MEGAFON

Condensed Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2011 and 2010
With Independent Accountants' Report

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Independent Accountant's Report

The Board of Directors and Shareholders
OJSC MegaFon

We have reviewed the condensed consolidated balance sheet of OJSC MegaFon and subsidiaries as of March 31, 2011, and the related condensed consolidated statements of operations and cash flows for the three months ended March 31, 2011 and 2010. This condensed financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OJSC MegaFon and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

May 16, 2011

Ernst & Young LLC

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MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles)

	December 31, 2010	March 31, 2011 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	2,667	**1,978**
Short-term investments	63,554	**70,538**
Accounts receivable, net of allowance for doubtful accounts of 1,029 and 1,213 at December 31, 2010 and March 31, 2011, respectively	6,954	**6,916**
Inventory	3,081	**3,716**
VAT receivable	2,562	**2,233**
Deferred tax assets	1,166	**1,517**
Prepaid expenses and other current assets	14,089	**14,486**
Total current assets	94,073	**101,384**
Property, plant and equipment, net of accumulated depreciation of 130,876 and 138,786 at December 31, 2010 and March 31, 2011, respectively	194,872	**196,877**
Goodwill and intangible assets:		
Goodwill	7,041	**7,041**
Intangible assets, net of accumulated amortization of 20,638 and 21,746 at December 31, 2010 and March 31, 2011, respectively	19,245	**18,653**
Deferred tax assets	506	**470**
Other non-current assets	1,730	**1,905**
Total assets	317,467	**326,330**

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

MegaFon

Condensed Consolidated Balance Sheets (continued)

(In millions of Rubles)

	Note	December 31, 2010	March 31, 2011 (Unaudited)
Liabilities			
Current liabilities:			
Accounts payable		6,832	**8,002**
Accounts payable to equipment suppliers		10,401	**6,173**
Current portion of liability for marketing related licenses	3	382	**363**
Current portion of liability for deferred and contingent consideration	4	1,450	**1,057**
Accrued compensation and social contributions		3,028	**4,482**
Subscribers' prepayments		7,303	**5,985**
Taxes payable		1,516	**1,672**
VAT payable		1,294	**2,083**
Deferred revenue	3	552	**685**
Current portion of long-term debt		12,171	**13,409**
Other current liabilities		845	**1,155**
Total current liabilities		45,774	**45,066**
Debt, less current portion		20,750	**20,531**
Deferred tax liabilities		8,256	**7,649**
Asset retirement obligations		4,304	**4,553**
Liability for marketing related licenses, less current portion	3	893	**787**
Liability for deferred and contingent consideration, less current portion	4	1,731	**1,715**
Deferred revenue, less current portion	3	1,968	**1,893**
Other non-current liabilities		665	**880**
Total liabilities		84,341	**83,074**
Equity			
MegaFon shareholders' equity:			
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**
Reserve fund		17	**17**
Additional paid-in capital		13,855	**13,855**
Retained earnings		218,371	**228,462**
Accumulated other comprehensive loss		(261)	**(227)**
Total MegaFon shareholders' equity		232,563	**242,688**
Noncontrolling interests		563	**568**
Total equity		233,126	**243,256**
Total liabilities and equity		317,467	**326,330**

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

MegaFon

Condensed Consolidated Statements of Operations

(In millions of Rubles)
(Unaudited)

	Note	Three months ended March 31, 2010	2011
Revenues	5	46,743	**55,156**
Cost of services (excluding depreciation and amortization)	6	9,696	**12,613**
Gross margin		37,047	**42,543**
Sales and marketing expenses (excluding depreciation and amortization)	7	4,501	**3,680**
Operating expenses (excluding depreciation and amortization)	8	11,124	**15,056**
Depreciation and accretion		7,747	**10,337**
Amortization		889	**1,224**
Operating income		12,786	**12,246**
Other income/(expense):			
Interest expense		(118)	**(335)**
Interest income		1,030	**820**
Other gain, net		22	**6**
Loss on derivatives, net	9	(241)	**(56)**
Foreign currency exchange loss, net		(627)	**(38)**
Total other income, net		66	**397**
Income before income taxes and noncontrolling interests		12,852	**12,643**
Provision for income taxes		2,577	**2,558**
Net income		10,275	**10,085**
Net loss attributable to noncontrolling interests		8	**6**
Net income attributable to MegaFon		10,283	**10,091**

