JSFC SISTEMA AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2009 and 2008 and
For the Years Then Ended

JSFC SISTEMA AND SUBSIDIARIES

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Sistema:

We have audited the accompanying consolidated balance sheets of JSFC Sistema and its subsidiaries (the "Group") as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Group'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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Group'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and 2008, 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 of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Group changed its method of presentation and accounting for non-controlling interests.

Further, as discussed in Note 16 to the consolidated financial statements, during the year ended December 31, 2009, the Group recognized an impairment charge on its investment in the shares of Open Joint-Stock Company "Telecommunication Investment Company" ("Svyazinvest") in the amount of $349 million. The carrying value of this investment was written down to $860 million as of December 31, 2009 based on the estimated fair value of the investment as of that date. In the absence of readily determinable fair value of the investment in Svyazinvest, management reached its conclusion based on the use of estimates incorporating various unobservable market inputs as discussed in Note 16. Because of the material uncertainties inherent in the valuation of Svyazinvest, the value the Group could realize had a disposal of this investment been made between a willing buyer and seller may differ materially from its resultant carrying amount.

Deloitte & Touche

April 26, 2010

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes		2009		2008*
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	5	$	3,845,427	$	1,982,350
Short-term investments	6		1,210,608		617,240
Loans to customers and banks, net	7		4,072,308		3,176,376
Accounts receivable, net	8		1,334,169		1,088,176
Prepaid expenses, other receivables and other current assets, net	9		1,426,794		1,337,316
VAT receivable			302,703		222,356
Inventories and spare parts	10		1,137,294		862,981
Deferred tax assets, current portion	22		348,965		262,989
Assets of discontinued operations	4		-		147,238
Total current assets			13,678,268		9,697,022
NON-CURRENT ASSETS:					
Property, plant and equipment, net	11		19,266,950		10,327,868
Advance payments for non-current assets			502,481		219,119
Goodwill	12		1,647,102		1,351,202
Licenses, net	13		1,025,462		1,174,521
Other intangible assets, net	14		1,772,540		1,723,827
Investments in and loans to affiliates	15		631,822		1,427,068
Investments in shares of Svyazinvest	16		859,668		1,240,977
Loans to customers and banks, net of current portion	7		1,264,153		1,402,298
Debt issuance costs, net			162,525		42,315
Deferred tax assets, net of current portion	22		243,569		181,317
Long-term investments			692,983		201,287
Other non-current assets			263,517		188,294
Total non-current assets			28,332,772		19,480,093
TOTAL ASSETS		$	42,011,040	$	29,177,115

*The balance sheet has been amended to reflect revision of amounts related to the disposal of discontinued operations (Note 4)

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 1,416,118	$ 1,567,271
Bank deposits and notes issued, current portion	17	3,248,880	3,538,255
Taxes payable		736,834	206,745
Deferred tax liabilities, current portion	22	87,415	70,903
Subscriber prepayments, current portion	21	554,409	496,775
Accrued expenses and other current liabilities	18	2,371,934	1,365,005
Short-term loans payable	19	539,379	1,458,647
Current portion of long-term debt	20	4,229,864	2,234,507
Liabilities of discontinued operations	4	-	70,349
Total current liabilities		13,184,833	11,008,457
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	20	11,400,393	6,961,551
Subscriber prepayments, net of current portion	21	130,153	119,722
Bank deposits and notes issued, net of current portion	17	1,259,065	803,112
Deferred tax liabilities, net of current portion	22	1,610,725	505,259
Asset retirement obligation	2	189,490	62,053
Postretirement benefits obligation	23	31,870	35,464
Property, plant and equipment contributions	24	112,255	115,732
Total long-term liabilities		14,733,951	8,602,893
TOTAL LIABILITIES		27,918,784	19,611,350
Commitments and contingencies	30	-	-
Redeemable non-controlling interests	2	82,261	237,948
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; and 9,278,981,940 shares outstanding with par value of 0.09 Russian Rubles)	26	30,057	30,057
Treasury stock (371,018,060 shares with par value of 0.09 Russian Rubles)		(466,345)	(466,345)
Additional paid-in capital		1,745,386	2,450,496
Retained earnings		5,577,759	3,930,143
Accumulated other comprehensive loss		(93,647)	(453,107)
Total JSFC Sistema shareholders' equity		6,793,210	5,491,244
Non-controlling interests in equity of subsidiaries		7,216,785	3,836,573
TOTAL EQUITY		14,009,995	9,327,817
TOTAL LIABILITIES AND EQUITY		$ 42,011,040	$ 29,177,115

