

MegaFon Finance LLC

Financial Statements
Years ended December 31, 2009, and 2008 and 2007

With Report of Independent Auditors



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Report of Independent Auditors

The sole Participant of MegaFon Finance LLC

We have audited the accompanying balance sheets of MegaFon Finance LLC ("the Company") as of December 31, 2009, 2008 and 2007, and the related statements of operations, cash flows, and changes in net assets attributable to Participant for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MegaFon Finance LLC at December 31, 2009, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLC

October 28, 2010

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MegaFon Finance LLC
Balance Sheets
(in thousands of Rubles)

| | Note | December 31, | | |
|--|------|---------------|---------------|---------------|
| | | 2009 | 2008 | 2007 |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | 94 | 10,659 | 362 |
| Short-term investments | | — | — | 10,000 |
| Prepaid income taxes | | 99 | 754 | 755 |
| Total current assets | | 193 | 11,413 | 11,117 |
| Non-current assets: | | | | |
| Long-term loan granted to Participant | 7 | 11,200 | — | — |
| Long-term interest receivable | | 193 | — | — |
| Deferred tax assets | 6 | 741 | 570 | 899 |
| Total assets | | 12,327 | 11,983 | 12,016 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and other accrued liabilities | | 3 | 2 | 2 |
| Non-current liabilities: | | | | |
| Net assets attributable to Participant | | 12,324 | 11,981 | 12,014 |
| Total liabilities | | 12,327 | 11,983 | 12,016 |

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

MegaFon Finance LLC
Statements of Operations
(in thousands of Rubles)

| | Note | Year Ended December 31, | | |
|---|------|-------------------------|-------------|------------|
| | | 2009 | 2008 | 2007 |
| Investment income | | | | |
| Interest income | 5, 7 | 366 | 591 | 846 |
| Operating expenses | | | | |
| Salaries and social charges | | 244 | 294 | 280 |
| Rent | | 24 | 22 | 10 |
| Other general and administrative expenses | | 25 | 27 | 12 |
| Other operating expenses | | 41 | 197 | 10 |
| Total operating expenses | | 331 | 540 | 312 |
| Operating income | | 35 | 51 | 534 |
| Other income | | | | |
| Foreign currency exchange gain, net | | 137 | 245 | — |
| Total other income | | 137 | 245 | — |
| Income before income taxes | | 172 | 296 | 534 |
| Benefit / (provision) for income taxes | 6 | 171 | (329) | (390) |
| Net income (loss) | | 343 | (33) | 144 |

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

MegaFon Finance LLC
Statements of Cash Flows
(in thousands of Rubles)

| | Year Ended December 31, | | |
|---|--------------------------------|---------------|----------------|
| | 2009 | 2008 | 2007 |
| Cash flows from operating activities | | | |
| Net income (loss) | 343 | (33) | 144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Net foreign exchange gain | (137) | (245) | — |
| (Benefit) / provision for deferred income taxes | (171) | 329 | 128 |
| Changes in assets and liabilities: | | | |
| Interest receivable | (193) | — | — |
| Prepayments and other current assets | 655 | 1 | 312 |
| Accounts payable and accrued expenses | 1 | — | 1 |
| Net cash provided by operating activities | 498 | 52 | 585 |
| Cash flows from investing activities | | | |
| (Increase)/ decrease in investments, net | (11,200) | 10,000 | (1,000) |
| Net cash (used in) / provided by investing activities | (11,200) | 10,000 | (1,000) |
| Effect of exchange rate changes on cash and cash equivalents | 137 | 245 | — |
| Net (decrease) / increase in cash and cash equivalents | (10,565) | 10,297 | (415) |
| Cash and cash equivalents at the beginning of the period | 10,659 | 362 | 777 |
| Cash and cash equivalents at the end of the period | 94 | 10,659 | 362 |