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

MegaFon

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles)
(Unaudited)

	Three months ended March 31,	
	2010	**2011**
Net cash provided by operating activities	20,384	**23,247**
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(8,984)	**(17,592)**
Proceeds from sale of property, plant and equipment	293	**50**
Acquisition of subsidiaries	(29)	**(290)**
Increase in short-term investments	(13,495)	**(8,305)**
Increase in long-term investments	—	**(179)**
Net cash used in investing activities	(22,215)	**(26,316)**
Cash flows from financing activities:		
Proceeds from long-term debt	41	**2,964**
Repayments of long-term debt	(522)	**(60)**
Deferred finance charges paid	(90)	**(71)**
Net cash (used in)/provided by financing activities	(571)	**2,833**
Effect of exchange rate changes on cash and cash equivalents	(406)	**(453)**
Net decrease in cash and cash equivalents	(2,808)	**(689)**
Cash and cash equivalents at the beginning of the period	12,550	**2,667**
Cash and cash equivalents at the end of the period	9,742	**1,978**

1. Financial Presentation and Disclosures

Open Joint Stock Company MegaFon (the "Company" or "MegaFon") is a leading universal telecommunications operator in Russia and provides a broad range of voice, data and other telecommunication services to businesses, other telecommunication service providers and retail subscribers, with licenses to operate in all regions of Russia, covering a population of approximately 142 million. The Company intends, wherever possible, to offer its integrated telecommunication services under the "MegaFon" brand, although some services still carry local brand names because of recent acquisitions. In addition to its operations in Russia, the Company provides mobile services through its subsidiaries in the Republic of Tajikistan ("Tajikistan"), the Republic of Abkhazia ("Abkhazia") and the Republic of South Ossetia ("South Ossetia").

In Russia, MegaFon has constructed and continues to operate a nationwide wireless communications network that operates on the dual band GSM 900/1800 standard. In May 2007, the Company was awarded a license that expires on May 21, 2017, for the provision of 3G wireless telephony services based on IMT-2000/UMTS standards throughout the entire territory of Russia. As of March 31, 2011, the Company is providing and expanding 3G services in almost all of its regions throughout Russia.

The Company holds licenses for local and long-distance telephony services, data transmission, wireless broadband access services, and communication channels leasing covering the whole territory of the Russian Federation. The Company has its own land-line and satellite transmission network.

The accompanying condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") for interim financial reporting and do not include all disclosures required by US GAAP. The Company omitted certain disclosures which would substantially duplicate the disclosures contained in its 2010 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 2010 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 2010 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 months ended March 31, 2011 are not indicative of the operating results for the full year. These financial statements include information updated and subsequent events evaluated through May 16, 2011, the date these interim condensed consolidated financial statements were issued.

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Revenue Recognition for Arrangements with Multiple Deliverables

The Company enters into multiple element revenue arrangements in which a customer may purchase a combination of equipment (e.g. USB modems, handsets) and telecommunication services (e.g. airtime, data, and other services).

In 2010, the Company allocated consideration received from subscribers to the separate units of accounting based on their relative fair values. The allocated revenue was recognized in accordance with the type of the element.

In October 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") issued Accounting Standards Update ("ASU") 2009-13, "*Multiple-Deliverable Revenue Arrangements",* which addresses how revenues should be allocated among all products and services included in the Company's multiple element sales arrangements. ASU 2009-13 is effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010. Accordingly, the Company adopted ASU 2009-13 for all sales entered into or significantly modified starting from January 1, 2011.

The revised guidance establishes a selling price hierarchy for determining the selling price of each product or service included in a multiple element sale arrangement. The selling price used for each deliverable will be based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. It replaces "fair value" with "selling price" in revenue allocation guidance and eliminates the residual method of allocation.

The adoption of ASU 2009-13 did not have a material impact on the Company's financial statements and is not expected to have a material impact on its financial statements in future, because for substantially all of the multiple element arrangements the Company continues to use VSOE to determine the relative selling price of the service element of the arrangements and best estimate of the selling price to determine the relative selling price of the equipment element of the arrangements.