*The balance sheet has been amended to reflect revision of amounts related to the disposal of discontinued operations (Note 4)

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2009	2008*
Sales		$ 18,052,589	$ 15,380,215
Revenues from financial services		697,227	690,912
TOTAL REVENUES		18,749,816	16,071,127
Cost of sales, exclusive of depreciation and amortization shown separately below		(7,493,159)	(6,059,005)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(458,015)	(385,457)
Selling, general and administrative expenses		(3,227,594)	(3,169,832)
Depreciation, depletion and amortization		(2,490,514)	(2,316,268)
Provision for doubtful accounts		(261,182)	(270,069)
Loss from impairment of goodwill and other assets		(362,215)	(270,667)
Impairment of investment in Svyazinvest	16	(349,370)	-
Taxes other than income tax		(1,722,547)	(250,178)
Other operating expenses, net		(452,313)	(246,551)
Equity in net income of investees		(12,758)	4,925
Gain on acquisition	3	2,782,835	-
(Loss)/gain on disposal of interests in subsidiaries and affiliates		(383,978)	29,960
OPERATING INCOME		4,319,006	3,137,985
Interest income		192,176	72,901
Change in fair value of derivative instruments	25	(35,200)	(47,559)
Interest expense, net of amounts capitalized		(1,328,609)	(554,614)
Currency exchange and translation loss		(92,825)	(890,455)
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan		3,054,548	1,718,258
Income tax expense	22	(746,668)	(854,095)
Equity in net income of energy companies in the Republic of Bashkortostan		4,400	241,699
Income from continuing operations		$ 2,312,280	$ 1,105,862
Loss from discontinued operations, net of income tax benefit/(expense) of $nil and $222, respectively		-	22,950
(Loss)/gain from disposal of discontinued operations, net of income tax effect of $nil and $280, respectively	4	(26,194)	2,053
NET INCOME		$ 2,286,086	$ 1,130,865
Non-controlling interest		(642,645)	(1,068,889)
NET INCOME ATTRIBUTABLE TO JSFC SISTEMA		$ 1,643,441	$ 61,976
Weighted average number of common shares outstanding		9,278,981,940	9,278,547,603
Income per share, basic and diluted, US cent			
Income from continuing operations		17.99	0.40
(Loss)/income from discontinued operations		(0.28)	0.27
Net income attributable to JSFC Sistema shareholders		17.71	0.67

* The Statement of operations has been amended to reflect revision of amounts related to the disposal of discontinued operations (Note 4)

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,286,086	$ 1,130,865
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	2,490,514	2,316,295
Loss/(gain) from disposal of discontinued operations	26,194	(2,053)
Gain on acquisition (see Note 3)	(2,782,835)	-
Loss from discontinued operations	-	4,194
Equity in net income of investees	8,358	(241,699)
Dividends received from affiliates	107,735	26,693
Deferred income tax benefit	(29,954)	(237,006)
Change in fair value of derivative financial instruments	35,200	47,559
Foreign currency transactions losses	92,825	894,539
Debt issuance cost amortization	51,707	53,831
Non-cash compensation to employees of subsidiaries	10,946	10,897
Non-cash expenses associated with asset retirement obligation	5,916	6,026
Loss/(gain) on disposal of interests in subsidiaries and affiliates	383,978	(29,960)
Gain on sale of real estate investments	-	(20,530)
Gain on disposal of long-term investments	-	(30,091)
Loss from impairment of goodwill and other assets	362,215	288,214
Loss from impairment of investment in Svyazinvest	349,370	-
Loss/(gain)on disposal of property, plant and equipment	8,624	(4,193)
Loss/(gain) on change in fair value of trading securities	296	(9,525)
Amortization of connection fees	(36,449)	(56,719)
Provision for doubtful accounts receivable	261,182	237,963
Provision for irrecoverable VAT receivable	9,652	48,374
Provision for post-retirement benefits	67	3,119
Allowance for loan losses	34,606	41,246
Movement in uncertain tax positions	8,942	-
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(99,224)	(44,209)
Loans to banks issued by the banking division	(662,643)	(189,192)
Accounts receivable	(234,463)	(95,550)
VAT receivable	(133,088)	164,515
Prepaid expenses, other receivables and other current assets	256,753	(200,480)
Inventories	(120,194)	(137,152)
Accounts payable	(484,882)	142,813
Subscriber prepayments	77,871	(59,709)
Taxes payable	297,738	(17,303)
Accrued expenses, subscriber prepayments and other liabilities	442,544	(207,430)
Postretirement benefit obligation	(3,661)	(8,581)
Net cash provided by operations	$ 3,021,926	$ 3,825,761

