MEGAFON

Condensed Consolidated Financial Statements
(Unaudited)

Three and nine months ended September 30, 2011 and 2010
With Independent Accountants' Report

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 September 30, 2011, and the related condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2011 and 2010. This condensed financial information is the responsibility of the Company's management.

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

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

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

November 14, 2011

Ernst & Young LLC

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MegaFon

Condensed Consolidated Balance Sheets

(In millions of Rubles)

	Note	December 31, 2010	September 30, 2011 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents		2,667	**6,232**
Short-term investments		63,554	**84,878**
Accounts receivable, net of allowance for doubtful accounts of 1,029 and 1,338 at December 31, 2010 and September 30, 2011, respectively		6,954	**8,110**
Inventory		3,081	**4,345**
VAT receivable		2,562	**1,811**
Deferred tax assets		1,166	**1,846**
Prepaid expenses and other current assets		14,089	**11,839**
Total current assets		94,073	**119,061**
Long-term deposits		305	**3,084**
Property, plant and equipment, net of accumulated depreciation of 130,876 and 156,072 at December 31, 2010 and September 30, 2011, respectively		194,872	**208,882**
Goodwill and intangible assets:			
Goodwill	4	7,041	**14,913**
Intangible assets, net of accumulated amortization of 20,638 and 23,866 at December 31, 2010 and September 30, 2011, respectively	5	19,245	**18,927**
Deferred tax assets		506	**530**
Other non-current assets		1,425	**1,543**
Total assets		317,467	**366,940**

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

MegaFon

Condensed Consolidated Balance Sheets (continued)

(In millions of Rubles)

	Note	December 31, 2010	September 30, 2011 (Unaudited)
Liabilities			
Current liabilities:			
Accounts payable		6,832	**9,562**
Accounts payable to equipment suppliers		10,401	**6,677**
Current portion of liability for marketing related licenses		382	**383**
Current portion of liability for deferred and contingent consideration	6	1,450	**2,541**
Accrued compensation and social contributions		3,028	**4,963**
Subscribers' prepayments		7,303	**6,449**
Taxes payable		1,516	**1,850**
VAT payable		1,294	**3,606**
Current portion of deferred revenue		552	**809**
Current portion of long-term debt	11	12,171	**9,058**
Other current liabilities		845	**952**
Total current liabilities		45,774	**46,850**
Debt, less current portion	11	20,750	**35,212**
Deferred tax liabilities		8,256	**7,352**
Asset retirement obligations		4,304	**5,046**
Liability for marketing related licenses, less current portion		893	**728**
Liability for deferred and contingent consideration, less current portion	6	1,731	**1,785**
Deferred revenue, less current portion		1,968	**1,870**
Other non-current liabilities		665	**979**
Total liabilities		84,341	**99,822**
Equity			
MegaFon shareholders' equity:			
Common stock (par value of 10 Rubles, 6,200,002 shares authorized, issued and outstanding)		581	**581**
Reserve fund		17	**17**
Additional paid-in capital		13,855	**13,855**
Retained earnings		218,371	**252,280**
Accumulated other comprehensive loss		(261)	**(164)**
Total MegaFon shareholders' equity		232,563	**266,569**
Noncontrolling interests		563	**549**
Total equity		233,126	**267,118**
Total liabilities and equity		317,467	**366,940**

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

MegaFon

Condensed Consolidated Statements of Operations

(In millions of Rubles)
(Unaudited)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2010	**2011**	**2010**	**2011**
Revenues	7	57,566	**63,433**	156,524	**177,146**
Cost of revenues (excluding depreciation and amortization)	8	13,427	**15,423**	34,804	**42,266**
Gross margin		44,139	**48,010**	121,720	**134,880**
Sales and marketing expenses (excluding depreciation and amortization)	9	4,770	**6,498**	14,316	**15,230**
Operating expenses (excluding depreciation and amortization)	10	12,831	**14,965**	35,738	**44,060**
Depreciation and accretion		8,984	**10,243**	24,982	**31,253**
Amortization	5	965	**1,238**	2,785	**3,728**
Operating income		16,589	**15,066**	43,899	**40,609**
Other income/(expense):					
Interest expense		(218)	**(271)**	(565)	**(726)**
Interest income		978	**831**	2,988	**2,606**
Other gain, net		63	**122**	112	**83**
Gain/(loss) on derivatives, net		137	**13**	(166)	**(27)**
Foreign currency exchange loss, net		(68)	**(341)**	(647)	**(406)**
Total other income, net		892	**354**	1,722	**1,530**
Income before income taxes and noncontrolling interest		17,481	**15,420**	45,621	**42,139**
Provision for income taxes		3,497	**2,980**	9,136	**8,276**
Net income		13,984	**12,440**	36,485	**33,863**
Net loss attributable to noncontrolling interest		22	**35**	27	**46**
Net income attributable to MegaFon		14,006	**12,475**	36,512	**33,909**