Revenue allocated to the delivered equipment and related costs are recognized in the profit and loss account at the time of sale provided that other conditions for revenue recognition are met. Amounts allocated to telecommunication services are deferred and recognized as revenue over the period of rendering the services.

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 the FASB in ASC 740, *"Income Taxes"*. For interim reporting purposes, the Company also follows the provisions of accounting standard

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

ASC 270, *"Interim Reporting"*, which requires the Company to account for income taxes based on the Company's estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis.

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

The difference between income tax expense reported in the accompanying condensed consolidated financial statements and income before taxes for the three months ended March 31, 2011 and 2010, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes, recognized tax benefits and preferences.

The Company recognizes accrued interest and penalties related to unrecognized tax liabilities in income taxes. As of March 31, 2011, the tax years ended December 31, 2008, 2009 and 2010 remained subject to examination by the tax authorities.

Comparative Information

Certain prior year amounts have been reclassified to conform to the presentation adopted in the current year.

Recent Accounting Pronouncements

Receivables. In April 2011, the FASB issued ASU 2011-02, "*Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring"*, which provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendment is effective for non-public entities for annual periods ending on or after December 15, 2012 and for interim periods within those annual periods. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses",* which improves disclosure requirements that facilitate financial statement users' evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, the allowance for credit losses and changes in the allowance for credit losses. ASU 2010-20 will be effective for interim and annual reporting periods ending on or after December 15, 2011. The Company is currently evaluating the impact of this ASU on its financial statements.

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

Business Combinations. In December 2010, the FASB issued ASU 2010-29, "*Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*", which expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt the new disclosure requirements for all future new business combinations.

Goodwill Impairment. In December 2010, the FASB issued ASU 2010-28, "*Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*", which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011. The Company continues evaluating the impact, if any, of this ASU on its financial statements.

3. Marketing Related Intangible Assets

In April 2009, the Company and OJSC Rostelecom ("Rostelecom") entered into an agreement with the Organizational Committee of the 2014 XXII Olympic Winter Games and XI Paralympic Winter Games in Sochi to acquire rights and licenses to use the Olympic mascot, logos and other Olympic symbols and, in the case of the Company, to be referred to as "the General Mobile Partner of the 2014 XXII Olympic Winter Games". Under the agreement the Company committed to a payment of $65 million (1,848 at the exchange rate as of March 31, 2011) in cash to be made in several installments from 2009 through 2014. In addition, the Company and Rostelecom are jointly responsible to provide equal amounts of services in-kind of up to a combined total of $130 million (3,696 at the exchange rate as of March 31, 2011) from 2009 through 2014. The management of the Company believes that the risk of non-performance by Rostelecom of its responsibilities under the agreement is remote.

The Company obtained the rights and licenses in the third quarter of 2009, at which time the Company assumed a liability with a net present value of future cash installments of 1,334 and deferred revenue with a fair value of 1,516. The recognition of the intangible asset is treated as a non-cash item to the extent of the amount of the liability and deferred revenue recorded. The intangible asset is amortized using the reverse sum-of-the-years'-digits method over a period of approximately 5 years.

3. Marketing Related Intangible Assets (continued)

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

The following table presents a reconciliation of the beginning and ending balances of liabilities for marketing related assets:

	Liability for marketing related assets	Deferred revenue
Balance at January 1, 2011	1,275	1,542
Accrued interest	19	—
Repayments	(81)	—
Revenue recognized	—	(16)
Foreign currency exchange adjustment	(63)	—
Balance at March 31, 2011	1,150	1,526
Less current portion	(363)	(177)
Non-current portion	**787**	**1,349**

4. Liability for deferred and contingent consideration

In June 2010, the Company acquired 100% of the shares of CJSC Synterra ("Synterra"). The transaction involved deferred and contingent consideration of up to $110 million.

Deferred and contingent consideration consisted of an unconditional deferred payment amount of $43 million (1,336 at the exchange rate as of June 2, 2010) and several contingent payments aggregating up to $67 million (2,082 at the exchange rate as of June 2, 2010), payable on or prior to the third anniversary of the acquisition date. $70 million (2,175 at the exchange rate as of June 2, 2010) out of the total $110 million (3,418 at the exchange rate as of June 2, 2010) of deferred and contingent consideration bears interest at the rate of 2.75% per annum and the remaining $40 million (1,243 at the exchange rate as of June 2, 2010) is interest-free. Contingent payments depend upon satisfaction of certain conditions.