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars)

		2009		2008
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment		(3,000,930)		(3,171,719)
Payments for purchases of intangible assets		(433,486)		(1,099,181)
Payments for purchases of businesses, net of cash acquired		(1,729,063)		(546,054)
Proceeds from sale of subsidiaries, net of cash disposed		123,165		224,784
Payments for purchases of long-term investments		(758,591)		(129,971)
Payments for purchases of short-term investments		(936,122)		(178,532)
Payments for purchases of other non-current assets		(145,914)		(168,880)
Proceeds from sale of other non-current assets		35,649		282,370
Decrease in restricted cash		11,778		343,218
Proceeds from sale of property, plant and equipment		5,196		232,743
Proceeds from sale of long-term investments		111,105		149,483
Proceeds from sale of short-term investments		336,127		529,157
Net increase in loans to customers of the banking division		(42,090)		(947,605)
Net cash used in investing activities	$	(6,423,176)	$	(4,480,187)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Principal payments on) / proceeds from short-term borrowings, net		(864,416)		667,214
Net (decrease)/increase in deposits from customers of the banking division		(1,201,192)		1,224,980
Net decrease in promissory notes issued by the banking division		1,008,365		256,223
Proceeds from long-term borrowings, net of debt issuance costs		11,638,990		4,353,464
Debt issuance costs		(174,844)		(7,883)
Principal payments on long-term borrowings		(4,390,547)		(2,651,447)
Principal payments on capital lease obligations		(8,755)		(7,849)
Acquisition of noncontrolling interests in existing subsidiaries		(194,233)		(1,394,646)
Proceeds from capital transactions of subsidiaries		-		131,000
Proceeds from sale of treasury shares		-		3,020
Payments to shareholders of subsidiaries		(605,477)		(600,314)
Dividends paid		-		(98,795)
Net cash provided by financing activities	$	5,207,891	$	1,874,967
Effects of foreign currency translation on cash and cash equivalents	$	56,436	$	(290,949)
INCREASE IN CASH AND CASH EQUIVALENTS	$	1,863,077	$	929,592
CASH AND CASH EQUIVALENTS, beginning of the period		1,982,350		1,061,733
CASH AND CASH EQUIVALENTS, end of the period	$	3,845,427	$	1,991,325 (1)
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	(1,246,503)	$	(451,448)
Income taxes		(599,907)		(1,088,312)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	3,213	$	3,194
Equipment acquired through vendor financing		27,983		810
Equipment acquired under capital leases		179,086		5,733
Amounts owed for capital expenditures		285,975		600,442
Debt issued in the course of exercise of the put option		-		363,552
Payable related to business acquisitions		37,985		74,547

[1]- Amount includes cash of discontinued operations of $9.0 million.

