

**MEGAFON**

Condensed Consolidated Financial Statements

*Three and nine months ended September 30, 2007 and 2006*

MEGAFON

Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

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# MegaFon

## Condensed Consolidated Balance Sheets

(In millions of Rubles, except as stated)

(Note 1)

	<i>Note</i>	December 31, 2006	September 30, 2007	September 30, 2007
				Convenience translation, thousands US \$
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	3	6,965	18,777	\$ 752,606
Short-term investments	3	569	10,920	437,688
Accounts receivable, net of allowance for doubtful accounts of 236 in 2007 and 143 in 2006		4,740	5,231	209,665
Accounts receivable, related parties		418	672	26,935
Inventories		457	409	16,393
VAT receivable		3,322	2,555	102,408
Deferred tax assets	4	739	1,112	44,570
Prepayments and other current assets		2,272	2,476	99,241
Total current assets		19,482	42,152	1,689,506
Property, plant and equipment, net of accumulated depreciation of 47,257 in 2007 and 34,890 in 2006		87,812	94,880	3,802,913
Intangible assets, net of accumulated amortization of 12,317 in 2007 and 10,435 in 2006		13,725	12,798	512,960
Other non-current assets		1,680	1,757	70,423
Total assets		122,699	151,587	\$ 6,075,802
<b>Liabilities and shareholders' equity</b>				
Current liabilities:				
Accounts payable		4,553	5,589	\$ 224,014
Accounts payable and accruals to equipment suppliers		2,387	2,400	96,195
Accounts payable, related parties		586	889	35,632
Subscribers' prepayments		5,515	4,691	188,021
Deferred revenue, current portion		1,238	874	35,031
Accrued liabilities		2,663	4,622	185,256
Debt, current portion	5	7,496	11,457	459,211
Other current liabilities		143	252	10,061
Total current liabilities		24,581	30,774	1,233,421
Debt, net of current portion	5	31,893	29,031	1,163,600
Loans from shareholders		3,241	3,282	131,547
Other non-current liabilities		1,945	2,674	107,177
Deferred tax liabilities	4	1,449	1,176	47,136
Total liabilities		63,109	66,937	2,682,881
Commitments and contingencies	10	–	–	–
Minority interest		55	36	1,443
Shareholders' equity:				
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	581	23,287
Reserve fund		17	17	681
Additional paid-in capital		13,875	13,875	556,128
Retained earnings		45,309	70,388	2,821,282
Accumulated other comprehensive loss		(247)	(247)	(9,900)
Total shareholders' equity		59,535	84,614	3,391,478
Total liabilities and shareholders' equity		122,699	151,587	\$ 6,075,802

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 September 30,			Nine months ended September 30,		
		2006	2007	2007 Convenience translation, thousands US \$	2006	2007	2007 Convenience translation, thousands US \$
<b>Revenues</b>	<b>6</b>	28,548	<b>38,094</b>	<b>\$ 1,526,897</b>	71,429	<b>101,699</b>	<b>\$ 4,076,227</b>
Cost of services, excluding depreciation and amortization	7	5,427	<b>7,062</b>	<b>283,054</b>	11,710	<b>19,138</b>	<b>767,076</b>
<b>Gross margin</b>		23,121	<b>31,032</b>	<b>1,243,843</b>	59,719	<b>82,561</b>	<b>3,309,151</b>
Sales and marketing expenses	8	2,886	<b>3,612</b>	<b>144,774</b>	7,792	<b>9,709</b>	<b>389,149</b>
Operating expenses	9	5,922	<b>7,227</b>	<b>289,667</b>	15,891	<b>20,349</b>	<b>815,614</b>
Depreciation and amortization		4,522	<b>5,974</b>	<b>239,446</b>	13,454	<b>17,464</b>	<b>699,980</b>
<b>Operating income</b>		9,791	<b>14,219</b>	<b>569,956</b>	22,582	<b>35,039</b>	<b>1,404,408</b>
Other income and expenses:							
Interest expense		682	<b>632</b>	<b>25,331</b>	2,226	<b>1,889</b>	<b>75,714</b>
Change in fair value of derivative financial instruments (C-loans)		–	–	–	778	–	–
Other income, net		(12)	<b>(339)</b>	<b>(13,587)</b>	(192)	<b>(659)</b>	<b>(26,414)</b>
Net foreign exchange gain		(211)	<b>(455)</b>	<b>(18,237)</b>	(2,139)	<b>(547)</b>	<b>(21,924)</b>
Total other (income)/ expenses, net		459	<b>(162)</b>	<b>(6,493)</b>	673	<b>683</b>	<b>27,376</b>
<b>Income before income taxes and minority interest</b>		9,332	<b>14,381</b>	<b>576,449</b>	21,909	<b>34,356</b>	<b>1,377,032</b>
Provision for income taxes	4	2,580	<b>4,019</b>	<b>161,127</b>	6,353	<b>9,612</b>	<b>385,261</b>
Minority interest in net earnings/ (loss) of a subsidiary		3	<b>(10)</b>	<b>(401)</b>	13	<b>(19)</b>	<b>(762)</b>
<b>Net income</b>		6,749	<b>10,372</b>	<b>\$ 415,723</b>	15,543	<b>24,763</b>	<b>\$ 992,533</b>