In March 2011, the Company paid $10.2 million out of the contingent consideration balance, which included $0.2 million accrued interest.

4. Liability for deferred and contingent consideration (continued)

The following table presents movements in liability for deferred and contingent consideration for three months ended March 31, 2011:

	Unconditional deferred payment	Contingent payments	**Total liability for deferred and contingent consideration**
Balance at January 1, 2011	1,214	1,967	**3,181**
Accrued interest	34	64	**98**
Repayments	—	(290)	**(290)**
Foreign currency exchange adjustment	(82)	(135)	**(217)**
Balance at March 31, 2011	1,166	1,606	**2,772**
Less current portion	—	(1,057)	**(1,057)**
Non-current portion	**1,166**	**549**	**1,715**

The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The key assumptions in the discounted cash flow model are as follows: 6% discount rate and several probability adjusted contingent payments. As at March 31, 2011, there were no significant changes in the key assumptions for the contingent consideration recognized as a result of the acquisition of Synterra.

5. Revenues

Revenues for the three months ended March 31 are as follows:

	2010	**2011**
Wireless revenues	39,042	**42,764**
Revenues from interconnection charges	6,471	**7,516**
Wireline revenues	220	**3,092**
Sales of handsets and accessories	939	**1,457**
Other revenues	71	**327**
Total revenues	46,743	**55,156**

6. Cost of Services

Cost of services for the three months ended March 31 are as follows:

	2010	2011
Interconnection charges	8,089	**9,792**
Cost of handsets and accessories sold	871	**1,884**
Roaming expenses	482	**391**
Cost of SIM-cards	244	**167**
Other costs	10	**379**
Total cost of services	9,696	**12,613**

7. Sales and Marketing Expenses

Sales and marketing expenses for the three months ended March 31 are as follows:

	2010	2011
Advertising	1,507	**1,364**
Commissions to dealers for connection of new subscribers	2,028	**1,374**
Commissions to dealers for cash collection from subscribers	966	**942**
Total sales and marketing expenses	4,501	**3,680**

8. Operating Expenses

Operating expenses for the three months ended March 31 are as follows:

	2010	2011
Salaries and social charges	4,327	**6,001**
Rent and utilities	2,532	**3,334**
Operating taxes	1,151	**1,369**
Network repairs and maintenance	877	**1,182**
Radio frequency fees	753	**855**
Office maintenance	365	**322**
Bad debt expense	298	**434**
Professional services	153	**368**
Vehicle costs	130	**140**
Inventory write-down	—	**175**
Materials and supplies	43	**58**
Insurance	28	**28**
Other expenses	467	**790**
Total operating expenses	11,124	**15,056**

8. Operating Expenses (continued)

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

9. Financial Instruments

Fair Value Measurement

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

US GAAP standards establish a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. These levels include:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are non-active; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Company, using available market information and appropriate valuation methodologies, where they exist, has determined the estimated fair values of financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Derivative Financial Instruments

In 2010 the Company entered into a number of dual-currency deposits with various banks, which were then settled in the first quarter of 2010. The dual-currency deposits are financial instruments which combine features of a time deposit and a sold foreign currency put option. The dual-currency deposits are settled either in the original deposit currency (Euro or US Dollar) or in another pre-agreed currency (Ruble, US Dollar or Euro) depending on which currency has depreciated relative to the other currency since the date of entering into the dual-currency deposit. All dual-currency deposits bear over-the-market interest rates which include a put option premium payable upon settlement. The purpose of entering into these financial instruments is for yield enhancement on the Company's foreign currency cash investments.

9. Financial Instruments (continued)

The respective embedded derivative financial instrument, which is the put option, is bifurcated and measured at fair value using the Black-Scholes model (Level 2). For accounting purposes, the Company reports all gains and losses from the change in fair value of these derivative financial instruments directly in the accompanying condensed consolidated statements of operations.

In the third quarter of 2006 and the second quarter of 2007, the Company entered into several long-term fixed-to-fixed rate cross-currency swaps. These derivative financial instruments are used to limit exposure to changes in foreign currency exchange rates on certain long-term debt denominated in foreign currencies.

