

Press Release

MegaFon achieved a 21% growth in Revenue, and increased Net Income by 23%, during the third quarter of 2010

MOSCOW, Russia (November 23, 2010) - Open Joint Stock Company “MegaFon” (“MegaFon”, or the “Company”), a major pan-Russian universal telecommunications service provider, announces its financial¹ and operational results for the third quarter ended September 30, 2010.

Key financial and operational results for the third quarter ended September 30, 2010

- 21.3% year-on-year revenue growth, reaching RUR 57,566 million
- 12.6% year-on-year increase in OIBDA to RUR 26,538 million
- OIBDA margin in the third quarter of 2010 was 46.1% as compared to 49.7% in the third quarter of 2009
- Net income grew by 23.1% year-on-year, to RUR 14,006 million, as compared to RUR 11,379 million in the third quarter of 2009
- Free cash flow for the nine months ended September 30, 2010 reached RUR 29,273 million
- Net Positive Cash Position as of September 30, 2010 was RUR 41,329 million
- Capital expenditure for the nine months ended September 30, 2010 was RUR 34,869 million
- Revenues from Value Added Services (“VAS”) were 20.7% of total revenues, versus 17.2% one year before.
- 56.4² million net subscribers as of September 30, 2010, a 16.3% increase year-on-year

¹ Unaudited US GAAP

² Consolidated data includes subscribers of the Company in Russia and subscribers of its subsidiaries CJSC TT-mobile in Tajikistan, CJSC AquaFon-GSM in the Republic of Abkhazia and CJSC Ostelecom in the Republic of South Ossetia

Sergey Soldatenkov, Chief Executive Officer of MegaFon, commented on the results that were announced today: “We have achieved excellent results in the third quarter. The Company keeps growing on a sustainable basis. In addition to growth in our traditional voice services, the growth was also driven by data services which increased by 14% as compared to the second quarter of 2010. This is why we are focusing on projects related to the further development of 3G networks and data centers in the coming three years.

We will continue the integration of our mobile and fixed-line businesses so as to move MegaFon towards its objective of becoming a universal operator with rapid growth in all telecom market segments to the benefit of our clients”.

Key corporate events of the third quarter of 2010

- Mikhail Dubin, former Deputy CEO of OAO Telecominvest, was appointed to a newly established position of First Deputy CEO of MegaFon for Strategic Development.
- MegaFon’s Board of Directors reviewed the Company’s business plans for the period 2011-2013. Projects related to further progress of 3G networks, data centers and our own retail operations will be the key areas of development.
- An Extraordinary General Shareholders Meeting of MegaFon unanimously approved the acquisition of 100% of the shares of PeterStar from Synterra, a subsidiary of MegaFon, for a price of US\$215 million.
- Sergey Soldatenkov, CEO of MegaFon, was ranked as the best manager of all Russian telecommunication companies in the annual rating of the top 1000 Russian managers, conducted by Association of managers of Russia together with Kommersant Publishing House. MegaFon’s other managers also achieved a #1 ranking in 8 out of the 9 rating subgroups, which underlines the high level of professionalism of our operational team, and is consistent with our objective of achieving leadership positions in all aspects of our business .

Key business events of the third quarter of 2010

- The number of 3G base stations installed in the Stolichny Branch (Moscow and the Moscow Region) reached one thousand. By the end of 2010, the total number of 3G sites will grow to 2,500. This 3G network, operating at speeds of up to 7.2 Mbps, helps Moscow citizens and visitors enjoy the most advanced data services in Russia.
- MegaFon and Rostelecom have successfully tested 4G (LTE protocol) networks at one of the main Olympic sites – the downhill ski resort “Roza Khutor” located in Krasnaya Polyana.
- According to AC&M Consulting MegaFon had the most Net Adds of all operators during the reporting period.

Key Consolidated Financial Data (In millions of Rubles)

Starting in the second quarter of 2010, the Company has changed the format of presentation of its financial results to break out separately the results for the wireless and wireline sectors.

| | Q3 2010 | Q3 2009 ³ | Q3 2010/ Q3 2009 | Q2 2010 | Q3 2010/ Q2 2010 |
|--------------------------------|---------------|----------------------|---------------------|---------------|---------------------|
| Revenue | 57,566 | 47,451 | 21.3% | 52,215 | 10.2% |
| Wireless business | 54,618 | 47,293 | 15.5% | 51,125 | 6.8% |
| Wireline business ⁴ | 2,948 | 158 | — | 1,090 | — |
| OIBDA | 26,538 | 23,571 | 12.6% | 23,706 | 11.9% |
| Wireless business | 25,613 | — | — | 23,367 | 9.6% |
| Wireline business ⁴ | 925 | — | — | 339 | — |
| OIBDA Margin | 46.1% | 49.7% | (3.6 p.p.) | 45.4% | 0.7 p.p. |
| Wireless business | 46.9% | — | — | 45.7% | 1.2 p.p. |
| Wireline business | 31.4% | — | — | 31.1% | 0.3 p.p. |
| Net Income | 14,006 | 11,379 | 23.1% | 12,223 | 14.6% |

Wireless business

Wireless revenue grew by 15.5% in the third quarter of 2010 as compared to the third quarter of 2009. This was primarily due to a significant increase in the Company's subscriber base and also in VAS revenue. The 6.8% increase in wireless revenue as compared to the second quarter of 2010 was due to the growth of wireless data revenue and a seasonal increase in roaming and domestic long distance/international long distance ("DLD/ILD") traffic.

