MEGAFON

Condensed Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2010 and 2009
With Independent Accountant's Report

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Independent Accountant's Report

The Board of Directors and Shareholders
OJSC MegaFon

We have reviewed the condensed consolidated balance sheet of OJSC MegaFon and subsidiaries as of June 30, 2010, and the related condensed consolidated statements of operations and cash flows for the three and six months ended June 30, 2010 and 2009. This condensed financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OJSC MegaFon and subsidiaries as of December 31, 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

August 30, 2010

Ernst & Young LLC

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Condensed Consolidated Balance Sheets

(In millions of Rubles)

	Note	December 31, 2009	June 30, 2010 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents		12,550	**8,464**
Short-term investments		49,114	**61,652**
Accounts receivable, net of allowance for doubtful accounts of 861 and 916 at December 31, 2009 and June 30, 2010, respectively		4,085	**6,428**
Inventory		1,219	**2,914**
VAT receivable		2,037	**2,324**
Deferred tax assets		772	**931**
Prepaid expenses		8,589	**8,193**
Other current assets		1,784	**2,105**
Total current assets		80,150	**93,011**
Property, plant and equipment, net of accumulated depreciation of 99,993 and 114,556 at December 31, 2009 and June 30, 2010, respectively		147,231	**166,130**
Goodwill and intangible assets:			
Goodwill	3	498	**5,580**
Intangible assets, net of accumulated amortization of 17,101 and 18,815 at December 31, 2009 and June 30, 2010, respectively		16,869	**18,251**
Other non-current assets		1,432	**1,525**
Total assets		246,180	**284,497**

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

MegaFon

Condensed Consolidated Balance Sheets (continued)

(In millions of Rubles)

	Note	December 31, 2009	June 30, 2010 (Unaudited)
Liabilities			
Current liabilities:			
Accounts payable		4,888	**9,103**
Accounts payable to equipment suppliers		7,008	**3,854**
Current portion of liability for marketing related licenses	4	287	**397**
Current portion of liability for deferred and contingent consideration	3	—	**820**
Accrued compensation and social contributions		3,435	**2,917**
Subscribers' prepayments		7,083	**5,744**
Taxes payable		1,880	**1,464**
VAT payable		1,240	**4,116**
Deferred revenue		358	**287**
Current portion of long-term debt		7,811	**11,029**
Other current liabilities		645	**695**
Total current liabilities		34,635	**40,426**
Debt, less current portion		19,335	**24,381**
Deferred tax liabilities, less current portion		2,070	**4,171**
Asset retirement obligations		3,303	**3,816**
Liability for marketing related licenses, less current portion	4	1,054	**985**
Liability for deferred and contingent consideration, less current portion	3	—	**2,020**
Deferred revenue, less current portion	4	1,568	**1,657**
Other non-current liabilities		301	**418**
Total liabilities		62,266	**77,874**
Equity			
MegaFon shareholders' equity:			
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**
Reserve fund		17	**17**
Additional paid-in capital		13,870	**13,870**
Retained earnings		169,199	**191,705**
Accumulated other comprehensive loss		(255)	**(271)**
Total MegaFon shareholders' equity		183,412	**205,902**
Noncontrolling interests		502	**721**
Total equity		183,914	**206,623**
Total liabilities and equity		246,180	**284,497**

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

Condensed Consolidated Statements of Operations

(In millions of Rubles)
(Unaudited)

