

“Preliminarily approved”
Board of Directors of OJSC «MegaFon»
Minutes № 110(174) dated 30.04 2009

“Approved”
Annual General Shareholders Meeting
of OJSC “MegaFon”
Minutes dated June 05, 2009

Chairman of the Annual General Shareholders Meeting

A. Eloholma

Secretary of the Annual General Shareholders Meeting

A.A. Goriainova

ANNUAL REPORT OF OJSC “MEGAFON” for 2008

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This annual report (hereinafter the Annual Report) was prepared as of December 31, 2008, using the information that was available to Open Joint-Stock Company "MegaFon" (hereinafter MegaFon or the Company) and its subsidiaries (hereinafter jointly referred as the Group) as of the date of this report.

MegaFon's Network Coverage Area

As of 31.12.2008	
MegaFon - Moscow	6 479 666
MegaFon – North-West	7 685 112
MegaFon-Center	4 711 740
MegaFon – Northern Caucasus	5 820 175
MegaFon – Volga	9 967 506
MegaFon – Urals	3 416 014
MegaFon – Siberia	2 289 601
MegaFon – Far East	2 919 313
Tajikistan	268 540
Total	43 557 667

Macroregions for Map

MegaFon-Moscow: Moscow and Moscow Region

MegaFon North-West:

Saint-Petersburg, Leningradskaya Oblast, Arkhangelskaya, Vologodskaya, Kaliningradskaya, Murmanskaya, Novgorodskaya, Pskovskaya Oblast, Republic of Karelia, Nenets Autonomous District

MegaFon-Centre:

Nizhegorodskaya, Bryanskaya, Vladimirskaya, Kaluzhskaya, Kurskaya, Orlovskaya, Ryazanskaya, Tulsкая, Belgorodskaya, Voronezhskaya, Lipetskaya, Tambovskaya, Ivanovskaya, Kostromskaya, Smolenskaya, Tverskaya, Yaroslavskaya Oblast

MegaFon-North Kavkaz

Republic of Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia, Adygeya, Dagestan, North Ossetia, Chechnya, Rostovskaya Oblast, the Krasnodar and Stavropol Territories

MegaFon-Povolzhie:

**Samarskaya, Saratovskaya, Volgogradscaya, Ulianovskaya,
Astrakhanskaya, Penzenskaya, Orenburgskaya, Republic of
Bushkortostan, Kalmykia, Tatarstan, Mari El, Chuvashia, Mordovia**

MegaFon-Ural

**Kurganskaya, Sverdlovskaya, Tyumenskaya, Kirovskaya,
Chelyabinskaya Oblast, Perm Territory, Komi Republic, Udmurtia,
Khanti-Mansi and Yamalo-Nenets Autonomous Districts**

MegaFon-Siberia:

**Novosibirskaya, Kemerovskaya, Tomskaya, Omskaya Oblast,
Krasnoyarsk and Altai Territories, Republic of Khakassia, Altai and Tyva**

MegaFon-Far East:

**Amurskaya, Sakhalinskaya, Magadanskaya, Irkutskaya Oblast,
Kamchatka, Primorie, Khabarovsk, Zabaikalye Territories, Republics of
Buryatia and Sakha (Yakutia), Jewish Autonomous Region, Chukotka
Autonomous District**

Tajikistan

1. Address by the Chairman of the Board

Dear Shareholders,

MegaFon came into the year of 2008 as a mature operator that during the recent years had added both high number of subscribers and high value in revenue. During several recent years we had been expecting that the explosive growth of the Russian mobile market would start slowing down due to saturation, and we are seeing it now. MegaFon has prepared itself for new market realities where operators will be facing new market challenges.

The Company's development has reached the level that requires new vision for the future, especially under the changed market conditions. In 2008, MegaFon moved to two planning horizons: mid-term operational and long-term strategic ones.

New approach to business was shown, inter alia, in the structural changes. For the first time ever the position of the Chief Operating Officer was introduced in MegaFon. Two new functions were created – management of non-core assets, and Mergers & Acquisitions. The Company believes that the key efforts in the Russian market should be focused on technical evolution towards new generation network.

Russian telecommunication experts believe that in 2009 both the number of users of mobile Internet and traffic usage will continue to grow. And they also presume that the usage structure will be moving to 3G¹ technology: as a result of 2009, GPRS²/EDGE³ will account for maximum half of the data traffic in the Russian mobile networks. In these circumstances it is really important for MegaFon to strengthen its leadership in this market, because in the future it will generate the significant part of the revenue.

Shareholdings and ownership in MegaFon stabilized in 2008, which creates even better chances to improve the Company's competitiveness. At the end of 2008, a very important decision for future MegaFon's development was taken - that on the reorganization which will be accomplished in 2009. The merger of subsidiaries will increase the value of the merged company and become another impetus for further growth.

In 2008 a long-term incentive scheme was introduced in the Company as means to motivate the Company's senior management and key employees.

I should mention that unlike its peers in Russia, MegaFon is not a stock-listed company. However, the aim of the Company has always been to improve its processes and transparency.

I am sure that last year MegaFon successfully stepped up to a breakthrough level of business management and created the platform both for reaching leadership in the market and for creating additional value for the shareholders in the future.

¹ 3G (Third Generation) means "third generation" mobile communication technology, set of services that include high-speed mobile Internet access and wireless communication technology that creates a data transmission channel.

² GPRS (General Packet Radio Service) means technology of packet data transmission that allows receiving and transmitting information by means of mobile handsets at a significantly higher speed as compared with the standard GSM voice channel (9.6 Kbit/s). In theory, maximum speed of data transmission via GPRS is 171.2 Kbit/s.

³ EDGE (Enhanced Data-Rates For GSM Evolution) means data transmission technology that ensures higher channel carrying capacity and higher data transmission speed – up to 384 Kbit/s.

2. Address by Chief Executive Officer of MegaFon

Dear Shareholders,

During several years of its history MegaFon has won the leadership position in the Russian mobile market in various nominations: dynamic growth, brand awareness, customer's loyalty, innovative approaches to business and many other areas. We were always striving to become the best, were ahead of the market, were creating new opportunities for the society and were trying to knock down stereotypes. That time was characterized with explosive market growth even though the mobile penetration in Russia had long time before exceeded the population of the country and experts started to expect slowdown in growth rate of mobile communication.

Last year has demonstrated that organic growth period is about to be over and the global economic crisis became one more reason for revising our business practice.

The year of 2008 was to a large extent the determining one in selecting the directions for our future development. Until now all the players in the Russian mobile market had been growing according to the same logic, but last year we could see that the market had become mature, and it was no longer possible to be a success in competition through using well-known and tested solutions. It is now high time for everyone to select its own priorities.

Last year we knowingly decided to reject several opportunities of entering foreign markets although we still believe that international expansion is a promising area. We did not execute any deals in mobile retail acquisition although such activities were a noticeable trend. We believe that our prudent approach to investments gave us a significant advantage – while most of the Russian companies found themselves amidst financial problems, we are free of debt burden, which gives us extra sustainability in the environment of economic crisis.

Our decisions on future investments will be based on assessment of many parameters, including strategic reasons.

We believe that Mobile Internet is one of the most promising and attractive telecommunication segments, therefore our future efforts will be focused on 3G development in Russia. We plan to become the leader in this market segment.

For the purpose of retaining loyalty of our subscribers and moreover to increase their number we will focus on segmented marketing offers targeted at narrow customer groups that will best meet their demands and expectations. Besides, we are going to pay special attention to developing our unique competitive edge, which is customer-care in MegaFon's style.

The decision on reorganization taken at the end of last year was very important for us as it will have positive effect on our business efficiency, including the opportunity of using all the advantages from implementing 3G and long-distance communication licenses.

I am sure that we will achieve excellent results next year. With your support we are going to grow successfully and profitably, as well as continue increasing the Company's value.

3. Russian Economy and Telecommunication Sector. Prospects in Global Crisis Environment

In late summer 2008, the Russian Federation economy started to feel negative impact of the global economic crisis that also affected the telecom market.

According to Comcon research agency, as of December 2008, about 52% of the Russian population was suffering from decline in individual income. About 26% of the Russian citizens lost their jobs or became part-time employed.

In 2008, food products and telecommunication services remained the most stable consumption categories – Russian people are not apt to refuse either food or telecom services. In the course of the Comcon's survey none of the respondents said that he/she wanted to stop using mobile services, but according to our own observations our customers already have started saving through lower usage.

We expect that in 2009 the traffic per customer may decrease, subscribers may reject the “thrills” that will include innovative value added services, and they will try to limit their spending for mobile communications to the core services of mobile telephone.

We assume that data transmission in the mass market will be one of those few segments of value-added services that will generate revenue in the crisis environment of 2009. According to projections by ComNews Research, as a result of 2009, the revenue of Russian mobile operators will grow by 67% in this sector to reach over 42 BRUB. The number of users and traffic usage will continue to grow: the volume of mobile Internet traffic will double in 2009. And its structure will move further to 3G technologies: as a result of 2009 GPRS/EDGE will account for maximum half of the data traffic in the Russian mobile networks, provided that the crisis does not make the operators cut their investments for development of new-generation communication network or even forget about them.

Key Market Trends

More than ever before mobile operators in Russia are focusing on escalating their revenue – most of players in the market have increased prices for their services – either for old existing tariffs, or for services in certain categories, etc.

All the operators in one way or another are trying to offer a convergent product to their customers.

Considerable structural changes are seen in the market of mobile retail: in some cases mobile operators acquired retail networks or launched strategic partnership with them, in other cases they concentrated on developing their own retail and had negotiations about acquisition of independent federal retail chains.

In 2008, for the first time ever the Russian operators became the participants of subscriber terminals market: they started to sell iPhones under contract with Apple and special equipment for data transmission - USB-modems.

The global mobile market has recently seen the indication of growing development of technologies that change mobile telephone into universal communication device

While presenting its iPhone, Apple was positioning it not as a handset, but as a multimedia station for working with voice and digital data. Customers are offered various new devices that are designed for

transferring data over mobile networks: modems and photograph frames with SIM-cards for transmission of images.

Mobile Internet (data transmission service) turned out to be the most resistant against impact of crisis among the Russian telecom segments.

According to ComNews Research, the Mobile Internet is the fastest growing segment of value-added services in the Russian cellular networks. Such growth is based on roll-out of 3G networks, growing number of mobile internet users and increasing traffic usage. In the crisis environment Mobile Internet becomes the most efficient tool of maintaining ARPU.

In 2008, the Mobile Internet segment demonstrated the highest growth rates as compared to other value-added services and even to voice services. Based on assessment by ComNews Research, in 2008, the data transfer services generated 25.4 MRUB (MUSD 1.0) for the Russian operators, which is 87% better than one year before.

Such impressive growth of revenue was driven by practically doubled users number, which reached 31.2 mln by year-end, or 17% from total number of mobile communication users in Russia.

In spite of 16%-reduction in price per 1 Mb, the monthly average ARPU⁴ Internet Active has grown in 2008 by 24% y-o-y up to 80 Rubles. And the total annual volume of Internet traffic has grown with a factor of 2.2 to the level of 5.8 Petabytes (about 6 K Terabytes or 6,144,000 GB).

4. MegaFon's Position in Industry Market

MegaFon possesses licenses via its North-West branch and 100% subsidiaries for operating in all subjects of the Russian Federation. Another MegaFon's subsidiary, CJSC "TT mobile", provides mobile service in the Republic of Tajikistan. MegaFon holds 75% of TT mobile's shares, the remaining 25% are held by OJSC "Tajiktelecom".

MegaFon is the leader in its footprint over Russian market

We are the only mobile operator that expands its service over the entire country with the area of 17,098,242 km² and population of 142 million.

In Russia mobile services are provided by three federal operators – MegaFon, MTS and VimpelCom, as well as by several dozens of smaller regional telecom operators. The three largest Russian operators work in GSM⁵ standard, and in 2007 MTS and VimpelCom started to rollout their networks in a more advanced standard that is usually called the third generation of mobile communication. MegaFon became the first operator in this country that launched commercial service in this new standard before any other operator did – in autumn of 2007.

MegaFon is the leader in technology innovations

⁴ ARPU (Average revenue per user) is monthly average revenue from the sale of services per one subscriber. It is one of the parameters which characterize success of the company's business.

⁵ GSM (Global System for Mobile Communications) is a standard for digital mobile communications working on frequencies of 900 MHz and 1800 MHz.

In 2007, MegaFon was granted license No 1 for providing 3G mobile services (UMTS⁶ standard) after getting the highest score in the tender. Just six months later we summarized the results of multi-year research and practical experience that had been obtained in our existing 3G network in Tajikistan, the first one in Central Asia, and created our commercial product for 3G users in Russia.

Since October 24, 2007, the first Russian 3G network of MegaFon has been operating in Saint Petersburg and Leningrad region. By the end of 2008, the third generation network was launched for commercial operation in all major cities of the North-West, one of the most important regions in the country, in Dagestan and in some other regions. **Totally 23 RF subjects are covered by our 3G network – that is the largest 3G footprint in Russia.**

MegaFon is the Russian market leader in growth rates

Within several recent years MegaFon has been successful in winning significant positions in the Russian market through leadership in growth rates – **year after year growth rates of the Company's subscriber base and revenue were higher than those for the Russian mobile market in general.** Following the Company's success, the international rating agencies upgrade MegaFon's corporate credit rating every year. In 2008, Standard & Poor's (S&P) raised long-term credit rating of the Company from BB to BB+ with "positive" outlook. Moody's raised the Company's rating from Ba3 to stable Ba2. Fitch confirmed the Company's rating at the level of stable BB+.

MegaFon was the first among the Russian operators to start expansion to foreign markets

MegaFon's subsidiary, CJSC "TT mobile" has been operating in the Tajik market since September 2001 under the brand of MLT (Mobile Lines of Tajikistan).

Dynamic growth, innovations in business and customer-care are the three cornerstones that support the success of MegaFon, the first all-Russian mobile operator.

Advanced mobile communication services that are offered by the first all-Russian mobile operator make the life bright, full and compliant with the modern rhythms. Traditionally, MegaFon is the first to offer many interesting mobile innovations in the Russian market. MegaFon made mobile communication available for anyone in Russia, knocked down the existing perception that the capital city is superior over the regions, and in record-high time it became the all-Russian brand with practically 100% awareness. Based on the brand positions research (made by BUSINESS ANALITICA agency), MegaFon's subscribers show the highest level of loyalty.

MegaFon is not just a symbol of high-quality mobile communication, it means a focus on life success, which is a powerful positive driver of the company's advance in the market. MegaFon is in great demand because in the consumer's mind it is closely associated with new technology and innovations, flexible tariffs and special attention to quality of customer-care. And, of course, it is related to the evident advantage of MegaFon – coverage in all regions of the Russian Federation.

International roaming service is available for our subscribers in 222 countries, which is the best achievement in the Russian market.

5. MegaFon Is Growing In Spite of Crisis

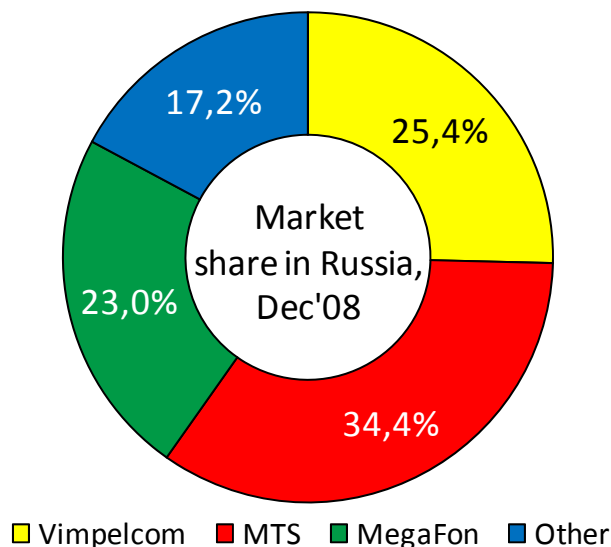
Growth of subscriber base in 2008 turned out to be higher than in 2007 in spite of the slowdown in this market due to saturation. The reasons for such a success include higher number of new additions and significantly lower churn rate. As a result of 2008, MegaFon and MTS increased their market share by 2.5% and 1.2%, respectively. VimpelCom demonstrated negative growth of subscriber base due to change of its accounting policy.