Wireless data revenue increased by 14.2% in the reporting period as compared to the second quarter of 2010 reaching RUR 5,144 million, which is also 90.8% higher than the revenue in the third quarter of 2009.

OIBDA increased by 9.6% and OIBDA margin grew by 1.2 p.p. as compared to the second quarter of 2010 due to an increase in revenue as well as a reduction in sales and marketing expenses.

³ Certain amounts for previous periods were reclassified in order to present information in the format of the reporting period

⁴ The Company has consolidated operating results of Synterra from June 2010

Key Operational Highlights of Wireless Business in Russia

| | Q3 2010 | Q3 2009 ⁵ | Q3 2010/ Q3 2009 | Q2 2010 | Q3 2010/ Q2 2010 |
|--|---------|----------------------|---------------------|---------|---------------------|
| Number of active subscribers (K) | 55,856 | 48,061 | 16.2% | 53,519 | 4.4% |
| Market share by subscribers ⁶ | 25.8% | 23.6% | 2.2 p.p. | 25.1% | 0.7 p.p. |
| MOU (min.) | 285 | 275 | 3.6% | 291 | (2.1%) |
| ARPU (RUR) | 321 | 326 | (1.5%) | 315 | 1.9% |

The quarter-on-quarter decrease in MOU was due to a seasonal decrease in business activity. The increase in MOU over the third quarter of 2009 was due to the well balanced tariff policy of the Company and a growing number of on-net calls.

The increase in ARPU over the second quarter of 2010 was due to a seasonal increase in high-margin service usage (roaming and "DLD/ILD"). While ARPU decreased slightly as compared to the third quarter of 2009, the decrease was off-set by the increase in the subscriber base in the third quarter of 2010.

Data traffic grew by 900%, and voice traffic grew by 21%, in each case as compared to the third quarter of 2009.

Reference

OJSC MegaFon is a major pan-Russian universal telecommunication service provider, operating in all segments of the telecommunications markets in Russia. MegaFon was established in May 2002 and became the first (and still is the only) operator with a network covering all regions of Russia. The Company and its subsidiaries have licenses to operate in all of the Russian regions and in the Republics of Abkhazia, South Ossetia and Tajikistan. The Company was the first in Russia to launch 3G for commercial operations and is currently in the number one position among all operators in the provision of mobile Internet, and in the number two position as to the number of active subscribers in Russia. As a result of its acquisition of the Synterra Group, one of the leading Russian backbone operator, in June 2010, MegaFon entered the fixed-line B2B and B2G businesses, as well as the markets for fixed broadband. The combined infrastructure of MegaFon and Synterra covers all regions in Russia, providing a platform for the provision of GSM 900/1800, 3G, VSAT, IP/MPLS, NLD/ILD networks, and data and call centers, to all potential customers for telecommunication services. In 2009, MegaFon became the Mobile General Partner of the XXII Winter Olympic Games and XI Paralympic Games to be held in Sochi in 2014. As of September 30, 2010, the principal shareholders of MegaFon are companies in the AF Telecom group, the TeliaSonera group and the Altimo telecommunications group.

For additional information

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⁵ Certain amounts for previous periods were reclassified in order to present information in the format of the reporting period

⁶ Source – AC&M Consulting

Schedule 1: Definitions

ARPU (Average Revenue Per User) is calculated by dividing the total revenue for the period, excluding fixed line revenue, revenue from sales of handsets, accessories and other revenues, by the average number of subscribers for the period and then by the number of months in the period.

MOU (Monthly Average Minutes of Use per User) is calculated by dividing total minutes used during the period by the average number of subscribers for the period and then by the number of months in the period.

OIBDA (Operating Income Before Depreciation and Amortization) is a non-US GAAP financial measure; it should be considered as supplementary but not as an alternative to the information provided in the financial statements of the Company. OIBDA margin means OIBDA as a percentage of revenue. The Company believes that OIBDA provides a better measure of the Company's actual operational results including our ability to finance capital expenditures, acquisitions and other investments and the Company's ability to incur and service debt. While it does not take into account depreciation of property, plant and equipment and amortization of intangible assets, which are considered as operating expenses in US GAAP, these expenses primarily represent non-cash charges related to long-lived assets acquired or constructed in prior periods. OIBDA is widely used by investors, analysts and rating agencies as a measure to evaluate and compare current and future operating performance and to determine the value of companies within the telecommunications industry. A reconciliation of OIBDA to operating income, the most directly comparable US GAAP measure, is provided in Schedule 3.

