencies	9	–	–	–
Minority interest		35	**15**	**639**
Shareholders' equity:				
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**	**24,768**
Reserve fund		17	**17**	**725**
Additional paid-in capital		13,875	**13,875**	**591,500**
Retained earnings		79,591	**98,929**	**4,217,407**
Accumulated other comprehensive loss		(264)	**(264)**	**(11,254)**
Total shareholders' equity		93,800	**113,138**	**4,823,146**
Total liabilities and shareholders' equity		156,497	**175,608**	**$ 7,486,282**

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

MegaFon

Condensed Consolidated Statements of Income

(In millions of Rubles, except as stated)

		Three months ended June 30,			Six months ended June 30,		
	Note	**2007**	**2008**	**2008** Convenience translation, thousands US $	**2007**	**2008**	**2008** Convenience translation, thousands US $
Revenues	**5**	34,267	**42,420**	**$ 1,808,392**	63,605	**80,209**	**$ 3,419,362**
Cost of services, excluding depreciation and amortization	**6**	6,359	**8,324**	**354,858**	12,104	**15,621**	**665,933**
Gross margin		27,908	**34,096**	**1,453,534**	51,501	**64,588**	**2,753,429**
Sales and marketing expenses	**7**	3,094	**4,482**	**191,071**	6,034	**7,895**	**336,569**
Operating expenses	**8**	6,781	**9,134**	**389,388**	13,157	**17,326**	**738,619**
Depreciation and amortization		6,084	**6,778**	**288,951**	11,490	**13,378**	**570,313**
Operating income		11,949	**13,702**	**584,124**	20,820	**25,989**	**1,107,928**
Other income and expenses:							
Interest expense		631	**459**	**19,567**	1,257	**999**	**42,588**
Other income, net		(179)	**(721)**	**(30,737)**	(320)	**(1,304)**	**(55,590)**
Net foreign exchange (gain)/loss		44	**153**	**6,522**	(92)	**(169)**	**(7,205)**
Total other (income)/expenses, net		496	**(109)**	**(4,648)**	845	**(474)**	**(20,207)**
Income before income taxes and minority interest		11,453	**13,811**	**588,772**	19,975	**26,463**	**1,128,135**
Provision for income taxes	**4**	3,206	**3,738**	**159,353**	5,593	**7,145**	**304,596**
Minority interest in net loss of a subsidiary		(7)	**(8)**	**(341)**	(9)	**(20)**	**(853)**
Net income		8,254	**10,081**	**$ 429,760**	14,391	**19,338**	**$ 824,392**

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)

	Six months ended June 30,		
	2007	2008	2008 Convenience translation, thousands US $
Cash flows from operating activities:			
Net income	14,391	**19,338**	**$ 824,392**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,490	**13,378**	**570,313**
Net foreign exchange gain	(92)	**(169)**	**(7,205)**
Minority interest in net loss of a subsidiary	(9)	**(20)**	**(853)**
Provision for deferred income taxes	(820)	**(768)**	**(32,698)**
Amortization of deferred finance charges and other non-cash items	583	**588**	**25,068**
Decrease/(increase) in:			
Accounts receivable	(23)	**(229)**	**(9,848)**
Accounts receivable, related parties	(337)	**(30)**	**(1,279)**
Inventories	29	**(18)**	**(767)**
VAT receivable	832	**174**	**7,418**
Prepayments and other current assets	79	**(339)**	**(14,452)**
Increase/(decrease) in:			
Accounts payable	530	**1,132**	**48,258**
Accounts payable, related parties	132	**(87)**	**(3,709)**
Deferred revenue	93	**(12)**	**(512)**
Subscribers' prepayments	(906)	**(628)**	**(26,729)**
Accrued liabilities	942	**2,827**	**120,517**
Net cash provided by operating activities	26,914	**35,137**	**1,497,914**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets	(13,484)	**(17,539)**	**(747,699)**
Proceeds from sale of property, plant and equipment	36	**19**	**810**
Increase in short-term investments	(3,561)	**(6,130)**	**(261,326)**
Other non-current assets	(54)	**–**	**–**
Net cash used in investing activities	(17,063)	**(23,650)**	**(1,008,215)**
Cash flows from financing activities:			
Proceeds from long-term debt	4,959	**2,330**	**99,329**
Repayments of long-term debt	(4,721)	**(6,620)**	**(282,215)**
Deferred finance charges paid	(108)	**–**	**–**
Net cash provided/ (used) in financing activities	130	**(4,290)**	**(182,886)**
Effect of exchange rate changes on cash and cash equivalents	(13)	**(4)**	**(171)**
Net increase in cash and cash equivalents	9,968	**7,193**	**306,642**
Cash and cash equivalents at the beginning of the period	6,965	**4,259**	**181,564**
Cash and cash equivalents at the end of the period	16,933	**11,452**	**$ 488,206**
Supplemental cash flow information:			
Cash paid during the period for income taxes	5,282	**6,931**	**$ 295,473**
Cash paid during the period for interest, net of amounts capitalized	1,278	**1,001**	**42,673**
Non-cash financing and investing activities:			
Equipment purchased under credit	936	**39**	**1,663**

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 six months ended June 30, 2008 are not indicative of the operating results for the full year. These financial statements include information updated through September 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 23.4573 Rubles per US dollar as of June 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 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

Although the Company believes it is more likely than not that all recognized income tax benefits would be sustained upon examination, the Company has recognized certain income tax benefits that have a reasonable possibility of being successfully challenged by the tax authorities (also see Note 9). If these income tax positions are successfully challenged by the tax authorities, this could result in a reduction in total unrecognized tax benefits of up to 375.