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Share capital		**Treasury stock**		**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income**	**JSFC Sistema's equity**	**Non-redeemable non-controlling interests**	**Total equity**	**Redeemable non-controlling interests**
	Shares	**Amount**	**Shares**	**Amount**							
Balances at January 1, 2008	**9,650,000,000**	**30,057**	**(373,907,132)**	**(469,365)**	**2,439,069**	**3,992,779**	**623,846**	**6,616,386**	**4,948,990**	**11,565,376**	**175,871**
Accrued compensation costs	-	-	-	-	11,427	-	-	11,427	5,644	17,071	-
Change in fair value of non-controlling interest	-	-	-	-	-	(25,726)	-	(25,726)	(20,453)	(46,179)	62,077
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(600,314)	(600,314)	-
Increase in ownership in existing subsidiaries	-	-	-	-	-	-		-	(911,412)	(911,412)	-
Disposals and capital transactions of subsidiaries	-	-	-	-	-	-	-	-	135,768	135,768	-
Dividends declared by JSFC Sistema	-	-	-	-	-	(98,886)	-	(98,886)	-	(98,886)	-
Sale of treasury stock	-	-	2,889,072	3,020	-	-	-	3,020	-	3,020	-
Comprehensive income:											
Change in fair value of interest rate swaps, net of income tax effect of $3,826	-	-	-	-	-	-	(8,997)	(8,997)	(7,362)	(16,359)	-
Effect of change in functional currency	-	-	-	-	-	-	52,499	52,499	13,125	65,624	-
Unrecognized actuarial gains, net of income tax effect of $nil	-	-	-	-	-	-	467	467	1,637	2,104	-
Translation adjustment, net of income tax effect of $nil	-	-	-	-	-	-	(1,120,922)	(1,120,922)	(797,939)	(1,918,861)	-
Net income	-	-	-	-	-	61,976	-	61,976	1,068,889	1,130,865	-
Total comprehensive income								(1,014,977)	278,350	(736,627)	
Balances at December 31, 2008	**9,650,000,000**	**30,057**	**(371,018,060)**	**(466,345)**	**2,450,496**	**3,930,143**	**(453,107)**	**5,491,244**	**3,836,573**	**9,327,817**	**237,948**
Accrued compensation costs	-	-	-	-	6,287	-	-	6,287	2,934	9,221	-
Change in fair value of non-controlling interests	-	-	-	-	-	4,175	-	4,175	3,320	7,495	(2,395)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(587,746)	(587,746)	(12,503)
Acquisition of non-controlling interests	-	-	-	-	22,511	-	-	22,511	(46,985)	(24,474)	(140,749)
Disposals and capital transactions of subsidiaries	-	-	-	-	(733,908)	-	86,267	(647,641)	576,124	(71,517)	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	2,552,102	2,552,102	-
Comprehensive income:											
Change in fair value of interest rate swaps, net of income tax effect of $3,527	-	-	-	-	-	-	(13,136)	(13,136)	(10,442)	(23,578)	-
Unrealized losses on available-for-sale securities, net of income tax effect of nil	-	-	-	-	-	-	(2,596)	(2,596)	-	(2,596)	-
Unrecognized actuarial gains, net of income tax effect of $nil	-	-	-	-	-	-	668	668	2,446	3,114	-
Translation adjustment, net of income tax effect of $nil	-	-	-	-	-	-	288,257	288,257	250,173	538,430	(4,399)
Net income	-	-	-	-	-	1,643,441	-	1,643,441	638,286	2,281,727	4,359
Total comprehensive income								1,916,634	880,463	2,797,097	
Balances at December 31, 2009	**9,650,000,000**	**30,057**	**(371,018,060)**	**(466,345)**	**1,745,386**	**5,577,759**	**(93,647)**	**6,793,210**	**7,216,785**	**14,009,995**	**82,261**

See notes to consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

Description of the Business – JSFC Sistema and subsidiaries ("the Group") operate in telecommunications, oil and energy, high technology, banking and other sectors, including retail, tourism, healthcare and others. The main focus of the Group's activities are service-based industries. Most of the consolidated entities and the parent company are incorporated in the Russian Federation ("RF").

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives and directors of the Group. The rest of the shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), and Russian stock exchanges.

The Group operates in four segments: Telecommunications, Technology and Industry, Consumer Assets and Oil and Energy. Below are the Group's operating segments and the principal activities of the significant entities of the Group within those segments:

Significant Entities	Short Name	Principal Activity
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Sistema Shyam TeleServices Limited	SSTL	Wireless telecommunication services
Sistema Mass Media and subsidiaries	SMM	Cable television, advertising, production and distribution of periodicals, movie production
Consumer Assets Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
Detsky Mir-Center and subsidiaries	DM-Center	Retail and wholesale trading
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Medsi and subsidiaries	Medsi	Healthcare services
Technology and Industry Segment:		
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
SITRONICS and subsidiaries	SITRONICS	IT and systems integration, telecommunication silutions, microelectronic solutions
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Oil and Energy Segment:		
ANK Bashneft	Bashneft	Oil and gas production
Ufaneftekhim	Ufaneftekhim	Refining activity
Novoil	Novoil	Refining activity
Ufaorgsintez	Ufaorgsintez	Refining activity
Ufimskiy NPZ	UNPZ	Refining activity
Bashkirnefteproduct	BNP	Retail and wholesale oil products trading
Bahskirenergo	Bahskirenergo	Energy production