⁶ UMTS (Universal Mobile Telecommunications System) is a universal system of mobile communications, a technology of mobile communications related to 3 Generation (3G). In order to separate UMTS from competitive technologies it is also often called 3GSM to stress the fact that the technology belongs to 3G networks and that it is a successor to the GSM networks.

As a result of 2008, MegaFon was the best in subscriber base growth for Russia both in absolute and in relative terms. MegaFon accounted for 51% of mobile net additions in Russia for 2008.

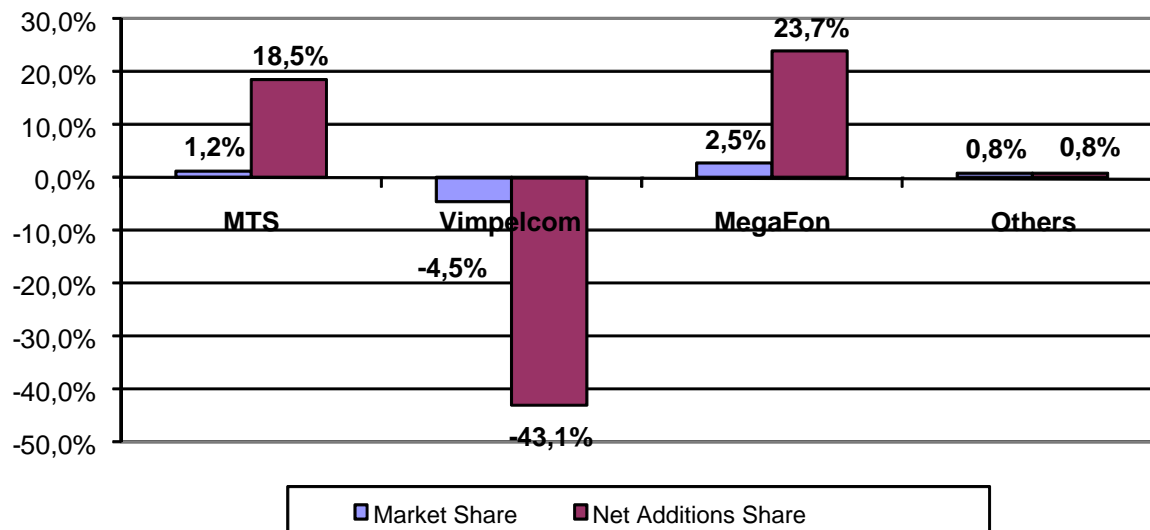
MegaFon's subscriber base has grown 22% over 2007.

Market shares of Russian Mobile Operators



Our results for the number of net additions (gross additions minus churn) became the best in 2008 – the share of net adds has improved by 24%.

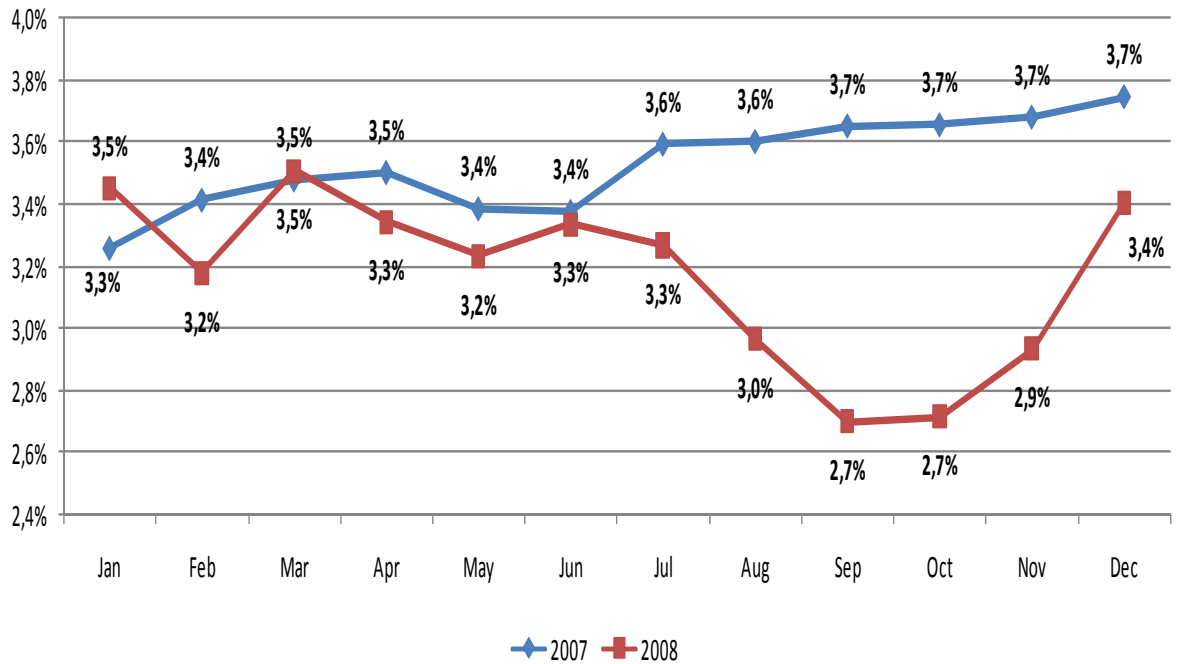
Change of Market Shares and Net Add Shares in 2008 Compared to 2007 (in percentage points)



In 2008, we continued decreasing subscribers churn rate through better quality of network operation and improved quality of customer-care. We are already seeing the results of our progressive loyalty program “MegaFon Bonus” that was launched in 2005. During three years since its launch the program’s penetration reached 33%.

Customers churn rate in 2008 decreased by 9% as compared to 2007.

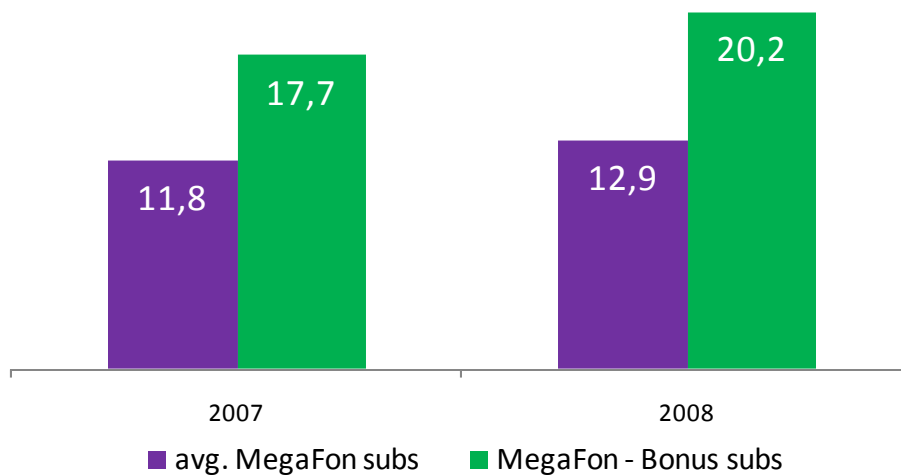
Comparing Churn rate % in 2007 and 2008



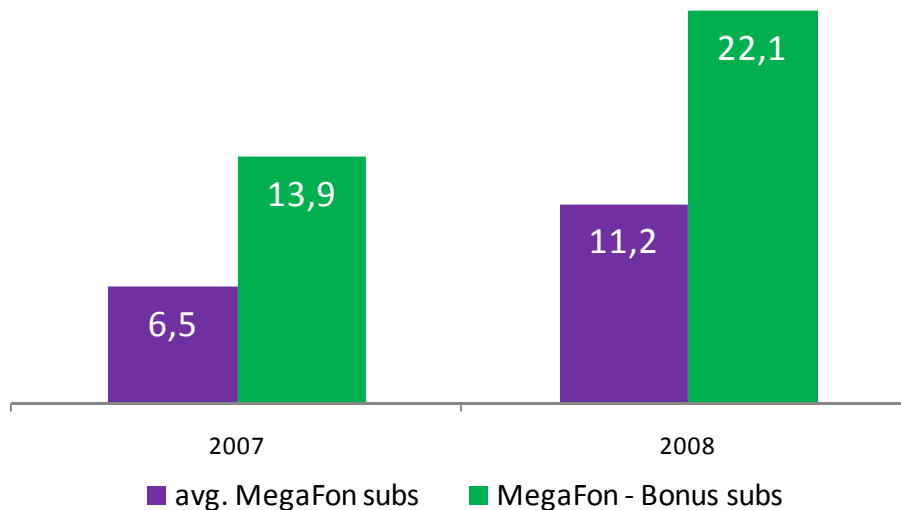
Average life-time of any subscriber who participates in MegaFon-Bonus program is half as much again higher than for a non-participating subscriber.

Expected revenue per subscriber over his/her time of participation in "MegaFon-Bonus" program is twice as higher than in average for the subscriber base.

average lifetime in network (mth.)

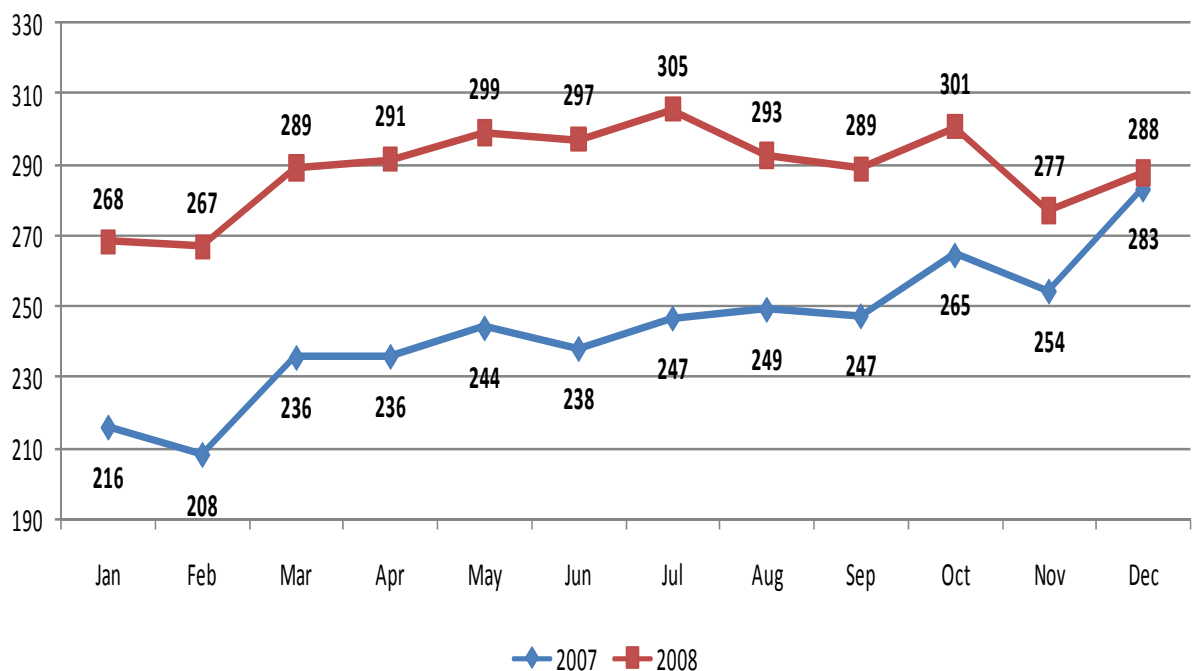


expected revenue during Lifetime, RUB (000)



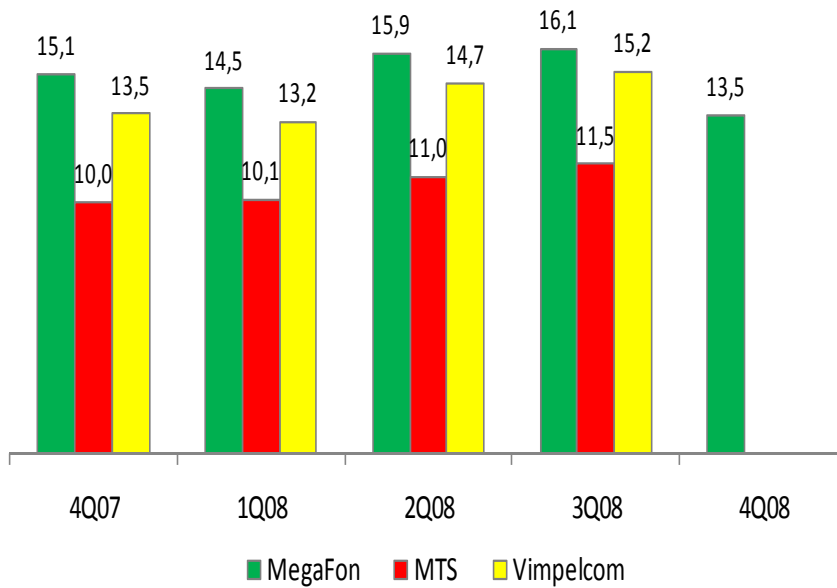
MOU (average number of air-time minutes per one subscriber) is higher than for our peers in the Big Three. At the same time, MOU growth started to slowdown in Q4. For 12 months of 2008 this number was 288 minutes, which is 18% better than in 2007, but 5% below our expectations.

MOU Trends in 2007 and 2008



ARPU (average monthly revenue from service sold per one subscriber) was 371 Ruble in average for the year, which is 4% below our expectations, nevertheless **MegaFon continues to be better than our competitors in 2008 in terms of ARPU value.** It is worth to note that growth rate of this parameter has slowed down for all the operators.

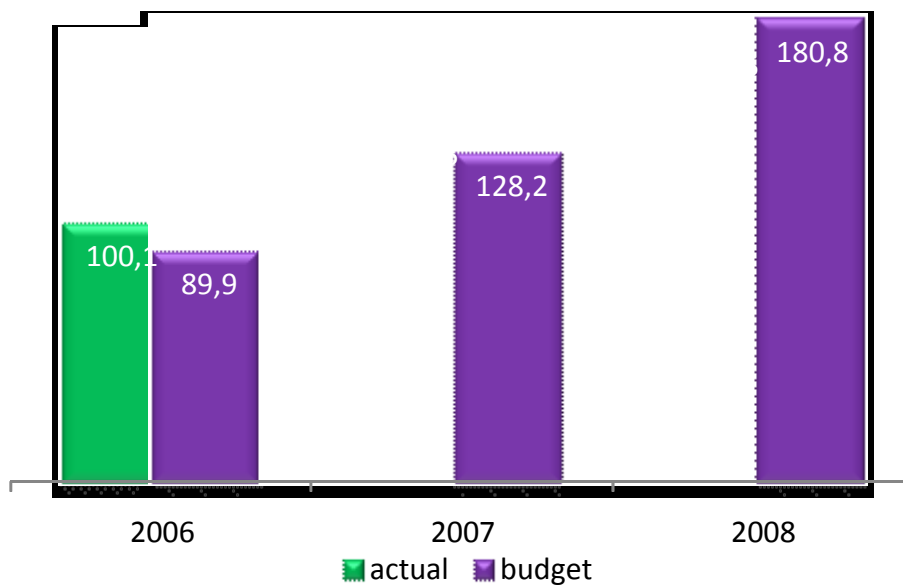
ARPU, \$



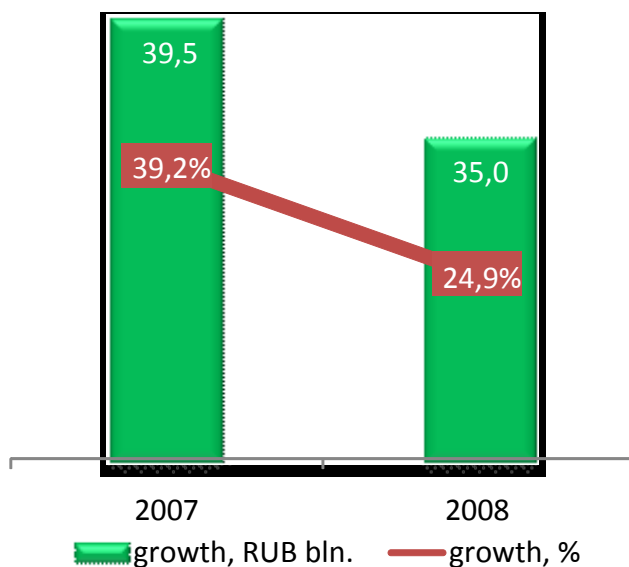
In 2008, the Company's aggregate revenue was 175.5 Brub, which is 24.9% better than in 2007. One year ago our revenue growth rate was 39.2%.

For the first time ever in our history we have not performed our revenue plan – the budget underperformance was 3.2%.