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

MegaFon Finance LLC
Statements of Changes in Net Assets Attributable to Participant
(in thousands of Rubles)

| | Charter capital | Additional Paid-In Capital | Accumulated losses | Total net assets attributable to Participant |
|---|--------------------|----------------------------------|-----------------------|---|
| Balances as of January 1, 2007 | 3,000 | 15,000 | (6,130) | 11,870 |
| Net income | — | — | 144 | 144 |
| Balances as of December 31, 2007 | 3,000 | 15,000 | (5,986) | 12,014 |
| Net loss | — | — | (33) | (33) |
| Balances as of December 31, 2008 | 3,000 | 15,000 | (6,019) | 11,981 |
| Net income | — | — | 343 | 343 |
| Balances as of December 31, 2009 | 3,000 | 15,000 | (5,676) | 12,324 |

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

MegaFon Finance LLC
Notes to Financial Statements
(in thousands of Rubles, unless stated otherwise)

Note 1. Description of Business

MegaFon Finance LLC (the “Company”) was formed in the Russian Federation (“Russia”) on March 03, 2003 by OJSC MegaFon (the sole Participant).

The corporate objectives of the Company are:

- ▶ issuance of Ruble bonds for the sole purpose of financing loans to the sole Participant;
- ▶ granting of loans to the sole Participant;
- ▶ granting of security interests over its assets in relation to the issuance of the bonds, and
- ▶ placing deposits with banks or with other financial instruments.

The Company may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate objectives.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The statutory accounting records of the Company are maintained in Russian Rubles (“RUR”) and are prepared in accordance with the accounting requirements provided for under Russian accounting and tax legislation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”). The accompanying financial statements differ from statutory financial statements used in Russia as they reflect certain adjustments, which are necessary to present the financial position, results of operations and cash flows in accordance with US GAAP. The functional and reporting currency of the Company is the RUR as a majority of its revenues, costs, debt and liabilities is either priced, incurred payable or otherwise measured in RUR. The Company evaluated subsequent events up to October 28, 2010, the date these financial statements were issued. The accompanying financial statements are presented in thousands of Russian Rubles.

Comprehensive income (loss): Comprehensive income (loss) of the Company for the years ended December 31, 2009, 2008 and 2007 is equal to the net income (loss) for the respective periods.

Use of Estimates: The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: from time to time, the Company may hold cash on hand and deposits in banks with an original maturity of three months or less which are classified as cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Short-Term Investments: the Company classifies investments and time deposits with an original maturity of more than three months but less than twelve months from the date of purchase that the Company may hold from time to time, as short-term investments. Short-term investments are shown at cost which approximates fair value. The carrying amount of short-term investments is reduced to recognize any decline in value which is other than temporary.

Long-Term Investments and Loans Granted: Loans granted are shown at cost which approximates fair value. The carrying amount of loans granted is reduced to recognize any decline in value which is other than temporary.

Revenue Recognition: The Company records interest income on an accrual basis. The Company does not accrue as a receivable interest on loans and debt securities if it has reason to doubt the ability to collect such income.

MegaFon Finance LLC

Notes to Financial Statements (continued) (in thousands of Rubles, unless stated otherwise)

Net assets attributable to Participant: In accordance with the Company's charter the Participant has right to withdraw from the Company and require the Company to repay its respective share in net assets. Accordingly, Participant's interest in net assets of the Company is classified as a liability in the accompanying financial statements.

Income Taxes: Provisions are recorded in the financial statements for taxation of profits in accordance with Russian legislations currently in force. The Company accounts for income taxes under the liability method. Deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future.

Uncertainty in Income Taxes: The Company accounts for uncertain tax positions and reflects liabilities for unrecognized income tax benefits together with corresponding interest and penalties in the statement of operations as income tax expense.

Note 3. Recently Issued Accounting Standards

Accounting Standards Codification. In June 2009, the Financial Accounting Standards Board ("FASB") issued a standard that established the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with US GAAP. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates ("ASU"). The ASC is effective for interim and annual periods ending after September 15, 2009.

Subsequent events. In May 2009, the FASB issued an accounting standard (ASC 855) which establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard is effective on a prospective basis for interim or annual financial periods ending after June 15, 2009. The adoption of the standard did not have a material impact on the Company's 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 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 annual reporting periods ending on or after December 15, 2011. The Company is currently evaluating the impact of this ASU on its financial statements.