	Note	Three months ended June 30, 2009	Three months ended June 30, 2010	Six months ended June 30, 2009	Six months ended June 30, 2010
Revenue	5	43,885	**52,215**	86,087	**98,958**
Cost of services (excluding depreciation and amortization)	6	8,849	**11,644**	17,645	**21,340**
Gross margin		35,036	**40,571**	68,442	**77,618**
Sales and marketing expenses (excluding depreciation and amortization)	7	4,325	**5,045**	7,122	**9,546**
Operating expenses (excluding depreciation and amortization)	8	10,019	**11,820**	19,697	**22,944**
Depreciation, amortization and accretion		7,831	**9,182**	15,428	**17,818**
Operating income		12,861	**14,524**	26,195	**27,310**
Other income/(expense):					
Interest expense		(372)	**(229)**	(781)	**(347)**
Interest income		510	**980**	1,218	**2,010**
Other gain/(loss), net		(72)	**27**	(54)	**49**
Loss on derivatives, net	9	(743)	**(62)**	(502)	**(303)**
Foreign currency exchange gain/ (loss), net		(1,007)	**48**	(566)	**(579)**
Total other income/(expense), net		(1,684)	**764**	(685)	**830**
Income before income taxes and noncontrolling interest		11,177	**15,288**	25,510	**28,140**
Provision for income taxes		2,183	**3,062**	5,408	**5,639**
Net income		8,994	**12,226**	20,102	**22,501**
Net income/(loss) attributable to noncontrolling interest		(1)	**3**	(19)	**(5)**
Net income attributable to MegaFon		8,995	**12,223**	20,121	**22,506**

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

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles)
(Unaudited)

	Note	Six months ended June 30, 2009	2010
Net cash provided by operating activities		35,298	**40,635**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets		(17,647)	**(19,864)**
Proceeds from sale of property, plant and equipment		51	**527**
Acquisitions of subsidiaries, net of cash acquired of 833	3	(553)	**(8,434)**
Increase in short-term investments		(5,226)	**(12,988)**
Net cash used in investing activities		(23,375)	**(40,759)**
Cash flows from financing activities:			
Proceeds from long-term debt		4,431	**8,586**
Repayments of long-term debt	3	(3,557)	**(11,977)**
Deferred finance charges paid		(243)	**(120)**
Net cash provided by/(used in) financing activities		631	**(3,511)**
Effect of exchange rate changes on cash and cash equivalents		(1,125)	**(451)**
Net increase/(decrease) in cash and cash equivalents		11,429	**(4,086)**
Cash and cash equivalents at the beginning of the period		6,465	**12,550**
Cash and cash equivalents at the end of the period		17,894	**8,464**

1. Financial Presentation and Disclosures

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

The accompanying condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) for interim financial reporting and do not include all disclosures required by US GAAP. The Company omitted certain disclosures which would substantially duplicate the disclosures contained in its 2009 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2009 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Company’s 2009 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows for the interim periods. The results of operations for the six months ended June 30, 2010 are not indicative of the operating results for the full year. These financial statements include information updated and subsequent events evaluated through August 30, 2010, the date these interim condensed consolidated financial statements were issued.

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Revenue Recognition

Wireless revenue

The Company earns wireless revenues for usage of its cellular system, which include airtime charges from contract and prepaid subscribers, monthly contract fees, interconnect fees from other mobile and fixed-line operators, roaming charges and charges for Value Added Services (“VAS”). Interconnect revenue includes revenues from mobile and fixed-line operators that were earned from the services rendered for traffic termination from other operators. Roaming revenues include revenues from customers who roam outside their selected home coverage area and revenues from other mobile carriers for roaming by their

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

customers on the network of the Company. VAS include SMS, MMS, GPRS, WAP, Ring Back Tone ("RBT") and other services. The cost of content revenue relating to VAS is presented net of related costs when the Company acts as an agent of the content providers. Generally, these services generate additional revenues through monthly subscription fees or increased mobile usage. Service revenue is generally recognized when the services (including value added services and roaming revenue) are rendered. Prepaid cards, used as a method of cash collection, are accounted as customer advances for future services. Prepaid cards do not have expiration dates but are subject to statutory expiration periods, and unused balances are recognized as revenue when cards expire. Payments from customers for equipment are not recognized as revenue until installation and testing are completed and accepted by the customer. Revenues are stated net of value-added tax and sales tax charged to customers.

The Company defers revenue resulting from fees paid by customers upon initial connection. Deferred revenues are subsequently recognized over the estimated average customer lives under tariff plans, which are periodically reassessed by management and such reassessment may impact future operating results of the Company.