Total Revenue, RUB bln.

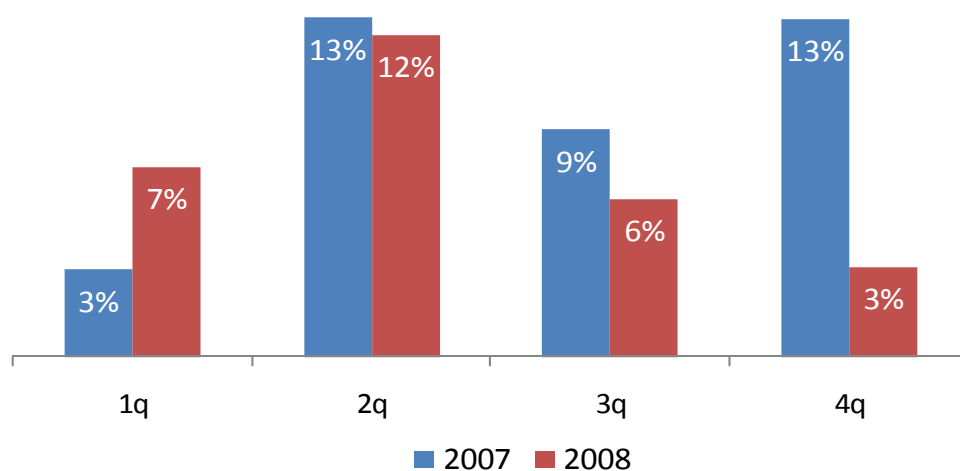


Revenue YtY growth



The lower than planned value of revenue was the result of slowdown in traffic growth during the 4th quarter of 2008. While in the same period of 2007 the aggregate traffic grew by 13%, in 2008 the growth was only 3%. Starting from August, MOU growth rate was declining and by December it became practically equal to the previous year level.

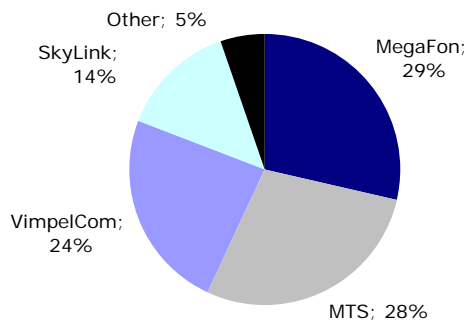
Voice traffic QtQ growth, %



Excluding the sales of iPhone and the revenue from fixed-line communication, the Company's aggregate revenue in 2008 was almost 173 Brub, which is 2.6% below the plan.

MegaFon became the leader in revenue from mobile Internet – our share in 2008 was about 29% from the total revenue in this segment.

Share of Operators in Revenue from Mobile Internet in Russia in 2008



6. Key Events That Effected MegaFon’s Success in 2008

In February 2008, the position of the Chief Operating Officer was introduced in the Company.

On September 2, MegaFon announced about execution of agreement with American Apple Inc. on sales of iPhone 3G handsets in Russia. On October 3, MegaFon started to sell this unique smartphone iPhone 3G in Russia bundled with specially designed tariff plans.

New area of managing non-core assets was introduced: on September 15, 2008, the Company disclosed acquisition of CJSC “InCore”, RBT service provider, for more efficient management and development of RBT⁷-based services in MegaFon. According to analysts from IDC, by 2010 the services based on Ring Back Tone will become even more popular than ringtones and will be the highest source of mobile entertainment revenue.

On October 7, MegaFon Northern Caucasus continued to implement the license for providing mobile services in IMT-2000/UMTS standard and started offering 3G services in the territory of Dagestan.

On October 13, MegaFon gave its subscribers in Moscow and North-West an opportunity to fill-up their accounts via web-sites of MegaFon Moscow (pay.megafonmoscow.ru) and MegaFon North-West (pay.megafonnw.ru) using bank cards of international payment systems Visa and MasterCard. In October-November this service was expanded to all RF regions. In late November, the single federal web-site was launched at www.pay.megafon.ru.

On October 22-25, MegaFon took part in INFOCOM, the largest telecommunications exhibition of Russia. The Company’s booth was visited by Igor Schegolev, the Russian Minister for Telecommunications and Mass Media, and Leonid Reiman, the President’s Advisor. Test mobile network of 3G standard (UMTS/HSDPA) was launched at the company’s booth. Visitors of the exhibition could see the future services on handsets and computers equipped with MegaFon-Modem device that are designed for operation in 3G networks and were already available for buying. At the same time MegaFon opened access to high-speed internet via WiFi for anyone who wanted to get it.

In October, MegaFon-Moscow opened on-net GPRS-roaming for subscribers of LIGHT tariff plans (Ruble, Mobile, Uniform, etc.). Now the subscribers from Moscow, who travel within Russia, may be always in touch and use mobile Internet.

⁷ RBT (Ring Back Tone) is a service that allows setting music or jokes instead of usual tones when awaiting a reply.

7. Strategy, Business Priorities and Future Development of the Company

In 2008, we witnessed a slowdown of Russian mobile market due to its saturation and changed economic environment. Nevertheless we continued to demonstrate growth of our revenue from growing subscriber base and increased usage of voice services and VAS by our subscribers.

Our strategy was to concentrate our efforts on business development inside Russia and to maximize our revenue from the core business. First of all we were investing in regions with high market potential and low mobile penetration and we also paid special attention to the network development in Moscow and Moscow region.

Considering the changed market conditions we started to look for new growth opportunities in related areas of telecommunications industry and for possible expansion of our business outside Russia.

We thoroughly study potentials of entering the mobile retail market as well as fixed broadband Internet access markets.

Our current strategic goals are as follows:

- Revenue leadership among Russian mobile carriers
- Retaining high business margins (EBITDA⁸⁸ margin, Gross margin) despite the inflation, intensive competition and changed market environment

We are planning to achieve our goals with the strategy developed and approved by the Board. The above strategy includes the following elements:

- Close control of OPEX and CAPEX
- Winning the market share in fixed communication by using FMS (Fixed Mobile Substitution⁹)
- Development of 3G, promotion of mobile Internet access service
- Significant increase of MegaFon market share in corporate segment of the market
- Constant improvement of communication quality and customer care

Approval of the Company's reorganization in the form of subsidiaries merger with OJSC "MegaFon" is an important event that can help in achieving the goal, and it will be beneficial for the Company's efficiency: 3G license implementation, LD networks, provision of services to federal corporate clients, which all in all will improve our competitive positions and provide a sound foundation for future development.

8. Report provided by the Board of Directors on performance results of MegaFon development in priority business areas

Marketing, Promotion and Sales

⁸ EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

⁹ FMS (Fixed Mobile Substitution) – Services providing customers more convenient and economic usage of their mobile phones instead fixed-line. For example, using their mobile phone in the office, at home in a special "home zone", that has special tariff with a discount vs. main tariff.

One of the key areas of 2008 communication strategy was the improvement of MegaFon's image as constantly progressing, hi-tech and customer focused company that displays maximum concern about its customers and is constantly developing its service level.

Last year MegaFon started to execute long term communication program targeted at business users of mobile communication services. Special image campaign was created and launched on federal TV in November 2008 to support MegaFon's image as reliable, convenient and innovative partner in B2B telecom market.

In 2008, the company focused on working with customer segments. Obtained experience showed that consolidation of segment marketing campaigns can make significant contribution in revenue.

Major effect was obtained by two factors:

- efficient use of marketing investments – redistribution of marketing resources between segments of subscriber base.
- intensive use of targeted communication channels – creating the library of industrial segment marketing companies.

During the last year market was demonstrating the trend of potential churn level decline (intention to change operator).

MegaFon shows better trend in terms of this parameter, reducing it by 8% vs. 2007 (MTS – 4%, Beeline-5%). Besides, **MegaFon is a leader in the share of absolute loyal customers – 35% (+ 10% p.a.)**. MTS-23%, Beeline – 29% (numbers are flat vs. 2007).

Brand tracking showed that throughout 2008 MegaFon's subscribers were demonstrating the highest level of declared loyalty vs. subscribers of competitors. At the end of Q4, about 31.5% were announcing their firm intention to stay with the operator.

Not least of all that is due to MegaFon's competitive edge that affects the subscribers loyalty – progressive bonus program for mass market.

Research shows that "MegaFon-Bonus" remained the most recognizable loyalty program on Russian telecom market in 2008. It showed 30% spontaneous awareness among the subscribers of all operators, while the awareness of the similar initiatives by our peers did not exceed 10%.

With no significant promotion costs in 2008 penetration went up from 25% to 33%. That means that more than 10 million subscribers refer to this program every month (check bonus balance or activate a reward). Therefore, "MegaFon-Bonus" is one of the world's largest loyalty programs in number of participants. It is also important that almost half of MegaFon's former subscribers keep it "in the list" of preferred operators to whom they might connect in the future.

Today MegaFon managed to create the most loyal customer base that does not intend to abandon its operator.

During this year, MegaFon has successfully developed the partnership program to launch branded stores. Due to that MegaFon's own retail reached 1500 Points of Sales (POS).

The unique internet store www.shop.megafon.ru is very popular on the market; here subscribers can select phone numbers and other services. Internet store sales can be compared with sales of big retail players.

The key focus in 2008 was the development of new sales channels. Therefore, during last year MegaFon signed contracts with federal players of FMCG-market¹⁰ and MegaFon's products appeared on shelves of retail chains.

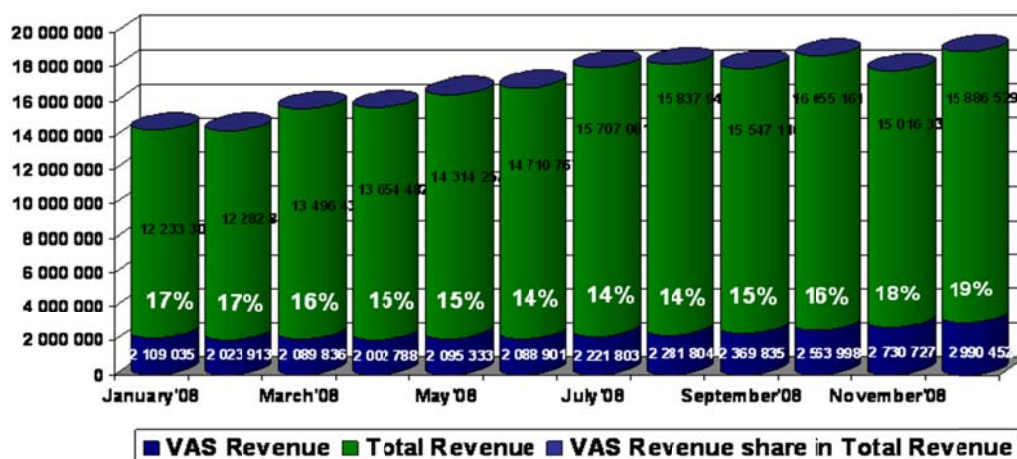
Introduction of Voice Portal federal project has improved the quality of Call Center operation (Customer Information Centers) – for example, number of dropped calls was reduced several-fold.

MegaFon in Value Added Services market

VAS became the main revenue generator. Due to use of efficient business models (RBT, TVMS¹¹, GPRS-WAP and GPRS-Internet) as well as thanks to introduction of new services we managed to reach second place in the Big Three revenue received from Value Added Services (hereinafter - VAS).

In average total VAS revenue in 2008 (grossed-up) was 15.8% of overall MegaFon revenue.

*VAS revenue (GROSS)
(net of revenue from monthly fees in tariffs with bundled VAS)*



Share of VAS revenue in 2008 was higher vs. previous year.

The company also improved its leading ARPU VAS positions in 2008.

In general 2008 showed redistribution of Value Added Services revenue:

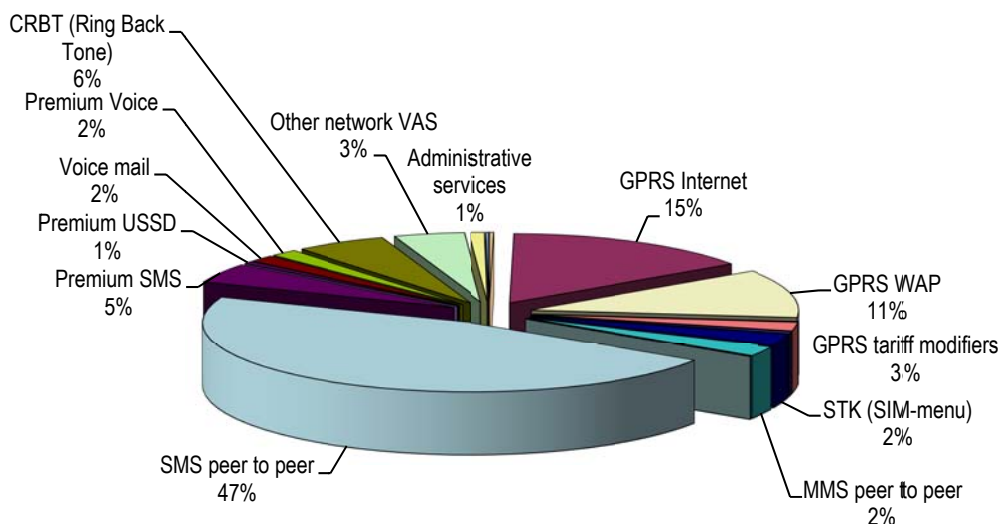
- Increase of data transfer share in overall VAS¹² revenue (26% vs. 21% at the end of 2007).
- Trend of subscribers moving from WAP to Internet with higher GPRS-Internet revenue vs. GPRS-WAP revenue.
- Growing CRBT share up to 10% in VAS revenue (by the end of 2008).

¹⁰ FMCG (Fast Moving Consumer Goods) – day-to-day goods that have relatively low price and can be sold quickly

¹¹ TVMS – Global voice mail service

¹² VAS (Value Added Services) — services provided by additional platforms. All non-voice services and other services that are not related to transmission of CSD data and faxes (including SMS, MMS, GPRS etc. that are widely used)

VAS revenue structure in 2008



The following services have the highest revenue shares:

- SMS - 47%
- Data transfer- 29%

Increase of data revenue and traffic was due to growing GPRS-Internet traffic and revenue. In 2008, GPRS¹³ revenue was 29% of VAS revenue.

CRBT - Ring Back Tone

RBT service appeared in the Russian market in late 2005, and in less than three years it became very popular. Its audience already includes 14 million active users that altogether set more than 35 million melodies instead of standard tones in 2008.

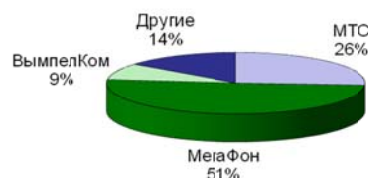
MegaFon has leading positions in this market.

Source: Advanced Communications & Media

Audience and RBT coverage in Russia



RBT users structure per operator, 2008E

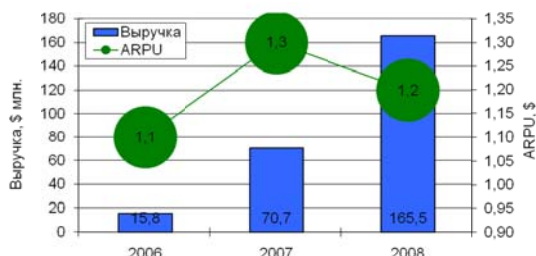


Total: 13.8 mln.

¹³ GPRS (General Packet Radio Service) – technology that enables to receive and send data with a mobile phone at higher rates vs. standard GSM (9.6 Kb/sec). Theoretically, the maximum speed of data transfer in GPRS can be 171.2 Kb/sec.

RBT is one of the fastest growing content services on the Russian market – in 2008 RBT revenue increased by 134% up to \$165M. Unlike Europe where RBT penetration reached only 5-7%, in Russia it brings almost 20% of content services revenue. Acquisition of InCore’s RBT business by MegaFon in 2008 resulted in growth of efficiency of this service - in 2008 it soared from 48% up to 59%.

RBT revenue in Russia



RBT revenue of operators in 2008E



Total: US\$ 165.5 mln.

Effect from prevention of damage caused by fraud

Fraud – deception, fraudulent behavior - unauthorized access to communication services, as well as getting services through illegal access

The main goal of revenue assurance and fraud management functions is to maximize business revenue through identification and elimination of losses caused unintentionally, including failure of equipment, setup errors of network components, products and services development and implementation faults, incorrectly configured business processes etc., as well as caused by actions of adversaries.