The swaps effectively converted, using the then-effective foreign currency exchange rates, some of the Company's outstanding fixed-to-fixed rate long-term US dollar and Euro denominated loans (specifically the Finnvera, Finnvera II and Finnvera III Credit Facilities) into synthetically equivalent Ruble long-term loans with fixed rates ranging from 3.95% to 6.65%. The carrying amount of such long-term loans was 1,175 as of December 31, 2010 and 1,166 as of March 31, 2011. For accounting purposes, the Company has chosen not to designate these derivatives as hedging instruments, and therefore reports all gains and losses from the change in fair value (Level 2) of these derivative financial instruments directly in the consolidated statements of operations.

Gains/(losses) on derivatives for the three months ended March 31 are as follows:

	2010	**2011**
Put options sold	57	—
Foreign currency swaps	(298)	**(56)**
Total loss on derivatives, net	(241)	**(56)**

The derivatives are valued using standard valuation techniques based on observable inputs (Level 2) as no quoted market prices exist for the instruments. The principal technique used to value these instruments is through comparing the foreign currency exchange rates at the time that the derivatives were acquired to the forward exchange rates quoted in the existing market which is inactive as of the valuation date. The key inputs include interest rate yield curves, foreign exchange spot and forward rates. The fair value of these derivatives includes the effects of the counterparty's non-performance risk, including credit risk.

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

Derivative instruments	**Balance sheet location**	**December 31, 2010**	**March 31, 2011**
Foreign currency swaps	Other current assets	196	**170**

10. Commitments, Contingencies and Uncertainties

Russian Environment and Current Economic Situation

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required for 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 Russian government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 and during the three months ended March 31, 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

Telecom licenses capital commitments

In May 2007, MegaFon was awarded a license that expires on May 21, 2017, for the provision of 3G wireless radiotelephony communications services for the entire territory of the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The three major conditions were that the Company build a specified number of base stations that support 3G standards, start commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and also build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the license. As of May 16, 2011, the Company is in full compliance with these license conditions, including constructing the number of base stations required at this time.

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

During three months ended March 31, 2011 tax audits have been completed for Synterra and one of its subsidiaries for years 2007-2009. The assessments claim additional taxes amounting to 248 mainly related to income tax and VAT. The Company intends to appeal these items and believes that it is more likely than not that the tax positions stated in the income tax return will be sustained. Accordingly, the respective amounts have not been accrued in the accompanying condensed consolidated financial statements.

Management believes that the Company and its subsidiaries are in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

Litigation

The Company is not a party to any material litigation, although in the ordinary course of business, some of the Company's subsidiaries may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which they operate. In the opinion of management, the Company's and its subsidiaries' liability, if any, in all pending litigation, other legal proceedings or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Company.

Apple Commitment

In August 2008, the Company entered into a two-year fixed commitment with Apple Sales International ("Apple"), an Irish affiliate of Apple Computer Inc., to purchase a total of one million unlocked iPhone handsets over a two-year period for further resale in Russia. The Company fulfilled this requirement with respect to the fourth quarter of 2008, but due to the significantly reduced handset demand caused by the economic crisis in Russia, the Company experienced difficulty re-selling these iPhones. While the Company placed several orders for iPhone handsets thereafter, none of these orders fulfilled the minimum quarterly requirement for the applicable quarters.

10. Commitments, Contingencies and Uncertainties (continued)

Even though the contract expired in August 2010 there can be no assurance that Apple will not bring a claim against the Company in respect of the contract. In light of the uncertainty as to whether a claim will be made and, if made, as to the amount which Apple may be able to claim, the Company is not able to estimate the amount of loss, if any, that the Company may sustain.

Replacement of certain telecommunication equipment

During the three months ended March 31, 2011 the Company continued replacing certain telecommunication equipment. Net book value of equipment to be replaced is 2,462 at March 31, 2011. Substantially all of this equipment is still in use and continues to be classified in property, plant and equipment. Equipment with book value of 1,443 is planned to be replaced in 2011 and the Company accelerated depreciation for that equipment which resulted in additional depreciation expense of 495 for the three months ended March 31, 2011. For equipment with book value of 1,019 the Company is currently evaluating whether this equipment can be re-utilized or sold, and continues to depreciate it in accordance with the current policies.