The Company enters into multiple element revenue arrangements in which a customer may purchase a combination of handset, airtime traffic and other services. The consideration received from a subscriber is allocated to the separate units of accounting inherent in the contract based on their relative fair values. The allocated revenue is recognized in accordance with the type of element, limited to up-front cash received.

Wireline revenue

The Company earns wireline revenues for usage of its fixed-line system, which include payments from individual, corporate and government subscribers for local and long-distance telephony and data service contracts. Charges are based upon either usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules.

Revenue from service contracts is accounted for when the services are rendered. Billings received in advance of service being rendered are deferred and recognized as revenue as the service is rendered. The Company recognizes revenue from equipment sales when title to the equipment passes to the customer. The Company defers the revenue on installed equipment until installation and testing are completed and accepted by the customer.

Domestic Long Distance/International Long Distance ("DLD/ILD") and zonal revenues are recorded gross or net depending on the contractual arrangements with the end-users. The Company recognizes DLD/ILD and zonal revenues from local operators net of payments to these operators for interconnection and agency fees when local operators establish end-user tariffs and assume credit risk. Revenues are stated net of any value-added taxes charged to customers.

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

Foreign Currency Translation

The functional currency of the Company and its subsidiaries domiciled in Russia, the Republic of Abkhazia and the Republic of South Ossetia is the Russian Ruble ("RUR") as a majority of their revenues, costs, property and equipment purchased, debt and trade liabilities is either priced, incurred, payable or otherwise measured in Rubles.

The functional currency of TT-Mobile, the Company's 75% owned subsidiary in Tajikistan, is the US dollar as a majority of its revenues, costs, property and equipment purchased, debt and trade liabilities is either priced, incurred, payable or otherwise measured in US dollars.

Income Taxes

Provision for income taxes is made in the financial statements for taxation of profits in accordance with Russian legislation currently in force. The Company accounts for income taxes using the liability method required by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") in ASC 740, *"Income Taxes"*. For interim reporting purposes, the Company also follows the provisions of accounting standard ASC 270, *"Interim Reporting"*, which requires the Company to account for income taxes based on the Company's estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis.

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

The difference between income tax expense reported in the accompanying condensed consolidated financial statements and income before taxes for the six months ended June 30, 2010 and 2009, multiplied by the Russian statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes.

The Company recognizes accrued interest and penalties related to unrecognized tax liabilities in income taxes. As of June 30, 2010, the tax years ended December 31, 2007, 2008 and 2009 remained subject to examination by the tax authorities.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The most significant estimates with regard to the accompanying condensed consolidated financial statements relate to the allocation of purchase price to the fair value of net assets acquired in connection with business combinations, useful lives related to tangible and intangible assets, impairment tests of long-lived assets, deferred revenue, asset retirement

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

obligations, fair value of derivative financial instruments, recoverability of deferred tax assets, income tax provision and allowance for doubtful accounts.

Comparative Information

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

Recent Accounting Pronouncements

Noncontrolling Interests. In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-02, "*Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification"* that amends accounting and disclosure requirements for a decrease in ownership in a business under existing US GAAP standards for consolidations. It also clarifies the types of businesses that are in the scope of these consolidations. As required by this guidance, the Company applied ASU 2010-02 starting with its annual consolidated financial statements as of and for the year ended December 31, 2009 retrospectively to January 1, 2009. The adoption of this guidance did not have a material impact on the Company's financial statements.

Equity. In January 2010, the FASB issued ASU 2010-01, "*Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force"*, whereby the Board clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. ASU 2010-01 is effective for the Company from January 1, 2010, and should be applied on a retrospective basis. The adoption of the guidance did not have a material impact on the Company's financial statements.

Fair Value Measurement and Disclosures. In January 2010, the FASB issued ASU 2010-06, "*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements"* that amends Topic 820, *Fair Value Measurements and Disclosures*, of the FASB Codification. ASU 2010-6 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers, and amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for the Company from January 1, 2010. The adoption of the guidance did not have a material impact on the Company's financial statements.