Note 4. Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, short-term investments and the loan granted to the sole Participant.

As of December 31, 2009, concentration of credit risk exist for the loan granted to the sole Participant as most of the future cash inflows are expected to be derived from this instrument.

Note 5. Investment income

Investment income for the years ended December 31 are as follows:

| | 2009 | 2008 | 2007 |
|---|------------|------------|------------|
| Interest on short-term investments | 173 | 591 | 846 |
| Interest on loan granted to Participant | 193 | — | — |
| Investment income | 366 | 591 | 846 |

MegaFon Finance LLC
Notes to Financial Statements (continued)
(in thousands of Rubles, unless stated otherwise)

Note 6. Income Taxes

The following presents the significant components of the Company's provision for income taxes for the years ended December 31:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-------------------|---------------------|---------------------|
| Current income taxes | — | — | (262) |
| Deferred income tax (charge) / benefit | 171 | (329) | (128) |
| Total income taxes | <u>171</u> | <u>(329)</u> | <u>(390)</u> |

Income taxes represent the Company's provision for profit tax. Profit tax is calculated at 20% of taxable profit for the year ended December 31, 2009 and 24% of taxable profit for the years ended December 31, 2008 and 2007, since, in accordance with the laws of the Russian Federation, effective January 1, 2009 the corporate income tax rate decreased from 24% to 20%.

The reconciliation between the provision for income taxes reported in the financial statements versus the provision for income taxes computed by applying the Russian enacted statutory tax rate to income before income taxes and minority interest is as follows:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-------------------|---------------------|---------------------|
| Income before income taxes | 172 | 296 | 534 |
| Statutory income tax rate | 20% | 24% | 24% |
| Income tax expense computed on income before taxes at Russian statutory tax rate | (35) | (71) | (128) |
| Recognized tax penalties | — | — | (262) |
| Effect of a change in statutory income tax rate | — | (114) | — |
| Net change in valuation allowance | 206 | (144) | — |
| Provision for income taxes reported in the consolidated financial statements | <u>171</u> | <u>(329)</u> | <u>(390)</u> |

For Russian income tax purposes, the Company has operating loss carry-forwards ("NOLs"), which may be carried forward ten years to offset future taxable income. The use of these NOLs is not restricted in 2009 or in future years up to 2015. As of December 31, 2009, the Company had NOLs available for carry-forward aggregating approximately 29,500 with a related tax benefit of 5,900 which expires in 2015.

As of December 31, 2007, 2008 and 2009, the Company recorded valuation allowance for the deferred tax asset resulting from NOLs which is expected to be expired. The amounts of available NOLs, valuation allowance, and respective deferred tax assets were as follows:

| | <u>December 31,</u> | | |
|--|---------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| NOL available for carry-forwards | 29,639 | 29,811 | 30,109 |
| Allowance for NOL expected to be expired | (25,934) | (26,966) | (26,364) |
| NOL expected to be utilized | <u>3,705</u> | <u>2,845</u> | <u>3,745</u> |
| Deferred tax asset recorded with respect to NOL | <u>741</u> | <u>570</u> | <u>899</u> |

MegaFon Finance LLC
Notes to Financial Statements (continued)
(in thousands of Rubles, unless stated otherwise)

Note 7. Related party transactions

In October 2009, the Company granted a loan to the sole Participant in the amount of 11,200 at interest rate of 10 p.a., which matures in 5 years. During 2009 the Company recognized interest income in the amount of 193 on the loan. As of December 31, 2009, the loan is shown at cost which approximates fair value.

Note 8. 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 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 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 has 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.

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.

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

Litigation

The Company is not a party to any material litigation, although in the ordinary course of business, the Company may become a party to legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which it operate.

Note 9. Subsequent events

On October 28, 2010, the sole Participant approved a decision to register with Federal Commission for Security Market series 02, 03 and 04 interest-bearing ruble-denominated bonds with the total nominal amount of 30,000 maturing in up to 10 years. As of October 28, 2010, no series 02, 03 and 04 ruble bonds were issued and sold to investors.