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

MegaFon

Condensed Consolidated Statements of Cash Flows

(In millions of Rubles)
(Unaudited)

	Note	Nine months ended September 30, 2010	Nine months ended September 30, 2011
Net cash provided by operating activities		64,914	**74,234**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets		(35,925)	**(50,419)**
Proceeds from sale of property, plant and equipment		284	**332**
Acquisitions of subsidiaries, net of cash acquired of 833 and 192 for the nine months ended September 30, 2010 and 2011, respectively	3	(8,434)	**(7,362)**
Advance paid for acquisition of Metrocom		(200)	**—**
Increase in short-term investments and long-term deposits		(24,682)	**(20,491)**
Other investing activities		8	**—**
Net cash used in investing activities		(68,949)	**(77,940)**
Cash flows from financing activities:			
Proceeds from long-term debt		11,873	**18,330**
Repayments of long-term debt		(16,153)	**(10,029)**
Deferred finance charges paid		(162)	**(191)**
Repayments of contingent consideration	6	—	**(491)**
Purchase of noncontrolling interest in consolidated subsidiaries		(96)	**—**
Dividends paid to noncontrolling interest		(93)	**—**
Net cash provided by/(used in) financing activities		(4,631)	**7,619**
Effect of exchange rates changes on cash and cash equivalents		(470)	**(348)**
Net increase/(decrease) in cash and cash equivalents		(9,136)	**3,565**
Cash and cash equivalents at the beginning of the period		12,550	**2,667**
Cash and cash equivalents at the end of the period		3,414	**6,232**

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

1. Financial Presentation and Disclosures

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

In Russia, MegaFon has constructed and continues to operate a nationwide wireless communications network that operates on the dual band GSM 900/1800 standard. In May 2007, the Company was awarded a license that expires on May 21, 2017, for the provision of 3G wireless telephony services based on IMT-2000/UMTS standards throughout the entire territory of Russia. As of September 30, 2011, the Company is providing and expanding 3G services in almost all of the regions throughout Russia.

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

The accompanying condensed financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) for interim financial reporting and do not include all disclosures required by US GAAP. The Company omitted certain disclosures which would substantially duplicate the disclosures contained in its 2010 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2010 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Company’s 2010 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows for the interim periods. The results of operations for the nine months ended September 30, 2011 are not indicative of the operating results for the full year. These financial statements include information updated and subsequent events evaluated through November 14, 2011, the date these interim condensed consolidated financial statements were available to be issued.

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Revenue Recognition for Arrangements with Multiple Deliverables

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

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

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

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

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

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

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

Long-term deposits

Time deposits intended to be held for more than twelve months, absent any withdrawal restrictions, are classified as non-current assets. The carrying value of long-term deposits approximates their fair value.

Income Taxes

Provision for income taxes is made in the financial statements for taxation of profits in accordance with local tax legislation currently in force. The Company accounts for income taxes using the liability method required by the FASB in ASC 740, *"Income Taxes"*. For interim reporting purposes, the Company also follows the provisions of accounting standard 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 nine months ended September 30, 2011 and 2010, multiplied by the statutory tax rate, is mainly due to non-deductibility of certain expenses for income tax purposes, and recognized tax benefits and preferences.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income taxes. As of September 30, 2011, the tax years ended December 31, 2008, 2009 and 2010 remained subject to examination by the tax authorities.

Comparative Information

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

Comprehensive income

ASC 220, *"Comprehensive Income"*, requires the reporting of comprehensive income in addition to net income. Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Comprehensive income for all periods presented in the accompanying condensed consolidated financial statements approximates net income.

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

Recent Accounting Pronouncements

Goodwill Impairment Testing. In August 2011, the FASB issued ASU 2011-08, "*Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment"*, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendment is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.

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

The Company is currently evaluating the impact of these amendments on its financial statements.

Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income"*, which gives an entity the option to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment is effective for non-public entities for fiscal years ending on or after December 15, 2012 and interim and annual periods thereafter. The Company does not expect ASU 2011-05 to have a material impact on its financial statements.

Fair Value Measurements. In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"*, which clarifies Topic 820, "*Fair Value Measurements and Disclosures*", but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed.

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

This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with US GAAP and International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS). The amendment is effective for non-public entities for annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this ASU on its financial statements.

