MEGAFON

Condensed Consolidated Financial Statements

Three and six months ended June 30, 2007 and 2006

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Contents

MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles, except as stated)

(Note 1)

	Note	**December 31, 2006**	**June 30, 2007**	**June 30, 2007 Convenience translation, thousands US $**
Assets				
Current assets:				
Cash and cash equivalents		6,965	**16,933**	**$ 655,906**
Short-term investments		569	**4,090**	**158,428**
Accounts receivable, net of allowance for doubtful accounts of 208 in 2007 and 143 in 2006		4,740	**4,698**	**181,979**
Accounts receivable, related parties		418	**755**	**29,245**
Inventories		457	**428**	**16,579**
VAT receivable		3,322	**2,491**	**96,490**
Deferred tax assets	**3**	739	**1,010**	**39,123**
Prepayments and other current assets		2,272	**2,405**	**93,159**
Total current assets		19,482	**32,810**	**1,270,909**
Property, plant and equipment, net of accumulated depreciation of 42,825 in 2007 and 34,890 in 2006		87,812	**91,281**	**3,535,803**
Intangible assets, net of accumulated amortization of 11,764 in 2007 and 10,435 in 2006		13,725	**13,025**	**504,528**
Other non-current assets		1,680	**1,836**	**71,118**
Total assets		122,699	**138,952**	**$ 5,382,358**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable		4,553	**5,083**	**$ 196,892**
Accounts payable and accruals to equipment suppliers		2,387	**2,115**	**81,925**
Accounts payable, related parties		586	**620**	**24,016**
Subscribers' prepayments		5,515	**4,609**	**178,531**
Deferred revenue, current portion		1,238	**1,336**	**51,750**
Accrued liabilities		2,663	**3,700**	**143,321**
Debt, current portion		7,496	**11,167**	**432,558**
Other current liabilities		143	**216**	**8,368**
Total current liabilities		24,581	**28,846**	**1,117,361**
Debt, net of current portion		31,893	**28,992**	**1,123,016**
Loans from shareholders		3,241	**3,312**	**128,292**
Other non-current liabilities		1,945	**2,422**	**93,817**
Deferred tax liabilities	**3**	1,449	**1,092**	**42,299**
Total liabilities		63,109	**64,664**	**2,504,785**
Commitments and contingencies	**8**	–	**–**	**–**
Minority interest		55	**46**	**1,782**
Shareholders' equity:				
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**	**22,505**
Reserve fund		17	**17**	**659**
Additional paid-in capital		13,875	**13,875**	**537,453**
Retained earnings		45,309	**60,016**	**2,324,742**
Accumulated other comprehensive loss		(247)	**(247)**	**(9,568)**
Total shareholders' equity		59,535	**74,242**	**2,875,791**
Total liabilities and shareholders' equity		122,699	**138,952**	**$ 5,382,358**

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)

(Note 1)

	Note	Three months ended June 30, 2006	Three months ended June 30, 2007	Three months ended June 30, 2007 Convenience translation, thousands US $	Six months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2007 Convenience translation, thousands US $
Revenues	**4**	23,161	**34,267**	**$ 1,327,345**	42,881	**63,605**	**$ 2,463,763**
Cost of services, excluding depreciation and amortization	**5**	3,308	**6,345**	**245,776**	6,283	**12,076**	**467,768**
Gross margin		19,853	**27,922**	**1,081,569**	36,598	**51,529**	**1,995,995**
Sales and marketing expenses	**6**	2,616	**3,125**	**121,048**	4,906	**6,097**	**236,170**
Operating expenses	**7**	5,174	**6,764**	**262,006**	9,969	**13,122**	**508,285**
Depreciation and amortization		4,171	**6,084**	**235,666**	8,932	**11,490**	**445,069**
Operating income		7,892	**11,949**	**462,849**	12,791	**20,820**	**806,471**
Other income and expenses:							
Interest expense		779	**631**	**24,442**	1,544	**1,257**	**48,690**
Change in fair value of derivative financial instruments (C-loans)		420	**–**	**–**	778	**–**	**–**
Other income, net		(107)	**(179)**	**(6,934)**	(180)	**(320)**	**(12,395)**
Net foreign exchange (gain)/ loss		(604)	**44**	**1,704**	(1,928)	**(92)**	**(3,564)**
Total other expenses, net		488	**496**	**19,212**	214	**845**	**32,731**
Income before income taxes and minority interest		7,404	**11,453**	**443,637**	12,577	**19,975**	**773,740**
Provision for income taxes	**3**	2,325	**3,206**	**124,186**	3,773	**5,593**	**216,647**
Minority interest in net earnings of a subsidiary		5	**(7)**	**(271)**	10	**(9)**	**(349)**
Net income		5,074	**8,254**	**$ 319,722**	8,794	**14,391**	**$ 557,442**