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 1)

	Nine months ended September 30,		
	2006	2007	2007
			Convenience translation, thousands US \$
<b>Cash flows from operating activities:</b>			
Net income	15,543	24,763	\$ 992,533
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,454	17,464	699,980
Net foreign exchange gain	(2,139)	(547)	(21,924)
Minority interest in net earnings/ (loss) of a subsidiary	13	(19)	(762)
Provision for deferred income taxes	(461)	(899)	(36,033)
Change in fair value of derivative financial instruments (C-loans)	778	-	-
Amortization of deferred finance charges and other non-cash items	969	886	35,512
Decrease/(increase) in:			
Accounts receivable	(1,390)	(583)	(23,407)
Accounts receivable, related parties	(161)	(254)	(10,181)
Inventories	184	48	1,924
VAT receivable	1,085	767	30,742
Prepayments and other current assets	(52)	192	7,696
Increase/(decrease) in:			
Accounts payable	1,505	1,033	41,404
Accounts payable, related parties	11	313	12,545
Deferred revenue	529	(366)	(14,670)
Subscribers' prepayments	(468)	(824)	(33,027)
Accrued liabilities	1,859	1,954	78,319
Net cash provided by operating activities	31,259	43,928	1,760,651
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment and intangible assets	(20,836)	(21,568)	(864,473)
Proceeds from sale of property, plant and equipment	-	144	5,772
Increase in short-term investments	(569)	(10,376)	(415,883)
Other non-current assets	316	(20)	(802)
Net cash used in investing activities	(21,089)	(31,820)	(1,275,386)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt	5,508	6,473	259,446
Repayments of long-term debt	5 (11,948)	(6,511)	(260,969)
Deferred finance charges paid	(123)	(151)	(6,052)
Capital lease principal repayments	(114)	(10)	(401)
Net cash used in financing activities	(6,677)	(199)	(7,976)
Effect of exchange rate changes on cash and cash equivalents	(238)	(97)	(3,849)
<b>Net increase in cash and cash equivalents</b>	<b>3,255</b>	<b>11,812</b>	<b>473,440</b>
Cash and cash equivalents at the beginning of the period	7,872	6,965	279,166
<b>Cash and cash equivalents at the end of the period</b>	<b>11,127</b>	<b>18,777</b>	<b>\$ 752,606</b>
<b>Supplemental cash flow information:</b>			
Cash paid during the period for income taxes	5,661	9,327	\$ 373,838
Cash paid during the period for interest	1,515	1,430	57,316
Non-cash financing and investing activities:			
Equipment purchased under credit	951	1,835	73,549

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

# MegaFon

## Notes to 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 nine months ended September 30, 2007 are not indicative of the operating results for the full year. These financial statements include information updated through December 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 the 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.