Derivatives and Hedging. In March 2010, the FASB issued ASU 2010-11, "*Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives"*, whereby the Board has provided the clarifications and related additional examples to improve financial reporting by resolving potential ambiguities about the breadth of the embedded credit derivative scope exception. ASU 2010-11 is effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. The Company is currently evaluating the impact of this guidance on its financial statements.

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

Subsequent events. In February 2010, the FASB issued ASU 2010-09, "*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*", whereby the Board has clarified that, if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. ASU 2010-09 is effective upon issuance of the update, and its adoption did not have a material impact on the Company's financial statements.

Variable Interest Entities ("VIE"). In June 2009, the FASB issued an accounting standard that amends the consolidation guidance for variable interest entities (ASC 810). The amendments significantly changed the overall consolidation analysis under the existing guidance. For the Company, this standard became effective from January 1, 2010. Accordingly, the Company reconsidered its previous conclusions, including (1) whether an entity is a VIE, (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statements disclosures are required. The adoption of the standard did not have a material impact on the Company's financial statements.

Revenue Arrangements with Multiple Deliverables. In October 2009, the FASB issued ASU 2009-13, "*Multiple-Deliverable Revenue Arrangements",* which addresses how revenues should be allocated among all products and services included in the Company's multiple element sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service included in a sale arrangement. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence, if vendor-specific objective evidence is not available, or estimated selling price, if neither vendor-specific objective evidence nor third-party evidence is available. It replaces "fair value" with "selling price" in revenue allocation guidance. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010. The FASB permits early adoption of ASU 2009-13, applied retrospectively to the beginning of the year of adoption. The Company is currently evaluating the impact of ASU 2009-13 on its financial statements.

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

3. Business combinations

Synterra

In June 2010, the Company completed the acquisition of a 100% ownership interest in CJSC Synterra ("Synterra"), an alternative provider of integrated telecommunications services in Russia, from Synterra Cyprus Limited and Burnham Advisors Limited for the total purchase price of $745 million, including cash consideration of approximately $298 million (9,267 at the exchange rate as of June 2, 2010), deferred and contingent consideration in the amount of up to $110 million (3,418 at the exchange rate as of June 2, 2010) and estimated net debt of Synterra as of the date of acquisition.

Synterra offers wireline services in Russia and holds licenses for local and long-distance telephony services, data transmission, wireless broadband access services, and communication channels leasing. The primary reason for the acquisition was to further strengthen the Company's position in the wireline market and to realize future operating and cost synergies resulting from fixed-to-mobile convergence opportunities.

The acquisition-date fair values of each major class of consideration transferred are presented below

Cash	**9,267**
Current portion of liability for deferred and contingent consideration	**814**
Liability for deferred and contingent consideration, less current portion	**2,006**
Total consideration transferred	**12,087**

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

The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The key assumptions in the discounting cash flow model are as follows: 6% discount rate and several probability adjusted contingent payments.

The Company recognized acquisition-related costs in the amount of 149 as an operating expense for the six months ended June 30, 2010 in the accompanying condensed financial statements.

3. Business combinations (continued)

The acquisition of Synterra was accounted for using the acquisition method. The purchase price allocation for the acquisition has not been finalized as of the date these interim condensed consolidated financial statements were issued, as the Company has not completed the valuation of individual assets of Synterra. The table below represents the preliminary allocation of the purchase price to the acquired net assets of Synterra based on their estimated fair values and the associated estimated useful lives.