Capital Expenditures (CAPEX) comprises the cost of purchases of new equipment, new construction, acquisition of new or upgrades to software and other intangible assets, and purchases of other long-term assets, together with related costs incurred prior to the intended use of the applicable assets, all accounted for as of at the earliest time of payment or delivery. Long-term assets obtained through business combinations are not included in the calculation of capital expenditures.

Free Cash Flow means cash from operating activities, less cash paid for purchases of property, plant and equipment and intangible assets, increased by proceeds from sales of property, plant and equipment. It is a non-US GAAP financial measure and should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. This metric measures the Company's ability to generate cash after accruals required to maintain and expand the Company's assets. A reconciliation of free cash flow and cash from operating activities, as the most directly comparable US GAAP measure, is provided in Schedule 3.

Net positive cash position means the difference between (a) cash, cash equivalents and short-term investments and (b) loans payable. It is a non-US GAAP financial measure and should be considered as supplementary but not as an alternative to the information provided in the Company's financial statements. The Company believes that this metric provides useful information as to the liquidity position of the Company after loan repayments. A description of how the metric is calculated is provided in Schedule 3 below.

Schedule 2: Condensed Consolidated Financial Statements

MegaFon Condensed Unaudited Consolidated Statements of Operations (In millions of Rubles)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|---------|
| | 2009 | 2010 | 2009 | 2010 |
| Revenue | 47,451 | 57,566 | 133,538 | 156,524 |
| Cost of services | 9,605 | 13,109 | 27,250 | 34,449 |
| Gross margin | 37,846 | 44,457 | 106,288 | 122,075 |
| Sales and marketing expenses | 4,740 | 4,770 | 11,862 | 14,316 |
| Operating expenses | 9,535 | 13,149 | 29,232 | 36,093 |
| Depreciation, amortization and accretion | 8,067 | 9,949 | 23,495 | 27,767 |
| Operating income | 15,504 | 16,589 | 41,699 | 43,899 |
| Other income/(expense): | | | | |
| Interest expense | (436) | (218) | (1,217) | (565) |
| Interest income | 707 | 978 | 1,925 | 2,988 |
| Other gain/(loss), net | (2) | 63 | (56) | 112 |
| Gain/(loss) on derivatives, net | 18 | 137 | (484) | (166) |
| Foreign currency exchange loss, net | (1,073) | (68) | (1,639) | (647) |
| Total other income/(expense), net | (786) | 892 | (1,471) | 1,722 |
| Income before income taxes and noncontrolling interests | 14,718 | 17,481 | 40,228 | 45,621 |
| Provision for income taxes | 3,321 | 3,497 | 8,729 | 9,136 |
| Net income | 11,397 | 13,984 | 31,499 | 36,485 |
| Net gain/(loss) attributable to noncontrolling interests | 18 | (22) | (1) | (27) |
| Net income attributable to MegaFon | 11,379 | 14,006 | 31,500 | 36,512 |

MegaFon
Condensed Consolidated Balance Sheets (In millions of Rubles)

| | December 31, 2009 | September 30, 2010 (unaudited) |
|---|----------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | 12,550 | 3,414 |
| Short-term investments | 49,114 | 73,399 |
| Accounts receivable net of allowance for doubtful accounts | 4,085 | 6,769 |
| Inventory | 1,219 | 2,596 |
| VAT receivable | 2,037 | 2,413 |
| Deferred tax assets | 772 | 916 |
| Prepaid assets | 8,589 | 8,114 |
| Other current assets | 1,784 | 2,643 |
| Total current assets | 80,150 | 100,264 |
| Property, plant and equipment, net | 147,231 | 173,594 |
| Goodwill | 498 | 6,115 |
| Intangible assets, net | 16,869 | 18,167 |
| Other non-current assets | 1,432 | 1,940 |
| Total assets | 246,180 | 300,080 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable | 4,888 | 8,468 |
| Accounts payable to equipment suppliers | 7,008 | 4,493 |
| Current portion of liability for marketing related licenses | 287 | 335 |
| Current portion of liability for deferred and contingent consideration | — | 1,414 |
| Accrued compensation and social contributions | 3,435 | 3,958 |
| Subscribers' prepayments | 7,083 | 5,920 |
| Taxes payable | 1,880 | 1,438 |
| VAT payable | 1,240 | 3,767 |
| Deferred revenue | 358 | 434 |
| Current portion of long-term debt | 7,811 | 12,193 |
| Other current liabilities | 645 | 776 |
| Total current liabilities | 34,635 | 43,196 |
| Debt, less current portion | 19,335 | 23,291 |
| Deferred tax liabilities, less current portion | 2,070 | 4,243 |
| Asset retirement obligations | 3,303 | 3,997 |
| Liability for marketing related licenses, less current portion | 1,054 | 1,016 |
| Liability for deferred and contingent consideration, less current portion | — | 1,727 |
| Deferred revenue, less current portion | 1,568 | 1,652 |
| Other non-current liabilities | 301 | 511 |
| Total liabilities | 62,266 | 79,633 |
| Equity: | | |
| MegaFon shareholders' equity: | | |
| Common Stock | 581 | 581 |
| Reserve fund | 17 | 17 |
| Additional paid-in capital | 13,870 | 13,855 |
| Retained earnings | 169,199 | 205,711 |
| Accumulated other comprehensive loss | (255) | (260) |
| Total MegaFon shareholders' equity | 183,412 | 219,904 |
| Noncontrolling interests | 502 | 543 |
| Total equity | 183,914 | 220,447 |
| Total liabilities and equity | 246,180 | 300,080 |