In 2008, for the purpose of unification and optimization of fraud management system OJSC “MegaFon” developed “Fraud Management Strategy for 2008-2010”, standard business processes and Key Performance Indicators system, and the required procedures were implemented in the regions.

10 criminal cases were filed on identified cases of fraud which are supervised by the criminal law (SIM-cards cloning, the organization of illegal calling points, dealer fraud), some of them are being investigated by law-enforcement authorities together with Interpol.

Based on results of loss minimization measures performed in 2008 the damage from fraud was maximum 0.03% of the revenue, which is considerably lower than industry standards. We recovered more than 290 MRUR of losses, the prevented damage was over 780 MRUR, and the total economic effect from fraud management function in 2008 was 0.6% of revenue.

Direct costs of the Company were reduced, major portion of losses was recovered, significant damage and bad debts were prevented due to work of revenue assurance and fraud management functions improving business efficiency across the entire company and bringing it to leading positions.

Key IT Projects of the year

One of the major factors of MegaFon's competitive strength – is the ability to provide market with the most modern, convenient and efficient solutions. The entire company works for that goal, but IT function is a key link in creation and provision of high quality services to the customers. Last year, we focused on development of uniform information environment and on the improvement of business processes – we were standardizing billing solutions and increasing the efficiency of IT-infrastructure.

Project: Introduction of release policy of billing system

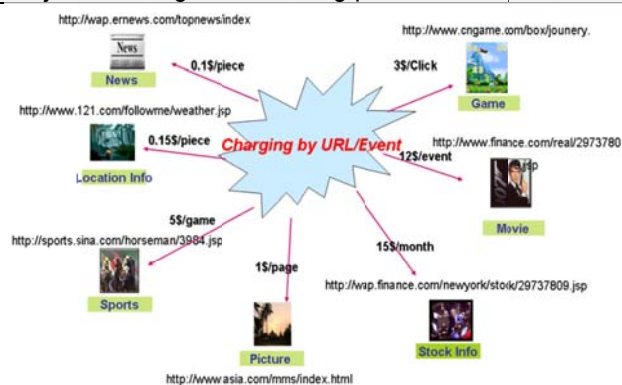
Goals:

- To provide unified functionality of the billing system
- To regulate control procedure of changes
- To reduce timeframes of federal projects introduction

Result:

MegaFon introduces federal commercial projects faster and more efficient

Project: Package traffic rating platform



Goals:

- Provision of on-line rating of package traffic

Result:

- We have a tool to perform flexible pricing policy in WAP/internet services

Project: Introduction of aCRM

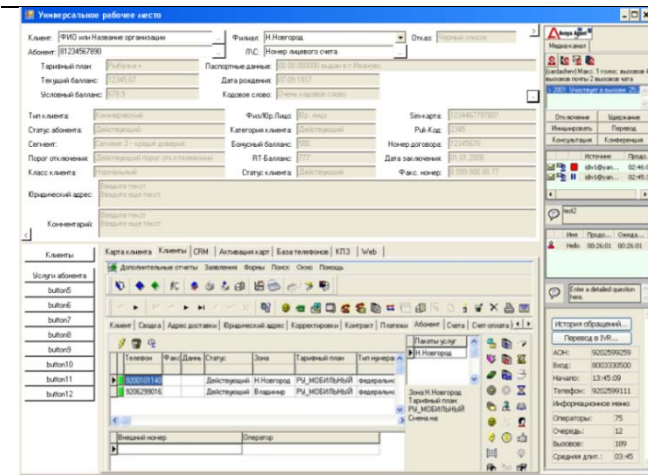
Goals:

- To have a tool for storage and processing of customer's information to provide his/her personal service as per his/her requirements

Result:

- Segmented marketing solutions provided tangible contribution into the revenue

Project: Universal work-station of a Call-Center consultant



Goals:

- To ensure optimization and effective automation of routine operations executed by consultants of the Customer Service when they provide services to customers

Result:

- Customers loyalty, reduction of churn

Project: Migration of SAP R/3, SAP HR system and Consolidation of SAP ERP2005 version module

Goals:

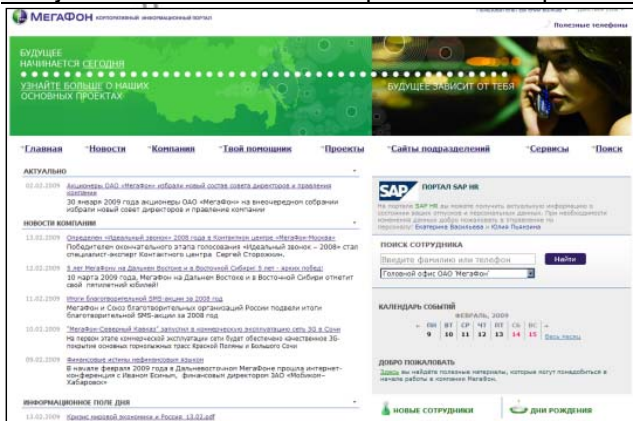
Upgrade of SAP R/3 4.6 system up to SAP ERP2005



Result:

- Improvement of the efficiency of internal documents, optimization of the automatic management systems of a federal size company – increase of competitive edge on the market

Project: Introduction of the corporate internet portal



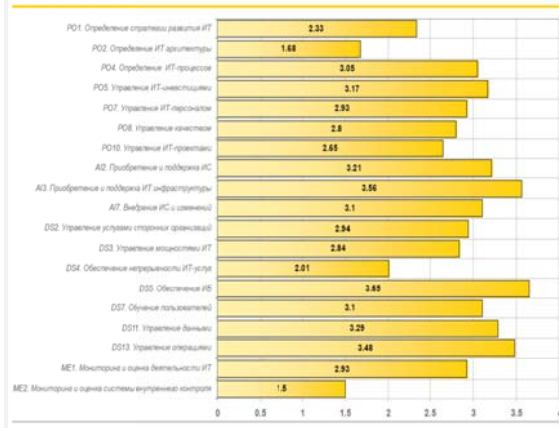
Goals:

- To create uniform information environment for employees, to develop and improve vertical and horizontal communication, to create and develop the environment for sharing knowledge and experience between employees of the company

Result:

- increased motivation of staff, their awareness of company's business targets, involvement in such targets achievement - their input in unique corporate culture that MegaFon considers one of its most valuable competitive advantages

Project: Assessment of IT projects maturity



Goals:

- Development of the list of recommendations to improve the maturity level of IT processes

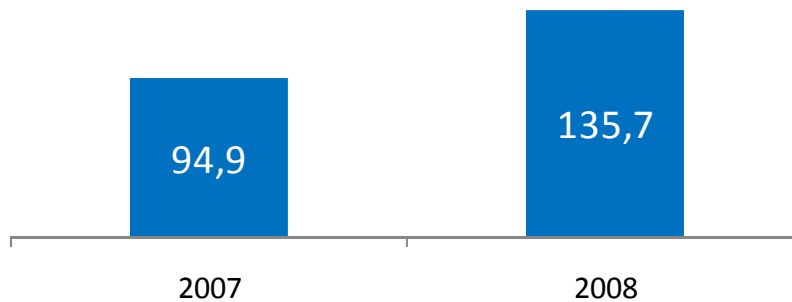
Result:

Improvement of IT processes efficiency, providing efficiency improvement for the entire Company

Achievements in technology development

Our primary focus in the technology development during the previous year was on the development of radio access systems (65% of the total technological expenses), where the major part was the expansion of network’s capacity parameters.

Total voice traffic, bln. min.



In 2008, we had a turning point in terms of investment into the network capacity - we assume that next year the investment in GSM network capacity will be reduced due to continued development of 3G network. Last year we focused on the core network to launch next generation mobile services, we also expanded construction of FOCL¹⁴ backbone and transportation access networks.

By the end of 2008, 3G networks were operating in 23 subjects of the RF (one of them is in Dagestan) were implemented with a unique business model: separate network providing high-speed Internet access. We think that our first experience was successful because during the first three months of the model operation we acquired approximately 8.5 K customers. By end of 2008, MegaFon had 1,229,727 consumers of GSM network service in the region.

Last year we constructed long distance telecommunication networks – domestic and international - to the extent required to obtain selection codes and to transfer intranet traffic of the MegaFon group.

¹⁴ FOCL (Fiber Optic Communication Line) - optic cable with linear facilities and devices for their maintenance used for transmission.

Radio frequencies allocation and license provisions

The Company has obtained 4 new licensees for service provision in Russia ("Provision of telematic services"; "Provision of data services with the exception of data services for the purpose of voice transmission"; "Provision of data services for the purpose of voice transmission"; "Provision of communication channels").

As of the end of 2008, the Group had 81 active licenses and 87 supplements to them, which ensures the development of various commercial activities of the MegaFon group in providing telecom services.

The Group has sufficient radio frequency spectrum and radio frequency allocations for radio electronic devices (RED).

Special Programs

In 2008, the number of subscribers of Special Federal Subsystem of Confidential Mobile Communications and Special Network of Data Transmission grew by 60%.

We proceeded with administrative and technical measures for integration of Special Federal Subsystem of Confidential Mobile Communications and Special Network of Data Transmission in 3G network.

MegaFon provides for high quality confidential and open communication services during emergencies and major public events.

We signed various Agreements for provision of special services under Special Federal Subsystem of Confidential Mobile Communications and Special Network of Data Transmission with government authorities, security agencies and large business customers.

We participated in the state tests of the new-generation crypt-smart-phone «GenKey» (a phone with protection from eavesdropping) and launched its operation in Special Federal Subsystem of Confidential Mobile Communications and Special Network of Data Transmission of MegaFon for the benefit of government and commercial authorities.

Effective management of corporate finance in crisis conditions

2008 marks the first year when the global recession caused by the crisis in the financial and capital markets finally came to Russia as demand for oil and metals tanked. In spite of the increasingly turbulent and difficult environment, our Finance team continued to contribute significantly to enhance the Company well being.

We are pleased that our balance sheet today is the strongest among our Peers today. Our 2008 net operating cash flow after investments of about \$489 million allowed us to further reduce approximately \$133 million of our debt, buyback \$52M of our Eurobonds, and also accumulate a cash and short term investment balance of over \$1.3 billion at yearend. Our cash and investment is about \$160 million more than our aggregate debt position. On our investable cash, we placed most of it in conservative and short term time deposits, earning us over \$114 million in interest income.

Our balance sheet is strong also because a significant portion of our currency debt is hedged into ruble at favorable levels, minimizing our foreign exchange losses (net of hedging gains) this year to a manageable level of \$126M, which is very significantly less than our Peers as the ruble began to drop significantly in the fourth quarter of this 2008. Our positive hedging activities contributed significantly to preserve our aggregate 2008 net income.

And in spite of the current turbulent credit and financial markets today, we are fortunate to have recently secured one of the most attractive financing deal in Russia. Specifically, we have just recently closed a 6-year \$ 250million Finnvera-backed credit facility with a club of international banks consisting of BNP, Calyon, Impex Bank, and Nordea at an fixed interest rate of 4.54%. Finnvera, the Finnish export credit agency, guaranteed this facility which will be used to fund our Nokia Siemens Networks equipment purchases.

In addition, we are gratified that international rating agencies continue to confirm our international corporate credit rating, even as sovereign and our Russian companies are being downgraded.

Our goal for 2009 is to actively manage and strengthen our financial position in spite of the global economic downturn. We will continue to maintain prudent and conservative financial policies, to ensure that we come out of this economic crisis with the competitive advantage of being among the strongest companies financially.

9. About the Company

Background

MegaFon is the first all-Russian mobile operator. It operates in the GSM 900/1800 frequency ranges. It was established in 1993 in St. Petersburg as CJSC “North-West GSM”. Starting from 1994, CJSC “North-West GSM” was providing mobile services in North-West Russia under “North-West GSM” brand. In May 2002, “North-West GSM” was transformed to OJSC “MegaFon”.

At that time shareholders of the Company decided to create an all-Russian operator. That was done through establishment of the Group that included the following entities:

1. Closed Joint Stock Company “Sonic Duo”
2. Closed Joint Stock Company “Mobicom-Center”
3. Closed Joint Stock Company “Ural GSM”
4. Closed Joint Stock Company “Mobicom-Kavkaz”
5. Closed Joint Stock Company “Mobicom-Novosibirsk”
6. Open Joint Stock Company “MCS – Povolzhie”
7. Closed Joint Stock Company “Mobicom-Khabarovsk”
8. OJSC “MegaFon” that provided for strategic management of the Group’s business.

Organizational Structure

The Group includes 16 companies, 8 of them provide services in various regions of Russia and CIS¹⁵.

Companies providing communication services:

In Russia¹⁶:

Closed Joint Stock Company “Mobicom-Center”

Closed Joint Stock Company “Mobicom-Kavkaz”

Closed Joint Stock Company “Mobicom-Novosibirsk”

¹⁵ For more detailed and updated information about the affiliates of MegaFon go to the official website of the Company at <http://www.megaфон.ru/about/invest/affil/>.

¹⁶ MegaFon owns 100% of the charter capital of such subsidiary regional mobile operator.

Closed Joint Stock Company “Mobicom-Khabarovsk”
Closed Joint Stock Company “Sonic Duo”
Closed Joint Stock Company “Ural GSM”
Open Joint Stock Company «Mobile Communication Systems - Povolzhie»

In Tajikistan¹⁷:
Closed Joint Stock Company “TT mobile”

Companies providing RBT (Ring Back Tone - service that changes the standard ringback tone with a selected melody)- services:

Closed Joint Stock Company “InCore” (herein after – InCore)
is 100% subsidiary of MegaFon from 14.08.2008.

InCore was founded in 2005. The core business of the company is the provision of VAS services to mobile operators in Russia and CIS. The main and most successful project was the development of RBT services (commercial name – “Change Ring Back Tone”). This service is to change the standard ringback tone with a certain melody selected by the subscriber. At the moment this service is one of three most popular services implemented in MegaFon’s network. In 2009, MegaFon plans to provide 100% coverage of the RBT service in MegaFon network. Working closely with MegaFon, InCore provides analysis, expands functionality of the service and also participates in organization and performance of various marketing campaigns. Such campaigns are targeted at increasing the number of service users, and to increase the sales of content used to replace tones. In addition to the support and development of RBT service, InCore is currently planning to launch several new high-tech projects, including the Partnership program for content providers, VideoRBT (changing a standard ringback tone to a video that is selected by a subscriber), Mobile advertising.

Closed Joint Stock Company “InCoreT” (hereinafter – InCoreT)

InCoreT is a subsidiary of InCore and operates in Tajikistan. InCoreT provides services similar to those provided by InCore. Core business of InCoreT is the implementation of new services to mobile operators in Tajikistan, including CJSC “TT Mobile”, subsidiary of MegaFon.

Non-core companies:

Open Joint Stock Company “VideoFon” (hereinafter – VideoFon)
is 100% subsidiary of MegaFon from 15.09.2008

VideoFon was founded in 2001 to perform commercial activities in the market of telecom equipment sales at Sales and Customer Care Centers of North-West branch of MegaFon in St. Petersburg and towns of Leningrad region. Currently VideoFon’s retail chain includes 28 stores operating under MegaFon’s brand. It is planned to increase the number of Sales and Customer Care Centers during 2009 and 2010, also through development of Sales and Customer Care Centers in other parts of the North-West region. Most of the Sales and Customer Care Centers employ experts and consultants of VideoFon providing virtually all customer services.

VideoFon provides full range of telecom services and products:

- Connection of new subscribers to MegaFon network;*
- Provision of services to existing MegaFon subscribers;*
- Collection of advance payments from subscribers;*

¹⁷ MegaFon owns 75% of the charter capital of CJSC “TT Mobile”

- *Sales of operator's equipment, handsets, accessories and Uniform Payment Cards;*
- *Tuning of equipment to use high tech services provided by the operator;*
- *Subscribers consulting on operator's services and technical features of offered equipment.*

Limited Liability Company "T-Pay" (hereinafter - T-Pay)
is 100% subsidiary of MegaFon from 15.09.2008

T-Pay was established in 2002 and its core businesses are distribution and servicing of MegaFon's Uniform Payment Cards (UPC), wholesale trade and establishment of the distribution network for wholesale of UPC.

Since 2004, T-Pay has been performing full cycle of manufacturing, logistics, maintenance and distribution of UPCs. Today T-Pay distributes MegaFon UPCs in 83 regions of the Russian Federation. The company has its head office in St. Petersburg and 7 branches in major cities of federal districts. The company performs distribution of UPC through more than 250 dealers.