Receivables. In April 2011, the FASB issued ASU 2011-02, "*Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*", which provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendment is effective for non-public entities for annual periods ending on or after December 15, 2012 and for interim periods within those annual periods. Early adoption is permitted.

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

The Company does not expect these amendments to have a material impact on its financial statements.

3. Business combinations

NetByNet

In June 2011, the Company completed the acquisition of a 100% ownership interest in Fairlie Holding and Finance Limited, which holds a 100% interest in a group of subsidiaries that provide broadband internet, IP telephony, IP TV and other multimedia services in Russia under the NetByNet brand ("NetByNet") for total consideration having a fair value of 8,755 as of the date of acquisition, consisting of cash consideration of 7,507 and contingent consideration of 1,248.

The primary reason for the acquisition was to facilitate the Company's entry into the broadband internet market in Moscow, the Moscow region and the Central Federal District, where the Company did not previously provide broadband internet services for end-customers.

Contingent consideration consists of several payments due within approximately one year with the amounts due being linked to NetByNet's operating results for, and additional acquisitions made in, the year ending December 31, 2011.

3. Business combinations (continued)

The Company estimated the fair value of the contingent consideration at 1,248 using a probability-weighted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement.

The acquisition of NetByNet 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 NetByNet. The table below represents the preliminary allocation of the purchase price to the acquired net assets of NetByNet based on their estimated fair values and the associated estimated useful lives of long-lived assets.

	Weighted-average useful life, years	**Total amounts as of the date of acquisition**
Cash and cash equivalents		190
Other current assets		201
Tangible assets:		
Telecommunications network	8.0	2,055
Other equipment	7.0	70
Identifiable intangible assets:		
Trademarks	3.0	295
Customer lists	10.6	633
Computer software	4.5	32
Numbering capacity	10.0	5
Goodwill		7,872
Total assets acquired		**11,353**
Debt, including current portion		(1,218)
Current liabilities		(612)
Non-current liabilities		(768)
Total liabilities assumed		**(2,598)**
Total consideration transferred		**8,755**

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

As a part of liabilities assumed in the business combination, the Company recognized tax contingencies of 514 which were included in non-current liabilities.

The Company has consolidated the financial position and the results of operations of NetByNet from June 1, 2011.

3. Business combinations (continued)

Web Plus

In June 2011, the Company completed the acquisition of a 100% ownership interest in CJSC Web Plus ("Web Plus"), an alternative provider of broadband internet services in St. Petersburg, from OJSC Telecominvest, a related party, for a total cash consideration of $2.2 million (61 at the exchange rate as of June 6, 2011) of which $0.5 million (14 at the exchange rate as of June 6, 2011) is deferred and will be paid within one year contingent upon certain conditions. The acquisition date fair value of the purchase consideration in the amount of 54 has been provisionally allocated to the net assets acquired based on their estimated fair value of 58, which resulted in bargain purchase gain of 4.

The Company has consolidated the financial position and the results of operations of Web Plus from June 1, 2011.

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 notional amount of up to $110 million (3,418 at the exchange rate as of June 2, 2010) and the net debt of Synterra as of the date of acquisition.

Synterra provides 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**
Liability for deferred and contingent consideration	**3,166**
Total consideration transferred	**12,433**

Deferred and contingent consideration consists 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.

3. Business combinations (continued)

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. The key assumptions used are as follows: 6% discount rate and several probability adjusted contingent payments. See *Note 6* for subsequent movements in the contingent consideration liability balance.

The acquisition of Synterra was accounted for using the acquisition method. The goodwill recognized is attributable primarily to expected synergies from the acquisition and the value to be attributed to the workforce of Synterra.

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

4. Goodwill

The changes in the carrying value of goodwill for the nine months ended September 30, 2011 are as follows:

	2011
Balance at January 1, 2011:	7,041
Acquisitions *(Note 3)*	7,872
Balance at the end of the period	**14,913**

5. Operating licenses

Wireless operating licenses, primarily consisting of a single nationwide 3G license and GSM 900/1800 standard licenses are integral to the wireless operations of the Company and provide the Company with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. While wireless operating licenses are issued for a fixed period, renewals of these licenses previously had occurred routinely and at nominal cost. The Company determines that there are currently no legal, regulatory, contractual, competitive, economic or other factors that could result in delays in license renewal, or even an outright refusal to renew. The weighted average period until the next renewal date is approximately 2 years.

In July 2011, the Company reassessed the expected residual amortization period for its GSM 900/1800 standard wireless licenses from 2½ years to 10 years and changed the amortization method of these licenses from straight-line to sum-of-the-years'-digits basis. Such method of amortization reflects the pattern in which the economic benefits of these operating licenses are consumed or otherwise used up and assumes a gradual decrease in number of GSM 900/1800 standard subscribers during the following 10 years.