Operating Environment – Since late 2008, major economies around the world have experienced volatile capital and credit markets. The ongoing financial crisis has resulted in capital markets instability, significant deterioration of liquidity and tighter credit conditions both globally and within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the general business conditions, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable. To date, the majority of the Group's operations have not been directly impacted by the economic downturn and credit tightening, other than recognition of losses on revaluation of borrowings denominated in foreign currencies and increase in interest rates on certain of the Group's borrowings. During the year ended December 31, 2009, the Group incurred foreign exchange losses of $92.8 million and interest expenses of $1.328.6 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records in the local currencies of the countries of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

Principles of Consolidation – The consolidated financial statements include the accounts of JSFC Sistema, as well as entities where JSFC Sistema has operating and financial control through direct or indirect ownership of a majority voting interest. The consolidated financial statements also include accounts of variable interest entities where the Group is the primary beneficiary. All significant intercompany transactions, balances and unrealized gains and losses on transactions have been eliminated.

The beneficial ownership interest and voting interest of JSFC Sistema in the significant subsidiaries as of December 31, 2009 and 2008 are as follows:

	Ownership interest		Voting interest	
Significant entities	**2009**	**2008**	**2009**	**2008**
MTS	55%	56%	55%	56%
Comstar UTS	35%	59%	64%	59%
SSTL	74%	74%	74%	74%
SITRONICS	70%	70%	70%	70%
MBRD	96%	97%	100%	100%
EWUB	99%	99%	100%	100%
DKB	100%	100%	100%	100%
Sistema-Hals	Affiliate	80%	Affiliate	80%
Intourist	66%	66%	66%	66%
DM-Center	100%	100%	100%	100%
Concern RTI	97%	97%	97%	97%
Medsi	100%	100%	100%	100%
Binnofarm	100%	100%	100%	100%
Bashneft	73%	21%	86%	26%
Novoil	71%	27%	95%	26%
UNPZ	63%	24%	88%	28%
Ufaneftekhim	53%	23%	79%	29%
Ufaorgsintez	59%	23%	84%	26%
BNP	74%	25%	80%	27%
Bashkirenergo	31%	12%	50%	-

Accounting policies – In connection with the acquisition of controlling interests in energy companies in the Republic of Bashkortostan, as discussed in Note 3, as well as in regard to ongoing operations, the Group has adopted the following accounting policies:

Revenue Recognition – The Group's subsidiaries earn and record revenues as follows:

<u>Oil and Gas</u>

Revenues from the production and sale of crude oil and petroleum products are recognised when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed and determinable. Revenues include excise on petroleum products sales and duties on export sales of crude oil and petroleum products. Excise taxes, which are re-charged to third parties under the terms of processing agreements, are excluded from revenues.

Power and Utilities

The Power and Utilities division of the Oil and Energy segment of the Group earns revenue from retail and wholesale electricity and heat sales, electricity transmission and connection services. Revenue from connection services represents non-refundable upfront fees for connecting customers to the electricity grid networks. The division recognizes revenues in the financial statements as follows:

(i) Revenue from retail and wholesale electricity and heat sales is recognized upon delivery of the electricity and heat to the customer. Tariffs for electricity and heat in the regulated market are approved by the State Service on Tariffs and the Regional Energy Commission.
(ii) Revenue from electricity transmission services is recognized upon receipt of customers' acceptance of the volume of electricity transmitted. Tariffs for electricity transmission are approved by the State Service on Tariffs and the Regional Energy Commission.
(iii) Non-refundable upfront fees received are deferred and recognized over the expected customer relationship period which is approximated by the estimated useful life of the transmission equipment used to connect to the electricity grid network of 30 years. Tariffs for connection services are approved by the State Service on Tariffs and the Regional Energy Commission.

Revenue amounts are presented net of value added taxes.

Depletion Expenses – Depletion expense of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves.

Transportation Expenses – Transportation expenses represent all expenses incurred in the transportation of crude oil and petroleum products via the Transneft pipeline network, as well as by railway and other transportation means. Transportation expenses also include all other shipping and handling costs.

Refinery Maintenance Costs – The Group recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred. Cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity are capitalized to the cost of the assets.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. 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 of the reporting period. Actual results could differ from those estimates.