MegaFon

Condensed Unaudited Consolidated Statements of Cash Flows (In millions of Rubles)

| | Nine months ended September 30, | |
|--|---------------------------------|----------|
| | 2009 | 2010 |
| Net cash provided by operating activities | 61,655 | 64,914 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment and intangible assets | (25,707) | (35,925) |
| Proceeds from sale of property, plant and equipment | 268 | 284 |
| Acquisitions of subsidiaries, net of cash acquired | (648) | (8,434) |
| Advance paid for acquisition of Metrocom | — | (200) |
| Purchase of noncontrolling interest in consolidated subsidiaries | — | (96) |
| Increase in short-term investments | (17,136) | (24,682) |
| Other investing activities | — | 8 |
| Net cash used in investing activities | (43,223) | (69,045) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 7,706 | 11,873 |
| Repayments of long-term debt | (4,363) | (16,153) |
| Deferred finance charges paid | (263) | (162) |
| Dividends paid to noncontrolling interest | (31) | (93) |
| Net cash provided by/(used in) financing activities | 3,049 | (4,535) |
| Effect of exchange rate changes on cash and cash equivalents | (1,865) | (470) |
| Net increase/(decrease) in cash and cash equivalents | 19,616 | (9,136) |
| Cash and cash equivalents at the beginning of the period | 6,465 | 12,550 |
| Cash and cash equivalents at the end of the period | 26,081 | 3,414 |

Schedule 3: Reconciliations of non-US GAAP financial measures (unaudited data)

OIBDA (In millions of Rubles)

| | Q3 2009 | Q4 2009 | Q1 2010 | Q2 2010 | Q3 2010 |
|--|---------|---------|---------|---------|---------|
| Operating income | 15,504 | 15,149 | 12,786 | 14,524 | 16,589 |
| Depreciation, amortization and accretion | 8,067 | 7,849 | 8,636 | 9,182 | 9,949 |
| OIBDA | 23,571 | 22,998 | 21,422 | 23,706 | 26,538 |

OIBDA margin as a percentage of Revenue

| | Q3 2009 | Q4 2009 | Q1 2010 | Q2 2010 | Q3 2010 |
|--|---------|---------|---------|---------|---------|
| Operating income | 32.7% | 31.3% | 27.3% | 27.8% | 28.8% |
| Depreciation, amortization and accretion | 17.0% | 16.3% | 18.5% | 17.6% | 17.3% |
| OIBDA margin | 49.7% | 47.6% | 45.8% | 45.4% | 46.1% |

Positive Net Cash Position (In millions of Rubles)

| | Sep 30, 2009 | Dec 31, 2009 | Mar 31, 2010 | Jun 30, 2010 | Sep 30, 2010 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash and cash equivalents | 26,081 | 12,550 | 9,742 | 8,464 | 3,414 |
| Short term financial investments | 51,890 | 49,114 | 61,071 | 61,652 | 73,399 |
| Loans and borrowings | (36,080) | (27,146) | (24,462) | (35,410) | (35,484) |
| Shareholders loans | (3,910) | — | — | — | — |
| Positive net cash position | 37,981 | 34,518 | 46,351 | 34,706 | 41,329 |

Free Cash Flow (In millions of Rubles)

| | Nine months ended September 30, 2009 | Nine months ended September 30, 2010 |
|---|---|---|
| Cash from operating activities | 61,655 | 64,914 |
| Purchase of property, plant and equipment and intangible assets | (25,707) | (35,925) |
| Proceeds from sale of property, plant and equipment | 268 | 284 |
| Free cash flow | 36,216 | 29,273 |