The Company recognizes accrued interest and penalties related to unrecognized tax liabilities in income taxes. As of June 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)

Management Estimates (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 2009. As part of the arrangement to replace the equipment, certain 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 400 for the six months ended June 30, 2008. After taking into account this additional depreciation, the net book value of the assets to be sold as of June 30, 2008 was approximately 94. Equipment which will be replaced, but which was still in use as of June 30, 2008, was classified as property, plant and equipment. The acceleration of depreciation expense had the effect of decreasing net income by 304 for the six months ended June 2008, net of income tax.

Asset retirement obligation

On June 30, 2008, the Company revised its estimate of the future cash flows underlying the liability for asset retirement obligation. As a result of this change, the Company recognized an additional liability and a corresponding asset of 413, included in other non-current liabilities and property, plant and equipment, respectively. This change in estimate did not result in any charge to income for the six months ended June 30, 2008. The following table describes all changes to the Company's asset retirement obligation liability:

Asset retirement obligation as of January 1, 2008	2,235
Liability recognized during the period	217
Revision in estimated future cash flows	413
Accretion expense	125
Asset retirement obligation as of June 30, 2008	**2,990**

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 six months ended June 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.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. For financial assets and financial liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, SFAS No.157 is effective for financial statements issued for fiscal years beginning after January 1, 2008 and interim periods within those fiscal years. The adoption of SFAS No. 157 in respect of such assets and liabilities did not have a significant impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to SFAS No. 115". The adoption of SFAS No. 159 permits companies to elect to measure many financial instruments and certain other items at fair value. SFAS No. 159 does not affect any existing accounting standards that require certain assets and liabilities to be carried at fair value. SFAS No. 159 is effective for the year beginning January 1, 2008. The Company has chosen not to elect the fair value option.

In February 2008, the FASB issued FASB Staff Position No. 157-2 ("FSP No. 157-2") which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning January 1, 2009, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting FSP No. 157-2 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 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after January 1, 2009, with early application encouraged. The Company is currently evaluating the impact of adopting SFAS No. 161 on its financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU 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.

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 six months ended June 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 six months ended June 30 are comprised of:

	2007	2008
Revenues from local subscribers	54,281	**67,404**
Revenues from interconnection charges	7,823	**11,347**
Roaming charges to other wireless operators	1,090	**1,014**
Connection fees	197	**154**
Other revenues	214	**290**
Total revenues	63,605	**80,209**

6. Cost of Services

Cost of services for the six months ended June 30 is comprised of:

	2007	2008
Interconnection charges	10,857	**14,050**
Roaming expenses	854	**1,120**
Cost of SIM-cards	393	**451**
Total cost of services	12,104	**15,621**

7. Sales and Marketing Expenses

Sales and marketing expenses for the six months ended June 30 are comprised of:

	2007	2008
Advertising	2,754	**3,451**
Commissions to dealers for connection of new subscribers	2,074	**2,974**
Commissions to dealers for distribution of prepaid cards and for cash collection from subscribers	1,206	**1,470**
Total sales and marketing expenses	6,034	**7,895**

8. Operating Expenses

Operating expenses for the six months ended June 30 are comprised of:

	2007	2008
Salaries and social charges	4,315	**5,755**
Rent	2,527	**3,340**
Operating taxes	1,660	**2,221**
Network repairs and maintenance	1,373	**1,729**
Radio frequency fees	731	**1,058**
Office maintenance	535	**706**
Professional services	333	**377**
Materials and supplies	197	**183**
Insurance	136	**126**
Other expenses	1,350	**1,831**
Total operating expenses	13,157	**17,326**

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

9. Commitments and Contingencies

Operating Environment

While there have been improvements in the Russian economy over the past few years, such as an increasing gross domestic product and a reduced rate of inflation, Russia remains in a continuing process of economic reform and development of its legal, tax and regulatory frameworks, all of which are required in order for it to develop a stable market economy.

Further growth and the positive development of the Russian economy are largely dependent on these reforms and developments being implemented and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

9. Commitments and Contingencies (continued)

Taxation

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

In November 2007, the Company received a final assessment from the tax inspectorates in connection with the examination of tax returns of OJSC MegaFon for 2004 through 2006. The assessment claimed additional taxes amounting to 315, and are mainly in relation to income tax and VAT, including fines and penalties, for interconnection settlements. In November 2007, OJSC MegaFon paid the amount claimed to the respective federal and local budgets. Nonetheless, in January 2008, the Company appealed the assessment for OJSC MegaFon in the Moscow arbitration court. 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 June 2008, the Company received a final assessment from the tax inspectorates in relation to the examination of tax returns for Sonic Duo, a Moscow based subsidiary of the Company, for 2005 through 2006. The assessment claimed additional taxes amounting to 404, and are also mainly in relation to income tax and VAT, including fines and penalties, for interconnection settlements. In June 2008 Sonic Duo paid the amount claimed to the respective federal and local budgets. The Company plans to appeal substantially all items contained in the assessment for Sonic Duo. 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)

In August 2008, the Company received a preliminary assessment in connection with the examination of tax returns of Ural GSM, a subsidiary of the Company, for 2005 through 2007. The formal assessment is expected to be received in September 2008. The assessment claims additional taxes amounting to 78 mainly in respect of income tax and VAT, including fines and penalties, for interconnection settlements. The Company plans to appeal substantially all items contained in the assessment. 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. Accordingly, the Company did not record any liability in respect of the related tax exposures in the accompanying financial statements.

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 OJSC MegaFon, Sonic Duo and Ural GSM 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 financial statements.

10. Subsequent Events

Acquisition

In August, 2008, the Company acquired 100 percent of the outstanding shares of CJSC In-Core, a content provider. Cash consideration paid amounted to 1,025.

Other

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 two-year period for further resale in Russia.