Significant estimates include the allowance for doubtful accounts, allowance for customer loans, valuation of assets acquired and liabilities assumed in business combinations, the recoverability of intangible assets, goodwill and other long-lived assets, valuation allowances on deferred tax assets, valuation of asset retirement obligations, valuation of non-controlling interests, valuation of derivative instruments and share-based compensation, valuation of oil and gas reserves.

Concentration of Business Risk – The Group's principal business activities are within the Commonwealth of Independent States ("CIS"), primarily in the RF and Ukraine. Laws and regulations affecting businesses operating in the RF and Ukraine are subject to rapid changes, which could impact the Group's assets and operations.

Foreign Currency – Management has determined that the functional currencies of the Group's significant subsidiaries for the year ended December 31, 2009 are the currencies of the countries of their domicile, with the exception of foreign subsidiaries of Intourist, a company incorporated in the RF, Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, and Uzdunrobita, a MTS subsidiary in Uzbekistan, whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations.

The Group has selected the USD as its reporting currency. The Group's assets and liabilities are translated into USD at exchange rates prevailing on the balance sheet date. Revenues, expenses, gains and losses are translated into U.S. dollars at average exchange rates prevailing during the reporting period. Shareholders' equity is translated at the applicable historical rates. The resulting translation gain/(loss) is recorded as a separate component of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF, between RUB and USD as of December 31, 2009 was 30.24 RUB to 1 USD (29.38 RUB to 1 USD as of December 31, 2008).

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date.

Revenue Recognition – Revenues under arrangements specific to the respective segments of the Group are recognized as follows:

Telecommunications segment

The Telecommunications segment of the Group earns revenues from the provision of wireless and wireline telecommunication and data transmission services and usage of its exchange networks and facilities. Segment revenues consist of (i) usage charges; (ii) monthly subscription fees; (iii) service activation and connection fees; (iv) revenues from use of prepaid phone cards; (v) charges for value-added telecommunication services; (vi) roaming fees charged to other operators for guest roamers utilizing the segment's network; and (vii) equipment sales. The segment records revenues over the periods they are earned as follows:

(i) Revenues derived from wireless and wireline telephone usage and data transmission are recognized as the services are provided.
(ii) Monthly telephone and network service fees are recognized in the month during which the telephone services are provided to customers.
(iii) Upfront fees received for installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the expected subscriber relationship period, as follows:

MTS' subscribers[(1)]	12-60 months
Comstar UTS residential wireline voice phone subscribers	15 years
Comstar UTS residential subscribers of broadband internet services	1 year
Other categories of Comstar UTS' subscribers	3-5 years

[(1)] – MTS calculates an average expected term of the subscriber relationship for each region in which it operates and amortizes regional connection fees accordingly.

(iv) Revenues from prepaid phone cards are recognized in the period when the customer uses time under the phone card. Unused time on sold cards is not recognized as revenues until the related services have been provided to the customer or the card has expired.
(v) Revenues derived from value-added telecommunication services are recognized in the period when the services are provided to customers.
(vi) The segment charges roaming per-minute fees to other wireless operators for their subscribers utilizing the segment's networks. Revenues derived from roaming services are recognized as services are provided.
(vii) The segment sells handsets and accessories to customers who enter into contracts for service and as separate distinct transactions. Revenues from the handsets and accessories are recognized when the products are delivered to and accepted by the customer, as it is considered to be a separate earnings process from the sale of wireless services in accordance with ASC 605-25 "Multiple-Element Arrangements". The costs of wireless handsets and accessories, whether sold to subscribers through the distribution channel or as part of the service contract, are expensed when the associated revenue is recognized.

Revenue is recorded on a gross basis when companies of the Group are primary obligors in a transaction, have latitude in establishing prices and selecting suppliers of services, or have several but not all of these indicators. In other instances, revenue are recognized on a net basis.

Technology business

The Technology business recognizes revenues only when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured.

Revenues under arrangements specific to respective divisions are recognized as follows:

Telecommunication Solutions division:

The sale of software products are multiple-element arrangements, involving the provision of related services, including customization, implementation and integration services, as well as ongoing support and maintenance provided to customers.

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; and (c) the division can be expected to perform its contractual obligations. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages.

If the services element of the arrangement is not deemed essential to the functionality of the software, the service revenues are accounted for separately from the software revenues. In such multiple-element arrangements, the software component is accounted for using the residual method.

In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, unless a history of collection, without providing concessions, has been established under comparable arrangements.