Closed Joint-Stock Company "Construction Company Absolut" (hereinafter - Absolut)
is 100% subsidiary of MegaFon from 18.12.2008

Main asset of the company – the office building at 30 Kadashevskaya Naberezhnaya, where the Head Office of MegaFon is located. Purchase of Absolut was performed to minimize Company's OPEX.

Closed Joint-Stock Company "MegaFon-International"

It was established in February 2008 as a subsidiary of MegaFon to develop projects outside the Russian Federation. In April 2008, a representative office of CJSC "MegaFon-International" was opened in Teheran. The representative office operated till October 2008 inclusive. As MegaFon-International decided not to participate in the tender for the license on providing mobile communication services in Iran, the representative office terminated its operations and was closed. In November 2008, a representative office of CJSC "MegaFon-International" was registered in Ashkhabad for the purpose of preparation to participation in the tender for the license on providing mobile communication services in GSM standard in Turkmenistan.

Limited-Liability Company "MegaFon Finance"
is 100% subsidiary of MegaFon from 21.03.2003

Company was established to issue Ruble bonds. Currently the company does not perform any activities.

MegaFon S.A.(Luxemburg)

In December 2004, MegaFon S.A. issued Eurobonds for \$375 million (10,406 KRub at the exchange rate as of 31 December 2004) at a face value of 8% p.a., payable twice per year. The Eurobonds mature in December 2009. Cash from Eurobonds was used to finance the loan of MegaFon SA provided to the Company on the terms mostly similar to the terms of Eurobonds issue. Deferred financing costs in the amount of 178 KRub were capitalized in relation to the above loan. During 2007 and 2008, the Company bought back its Eurobonds with total face value of \$89 million (2.322 MRub at the exchange rate as of the date of transactions) for approximately 2.292 MRub.

There are 8 registered branches of OJSC "MegaFon" that perform their operations as follows:

1. The North-West Branch operates in the following subjects of the RF - Republic of Karelia, Arkhangelsk, Vologda, Ivanovo, Kaliningrad, Kostroma, Leningrad, Murmansk, Novgorod, Pskov, Smolensk, Tver, Yaroslavl regions, St. Petersburg – the federal city, the Nenets Autonomous District;
2. The Far-East Branch operates in the following subjects of the RF - Republic of Buryatia, Sakha (Yakutia); the Zabaikalye territory, Kamchatka territory, Primorye territory, Khabarovsk territory, Amur, Irkutsk, Magadan, Sakhalin regions, Jewish Autonomous Region, Chukotka Autonomous District;
3. The Kavkaz Branch operates in the following subjects of the RF – Republic of Adygea, Dagestan, Ingushetia, Kabardino-Balkar Republic, Karachay-Cherkessia Republic, the Republic of North Ossetia - Alania, Chechen Republic, Krasnodar and Stavropol territory, Belgorod, Voronezh, Lipetsk, Rostov, Tambov regions;
4. The Povolzhie Branch operates in the following subjects of the RF – Republics of Bashkortostan, Kalmykia, Mari El, Mordovia, Tatarstan, Chuvashia Republic, Astrakhan, Volgograd, Orenburg, Penza, Samara, Saratov, Ulyanovsk regions
5. The Siberia Branch operates in the following subjects of the RF – Republics of Altai, Tuva, Khakassia, Altai and Krasnoyarsk Krai, Kemerovo, Novosibirsk, Omsk and Tomsk regions;
6. The Stolichniy Branch operates in the following subjects of the RF – Moscow region, Moscow - the federal city;
7. The Central Branch operates in the following subjects of the RF – Bryansk, Vladimir, Kaluga, Kursk, Nizhny Novgorod, Orel, Ryazan, Tula regions;
8. The Urals Branch operates in the following subjects of the RF – The Republic of Komi and the Republic of Udmurtia, Perm territory, Kirov, Kurgan, Sverdlovsk, Tyumen, Chelyabinsk regions, Khanty-Mansi Autonomy - Ugra and the Yamalo-Nenets Autonomous District.

Team of Professionals

Leadership is an integral part of MegaFon's corporate culture. Creation of leadership approaches became one of the priorities in HR management.

Programs for development of leadership potential aimed at achievement of the Company's strategic goal were worked out and successfully implemented in 2008: mini-MBA (together with the professor Anthony Hourihan, Harvard Business School), Development Centers for Managers (together with HAY Group), leadership programs. Over 600 managers took part in them.

When planning its development MegaFon pays much attention to professional improvement of its employees. A uniform approach to creation of the HR reserve has been developed, open internal contests have been organized and a single information environment has been created for the employees to show internal vacancies.

As a result over 90% of vacancies for positions of senior and mid-level management were filled from the internal resources of the Company.

In September 2008, the organizational structure was changed according to the strategic priorities of the Company. 80% of management positions were filled with managers of the Company.

Another important area is implementation of the strategy aimed at improvement of customer service quality.

In 2008, a project “Destination-Customer” was implemented to make the work of customer-care units known to the Company’s employees. Over 80% of MegaFon’s employees participated in the project.

The remuneration policy was developed for customer-care staff. The basis for the policy is the system “7 grades of employee professionalism”. In 2009, the front-line employees will get bonuses according to the assessment made by the customers.

The Company will remain focused on development of corporate culture in MegaFon’s style. Our brand is our distinctive edge. MegaFon has special environment where the values of the Company’s brand bring together people working in different regions of Russia and allow them to develop and improve.

The values of the brand became the basis for relations between the employees and the customers and provided for the possibility to work in MegaFon’s style in all business areas as a result of the project “Branded Service”. Nine and a half million people took part in this project throughout Russia. About 3,650 projects were launched in 2008 and were aimed at increasing the Company’s possibility to fulfill brand promises.

When people are hired to the Company, the preference is given to those who share MegaFon’s values.

All corporate events in 2008 were conducted on the basis of principles of corporate social responsibility. The employees made improvements in the central park of the town of Suzdal, in one of the main squares of the city of Nizhniy Novgorod, they cleared garbage dumps at the lakeside of Baikal, they also cleared and improved the territory of natural park “Talkov Kamen” (sites of the Russian writer Bazhov) and holy water spring “Tashla” in the village of Alapaevka in Samara region, reconstructed a bridge in the national park of the village of Krasnaya Polyana, improved the territories of orphanages in the cities of Nalchik and Petropavlovsk-Kamchatskiy, repaired the hospital №1 for children in the city of Samara. It is a good tradition for MegaFon’s employees throughout Russia to participate in springtime “Green Saturdays” (volunteer clean-ups).

During 2008, the work was continued to combine local portals of the Group into single information environment - MegaNet, which became a reliable and respected source of news and business information.

Unique corporate culture that was created in the Company allows achieving high results and corresponds completely to the Company’s slogan “The Future Depends on You”.

As of the end of 2008, the Company’s headcount was 18,641 people.

Social Responsibility

For many years MegaFon has been supporting and organizing sport projects. We see common things between sport and business – ability to cooperate efficiently in a team, show leadership capabilities, focus on results, overcoming yourself, inspiration, honesty and good faith.

MegaFon is the sponsor of TV channel “Sport”, in 2008, the Company once again became the Title Sponsor of the Russian National Hockey Team and the Official Sponsor of the Russian Hockey Championship. MegaFon has also been the official sponsor of Russian Hockey Federation since 2006, the Company kept this status for 2008. Last year MegaFon also became the official sponsor of the Russian

National Football Team for seasons of 2008-2010. The Company is the official sponsor of the Russian Football Championship for the season of 2008-2009.

MegaFon has been the official sponsor of Zenit football club for many years: both on its difficult way to glory and on the year of its triumph. During the last year celebration of MegaFon's anniversary one of the key surprises was the UEFA cup won by Zenit.

Since 2006, the professional car racing team "MegaFon-Motorsport" has been supported at different competitions by the first all-Russian mobile operator, MegaFon. MegaFon-Motorsport team was founded in 2003 and is located in the town of Kubinka (Moscow region). It has over 350 victories and prizes at Championships, Cups and competitions in car racing sport in Russia. In the season of 2008, MegaFon-Motorsport team became the champion of Russia in the class of "Formula 3" cars.

Last year MegaFon provided charity support to children's football club "Grafskaya Lavina", SKA LenVO (young fencers), basketball sport school for children and juniors №1 of St. Petersburg.

In 2008, the Company acted as the partner of IX Open Snow Kiting Championship of St. Petersburg, II stage of the Wind Surfing Cup of Russia among children (St. Petersburg), III International Puchkov Hockey Tournament (for children), DreamCup tennis tournament (for amateurs, children, professionals), open on motorcycle cross-race championship of Novgorod region and open festival of outdoor activities and summer sports "Sport in the City" (St. Petersburg).

On June 21-28, 2008, MegaFon held in St. Petersburg the 8th FAI Aeronautic Championship for thermal airships and 2nd World Aeronautic Fiesta "Rise above the Clouds!" World Aeronautic Championship for hot-air dirigibles was held after seven-year break, and Russia became honored to revive this attractive kind of sport that is becoming popular again in the world. An event of such a level was held in Russia for the first time. The first all-Russian mobile operator also has its own air fleet (two air-balloons and a dirigible), and the Company was happy to support the proposal of the Federation Aeronautique Internationale to sponsor the world competition.

The idea to hold a mini-football championship between the teams of orphanages and residential schools for the Cup "The Future Depends on You" was born in St. Petersburg. Children's sport tournament is organized by MegaFon-North-West as a part of the program of business social responsibility. The Company has been holding this championship for many years.

24 teams from orphanages and residential schools of St. Petersburg of two age groups participated in the III Mini-Football Championship for the Cup "The Future Depends on You" 2007/2008. As usually the games were held in the Sport Palace "Zenit" every Saturday from November 17, 2007 through March 22, 2008. The games were refereed by St. Petersburg Mini-Football Association. During the Championship there were master classes of St. Petersburg football veterans and of acting players of Zenit football club.

Social projects of MegaFon include not only sport projects but also educational, ecological and charity campaigns.

Under the first national charity program "Billion in Small Change" for several years the Union of Charity Organizations of Russia together with MegaFon has been holding charity SMS-campaign to raise funds for urgent paid surgeries, medications and other medical aid to children suffering from cancer. MegaFon is the only mobile operator to support this project.

Environmental concern is already closely related to MegaFon brand. For several years the Company has been arranging federal ecological campaign "Green Saturday". The employees and customers of MegaFon would usually plant trees, flowers, clean and improve their native communities.

In 2008, the Company supported the Leningrad Zoo, specifically under the project for saving the seals living in the Gulf of Finland and the Lake of Ladoga.

In the Far East MegaFon conducted interactive Olympiad "My Way to the Pacific National University" which was launched in the Internet on January 25, 2008 on the International Students Day. The goal of the Olympiad was to give a chance to talented children from remote regions of the Extreme North to get excellent education and find their way in life. Last year, 20 best participants became students of the Pacific National University.

In 2008, the Company sponsored celebration of 272nd anniversary of Chelyabinsk. Under the campaign of MegaFon-Urals "Say I-Love-You to Your Near and Dear" the citizens got an opportunity to call their friends and relatives for free to any place in Russia to say them warm words and share their emotions.

Under its partnership with "Smeshariki" project MegaFon participated in children's show-tour "The City of Childhood", which was held on central squares of 17 cities of Russia. The show-tour was held as part of the international program of UNICEF called "Friendly to Children City" and the Year of Family pronounced in 2008 in Russia with support from local authorities.

MegaFon was the general sponsor and co-organizer of the cultural project "The Future Depends on You. New Rules". On April 4, 2008, the exhibition of modern Russian artists was started in Vladivostok and it will finish only in 2009 in Moscow, with exhibitions to be held in Krasnoyarsk, Khabarovsk, Novosibirsk, Yekaterinburg, Samara and Krasnodar. The exhibition presents the largest collection of Russian modern art. The main goal of the project is to give an opportunity to Russian people in the regions to see the art of modern Russian painters, whose works are exhibited in all major world museums and participate in international biennale, exhibitions and art fairs.

MegaFon was the official sponsor of the Russian Fashion Week, spring/summer 2009, which was held from October 28 through November 4, 2008.

9. Corporate Management

Charter Capital

The charter capital of OJSC "MegaFon" is 62,000,020 (Sixty Two Million and Twenty) RUR which is divided into 6,200,002 (Six Million Two Hundred Thousand and Two) common registered uncertified shares, the par value of each share is 10 (Ten) RUR¹⁸.

In 2003, by the order of Federal Commission for the Securities Market all issues of common registered uncertified shares of the Company were combined and the single state number 1-02-00822-J was assigned to them.

MegaFon does not have any preferred shares.

¹⁸ The first issue of the Company's shares took place in 1995, when 10,000 (Ten Thousand) shares with par value of 100 (One Hundred) RUR were issued. In 1997, the Company placed its second and third issues. In 2002, 3,100,001 (Three Million One Hundred Thousand and One) shares were placed during the fourth issue.

In the reporting period no issue or placement of additional shares was made. In 2008, the Company did not buy out its shares. The government has no shares in MegaFon's charter capital. Members of the Board of Directors, the Management Board as well as the CEO do not hold any Company's shares.

According to the information available to the Company, major stakes of MegaFon's shares are held by TeliaSonera (directly and indirectly 43.8%), AF Telecom Holding of Alisher Usmanov (directly and indirectly 31.1%), OJSC "CT-Mobile", which is a part Alfa-Group holding company (25.1%).

Changes in equity structure during 2008:

In 2008, two nominal holders were registered in the shareholders register of the Company: LLC "Depository Irkol", to which OJSC "CT-Mobile" transferred its shares of the Company for nominal holding in March 2008, and "Sberbank of the Russian Federation" (OJSC), to which shares of OJSC "Telecominvest" were transferred.

On November 1, 2008, 496,003 common registered shares of the Company which earlier were held by IPOC International Growth Fund Limited were transferred to Limited Liability Company "Olymp".

As of December 31, 2008 the following entities were shareholders of OJSC "MegaFon":

№	Name	Number of common registered uncertified shares, pc.	Share, % (rounded to 0.01)
1.	Open Joint-Stock Company Telecominvest	1,940,601	31.3
2.	Open Joint-Stock Company CT-Mobile	1,556,194	25.1
3.	Limited Liability Company Contact-S	93,003	1.5
4.	Sonera Holding B.V.	1,612,001	26
5.	Telia International Management AB	107,247	1.73
6.	Telia International AB	394,953	6.37
7.	Limited Liability Company Olymp	496,003	8

Transfer of the register to independent registrar

Based on the decision of the Board of Directors as of November 20, 2008 (minutes №93 (157)) MegaFon signed a service agreement on maintaining the register of registered securities owners with an independent registrar – Closed Joint-Stock Company "National Registration Company" (CJSC "NRC"). On December 25, 2008, CJSC "NRC" started its work to keep the register of MegaFon shareholders.

CJSC "NRC" is one of the largest registrars of Russia. CJSC "NRC" is unique on the Russian registration market: it is a part of the group of companies "Computershare", the largest registrar in the world. CJSC "NRC" is also the sole largest independent registrar.

CJSC "NRC" has a status of authorized registrar of the Russian Ministry of Property and since 1996 it has been a member of Professional Association of Registrars, Transfer-Agents and Depositories.

For over 10 years CJSC "NRC" has serviced shareholders register of OJSC "Telecominvest", one of the major shareholders of the Company. OJSC "Holding Company "Metalloinvest" is also among clients of CJSC "NRC".

Reorganization of OJSC "MegaFon" in 2009

On December 29, 2008, the shareholders unilaterally approved reorganization in the form of the merger of CJSC "Sonic Duo", CJSC "Mobicom-Kavkaz", CJSC "Mobicom-Center", CJSC "Mobicom-Novosibirsk", CJSC "Mobicom-Khabarovsk", CJSC "Ural GSM", OJSC "Mobile Communication Systems – Povolzhie" with OJSC "MegaFon".

The Company's management expects that the reorganization will be completed in the beginning of the third quarter of 2009 and the abovementioned subsidiaries will cease their operations. Instead of them branches of OJSC "MegaFon" will fulfill their functions. In compliance with the transfer certificate approved by the Extraordinary General Shareholders Meeting all the assets and obligations of the merging subsidiaries will be transferred to OJSC "MegaFon" as their legal successor. The shares of the merging subsidiaries are 100% owned by MegaFon and in the course of reorganization they will be cancelled, therefore the stakes of MegaFon's shareholders in the charter capital of the Company will remain unchanged.