	Weighted-average useful life, years	**Total amounts as of the date of acquisition**
Cash and cash equivalents		833
Other current assets		3,082
Tangible assets:		
Buildings and structures	43	1,536
Telecommunications network	13	14,728
Other equipment	15	1,421
Construction in-progress	N/A	1,146
Identifiable intangible assets:		
Trademarks	10	382
Customer lists	14	1,179
Computer software	7	334
Numbering capacity	indefinite	101
Other intangible assets	2 - indefinite	44
Goodwill		5,082
Other non-current assets		79
Total assets acquired		**29,947**
Debt, including current portion		(11,993)
Current liabilities		(3,538)
Non-current liabilities		(2,091)
Total liabilities assumed		**(17,622)**
Noncontrolling interest		(238)
Total consideration transferred		**12,087**

The goodwill recognized is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of Synterra. Management is still assessing the allocation of goodwill among reporting units. None of the goodwill recognized is deductible for income tax purposes.

The fair value of accounts receivables acquired is 1,708, with the gross contractual amount being 1,910. The Company estimates 202 to be uncollectible.

The Company has consolidated the financial position and the results of operations of Synterra from June 1, 2010.

3. Business combinations (continued)

In June and July 2010, the Company repaid the assumed debt of Synterra in the amounts of 7,814 and 1,200, respectively. In August 2010, the Company repurchased bonds of Synterra in the amount of 1,947.

The amounts of revenue and results of Synterra included in the Company's accompanying condensed consolidated statement of operations from the acquisition date to June 30, 2010 are as follows:

	Revenue and Net loss included in the consolidated statement of operations from June 1, 2010 to June 30, 2010
Revenues	916
Net loss	(212)

The following unaudited pro forma combined results of operations for the Company give effect to the Synterra business combination as if it had occurred as of the beginning of 2010 and 2009. These pro forma amounts are provided for informational purposes only and do not purport to present the results of operations of the Company had the transactions assumed therein occurred on or as of the dates indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

	Six months ended June 30,	
	2009 (unaudited)	**2010 (unaudited)**
Pro forma revenues	92,303	103,777
Pro forma net income	21,003	23,079

4. Marketing Related Intangible Assets

In April 2009, the Company and OJSC Rostelecom ("Rostelecom") entered into an agreement with the Organizational Committee of the XXII Olympic Winter Games and XI Paralympic Winter Games being held in Sochi in 2014, to acquire rights and licenses to use the Olympic mascot, logos and other Olympic symbols and, in the case of the Company, to be referred to as "the General Mobile Partner of the 2014 XXII Olympic Winter Games". Under the agreement the Company committed to a payment of $65 million (2,028 at the exchange rate as of June 30, 2010) in cash to be made in several installments from 2009 through 2014. In addition, the Company and Rostelecom are jointly responsible to provide equal amounts of in-kind services having a combined total value of up to $130 million (4,055 at the exchange rate as of June 30, 2010) from 2009 through 2014. The management of the Company believes that the risk of non-performance by Rostelecom of its responsibilities under the agreement is remote.

4. Marketing Related Intangible Assets (continued)

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

The fair value of deferred revenue recognized by the Company was estimated using the Discounted Cash Flow ("DCF") analysis (Level 3). The basis for the Company's cash flow assumptions includes forecasted amounts and timing of services to be provided under the agreement. The Company used 7% as a discount rate. The Company recognized revenue from services in-kind in the amount of 54 for the six months ended June 30, 2010 and 18 for the year ended December 31, 2009. Payments to the Organizational Committee of the 2014 XXII Olympic Winter Games and XI Paralympic Winter Games totaled $15.4 million (480 at the exchange rate as of June 30, 2010).

5. Revenues

Revenues for the six months ended June 30 are as follows:

	2009	2010
Revenues from local subscribers	71,270	**80,945**
Revenues from interconnection charges	12,380	**13,662**
Sales of handsets and equipment	991	**2,109**
Wireline revenues	192	**1,301**
Roaming charges to other wireless operators	931	**711**
Connection fees	31	**104**
Other revenues	292	**126**
Total revenues	86,087	**98,958**

6. Cost of Services

Cost of services for the six months ended June 30 are as follows:

	2009	2010
Interconnection charges	15,001	**17,816**
Cost of handsets and equipment sold	1,059	**1,972**
Roaming expenses	975	**923**
Cost of SIM-cards	581	**550**
Other costs	29	**79**
Total cost of services	17,645	**21,340**