Notes to Condensed Consolidated Financial Statements (continued)

**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 24.9493 Rubles per US dollar as of September 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 the 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. As of September 30, 2007, an asset in the amount of 569 was recorded, of which 339 and 230 are included in other current and non-current assets, respectively.

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 some income tax benefits that have a reasonable possibility of being successfully challenged by the tax authorities (also see Note 10). These income tax positions could result in total unrecognized tax benefits of up to 150 if the Company’s position was successfully challenged by the tax authorities. However, the Company does not believe that it is reasonably possible that such change in total unrecognized tax benefits will occur before the end of 2007.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income taxes. At the time of adoption of FIN No. 48, the tax years ended December 31, 2004, 2005 and 2006 remained subject to examination by the tax authorities.

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## Notes to Condensed Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (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 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.

#### 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. Most of this equipment remained in use as of September 30, 2007 and is expected to be de-installed during 2007-2009. 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, and recorded additional depreciation expense of 210 and 670 for the three and nine months ended September 30, 2007, respectively. After taking into account this additional depreciation, the net book value of the assets to be sold as of September 30, 2007 was approximately 231. For the equipment which will be replaced, but which was still in use as of September 30, 2007, such equipment was classified as property, plant and equipment. The acceleration of depreciation expense had the effect of decreasing net income by 160 and 510 for the three and nine months ended September 30, 2007, respectively, net of income tax.



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## Notes to Condensed Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### 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, 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 September 30,		Nine months ended September 30,	
	2006	2007	2006	2007
	<i>(In millions of Rubles)</i>			
Net income	6,749	10,372	15,543	24,763
Foreign currency translation adjustment	–	–	(247)	–
<b>Total comprehensive income</b>	<b>6,749</b>	<b>10,372</b>	<b>15,296</b>	<b>24,763</b>

#### Comparative Information

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

#### 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 beginning January 1, 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 beginning January 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial statements.

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## Notes to Condensed Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### New Accounting Pronouncements (continued)

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” (“SFAS No. 141R”), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The requirements of SFAS No. 141R will be effective for the year beginning January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 141R on its financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51” (“SFAS No. 160”), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. The requirements of SFAS No. 160 will be effective for the year beginning January 1, 2009. The Company is currently evaluating the impact of adopting SFAS No. 160 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, MegaFon 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.

As of September 30, 2007 and December 31, 2006, 2,585 and 535 of cash and short-term investments were on deposit with Svyazbank, a related party.

### 4. 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 income tax expense reported in the accompanying condensed consolidated financial statements and income before taxes for the three and nine months ended September 30, 2007 and 2006, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes.

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## Notes to Condensed Consolidated Financial Statements (continued)

### 5. Long-Term Loans

In July and August 2007, the Company repurchased a total of approximately 950 face value of its Eurobonds (at the exchange rates as of the transaction dates) for approximately 990. In connection with this Eurobonds repurchase, the Company recognized a loss in the amount of approximately 30 for the three and nine months ended September 30, 2007.

In October 2007, the Company entered into a credit facility agreement with China Development Bank and Bayerische Landesbank ("China Development Bank II Credit") for \$85 million (2,120 at the exchange rate as of September 30, 2007) with interest at LIBOR plus 1.1%. The proceeds under the credit facility can only be used for purchases of Huawei equipment. Amounts drawn down from this credit facility are repayable during 2009-2014 in semi-annual installments. As of September 30, 2007, the Company has an amount due to Huawei of 900. As the Company intends to repay this amount using the proceeds from the China Development Bank II Credit, the Company has classified the amount due to Huawei as long-term debt in the accompanying balance sheet as of September 30, 2007.

In November 2007, the Company decided to prepay the balance outstanding under the existing credit facility with China Development Bank ("China Development Bank I Credit") of \$46 million (1,145 at the exchange rate as of September 30, 2007). Such prepayment will occur before the end of 2007. Accordingly, the China Development Bank I Credit is classified as current liabilities in the accompanying balance sheet as of September 30, 2007.