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

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Condensed Consolidated Statements of Cash Flows

(In millions of Rubles, except as stated)

(Note 1)

	Six months ended June 30,		
	2006	**2007**	**2007**
			Convenience translation, thousands US $
Cash flows from operating activities:			
Net income	8,794	**14,391**	**$ 557,442**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,932	**11,490**	**445,069**
Net foreign exchange gain	(1,928)	**(92)**	**(3,564)**
Minority interest in earnings of a subsidiary	10	**(9)**	**(349)**
Provision for deferred income taxes	(204)	**(820)**	**(31,763)**
Change in fair value of derivative financial instruments (C-loans)	778	**–**	**–**
Amortization of deferred finance charges and other non-cash items	623	**583**	**22,583**
Decrease/(increase) in:			
Accounts receivable	(581)	**(23)**	**(891)**
Accounts receivable, related parties	(31)	**(337)**	**(13,054)**
Inventories	116	**29**	**1,123**
VAT receivable	905	**832**	**32,228**
Prepayments and other current assets	(156)	**79**	**3,060**
Increase/(decrease) in:			
Accounts payable	486	**530**	**20,530**
Accounts payable, related parties	119	**132**	**5,113**
Deferred revenue	326	**93**	**3,602**
Subscribers' prepayments	(613)	**(906)**	**(35,094)**
Accrued liabilities	519	**942**	**36,489**
Net cash provided by operating activities	18,095	**26,914**	**1,042,524**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets	(13,463)	**(13,484)**	**(522,308)**
Proceeds from sale of property, plant and equipment	–	**36**	**1,394**
Increase in short-term investments	(560)	**(3,561)**	**(137,937)**
Other non-current assets	127	**(54)**	**(2,092)**
Net cash used in investing activities	(13,896)	**(17,063)**	**(660,943)**
Cash flows from financing activities:			
Proceeds from long-term debt	2,375	**4,959**	**192,089**
Repayments of long-term debt	(4,470)	**(4,714)**	**(182,599)**
Deferred finance charges paid	(8)	**(108)**	**(4,183)**
Capital lease principal repayments	(94)	**(7)**	**(271)**
Net cash (used in) / provided by financing activities	(2,197)	**130**	**5,036**
Effect of exchange rate changes on cash and cash equivalents	(237)	**(13)**	**(503)**
Net increase in cash and cash equivalents	1,765	**9,968**	**386,114**
Cash and cash equivalents at the beginning of the period	15,744	**6,965**	**269,792**
Cash and cash equivalents at the end of the period	17,509	**16,933**	**$ 655,906**
Supplemental cash flow information:			
Cash paid during the period for income taxes	3,377	**5,282**	**$ 204,600**
Cash paid during the period for interest	1,307	**1,278**	**49,504**
Non-cash financing and investing activities:			
Equipment purchased under credit	872	**936**	**36,256**

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

(Amounts in millions of Rubles, unless otherwise indicated)

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 2006 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 2006 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 2006 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, 2007 are not indicative of the operating results for the full year. These financial statements include information updated through September 17, 2007.

As further discussed in Note 2, effective January 1, 2007, the Company's reporting currency changed from the US dollar to the Ruble.

2. Summary of Significant Accounting Policies

Foreign Currency Translation Methodology

The Company's functional currency is the Ruble as the largest portion of its revenues, capital expenditures and operating costs are denominated in Rubles. The Company changed its functional currency from the US dollar to the Ruble effective January 1, 2006.

Until December 31, 2006, the Company continued to use the US dollar as its reporting currency. Effective January 1, 2007, the Company changed its reporting currency from the US dollar to the Ruble, since this is the currency of the prime economic environment in which substantially all operations of the Company are conducted.

Prior period comparative financial statements have been recast to the Ruble using a methodology consistent with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". All assets and liabilities were translated using the December 31, 2006 exchange rate. Shareholders' equity was translated at the applicable historical rates. Income and expenses were translated using quarterly average exchange rate. The objective of this procedure is to present comparative financial statements as if the Company had always used the Ruble as its reporting currency.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation Methodology (continued)

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 25.8162 Rubles per US dollar as of June 30, 2007, 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.

Accounting for Uncertainty in Income Taxes

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109". FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In addition, FIN No. 48 states that income taxes should not be accounted for under provisions of SFAS No. 5, "Accounting for Contingencies". The adoption of FIN No. 48 resulted in a cumulative effect adjustment increasing the opening balance of retained earnings as of January 1, 2007, by approximately 316 million Rubles. As of June 30, 2007, an asset for a position expected to be taken of 508 million Rubles was recorded, and included in other current and non-current assets in the amounts of 212 million Rubles and 296 million Rubles, respectively.

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 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.

2. Summary of Significant Accounting Policies (continued)

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 obligation, fair value of derivative financial instruments, income tax provision and recoverability of deferred taxes.