The reorganization will give MegaFon a possibility to have better control over regional operations of the companies in the Group as all the decisions will be made by governance bodies of the Company. The reorganization will also allow optimizing management in the Group, decreasing expenses due to centralization of management functions and reduction of the Group management staff.

It is well-known that the license on domestic and international long-distance communication and 3G license as well as radio frequencies were granted to MegaFon only, thus impeding implementation of the license in the regions. This issue will be solved after the reorganization.

DIVIDENDS

During 2008 no dividends were announced and paid upon the results of MegaFon performance. The Annual General Shareholders Meeting that took place on June 27, 2008 did not take any decisions on payment of annual dividends or on distribution of MegaFon's profit as a result of the financial year. The majority of the shareholders abstained from voting on the issue.

Company's Governance

MegaFon has the following governance bodies:

- General Meeting of Shareholders;
- Board of Directors;
- Management Board;
- Chief Executive Officer (CEO).

In order to provide for the shareholder rights in MegaFon the following internal documents were approved which regulate activities of the governance bodies:

1. Management Board Regulations;
2. Board of Directors Regulations;
3. Regulations for General Shareholders Meeting;
4. Charter of the Audit Committee of the Board;
5. Charter of the Remuneration and HR Development Committee of the Board.

There are also Regulations on the Corporate Secretary and Regulations on the Revision Commission. Together with the Charter of MegaFon these documents can be found at the corporate web-site of the Company at http://www.megafon.ru/about/invest/u_doc/corpdoc/.

Board of Directors

During 2008, the Board of Directors included representatives of each shareholder of the Company and two independent directors. There are two committees of the Board: the Audit Committee and the Remuneration and HR Development Committee.

The Board of the Company was elected at the Annual General Shareholders Meeting on June 27, 2008 and included the following persons:

1. **Aimo Eloholma** – International Operations Director, TeliaSonera Eurasia. Member of the Board of MegaFon since June 2003, since then acts as the Chairman of the Board.

2. **Esko Ryttonen** – Senior Vice-President, TeliaSonera Finland Oyj. Member of the Board of MegaFon since June 2005.
3. **Tero Kivisaari** – President, TeliaSonera Eurasia. Member of the Board of MegaFon since April 2008.
4. **Teijo Pankko** – CFO “ALTIMO” LLC. Member of the Board of MegaFon since June 2008.
5. **Alexander Efimovich Okun** – Executive Director, Caskol UK Ltd. Member of the Board of MegaFon since June 30, 2004. Alexander Okun is the independent director.
6. **Ivan Yakovlevich Streshinskiy** – CEO, “COALCO” LLC. Member of the Board of MegaFon since June 2008.
7. **Vladimir Igorevich Pogrebenko** – since April 2008, CEO of OJSC “Telecominvest”. Member of the Board of MegaFon since June 2008.

During 2008, the Board also included the following persons:

1. **Per Olof Sjostedt** (from 01.01.2008 till 11.04.2008) – Senior Vice-President, TeliaSonera AB.
2. **Maxim Yurievich Gorokhov** (from 01.01.2008 till 11.04.2008) – CEO, OJSC “Telecominvest”.
3. **Maria Leonidovna Kastritsa** (from 01.01.2008 till 11.04.2008) – the Head of representative offices of «J.P.Galmond & Co» in Moscow and St.Petersburg.
4. **Mohamed Amersi** (from 01.01.2008 till 27.06.2008) – CEO, Emergent Telecom Ventures.
5. **Grigoriy Grigorjevich Tsuprik** (from 11.04.2008 till 27.06.2008) – Deputy CEO, OJSC “Telecominvest”.

23 meetings of the Board were held during 2008, out of which 12 meetings in the form of physical presence and 11 meetings in the form of absentee voting.

Main decisions made by the Board of Directors in 2008

With the purpose of expanding international operations of the Company, in January the Board of Directors made a decision on establishment of 100% subsidiary of MegaFon – CJSC “MegaFon-International”. Alexey Nichiporenko, Deputy CEO for International Operations, was appointed as Chief Executive Officer. In April, a program of long-term incentive for top-level employees was launched in the Group upon the decision of the Board.

In June, the Board of MegaFon approved acquisition of non-core assets – OJSC “VideoFon”, LLC “T-Pay” and CJSC “InCore”.

In October, the Board of Directors approved acquisition of a construction company “Absolut” which owns the office building where MegaFon’s head office is located.

In November, the Board approved participation of the Company in CJSC “AQUAFON-GSM” (Abkhazia) and CJSC “Ostelecom” (South Ossetia), which provide communication services on the corresponding territories, by acquisition of 100% of shares in Debton Investments Limited (Cyprus), which is a majority shareholder of each company. As of the date of the Annual Report the abovementioned transaction has not been closed yet.

In December, based on the decision of the Board, OJSC “MegaFon” transferred its shareholders register to an independent registrar – CJSC “National Registration Company”.

The list of major transactions and transactions with vested interest approved by the Board of Directors is given in Annex B.

Board Committees

For the purposes of preliminary review of the most important issues and preparation of recommendations for the Board the Company has the Audit Committee and the Remuneration and HR Development Committee.

The Committees of the Board are formed and perform their activities in compliance with the Charter of the Audit Committee and the Charter of the Remuneration and HR Development Committee that were approved in February 2007.

Audit Committee of the Board

The first priority of the Committee is the analysis of financial statements and other financial information of the Company, its system of internal control in relation to the requirements of financial reporting and accounting and legal requirements set by the management and the Board, and also analysis of audit processes and financial reporting and accounting. The main responsibilities of the Audit Committee are the following:

- act as independent and objective party which controls the process of financial accounting and the system of internal control of the Company;
- analyze and assess the work of independent auditors and the group of internal auditors of the Company;
- provide for constructive exchange of opinions between independent auditors, financial and senior management, internal auditors of the Company and the Board.

Remuneration and HR Development Committee

The first priority of the Committee is to provide assistance to the Board in the following fields:

- 1) Review of basic salary, bonuses and other payments to CEO, review of principles of determination of basic position salary, bonuses and other payments to his direct subordinates (top-management);
- 2) Determination of key performance indicators and the means of their measurement for top-management as well as various incentive schemes for other employees;
- 3) Analysis of processes for selection, retention, training, development and remuneration of the Company's employees, for identification and development of the most talented specialists and other processes in HR management.

The meetings of the Audit Committee and of the Remuneration and HR Development Committee usually take place directly before the Board meeting. The Committees do not have power to make decisions binding for the Company therefore each Committee provides a report on its meeting and recommendations to the Board. Based on recommendations by the Committees the Board makes a final decision on each issue.

Management Board of OJSC "MegaFon"

The Management Board is the collegiate executive body of OJSC "MegaFon". It is elected by the General Shareholders Meeting following recommendations of the Chief Executive Officer. The meetings of the Management Board take place whenever required. The Management Board members are responsible for current management and administration of OJSC "MegaFon". According to the Management Board Regulations the functions of the Chairman are performed by CEO of the Company. The Management Board consists only of MegaFon's officers. Positions overlapping by the Management Board members in governance bodies of other organizations are possible only upon approval of the Board.

During 2008 the Management Board included:

1. **Sergey Vladimirovich Soldatenkov** - Chief Executive Officer.

2. **Alexander Nikolaevich Volkov** (member of the Management Board since June 27, 2008) – Chief Operating Officer.
3. **Alexey Nikolaevich Nichiporenko** – first Deputy CEO for International Operations, CEO of CJSC “MegaFon-International”.
4. **Victor Yurievich Kvitsinsky** (member of the Management Board till June 27, 2008) – Chief Technology Officer.
5. **Andis Locmelis** - Chief Financial Officer (till August 01, 2008).
6. **Igor Yurievich Nikodimov** (member of the Management Board till June 27, 2008) - Deputy CEO for Foreign Economic Affairs and Administration.
7. **Edward Georgievich Ostrovsky** - Deputy CEO for Implementation of Special Programs and Cooperation with State Bodies.
8. **Lubov Rudnitskaya** - Chief Accountant (till September, 02 2008).
9. **Larisa Sergeevna Tkachuk** - Chief Commercial Officer.

Internal control

Control over business and financial activities of the Company is carried out by the Revision Commission, by the Audit Committee of the Board and the internal audit department of the Company.

Structure and competence of the Revision Commission

The Revision Commission including three persons is elected by the General Shareholders Meeting for a period till the next Annual General Shareholders Meeting. Members of the Revision Commission cannot simultaneously serve on the Board or take other positions in governance bodies of the Company.

The audit of business and finance activities of the Company is mandatory to be carried out upon the results of the year and additionally upon the initiative of the Revision Commission, decision of the General Shareholders Meeting, the Board of Directors or upon the demand of the shareholders who own at least 10% of the voting shares of the Company. Competence of the Revision Commission on the issues not determined by the Charter shall be determined by the Revision Commission Regulations approved by the General Shareholders Meeting as of June 30, 2008.

The annual report and annual accounting statements are provided to the General Shareholders Meeting of the Company only together with the opinion of the Revision Commission. Such an opinion should be provided by the Revision Commission to the Board at least 45 days prior to the Annual General Shareholders Meeting. When preparing its annual opinion the Revision Commission should audit the data contained in the accounting statements and other financial documents of the Company and also notify of the facts of violation of the accounting and financial reporting procedures as well as other violations identified.

In 2008, the Revision Commission did not change its composition and included the following members:

1. Olga Gennadievna Eremina – Manager of the Control and Audit Group of the Corporate Finance Department, OJSC “Telecominvest”;
2. Olli Yuhani Ranta – Business Controller TeliaSonera Finland Oyj;
3. Yuri Antonovich Zheimo – Director of Internal Audit Department of the Company.

Remuneration to persons serving in governance bodies of the Company

Management Board members receive salaries under their employment agreements, no additional remuneration is paid.

During 2008 the Board members in total received the remuneration of 23,844,662 RUR.

The decision was also made to pay remuneration to the Revision Commission members upon the results of work in 2007.

During 2008, members of the governance bodies of the Company received the following remuneration:

Name	Description of remuneration
S. V. Soldatenkov	Salaries, vacation, meals, annual bonus, leave compensation, travel expenses, gifts, and other taxable income.
A. N. Volkov	Salary, vacation, travel expenses, gifts and other taxable income.
A. N. Nichiporenko	Salary, vacation, meals, annual bonus, material aid, travel expenses, gifts and other taxable income.
L. B. Rudnitskaya	Salary, vacation, meals, annual bonus, material aid, medical services, travel expenses, gifts, sport clubs and other taxable income.
A. Locmelis	Salary, vacation, material aid, rental allowance, travel expenses, gifts and other taxable income.
I. Y. Nikodimov	Salaries, vacation, meals, annual bonus, travel expenses, gifts, and other taxable income.
L. S. Tkachuk	Salary, vacation, meals, annual bonus, travel expenses, gifts and other taxable income.
V. Y. Kvitsinsky	Salary, vacation, meals, annual bonus, material aid, travel expenses, medical services, gifts and other taxable income.
E. G. Ostrovsky	Salary, vacation, meals, annual bonus, travel expenses, material aid, gifts, and other taxable income.
A. Eloholma	Remuneration to the BOD Member
M. Amersi	Remuneration to the BOD Member
P.O. Sjostedt	Remuneration to the BOD Member
M.Y. Gorokhov	Remuneration to the BOD Member
M.L. Kastritsa	Remuneration to the BOD Member
E.Y. Ryttonen	Remuneration to the BOD Member
A.E. Okun	Remuneration to the BOD Member
G.G.Tsuprik	No payment was made
V.Y.Streshinsky	No payment was made
V.I.Pogrebenko	No payment was made
T.Kivisaari	No payment was made
T.Pankko	No payment was made

During 2008, the following payments were made to the Management Board members including remuneration to the CEO in the amount of 208,515,022 RUR, including

Remuneration type	Remuneration amount, RUR
Salary	68,034,181
Annual bonus	114,668,750
Vacation	16,874,730

Material aid	5,196,383
Meals	201,408
Travel expenses above standard	1,307,168
Medical services	235,390
Gifts	31,503
Rental allowance	756,510
Sport clubs	106,470
Other taxable income	1,102,529

D&O - Directors and Officers liability insurance

Business of companies and organizations is always associated with personal work of specific managers. Successes and failures of every company are related to the achievements, mistakes and other actions of the members of the governance bodies. Failures may relate to inaccuracies or incomplete disclosure of information in financial statements, investment declarations and offering circulars, to non-compliance to the procedures of major transactions or transactions with vested interest, to failure to disclose or untimely, incorrect disclosure of significant facts, incorrect assessment of investments and transactions, use of unfair methods of competition, improper supervision over responsible employees and branches when they conduct business, illegal dismissal or discrimination of employees etc.

Due to that, D&O liability insurance became a necessity for the Company to protect itself in case of possible claims which may arise. D&O liability insurance will allow the Company not only compensating the damage incurred by the third parties in case CEO or any officer of MegaFon is declared liable for the damage, but also, before such declaration, paying for the legal expenses on actual or apparently improper actions of such persons. D&O liability insurance covers civil liability of all the directors and officers of the Company, which arises due to the obligation to compensate for the damage incurred by the third parties as a result of mistakes or omissions made by the Company's management.

MegaFon's D&O liability insurance related to the obligation to indemnify the damage incurred by the third parties as a result of unintentional wrong action of directors and officers was approved by the Extraordinary General Shareholders Meeting in November 2008. The corresponding Insurance Contract was signed with INGOSSTRAKH insurance company. The insurance premium is \$ 492,196.

Risk Management

Industry risks

Increasing competition in the markets of the company's presence may result in decrease of operating margin and loss of the market share.

Two nationwide mobile communications operators – OJSC MTS and OJSC VimpelCom - are the main competitors of the Company. The Company's competitors have established relations with each other and a number of other key operators, and continue to develop these relations, which may provide them with a significant competitive advantage. Wireless communication markets where the Company is present are characterized by high level of competition. Increasing competition, including emergence of new mobile operators in the markets of presence may result in reduction of margins, loss of the market share, and changes in the pricing, service provision and marketing policies. It should be noted that the influence of this factor on the Company is mitigated by the fact that the Company is one of the three largest cellular communications operators in the Russian market and is constantly increasing its market share. The Group holds licenses for providing communications services in the GSM standard throughout Russia. At the

same time the financial crisis may result in changes of the pricing policy of competitors that may cause loss of the company's market share and more intensive competition for acquiring new subscribers and retaining the old ones. Expected actions of the Company in the event of the severe competition: increasing the subscriber base through appropriate expansion of its networks, developing telecommunications infrastructure, implementing new types of services. Special attention is also paid to retaining old subscribers, loyalty program was developed, which is valid for the subscribers of the Group.

Risks related to sector's technology development. Uncompetitive or obsolete services

Technologies develop fast in the mobile telephony sector, and new products and services are developed and appear in the market on a regular basis along with constant evolution of telecommunication standards. The Company's success is directly dependent on the ability to quickly identify and use the most promising new technologies, as well as on the ability to abandon obsolete technologies. In order to catch up with technological progress and industry standards efficiently, the Company may need to make significant investments and find access to associated or advanced technologies to integrate a new technology with the existing technology. Introducing changes to products and services provided by the Company in response to the market demand may require implementation of new technologies. As a result, the major part of the currently employed technologies may become less competitive or obsolete. The Company's success in the future may to some extent depend on the government policy and regulation of the third-generation communication standards. The Company may also face competition from other telecommunication technologies. Suppliers of traditional wire-line telephone communication services may become competitors as their services become more advanced. In the future, the Company may also encounter competition from IP-telephony-based voice transmission communication, especially in combination with the emerging wireless communication technologies such as WiMax.

Impact of changes in conditions of interaction with other telecommunication operators

In order to provide communication services, the Company executed network interconnection agreements with owners of the existing networks. These agreements enable the Company to switch local, long-distance, and international calls that originate in the Company's networks and are terminated in the networks of other operators and vice versa. The volume allocated to operators is fixed one, and it is called the calculated rate for call termination in the network. Decrease in the settlement rate may adversely impact the Company's monthly average revenue per subscriber and operating margin.

Country and regional risks

Financial instability caused by the financial crisis in the countries of the Company's presence, in particular in Tajikistan, may result in decrease of demand for the Company's services, reduction of revenue and amount of raised investments. Such situation may have negative impact on the Company's financial status and performance.