### 6. Revenues

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

	<b>2006</b>	<b>2007</b>
	<i>(In millions of Rubles)</i>	
Revenues from local subscribers	65,167	<b>86,712</b>
Roaming charges to other wireless operators	1,790	<b>1,789</b>
Revenues from interconnection charges	3,874	<b>12,575</b>
Connection fees	298	<b>288</b>
Other revenues	300	<b>335</b>
<b>Total revenues</b>	<b>71,429</b>	<b>101,699</b>

On March 4, 2006, amendments to the Telecommunications Law were approved which introduced the Calling Party Pays rules ("CPP Rules") which became effective as of July 1, 2006. Under the CPP Rules, all incoming calls on fixed and mobile lines in Russia became free of charge, and only the fixed-line or mobile operators originating the call may charge the subscriber for the call. To compensate for this loss of revenue from subscribers, beginning from July 1, 2006 the Company began charging other operators for terminating traffic on the Company's network. In connection with the introduction of the CPP Rules, the Company recorded interconnection revenue in the total amount of 3,874 and 12,575 for the three months ended September 30, 2006 and the nine months ended September 30, 2007, respectively.

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## Notes to Condensed Consolidated Financial Statements (continued)

### 7. Cost of Services

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

	<b>2006</b>	<b>2007</b>
	<i>(In millions of Rubles)</i>	
Interconnection charges	9,587	<b>16,997</b>
Cost of SIM-cards	883	<b>620</b>
Roaming expenses	1,240	<b>1,521</b>
<b>Total cost of services</b>	<b>11,710</b>	<b>19,138</b>

Included in interconnection charges for the three months ended September 30, 2006 and the nine months ended September 30, 2007, are charges from other mobile and fixed-line operators for terminating traffic which originated on the Company's network under the CPP Rules introduced beginning from July 1, 2006.

### 8. Sales and Marketing Expenses

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

	<b>2006</b>	<b>2007</b>
	<i>(In millions of Rubles)</i>	
Advertising	2,941	<b>4,189</b>
Commissions to dealers for connection of new subscribers	3,310	<b>3,483</b>
Commission to dealers for distribution of prepaid cards and for cash collection from subscribers	1,527	<b>1,943</b>
Other	14	<b>94</b>
<b>Total sales and marketing expenses</b>	<b>7,792</b>	<b>9,709</b>

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## Notes to Condensed Consolidated Financial Statements (continued)

### 9. Operating Expenses

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

	<b>2006</b>	<b>2007</b>
	<i>(In millions of Rubles)</i>	
Salaries and social charges	4,937	<b>6,368</b>
Rent	2,690	<b>3,970</b>
Network repairs and maintenance	1,958	<b>2,244</b>
Operating taxes	1,943	<b>2,580</b>
Materials and supplies	729	<b>286</b>
Office maintenance	563	<b>830</b>
Professional services	425	<b>499</b>
Radio frequency fees	605	<b>1,211</b>
Insurance	206	<b>214</b>
Other expenses, net	1,835	<b>2,147</b>
<b>Total operating expenses</b>	<b>15,891</b>	<b>20,349</b>

### 10. 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.

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## Notes to Condensed Consolidated Financial Statements (continued)

### 10. Commitments and Contingencies (continued)

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 November 2007, the Company received a final assessment from the tax inspectorate in connection with the examination of tax returns of OJSC MegaFon for 2004 through 2006. The assessment claims additional taxes amounting to 315 mainly in respect of income tax and VAT, including fines and penalties, for interconnection settlements. In November 2007, the Company paid this amount to the respective federal and local budgets. Nonetheless, the Company plans to challenge in court substantially all of the additional tax liabilities included 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.

Similar examinations are either being currently performed or expected to be performed in the future at the Company's subsidiaries.

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.

#### *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 of the license, the Company must start commercial exploitation of the 3G technology in 74 regions not later than May 2010.