7. Sales and Marketing Expenses

Sales and marketing expenses for the six months ended June 30 are as follows:

	2009	2010
Advertising	2,823	**3,141**
Commissions to dealers for connection of new subscribers	2,822	**4,391**
Commissions to dealers for cash collections from subscribers	1,477	**2,014**
Total sales and marketing expenses	7,122	**9,546**

8. Operating Expenses

Operating expenses for the six months ended June 30 are as follows:

	2009	2010
Salaries and social charges	6,478	**8,776**
Rent	4,287	**5,227**
Operating taxes	2,271	**2,426**
Network repairs and maintenance	1,865	**1,938**
Radio frequency fees	1,269	**1,425**
Office maintenance	782	**833**
Bad debt expense	682	**530**
Professional services	319	**436**
Vehicle costs	248	**266**
Materials and supplies	124	**89**
Inventory write-down	332	**37**
Insurance	92	**53**
Other expenses	948	**908**
Total operating expenses	19,697	**22,944**

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

9. Derivative Financial Instruments

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

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

9. Derivative Financial Instruments (continued)

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

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

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

During 2009 and the six months ended June 30, 2010, the Company entered into a number of dual-currency deposits with various banks. The dual-currency deposits are financial instruments which combine features of a time deposit and a sold foreign currency put option. The dual-currency deposits are settled either in the original deposit currency (Euro or US Dollar) or in another pre-agreed currency (Ruble, US Dollar or Euro) depending on which currency has depreciated relative to the other currency since the date of entering into the dual-currency deposit. All dual-currency deposits bear over-the-market interest rates which include a put option premium payable upon settlement. The purpose of entering into these financial instruments is for yield enhancement on the Company's foreign currency cash investments.

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

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

The swaps effectively converted, using the then-effective foreign currency exchange rates, some of the Company's outstanding fixed-to-fixed rate long-term US dollar and Euro denominated loans (specifically the EKN, Finnvera, Finnvera II and Finnvera III Credit Facilities) into synthetically equivalent Ruble long-term loans with fixed rates ranging from 3.95% to 6.65%. The carrying amount of such long-term loans was 3,501 as of December 31, 2009 and 1,669 as of June 30, 2010. For accounting purposes, the Company has chosen not to designate these derivatives as hedging instruments, and therefore reports all gains and losses from the change in fair value (Level 2) of these derivative financial instruments directly in the consolidated statements of operations.

9. Derivative Financial Instruments (continued)

Losses on derivatives for the six months ended June 30 are as follows:

	2009	2010
Put options sold	—	**65**
Foreign currency swaps	(502)	**(368)**
Total loss on derivatives, net	(502)	**(303)**

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

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

Derivative instruments	Balance sheet location	December 31, 2009	June 30, 2010
Put options sold	Other current assets	6	—
Foreign currency swaps	Other current assets	406	**114**
	Other non-current assets	328	**75**
Total derivatives		740	**189**

The fair value of financial instruments, including cash, cash equivalents and derivative financial instruments, which are included in current assets and liabilities, accounts receivable and accounts payable approximates the carrying value of these items due to the short-term nature of these amounts.

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

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks. The Company manages these risks and monitors their exposure on a regular basis.

10. Commitments, Contingencies and Uncertainties

Russian Environment and Current Economic Situation

Russia continues to engage in economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The recent global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian government introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

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

Telecom licenses capital commitments

In May 2007, MegaFon was awarded a license that expires on May 21, 2017, for the provision of 3G mobile radiotelephony communications services for the entire territory of the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The three major conditions are that the Company will have to build a specified number of base stations that support 3G standards, will have to start commercial exploitation of the 3G technology in each region of the Russian Federation over the period from May 2008 through May 2010, and will also have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the license. As of August 30, 2010, the Company is in full compliance with these license conditions, including constructing the required number of base stations required at this time.