Information Technologies Solutions division:

The sale of systems integration services typically includes multiple elements, such as equipment and software, installation services and post-contract support. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: i) the delivered items have value to the customer on a standalone basis; ii) there is objective and reliable evidence of the fair value of the undelivered items; and iii) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

If evidence of the fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue on a pro rata basis over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Revenue from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

When sale agreements provide price protection to the dealer, the revenue is deferred until the dealer sells the merchandise to a third party due to the frequent sales price reductions and rapid technology obsolescence.

Microelectronic Solutions division:

The products of this division are generally sold with a limited warranty of product quality.
The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale. The division accrues for known warranty if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity.

Other businesses

The other Group's entities recognize revenues when products are shipped or when services are rendered to customers.

In travel agency arrangements where the Group acts as an agent, only the net agency fee is recognized as revenue.

Regulated services – Regulated tariff services, consisting of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by Comstar UTS, and energy provided by Bashkirenergo totaled approximately 8.0% and 5.5% of the consolidated revenues for the years ended December 31, 2009 and 2008, respectively. Changes in rate structure are subject to the Federal Tariff Service approval.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks, cash invested temporarily in various instruments with maturities of three months or less at the time of purchase and minimum reserve deposits with the Central Bank of the RF.

Restricted cash – Cash and cash equivalents restricted by agreements with third parties for special purposes. Restricted cash as of December 31, 2009 and 2008 includes $51.5 million and $23.6 million, respectively, including cash deposited by the Group to guarantee certain loans, and to be in compliance with the government regulation of local currency conversion into foreign currencies in Uzbekistan.

Financial Instruments – The Group's financial instruments include cash, short-term investments, accounts receivable, derivative financial instruments, bank deposits and notes issued, accounts payable and short-term and long term debt.

From time to time in its acquisitions, the Group uses financial instruments, consisting of put and call options on all or part of the non-controlling stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. These put and call options qualify as freestanding financial instruments and are accounted for as such.

The Group measures derivatives at fair value and recognizes them as either assets or liabilities on the balance sheet. The Group designates derivatives as either fair value hedges or cash flow hedges when the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of operations together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. For derivatives that do not meet the conditions for hedge accounting or are not designated as hedges, gains and losses from changes in the fair value are included in the consolidated statement of operations.

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

Accounts Receivable – Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Loans to Customers and Banks – Loans to customers and banks arise out of operations of the banking division. The allowance for loan losses is management's estimate of probable incurred loan losses in the lending portfolios. Additions to the allowance for loan losses are made by charges to the consolidated statement of operations. Loans deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of amounts previously charged as uncollectible are credited to the allowance for loan losses.

The Group performs periodic and systematic detailed reviews of its lending portfolios to identify inherent risks and to assess the overall collectability of those portfolios. The allowance on certain homogeneous loan portfolios, which generally consist of consumer and mortgage loans, is based on aggregated portfolios of homogeneous loans' evaluations, generally by loan type.

Loss forecast models are utilized for portfolios of homogeneous loans which consider a variety of factors including, but not limited to, historical loss experience, anticipated defaults or foreclosures based on portfolio trends, delinquencies and credit scores, and expected loss factors by loan type. The remaining loan portfolios are reviewed on an individual loan basis.

Under national regulations, non-performing loans cannot be written off until legal remedies for recovery, which can be a very lengthy process, have been exhausted. Historical loss amounts include both amounts actually written off and amounts that are expected to be written off, but for which not all legal remedies for recovery have been fully exhausted.

Loans subject to individual reviews are analyzed and segregated by risk according to the Group's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions and performance trends within specific portfolio segments, and any other pertinent information result in the estimation allowances for loan losses. If necessary, an allowance for loan losses is established for individually impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Individually impaired loans are measured based on the present value of payments expected to be received, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the measure of estimated fair value, a specific allowance is established as a component of the allowance for loan losses.

Non-Accrual Loans – In general, the accrual of interest on commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual, or written-off at an earlier date, if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or written-off is reversed against interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame and when the borrower has demonstrated payment performance of cash or equivalents for a minimum of six months.

Subscriber Acquisition Costs – Subscriber acquisition costs represent the direct costs paid for each new subscriber. The Group expenses these costs as incurred.

Inventories and Spare Parts – Inventories, including spare parts, are stated at the lower of cost or market value.