These modifications are recorded as a change in accounting estimate and applied prospectively beginning July 1, 2011. The revision resulted in decrease in amortization expense in the amount of 126 and the corresponding increase in net income of 101 for the three and nine months ended September 30, 2011.

6. Liability for deferred and contingent consideration

The following table presents movements in liability for deferred and contingent consideration:

	Synterra	NetByNet	Web Plus
Balance at January 1, 2011	3,181	—	—
Acquisitions (*Note 3*)	—	1,429	7
Accrued interest	105	—	—
Repayments	(491)	—	—
Adjustment to contingent consideration	(62)	—	—
Measurement period adjustments	—	(181)	—
Foreign currency exchange adjustment	148	189	1
Balance at September 30, 2011	2,881	1,437	8
Less current portion	(1,096)	(1,437)	(8)
Non-current portion	**1,785**	—	—

7. Revenues

Revenues for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Wireless revenues	45,751	**48,312**	127,511	**136,133**
Revenues from interconnection charges	7,550	**8,518**	21,212	**24,398**
Wireline revenues	2,952	**4,029**	4,253	**10,555**
Sales of handsets and equipment	1,244	**2,397**	3,353	**5,537**
Other revenues	69	**177**	195	**523**
Total revenues	57,566	**63,433**	156,524	**177,146**

8. Cost of Revenues

Cost of revenues for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Interconnection charges	10,875	**11,268**	28,691	**32,195**
Cost of handsets and equipment sold	1,598	**2,773**	3,607	**7,249**
Roaming expenses	591	**698**	1,514	**1,588**
Cost of SIM-cards	306	**237**	856	**612**
Other costs	57	**447**	136	**622**
Total cost of revenues	13,427	**15,423**	34,804	**42,266**

9. Sales and Marketing Expenses

Sales and marketing expenses for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Advertising	1,574	**1,825**	4,715	**5,037**
Commissions to dealers for connection of new subscribers	2,106	**2,876**	6,497	**6,322**
Commissions to dealers for cash collections from subscribers	1,090	**1,797**	3,104	**3,871**
Total sales and marketing expenses	4,770	**6,498**	14,316	**15,230**

10. Operating Expenses

Operating expenses for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Salaries and social charges	4,880	**5,487**	13,656	**17,222**
Rent	3,069	**3,586**	8,296	**10,315**
Operating taxes	1,307	**1,449**	3,733	**4,263**
Network repairs and maintenance	1,047	**1,479**	2,985	**3,817**
Radio frequency fees	739	**904**	2,164	**2,633**
Office maintenance	299	**461**	1,132	**1,166**
Bad debt expense	355	**320**	885	**1,085**
Professional services	268	**284**	704	**963**
Vehicle costs	138	**163**	404	**460**
Materials and supplies	47	**60**	136	**197**
Insurance	28	**27**	81	**83**
Other expenses	654	**745**	1,562	**1,856**
Total operating expenses	12,831	**14,965**	35,738	**44,060**

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

11. Long-Term Debt

In June 2011, the Company entered into the China Development Bank VI Credit Facility ("CDB VI") for up to $500 million (15,938 at the exchange rate as of September 30, 2011) and the China Development Bank VII Credit Facility ("CDB VII") for up to $500 million (15,938 at the exchange rate as of September 30, 2011). CDB VI and CDB VII can only be used to purchase Huawei equipment.

CDB VI carries interest at a rate of LIBOR plus 2.4% per annum and requires the Company to make semi-annual payments, plus accrued interest, in the period from 2013 to 2016. As of September 30, 2011, no amount has been drawn under this Credit Facility.

CDB VII cannot be drawn until either CDB VI is fully drawn or June 2012, whichever occurs first. CDB VII carries interest at a rate of LIBOR plus 2.4% per annum and requires the Company to make semi-annual payments of principal, plus accrued interest, in the thirty-six month period starting two years after the date on which CDB VII will first be drawn.

In September 2011, the Company entered into the Finnvera VI credit facility for up to the US dollar equivalent of 105 million Euros (4,557 at the exchange rate as of September 30, 2011). The Finnvera VI credit facility can only be used to purchase Nokia Siemens Networks ("NSN") equipment. The Finnvera VI credit facility carries interest at a rate of 1.92% per annum. The Finnvera VI credit facility requires the Company to make semi-annual payments, plus accrued interest, in the period from 2013 to 2018. The Finnvera VI credit facility is guaranteed by Finnvera, a Finnish export credit agency. The Company is required to make payments aggregating the US dollar equivalent of 5 million Euros (217 at the exchange rate as of September 30, 2011) in order to obtain this Finnvera guarantee, and these payments are made in proportion to the amount of the drawdown of the credit facility. As of September 30, 2011, no amount has been drawn under this credit facility.