In 2007, the Company decided to replace certain telecommunications equipment. Substantially all of this equipment remained in use as of June 30, 2007 and is expected to be de-installed during 2007-2008. As part of the arrangement to replace the equipment, certain of this equipment to be replaced will be sold. As a result of the decision to de-install 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, and recorded additional depreciation expense of 480 for the three and six months ended June 30, 2007. After taking into account this additional depreciation, the net book value of the assets to be sold as of June 30, 2007 was approximately 337. For the equipment which will be de-installed, but which was still in use as of June 30, 2007, such equipment was classified in property, plant and equipment. The accelerated depreciation expense had the effect to decrease net income for the three and six months ended June 30, 2007 by approximately 365, net of 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 six months ended June 30, 2006, total comprehensive income included, in addition to net income, foreign currency translation adjustment recorded by the Company as a result of the change of functional currency from the US dollar to the Ruble effective January 1, 2006.

	Three months ended June 30,		**Six months ended June 30,**	
	2006	**2007**	**2006**	**2007**
	(In millions of Rubles)			
Net income	5,074	**8,254**	8,794	**14,391**
Foreign currency translation adjustment	–	–	(247)	–
Total comprehensive income	5,074	**8,254**	8,547	**14,391**

Comparative Information

Certain prior year amounts have been reclassified to conform to the current year's 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. SFAS No. 157 will be effective for the year ending December 31, 2008. The Company is currently evaluating the impact of adopting SFAS No. 157 on its 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". 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 ending December 31, 2008. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial statements.

3. Income Taxes

Income taxes represent the Company's provision for profit tax. Profit tax is calculated at 24% of taxable profit in 2007 and 2006, in accordance with the legislation of the Russian Federation.

The difference between the income tax expense reported in the accompanying condensed consolidated financial statements and the income before taxes for the three and six months ended June 30, 2007 and 2006, multiplied by the Russian statutory tax rate, is mainly due to expenses which are non-deductible for income tax purposes.

4. Revenues

Revenues for the six months ended June 30 are comprised of:

	2006	**2007**
	(In millions of Rubles)	
Revenues from local subscribers	40,488	**54,281**
Roaming charges to other wireless operators	1,112	**1,090**
Revenues from interconnection charges	1,002	**7,823**
Connection fees	183	**197**
Other revenues	96	**214**
Total revenues	42,881	**63,605**

5. Cost of Services

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

	2006	2007
	(In millions of Rubles)	
Interconnection charges	5,036	**10,830**
Cost of SIM-cards	565	**392**
Roaming expenses	682	**854**
Other	–	–
Total cost of services	6,283	**12,076**

6. Sales and Marketing Expenses

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

	2006	2007
	(In millions of Rubles)	
Advertising	1,903	**2,754**
Commissions to dealers for connection of new subscribers	2,096	**2,046**
Commission to dealers for distribution of prepaid cards and for cash collection from subscribers	900	**1,235**
Other	7	**62**
Total sales and marketing expenses	4,906	**6,097**

7. Operating Expenses

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

	2006	2007
	(In millions of Rubles)	
Salaries and social charges	3,050	**4,252**
Rent	1,680	**2,527**
Network repairs and maintenance	1,211	**1,401**
Operating taxes	1,242	**1,660**
Materials and supplies	465	**197**
Office maintenance	392	**535**
Professional services	290	**333**
Radio frequency fees	318	**731**
Insurance	135	**136**
Other expenses, net	1,186	**1,350**
Total operating expenses	9,969	**13,122**

8. 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 reducing 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.

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

In September 2007, the Company received a preliminary assessment in connection with the examination of tax returns for 2004 through 2006; the formal final assessment is expected to be received in October 2007. The Company plans to appeal substantially all items contained in the assessment. In the opinion of the Company's management, the probability that material cash outflow will be required as a result of the tax examination is not likely. Accordingly, the Company did not record any liability in respect of the related tax exposures in the accompanying financial statements.

Management believes that the Company is 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.

8. Commitments and Contingencies (continued)

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.

Other Matters

In April 2007, the results of the tender for the 3G licenses were announced. MegaFon was one of three companies that were granted a federal license allowing them to provide 3G services in Russia. In accordance with the conditions set forth in the tender documentation, the winning companies are required to begin commercial exploitation of a 3G network within the period of two years from the date of granting the license.

9. Subsequent Events

Subsequent to June 30, 2007, the Company repurchased a total of approximately 960 face value of its Eurobonds (at the exchange rate as of June 30, 2007) for approximately 990. In the accompanying balance sheet at June 30, 2007, the carrying amount of Eurobonds purchased is classified as current liabilities. In connection with this Eurobonds repurchase, the Company will recognize a loss in the amount of approximately 40 in its financial statements for the period ending on September 30, 2007.