Crisis in the credit market, increased expenses and other macroeconomic challenges that are currently affecting economy of Tajikistan, where the Company is operating, may adversely impact subscribers income that will result in reduction or changes in their usage of the Company's services. Decline in the usage of services by subscribers, increase in the amount of bad debts, significant changes in equipment prices or financing conditions may also have a negative impact on the Company's financial status and performance.

Financial Risks

Risk of Russian national currency depreciation

Risk of devaluation of the Ruble against foreign currencies may result in growth of some Company's expenses denominated in foreign currencies. Further devaluation of the Ruble may result in increase of the Company's costs, and reduction in foreign currency reserves. The Company's expenses include price of equipment and intangible assets (including software and licenses for use of software) that are purchased from foreign providers, costs relating to servicing of credits and loans in foreign currency and also cost of

consultancy services denominated in foreign currency. The Company will not be able to increase its tariffs to the level ensuring current operating margin because of tough competition.

Inflation risk

The inflation may result in growth of the Company's expenses and adversely affect the Company's performance. The state of the Russian economy is characterized by high inflation rates. The total Company's expenses will grow due to inflation of some Company's expenses, such as salaries and lease payments, which are significantly dependent on the overall growth of prices in Russia. In the conditions of severe competition, the Company may fail to be able to increase its tariffs to a level that provides the current operating margin. Accordingly, high inflation rate in Russia may increase expenses of the Company and reduce operating margin.

Risks related to changes of interest rates

Besides, there are risks related to changes in interest rates. In order to continue its growth, the Company needs to make significant capital investments, build and develop its telecommunication networks. Maintaining the Company's positions in the telecom market shall require high investment spending. The Company needs to raise additional financing to satisfy its financial needs. Growth of interest rates in the market may force the Company to raise more expensive funds to finance its investment program and day-to-day operations. If the Company is unable to receive sufficient funds on commercially beneficial terms, it may need to considerably cut the expenditures on developing its telecommunication networks, which may adversely affect its market share and operating performance. Hence, the impact of interest rates upon the Company's business is very significant. If this factor has negative impact (upsurge of interest rates on national-currency obligations), the Company intends to make borrowings in foreign currency, as the interest rates on foreign currency loans are more stable (there are agreements to that effect with credit organizations).

Regulatory Risks

Risk of uncertainty regarding telecom market regulation

The Company's activity is regulated by the government bodies and agencies through obtaining and renewal of different licenses, approvals, admissions and permissions, and through defining compliance with the appropriate legislation, regulations and standards. The Russian regulatory authorities have a free hand in the issues of enforcement and construction of the relevant law, regulatory rules and standards, renewal and issue of licenses, approvals, admissions and permissions, and assessment of compliance with license conditions. Shortcoming of the decision-making procedure on part of regulatory authorities causes delays in issuing different permissions and approvals. Company's incompliance with the relevant laws and regulations or failure to obtain all approvals and permissions required for telecom equipment usage as well as the results of statutory audits can also lead to a penalty and even more serious sanctions, including suspension, amendment or termination of the Company's licenses. Furthermore, the Company's incompliance with the current legislation can cause suspension of some activities of the Company, or to criminal or civil sanctions against officers of the Company. An agreement or a transaction made with violation of the Russian law can be invalidated by a court ruling. Shortcomings of the Russian legal framework result in uncertain legal environment where it is impossible to anticipate the decision of a Russian court or a government authority.

Construction of the Company's telecommunications network is exposed to risks and uncertainty which may postpone provision of services within certain territories and increase the construction cost of the required infrastructure. In addition to the Company's ability to provide for equipment supplies on commercially attractive terms, such risks include regulations for use of telecommunications equipment in public communication networks and putting in use new facilities. In particular, all types of equipment are subject to mandatory state certification. The Company shall invest maximal efforts to eliminate the risks described above, including by means of further development of the logistics system.

Legal Risks

Imperfect legal framework in countries of presence

Development of the legal framework and legislation in Tajikistan and other countries of the Company's probable presence creates uncertainty in terms of investments and commercial activity, and therefore, can have significant negative implications for the Company's business. Both countries where the Company makes its business are at the stage of emerging legislation that is necessary to support market economy. The nature of the major part of legislation that was formed recently in the countries mentioned, lack of consensus regarding scope, content and rate of economic and political reform as well as fast evolution of these legal frameworks towards the direction that can be sometimes different from the market development trend may create doubts in successful law compliance and their constitutionality, and lead to ambiguous interpretations, discrepancies and deviations. Besides, legislation in these countries can be often based on application of regulatory sanctions that have not been published yet. That creates significant gaps in the regulatory infrastructure. All these shortcomings can affect the Company's ability to use rights received under licenses and contracts, or ability to defend itself from claims made by other companies against it. Furthermore, there is a possibility when executive, judicial authorities or third parties can challenge internal documents of the Company or call into question the Company's compliance with effective laws and by-laws.

Significant gaps in Russian Law

The effective law of the Russian Federation was adopted during two last decades. Such branches of law as tax, land, civil law are subject to regular changes. That said, legislation procedures are frequently fragmentary that causes deficiencies in regulation of some spheres of the companies' activities, gaps in legislation and law-enforcement. The same is true about telecommunication regulations that were established on the basis of enactments, many of which had been adopted during the Soviet time. The abovementioned circumstances create the situation when gaps in legislation are filled by issuance of departmental regulations, government and court authorities' interpretation of the effective laws. Judges are not fully independent, the court rulings are difficult to enforce and the authorities can act at their own discretion ignoring the court acts, all these factors can impact the Company's efficiency in performing its business.

Effects of decision on reorganization

Reorganization is a complex process, each stage of which shall be carried out with careful observance of deadlines and other provisions of the current law, which can be ambiguous in many cases. The RF State Duma approved several acts of law, including the Federal Law as of 30.12.2008 No 315-FS "On Introduction of Amendments to the Federal Law "On Banks and Bank Activity", which allows ambiguous construction of MegaFon's obligations related to reorganization. It can become a reason for law suits against the Company or other claims by the Shareholders or lenders of the Company. Risks to violate the rights of the Company's lenders because of reorganization are minimal because reorganization in the form of merger will only increase financial solvency and competitive ability of the Company, which will become more financially stable as a result of reorganization.

Strategic risks

If the Company fails to develop efficiently its own retail chain for sales of subscriptions to the network and services, it may cause decrease of our market share in subscribers.

Due to the Russian mobile market saturation, deterioration of credit terms, decrease in the consumer activeness the mobile market has significantly changed.

In autumn 2008, VimpelCom acquired 49.9% of Euroset for \$226 M from the Russian businessman Alexander Mamut, who had acquired 100% of Euroset from its former owners Eugene Chichvarkin and Timur Artemiev.

MTS acquired 100% of Telephone.ru for about \$60 M from several investors led by “The Russian Funds”. Therefore, MTS has now 2,100 communication stores, which will be managed by CJSC “RTK”, its 100% subsidiary.

To date, the Company has not acquired anything in the mobile retail market, although the opportunities are studied carefully. As a response to the competitors’ action the Company will develop its own dealer network.

Mergers & Acquisitions risks

Antimonopoly risks

In the event that the Federal Antimonopoly Service (FAS) sets forth some conditions to be observed for giving approval for acquisition of some company, such conditions can make the acquisition not attractive for the Company commercially.

For the purpose of the strategic development of our company we have acquired companies and are investigating opportunities for future acquisitions. Either preliminary approval of FAS or its subsequent notification is required to perform acquisitions under the Russian Law. If one applies for an approval, the Federal antimonopoly Service can set forth restrictions related to acquisition of assets or give prescriptions related to management of the assets purchased. There is a possibility that restrictions introduced by FAS (conditions of acquisition) can make the acquisition not attractive commercially which can cause negative consequences for our business and our Company’s performance.

Failure to integrate and develop non-core business areas can limit additional revenue sources and have negative consequences for our business and our Company’s performance.

The mobile market saturation, tendency for convergence and innovative processes will demand that we should further develop value-added services (VAS). We plan to continue developing of VAS both ourselves and via acquisition of the companies providing such VAS. We may fail to find relevant companies to be acquired or we may find them but fail to integrate the previous or future acquisitions. Such integration may be difficult because of technical, organizational and functional differences between an acquired company and our Company and may need significant efforts and time of our management. If we fail to find attractive opportunities for acquisitions and/or fail to integrate and manage the acquired companies efficiently, then our additional revenue sources can be limited and there will be negative consequences for our business and our Company’s performance.

S.V. Soldatenkov
Chief Executive Officer

L.N. Strelkina
Chief Accountant

10. Consolidated Financial Statements 2008 (US GAAP)

11. Annexes

A. Corporate Events

Date	Short Description
January 2008	CJSC "MegaFon-International" was created.. Alexey Nichiporenko, was appointed as Chief Executive Officer.
February 2008	The rights for images of the popular cartoon series "Smeshariki" were acquired.
March 2008	Launch of the first MegaFon tariff for children – "Smeshariki"
April 2008	The agreement was made with LLC "Torsion-Telecom" for purchase of the fiber-optic lines Moscow-Samara-Rostov-na-Donu and Samara-Ufa-Yekaterinburg-Chelyabinsk, length – over 6,500 km.
April 2008	The Company became an official sponsor of the Russian football team and a sponsor of the Russian Football Championship.
May 2008	MegaFon-International's representation office was opened in Iran.
May-June 2008	7 Branches of the Company commenced their operations.
June 2008	Launch of 3G throughout the whole territory of the North-West region.
June 2008	15-th anniversary of the Company.
June 2007	The Annual General Shareholders Meeting
September 2008	Sonic Duo paid dividends to the Company following the results of 6 months of 2008.
September-November 2008	Project "Destination – Customer".
October 2008	First sales of iPhone handsets on the territory of Russia.
October 2008	Launch of 3G network in Dagestan.
November 2008	The work was started to organize the Company's participation in the 2014 Sochi Olympic Games as a sponsor.
December 2008	The Shareholders Register of the Company was handed over to CJSC "NRC".
December 2008	Shareholders approved MegaFon's reorganization.

B. The list of transactions recognized as major transactions according to the Federal Law “On Joint Stock Companies” that were closed by the Company in 2008, and also other transactions to which the procedures for major transactions approval would apply in accordance with the Charter of the Company, with specification of material conditions for each transaction and the Company’s governance body that made the decision on its approval:

In 2008, the Company did not close any major transactions. The Charter of the Company does not provide for any other transactions to which the procedures for major transactions approval would apply.

C. The list of transactions recognized as transactions with vested interest that were closed by the Company in 2008, with specification of an interested party (parties), material conditions for each transaction and the Company’s management body that made the decision on its approval:

Management Body That Made Decision On Transaction Approval	Material Terms and Conditions of Agreement	Interested Parties
Extraordinary General Shareholders Meeting as of 09.01.2008	Telecommunication Equipment Lease Agreement in 2008 with Sonic Duo	S. Soldatenkov, A. Nichiporenko, L. Tkachuk, A. Locmelis, I. Parfenov
	Telecommunication Equipment Lease Agreement in 2008 with Mobicom-Kavkaz	S. Soldatenkov, A. Nichiporenko, L. Tkachuk, A. Locmelis, A. Krainik
	Telecommunication Equipment Lease Agreement in 2008 with Mobicom-Center	S. Soldatenkov, A. Nichiporenko, L. Tkachuk, A. Locmelis, A. Yeremkin
	Telecommunication Equipment Lease Agreement in 2008 with MCS-Povolzhie	S. Soldatenkov, A. Nichiporenko, L. Tkachuk, A. Locmelis, V. Ermakov
Extraordinary General Shareholders Meeting as of 08.04.2008	Supplement to Loan Agreement No 150/B with Mobicom-Kavkaz as of 07.02.2008	S. Soldatenkov, A. Krainik
	Supplement to Loan Agreement No 151/B with MCS-Povolzhie as of 07.02.2008	S. Soldatenkov, V. Ermakov
Extraordinary General Shareholders Meeting as of 24.11.2008	MegaFon D&O liability insurance, the insurer – OSAO “INGOSSTRAKH” Beneficiaries: Board Members of the Company (7 people), Group top-management (24 people).	S. Soldatenkov, A. Volkov, A. Nichiporenko, L. Tkachuk, E. Ostrovsky, A. Eloholma, T. Kivisaari, V. Pogrebenko, T. Pankko, A. Okun, E. Ryttonen, V. Streshinsky, Telecominvest OJSC
Board of Directors No 78(142) as of 29-30.01.2008	Loan Agreement No 150/B with Mobicom-Kavkaz: provision of a loan by Mobicom-Kavkaz to the Company.	S. Soldatenkov, A. Krainik
	Loan Agreement No 151/B with MCS-Povolzhie: provision of a loan by MCS-Povolzhie to the Company	S. Soldatenkov, V. Ermakov
	Loan Agreement No 149/B with Mobicom-Centre: provision of a loan by MegaFon to Mobicom-Centre	S. Soldatenkov, A. Yeremkin
	Loan Agreement No 148/B with Mobicom-Novosibirsk: provision of a loan by MegaFon to Mobicom-Novosibirsk	S. Soldatenkov, A. Gorshkov
	Agency Contract with Sonic Duo (Agent)	S. Soldatenkov, I. Parfenov

	Agency Contract with Mobicom-Kavkaz	S. Soldatenkov, A. Krainik
	Agency Contract with MCS-Povolzhie (Agent)	S. Soldatenkov, V. Ermakov
	Agency Contract with Mobicom-Centre	S. Soldatenkov, A.Yeremkin
	Agency Contract with Ural GSM (Agent)	S. Soldatenkov, D. Malyshev
	Agency Contract with Mobicom-Novosibirsk (Agent)	S. Soldatenkov, A. Gorshkov
	Agency Contract with Mobicom-Khabarovsk (Agent)	S. Soldatenkov, Y. Zhuravel
	Agency Contract with Mobicom-Kavkaz (Principal)	S. Soldatenkov, A. Krainik
	Agency Contract with MCS-Povolzhie (Principal)	S. Soldatenkov, V. Ermakov
	Agency Contract with Mobicom-Centre (Principal)	S. Soldatenkov, A.Yeremkin
	Agency Contract with Ural GSM (Principal)	S. Soldatenkov, D. Malyshev
	Agency Contract with Mobicom-Novosibirsk (Principal)	S. Soldatenkov, A. Gorshkov
	Agency Contract with Mobicom-Khabarovsk (Principal)	S. Soldatenkov, Y. Zhuravel
	Letter of Agreement between CT-Mobile, Avenue Limited, Janow Properties Limited and Santel Limited regarding representations to be given by MegaFon in favor of CT-Mobile, Avenue Limited, Janow Properties Limited, Santel Limited during preparation to the Company's reorganization in the form of its merger with Sonic Duo, Mobicom-Kavkaz, MCS-Povolzhie, Ural GSM, Mobicom-Centre, Mobicom-Khabarovsk, Mobicom-Novosibirsk, Beneficiary: MegaFon	MegaFon, CT-Mobile, Avenue Limited, Janow Properties Limited, Santel Limited
Board of Directors No 81(145) as of 28-29.02.2008	Loan Agreement with TTmobile (Borrower)	S. Soldatenkov, I. Nikodimov, A. Nichiporenko, L. Tkachuk, G. Kayumov
	Provision of the Company's security for the three Loan Agreements made for the benefit of Sberbank of Russia, ACB Svyaz-Bank, UniCredit Bank, TTmobile as Beneficiary.	S. Soldatenkov, I. Nikodimov, A. Nichiporenko, L. Tkachuk, G. Kayumov
	Sub-licensing Agreement between MegaFon (as Sub-licensor) and Sonic Duo, Mobicom-Kavkaz, MCS-Povolzhie, Ural GSM, Mobicom-Centre, Mobicom-Novosibirsk, Mobicom-Khabarovsk (as Sub-licensees) in terms of the Licensing Agreement No 01/02-07IL/M on Granting Exclusive License made with Smeshariki LLC on February 01, 2008.	S. Soldatenkov, I.Parfenov, A. Krainik, V. Ermakov, D. Malyshev, A. Yeremkin, A. Gorshkov, Y. Zhuravel
	Letter of Agreement between MegaFon (Beneficiary), CT-Mobile, Avenue Limited, Janow Properties Limited and Santel Limited regarding certain representations and warranties to be given by MegaFon in favor of CT-Mobile, Avenue Limited, Janow Properties Limited and Santel Limited, during preparation to the Company's reorganization.	MegaFon, CT-Mobile, Avenue Limited, Janow Properties Limited, Santel Limited
Board of Directors	Technical Support Agreement with Sonic Duo	S. Soldatenkov, I. Parfenov