In September 2011, the Company entered into a revolving credit facility agreement with Gazprombank for up to 15 billion Rubles. As of September 30, 2011, the Company has not borrowed under this agreement. The Gazprombank credit facility carries a rate of interest that depends on the tenor of the loan selected on each drawdown and market conditions. At the time of signing the credit facility, the level of rates were initially set at either fixed (from 6% to 9%) or floating (from MosPrime 3M +1.50% to MosPrime 3M +2.50%).

12. Cash flow hedges of interest rate risk

The Company's objective in using interest rate derivatives is to add certainty and stability to its interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without the exchange of the underlying principal amount of long-term debt.

12. Cash flow hedges of interest rate risk (continued)

Interest rate swaps are recorded on the balance sheet at fair value (Level 2 according to the fair value hierarchy). The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in other comprehensive income/(loss) and is subsequently reclassified into earnings in the period that the hedged forecast transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

In the third quarter of 2011, the Company entered into three interest rate swap agreements with total notional amount of 56.5 million Euros (2,452 at the exchange rate as of September 30, 2011) which were designated as cash flow hedges of interest rate risk.

As at September 30, 2011 the fair value of the Company's interest rate swaps was close to zero. The fair value of the swaps is based on a forward yield curve and represents the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates, creditworthiness, nonperformance risk, and liquidity risks associated with current market conditions.

13. Commitments, Contingencies and Uncertainties

Russian Environment and Current Economic Situation

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 and during the nine months ended September 30, 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial and liquidity crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, significant capital flight, access to capital and the cost of such capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

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

Telecom licenses capital commitments

In May 2007, MegaFon was awarded a license that expires on May 21, 2017, for the provision of 3G wireless telephony services based on IMT-2000/UMTS standards throughout the entire territory of Russia. The 3G license was granted subject to certain capital and other commitments. The three major conditions were that the Company build a specified number of base stations that support 3G standards, start commercial exploitation of the 3G technology in

13. Commitments, Contingencies and Uncertainties (continued)

each region of the Russian Federation over the period from May 2008 through May 2010, and also build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting of the license. As of November 14, 2011, the Company is in full compliance with these license conditions, including constructing the 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.

During nine months ended September 30, 2011 tax audits have been completed for Synterra and a few of its subsidiaries for the years 2007-2009. As a result of these tax audits, the tax authorities claimed 312 of additional taxes mainly related to income tax and VAT. The Company paid the amount of additional taxes. However, the Company has started legal proceedings to recover 298 of above additional taxes and believes that it is more likely than not that the tax positions stated in the income tax returns will be sustained.

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

Litigation

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

Apple Commitment

In August 2008, the Company entered into a two-year fixed commitment with Apple Sales International ("Apple"), an Irish affiliate of Apple Computer Inc., to purchase a total of one million unlocked iPhone handsets over a two-year period for further resale in Russia. The Company fulfilled this requirement with respect to the fourth quarter of 2008, but due to the

13. Commitments, Contingencies and Uncertainties (continued)

significantly reduced handset demand caused by the economic crisis in Russia, the Company experienced difficulty re-selling these iPhones. While the Company placed several orders for iPhone handsets thereafter, none of these orders fulfilled the minimum quarterly requirement for the applicable quarters.

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

Replacement of certain telecommunication equipment

During the nine months ended September 30, 2011 the Company continued replacing certain telecommunication equipment. The net book value of equipment planned to be replaced is 1,626 at September 30, 2011. Substantially all of this equipment is still in use and continues to be classified in property, plant and equipment. Part of the equipment with net book value of 481 is planned to be replaced in the middle of 2012. The Company accelerated depreciation for that equipment which resulted in additional depreciation expense of 862 for the nine months ended September 30, 2011.

With respect to the remaining part of the equipment with book value of 1,145 the Company is currently evaluating whether this equipment can be re-utilized or sold, and continues to depreciate it in accordance with the current policies.

14. Subsequent Events

In November 2011, the Company completed the acquisition of a 100% ownership interest in Limited Liability Company Nakhodka Telecom (“Nakhodka Telecom”), a provider of broadband internet and wireline telephony services in the Far East region of Russia, for a total consideration of approximately 200. The primary reason for the acquisition of Nakhodka Telecom was to strengthen the Company’s position in the wireline market in the Far East region.