Taxation

Russian tax, currency and customs legislation are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to transactions and activities of the Company may be challenged by the relevant regional and federal authorities. Recent events within Russia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. Therefore, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the current year. Under certain circumstances reviews may cover longer periods.

10. Commitments, Contingencies and Uncertainties (continued)

Based on tax examinations of other telecommunications companies operating in Russia, the tax authorities are currently focusing on a number of specific areas, which include, but are not limited to revenues from interconnection charges and marketing initiatives. As a result of such examinations, the tax authorities are claiming additional taxes which are currently being disputed in the courts by these other Russian telecommunications companies. Depending on the outcome of such examinations, the Company could also become the subject of an examination.

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

Litigation

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

Prepaid distribution contract

In March 2009, the Company entered into an eighteen-month distribution contract with Euroset, one of the largest Russian mobile retailers, to connect approximately 7.2 million subscribers. The total cash consideration for this deal was approximately $146 million, of which approximately $97 million (3,292 as of April 9, 2009, the date of the payment) has been prepaid and a promissory note has been issued for the remaining amount and redeemed in several installments during the six months ended June 30, 2010.

The outstanding advance paid to Euroset as of June 30, 2010, was 1,269. The Company is in discussions with Euroset with a view to extend the contract term if necessary to allow Euroset to fulfill its obligations.

Apple Commitment

In August 2008, the Company entered into a two-year fixed commitment with Apple Sales International ("Apple"), an Irish affiliate of Apple Computer Inc., to purchase a total of one million unlocked iPhone handsets over a two-year period for further resale in Russia. The Company fulfilled this requirement with respect to the fourth quarter of 2008, but due to the significantly reduced handset demand caused by the economic crisis in Russia, the Company experienced difficulty re-selling these iPhones. While the Company placed several orders for

10. Commitments, Contingencies and Uncertainties (continued)

iPhone handsets thereafter, none of these orders fulfilled the minimum quarterly requirement for the applicable quarters.
Even though the contract expired in August 2010 there can be no assurance that Apple will not bring a claim against the Company in respect of the contract. In light of the uncertainty as to whether a claim will be made and, if made, as to the amount which Apple may be able to claim, the Company is not able to estimate the amount of loss, if any, that the Company may sustain.

Regulatory contingencies

In March 2010, the Federal Anti-Monopoly Service ("FAS") launched a formal investigation, under the Federal Law No. 135-FZ "On Protection of Competition" ("Federal Law on Protection of Competition"), of the roaming charges levied by the Company and the other two major Russian mobile operators, MTS and VimpelCom. The FAS asserted that the charges were "unreasonably overpriced", on the basis that an analysis carried out by the Interstate Council for Anti-Monopoly Policy showed that the roaming charges levied by the three operators were 2 to 2.5 times higher than comparable tariffs charged by other international operators and also 3 to 6 times higher than the European Commission would permit in the European Union. The FAS is also investigating if the Company, MTS and VimpelCom violated the Federal Law on Protection of Competition by coordinating their actions related to setting the roaming charges. If the roaming charges and practices are found to be anti-competitive, the Company could face fines which, under Article 14.31 and Article 14.32 of the Russian Federation Administrative Code, are capped at 15% of overall roaming revenues. The Company does not believe that it is in violation of the Federal Law on Protection of Competition and believes it will sustain its position against this claim.

In May 2010, the FAS launched a second formal investigation under the Federal Law on Protection of Competition of the inter-operators tariffs levied between the Company, the other two major Russian mobile operators, MTS and VimpelCom, and the three mobile operators from Kazakhstan. In this instance the FAS asserted that inter-operators tariffs were anti-competitive because they were "overpriced", leading to high roaming tariffs and that the above-mentioned operators undertook coordinated actions related to setting anti-competitive inter-operators tariffs. If the inter-operators tariffs between the operators are found to be anti-competitive, the Company could face fines which, under Article 14.32 of the Russian Federation Administrative Code, are capped at 15% of overall roaming revenues. The Company does not believe that it is in violation of the Federal Law on Protection of Competition and believes it will sustain its position against this claim.