No 83(147) as of 07-08.04.2008	Premises Sub-lease Agreement with Sonic Duo (Lessor)	S. Soldatenkov, I. Parfenov
	Premises Sub-lease Agreement with MegaFon-International (Lessee)	S. Soldatenkov, A. Nichiporenko
	Service Provision Contract with Sonic Duo, Mobicom-Kavkaz, MCS-Povolzhie, Ural GSM, Mobicom-Centre, Mobicom-Novosibirsk, Mobicom-Khabarovsk (Customers)	S. Soldatenkov, I. Parfenov, A. Krainik, V. Ermakov, D. Malyshev, A. Yeremkin, A. Gorshkov, Y. Zhuravel
	SORM Equipment Sales and Purchase Agreement with Mobicom-Kavkaz (Purchaser)	S. Soldatenkov, A. Krainik
	Agency Contract with Mobicom-Kavkaz (Agent)	S. Soldatenkov, A. Krainik
	Agency Contract with MCS-Povolzhie (Agent)	S. Soldatenkov, V. Ermakov
	Agency Contract with Ural GSM (Agent)	S. Soldatenkov, D. Malyshev
	Agency Contract with Mobicom-Novosibirsk (Agent)	S. Soldatenkov, A. Gorshkov
	Agency Contract with Mobicom-Khabarovsk (Agent)	S. Soldatenkov, Y. Zhuravel
	Frame Contract on Channels Lease with Mobicom-Kavkaz (Lessor)	S. Soldatenkov, A. Krainik
	Frame Contract on Channels Lease with MCS-Povolzhie (Lessor)	S. Soldatenkov, V. Ermakov
	Frame Contract on Channels Lease with Ural GSM (Lessor)	S. Soldatenkov, D. Malyshev
	Frame Contract on Channels Lease with Mobicom-Novosibirsk (Lessor)	S. Soldatenkov, A. Gorshkov
	Frame Contract on Channels Lease with Mobicom-Khabarovsk (Lessor)	S. Soldatenkov, Y. Zhuravel
	Premises Lease Agreement with Mobicom-Kavkaz (Lessor)	S. Soldatenkov, A. Krainik
	Premises Lease Agreement with MCS-Povolzhie (Lessor)	S. Soldatenkov, V. Ermakov
	Premises Lease Agreement with Ural GSM (Lessor)	S. Soldatenkov, D. Malyshev
	Premises Lease Agreement with Mobicom-Novosibirsk (Lessor)	S. Soldatenkov, A. Gorshkov
	Premises Lease Agreement with Mobicom-Khabarovsk (Lessor)	S. Soldatenkov, Y. Zhuravel
	Service Provision Contract with Mobicom-Kavkaz (Provider)	S. Soldatenkov, A. Krainik
	Service Provision Contract with MCS-Povolzhie (Provider)	S. Soldatenkov, V. Ermakov
	Service Provision Contract with Ural GSM (Provider)	S. Soldatenkov, D. Malyshev
	Service Provision Contract with Mobicom-Novosibirsk (Provider)	S. Soldatenkov, A. Gorshkov
Service Provision Contract with Mobicom-Khabarovsk (Provider)	S. Soldatenkov, Y. Zhuravel	

	Sales and Purchase Agreement with Sonic Duo (Purchaser)	S. Soldatenkov, I. Parfenov
	Agency Contract with MCS-Povolzhie (Agent)	S. Soldatenkov, V. Ermakov
	FOCL Lease Agreement with MCS-Povolzhie (Lessee)	S. Soldatenkov, V. Ermakov
	Loan Agreement with MegaFon-International, CJSC (Borrower)	S. Soldatenkov, A. Nichiporenko
Board of Directors No 87(151) as of 3-4.06.2008	Frame Contract on Provision of International Roaming Services with TeliaSonera Finland Oyj (Finland)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with TURKCELL ILETISIM HIZMETLERI AS (Turkey)	Stakeholders: Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB, Aimo Eloholma
Board of Directors No 88(152) as of 27.06.2008	Frame Contract on Provision of International Roaming Services with TeliaSonera Mobile Networks AB (Sweden)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with TeliaSonera Denmark A/S (Denmark)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with Latvijas Mobilais Telefons SIA (Latvia)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with Uzdaroji Akcine Bendrove "Omnitel" (Lithuania)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with AS EMT (Estonia)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with NetCom AS (Norway)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with Xfera Moviles SA (Spain)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB
	Frame Contract on Provision of International Roaming Services with Indigo Tajikistan, CJSC (Tajikistan)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB, Terro Kivisaari, Esko Rytkonen
	Frame Contract on Provision of International Roaming Services with JV Somoncom (Tajikistan)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB, Terro Kivisaari, Esko Rytkonen
	Frame Contract on Provision of International Roaming Services with Foreign Enterprise "Coscom", LLC (Uzbekistan)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB, Tero Kivisaari, Esko Rytkonen
	Frame Contract on Provision of International Roaming Services with LLC "Telecom Development Company Afghanistan LLC" (Afghanistan)	Contact-S, Sonera Holding BV, Telia International Management AB, Telia International AB, Esko Rytkonen
	Board of Directors No 88(152) as of 20.11.2008	Supplement to the Loan Agreement with MegaFon International (Borrower)
Letter of Agreement with CT-Mobile and Holmpton Limited regarding provision of representations by MegaFon in favour of CT-Mobile, Holmpton Limited in terms of preparation to MegaFon's reorganization in the form of merger with Sonic Duo, Mobicom-Kavkaz, MCS-Povolzhie, Ural GSM, Mobicom-Centre,		MegaFon, CT-Mobile, Holmpton Limited

	Mobicom-Khabarovsk, Beneficiary: MegaFon	Mobicom-Novosibirsk.	
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D. Information on Compliance with Corporate Code Provisions

In spite of the fact that the Company doesn't have an approved Corporate Code or a similar document, we observe most provisions of the Corporate Code recommended by the Federal Commission for the Securities Market of the Russian Federation and carefully follow principles of the corporate governance set forth in the Charter and internal documents of the Company.

While following the basic corporate governance principles, the Company protects the shareholder rights; discloses information on the Company in due time, including the information on its financial status, key financial highlights, shareholding and management structure. The Company ensures strategic management, effective supervision over performance of executive bodies and accountability of the Board of Directors to the General Shareholders Meeting.

Below is the detailed information on the Company's compliance with individual provisions of the Corporate Code recommended by the Federal Commission for the Securities Market of the Russian Federation in its Directive No 421/r on April 04, 2002.

General Shareholders Meeting			
1.	Shareholders shall have a possibility to study the list of persons entitled to participate in the General Shareholders Meeting starting from the date of the Notice on holding the General Shareholders Meeting till closing the General Shareholders Meeting that is held in joint presence, or till the deadline for submitting of the voting ballots if the General Shareholders Meeting is held in the form of absentee voting.	In effect	Article 11.13 of the Charter: "The Company shall be obligated to provide such list for review upon the demand of a person included in the list of persons authorized to participate in the General Shareholders Meeting and vested with not less than one percent of votes".
2.	Shareholders shall have a possibility to study the information (materials) that must be provided during preparation for the General Shareholders Meeting by means of electronic communication, including Internet.	In effect	Before the General Shareholders Meeting, materials for it are sent via E-mail to each shareholder participating in such meeting.
3.	Shareholders shall have a possibility to include an issue on the agenda of the General Shareholders Meeting or demand convocation of a General Shareholders Meeting without submitting an extract from the Shareholders Register if its rights for the shares are recorded in the Shareholders Register system. If the shareholder's rights for the shares are recorded in a depository account, a statement from such depository account shall be sufficient for execution of the above rights.	In effect	Article 11.19 of the Charter: "A proposal on including an item on the agenda of the General Meeting of Shareholders and the proposal of candidates shall be submitted in writing with indication of the name (company name) of the proposing Shareholder(s), the number and category (type) of shares owned by him and that proposals shall be signed by such Shareholder(s)".
4.	The Charter or other internal corporate documents of a joint-stock company must have a requirement for mandatory presence of the Chief Executive Officer, members of the Management Board, members of the Board of Directors, members of the Revision Commission and the Auditor of the joint-stock company at the General Shareholders Meeting.	Not in effect	The specified persons are generally present at the General Shareholders Meetings of the Company; however there are no provisions in the Charter or other internal corporate documents that provide for their mandatory presence at the General Shareholder Meetings.
5.	Procedure for registration of the General Shareholders Meeting participants must be included in the internal corporate documents of a joint-stock company.	In effect	Article 7.4. of the Regulations on General Shareholders Meeting: "The Chairman of the General Shareholders Meeting shall register the shareholders according to the list of persons entitled to participate in the General Shareholders Meeting. Registration must be completed within one hour. After completion of the registration the Chairman of the General Shareholders Meeting shall announce presence or absence of the quorum. In the event that the General Meeting Shareholders has the quorum, the Chairman opens the General Shareholders Meeting and runs it according to the approved Agenda". Article 5.1. of the Regulations on Corporate Secretary sets forth that the Corporate Secretary shall ensure registration of the General Shareholders Meeting participants

Company's Board of Directors			
6.	Authority of the Board of Directors for annual approval of the business-plan of a joint-stock company must be set forth in the Charter of the joint-stock company.	In effect	Article 12.2. of the Charter includes approval of the budget and business-plan as well as significant modifications and/or amendments to them into the competence of the Board of Directors.
7.	The Charter should contain the right of the Board of Directors in a joint-stock company to establish requirements to qualification and level of remuneration for the Chief Executive Officer, members of the Management Board, and heads of main structural units of the joint-stock company.	In effect	Article 12.2. of the Charter includes into the competence of the Board of Directors establishment of the amounts of remuneration and compensation to be paid to the Chief Executive Officer of the Company and members of the Management Board, as well as recommendations relating to the amount of remuneration and compensation to be paid to the members of the Revision Commission of the Company and for the services of the auditor. According to Article 13.7.11. of the Charter compensation payable to the personnel for work in the Company shall be within the expenditure limits established for this purpose in the business plans and/or budgets of the Company as approved by the Board of Directors
8.	There must be minimum 3 independent directors on the Board of a joint-stock company as defined by the Corporate Code.	Not in effect	The Company's Board of Directors has 2 independent directors as defined by the Corporate Code.
9.	Board of Directors of a joint-stock company must not include persons who were found guilty of committing crimes in the sphere of business or crimes against the state, interests of government and local authorities or who were subjected to civil penalty for offences in the sphere of business or in the field of finance, taxes and charges, or stock market.	In effect	No persons who were found guilty of committing crimes in any sphere have ever been elected to the Company's Board of Directors; they were not subjected to any civil penalty.
10.	The Board of Directors of a joint-stock company must not include persons, who are participants, Chief Executive Officer (manager), member of a governance body or employee of a legal entity that is in competition with the joint-stock company.	In effect	None of the Board Members holds a position in organizations who are direct competitors of the Company.
11.	The Charter of a joint-stock company must have a requirement regarding election of the Board of Directors by cumulative voting	In effect	Article 11.41. of the Charter: "Election of the Board of Directors shall be made by General Shareholders Meeting with cumulative voting".
12.	Internal documents of a joint-stock company must include the duty of the Board of Directors to abstain from actions that will or may result in conflict between their interests and the interests of the joint-stock company, and if such conflict arises, the duty to disclose information about such conflict to the Board of Directors.	In effect	Article 5.2. of the Regulations on the Board of Directors sets forth that the Board Member must "be loyal to the Company, that is to abstain from using his position in the Company in the interests of other persons; act reasonably and in good faith regarding the Company's business; inform the Company in proper time about his affiliation and changes in it; inform the Board of Directors about prospective transactions in which he may be considered as an interested party".
13.	Internal documents of a joint-stock company must include the duty of the Board Members to notify the Board in writing about any intention to make transactions with securities of the joint-stock company where they are the Board Members or its subsidiaries (affiliates), as well as the duty to disclose information about the transactions with such securities that have been made by them.	Not in effect	The Board Members of the Company do not own any securities of the Company or its subsidiaries, and securities of the Company or its subsidiaries are not in the free float. Therefore, it is not necessary to include such duty in the Company's internal documents.
14.	Internal documents of a joint-stock company must have the requirement to hold meetings of the Board of Directors minimum once every six weeks.	Not in effect	Article. 7.2. of the Regulations on the Board of Directors states that "Meetings of the Board of Directors shall be held on a regular basis in accordance with the operation plan approved at the meeting of the Board of Directors". The Board of Directors shall approve of such operation plan once every six months. The Board meetings are actually held not less than once a month.
15.	Board Meetings of a joint-stock company must be held at least once every six weeks during the year, for which the annual report is prepared.	In effect	The meetings of the Board during 2008 were held once a fortnight.
16.	Internal documents of a joint-stock company must contain the procedures of holding the Board Meetings.	In effect	Article 9 of the Regulations on the Board of Directors includes information about procedures of holding the Board Meetings.
17.	Internal documents of a joint-stock company must include the right of the Board Members to receive information required for performance of their functions from the executive bodies and heads of main structural units of the joint-stock company, and include responsibility for non-provision of such information	In effect	Article 5.1. of the Regulations on the Board of Directors ensures the Board Member's right to request any information on the Company's operations from its officers. Article 5.4. of the above Regulations sets forth the Company's duty to ensure access to requested information and documents for the Board Member within five days after the date of respective request.

18.	There must be a committee of the Board (Audit Committee) that recommends an auditor of a joint-stock company to the Board of Directors and interacts with the auditor and the Revision Commission of the joint-stock company.	In effect	Audit Committee duties include recommending independent auditors to the Board of Directors before they are appointed, as well as interacting with them and the Company's Revision Commission.
19.	Establishing a committee of the Board (Personnel & Remuneration Committee) that shall identify criteria for selecting candidates to the Board of Directors and prepare the remuneration policy of the joint-stock company	In effect	The Company has active Personnel and Remuneration Committee that is responsible for preparation of the personnel remuneration policy of the Company.
Company's Executive Bodies			
20.	A joint-stock company must have a collegiate executive body (management board).	In effect	Article 13.1. of the Charter states that the Management Board of the Company is a collective executive body .
21.	The Charter or internal documents of a joint-stock company must include the provision that sets forth the requirement for the management board to approve transactions with real property and loans received by the joint-stock company, if such transactions are not major transactions and they are not included into day-to-day business activities of the joint-stock company.	In effect	Article 13.1. of the Charter provides that the Management Board shall take a decision on receiving and/or providing loans by the Company.
22.	Executive bodies must not include persons, who are participants, Chief Executive Officers (manager), member of a governance body or employee of a legal entity that is in competition with the joint-stock company	In effect	Executive bodies do not include persons who are employed by the Company's competitors.
23.	Executive bodies of a joint-stock company must not include persons who were found guilty of committing crimes in the sphere of business or crimes against the state, interests of government and local authorities or who were subjected to civil penalty for offences in the sphere of business or in the field of finance, taxes and charges or stock market. If the executive functions are performed by a management company or by an administrator, the Chief Executive Officer and members of the management board of the management company or the administrator must comply with the requirements that are made to the Chief Executive Officer and members of the management board of the joint-stock company	In effect	No persons who were found guilty of committing crimes in any sphere, have ever been elected to the Company's executive bodies, they were not subjected to any civil penalty.
Secretary of MegaFon			
24.	A joint-stock company must have a special officer (Corporate Secretary) who ensures that governance bodies and officers of the joint-stock company comply with mandatory procedures securing execution of rights and legal interests of the company's shareholders	In effect	The position of the Corporate Secretary exists in the Company. The Corporate Secretary acts on the basis of the Regulations that were approved by the Board of Directors.
25.	The Charter or internal documents of a joint-stock company must include the procedures for appointing (electing) the Corporate Secretary and the duties of the Corporate Secretary	In effect	Procedures for appointing the Company's Corporate Secretary are set forth in Article 3 of the Regulations on the Corporate Secretary. Duties of the Corporate Secretary are specified in Articles 5-10 of the Regulations on the Corporate Secretary.
26.	Charter of a joint-stock company must have the requirements for a candidate Corporate Secretary	Not in effect	Requirements to a candidate corporate secretary are specified in Article 4 of the Regulations on the Corporate Secretary.
Disclosure of Information			
27.	A joint-stock company must have a web-site in Internet and information about the joint-stock company must be disclosed at this web-site on a regular basis.	In effect	Information about joint-stock companies and all significant events is disclosed at the Company's web-site: www.megafon.ru