SITRONICS' Information Technologies Solutions products and the cost of MTS's inventories (including mostly spare parts) is computed on a weighted average cost basis. The cost of other inventories of the Group are recorded at weighted average or the first-in, first-out ("FIFO").

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads. Costs and estimated earnings in excess of billings on uncompleted contracts include the accumulated costs of projects contracted with third parties, net of related progress billings. The entities of the Group periodically assess their inventories for obsolete or slow moving stock.

Value-Added Taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not reclaimable as of the balance sheet dates are recorded as VAT receivable in the accompanying financial statements.

Assets held for sale – The Group classifies a long-lived asset as held for sale when all the following conditions have been met: (i) management has approved a plan to sell the asset; (ii) the asset is available for immediate sale in its present condition; (iii) an active program to locate a buy has been initiated; (iv) the sale is probable; (v) the asset is being marketed at a reasonable price; and (vi) it is unlikely that the plan will be changed significantly or withdrawn. Held for sale assets are measured at the lower of its carrying amount or fair value less cost to sell.

In 2006, MTS' management decided to discontinue use of certain telecommunication equipment ("Lucent equipment") in MTS in accordance with the Group's network development strategy.
The Group accounts for Lucent equipment in accordance with the authoritative guidance on property, plant and equipment, and reports Lucent equipment at the lower of its carrying amount or fair value less costs to sell. The amount of Lucent equipment sold during 2008 and 2009 equalled $12.8 million and $25.2 million, respectively. The remaining part of Lucent equipment held for sale in the amount of $18.5 million is expected to be sold during 2010 and was classified as other current assets in the accompanying consolidated balance sheet as of December 31, 2009.

Property, Plant and Equipment – For subsidiaries acquired by the Group through business combinations accounted for by the purchase method, property, plant and equipment ("PP&E") were assigned their fair values at the acquisition date. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent additions to PP&E have been recorded at cost.

Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the consolidated statement of operations as incurred.

Depreciation for property, plant and equipment other than oil and gas properties is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Switches and transmission devices	7-31 years
Network and base station equipment	5-12 years
Other plant, machinery and equipment	3-15 years

Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments. The discount rate used in determining the present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to determine the implicit rate computed by the lessor; and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of consolidated net income.

Construction in-progress and equipment for installation are not depreciated until an asset is placed into service.

Asset Retirement Obligations – The Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets.

As of December 31, 2009 and 2008, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

		Telecom-munications	Oil and Energy	Total
Balance as of January 1, 2008	$	59,527	-	59,527
Liabilities incurred in the current period		3,840	-	3,840
Accretion expense		6,026	-	6,026
Revisions in estimated cash flows		3,383	-	3,383
Currency translation adjustment		(10,723)	-	(10,723)
Balance as of December 31, 2008	**$**	**62,053**	**-**	**62,053**
Liabilities incurred in the current period		3,923	1,924	5,847
Business combinations		-	92,044	92,044
Accretion expense		6,518	9,611	16,129
Revisions in estimated cash flows		17,693	-	17,693
Currency translation adjustment		(1,504)	(2,772)	(4,276)
Balance as of December 31, 2009	**$**	**88,683**	**100,807**	**189,490**

The Group's obligations in Telecommunication segment relate primarily to the cost of removing its equipment from sites. The obligation in Oil and Energy segment relate primarily to the cost of decommissioning wells, dismantling equipment, restoring the sites and performing other related activities.

The Group recorded the present value of assets retirement obligations as a part of long-term liabilities in the consolidated balance sheets as of December 31, 2009 and 2008. Revisions in estimated cash flows are attributable to the change in the estimated future useful life of the assets.

Business Combinations – Acquisition of businesses from third parties is accounted for using the purchase method. On acquisition, the assets and liabilities of an acquired entity are measured at their fair values as at the date of acquisition. The noncontrolling interest arising in the acquisitions for which the acquisition date was before January 1, 2009 is stated at the noncontrolling interest's proportion of the book values of the assets and liabilities recognized. The noncontrolling interest arising in the acquisitions for which the acquisition date was January 1, 2009 and thereafter is stated at the noncontrolling interests' proportion of the fair values of the assets and liabilities recognized.

The Group accounted for the acquisition of the noncontrolling interests which occurred before January 1, 2009 using the purchase method. As a result of each step acquisition, the historical cost basis of the noncontrolling interest balance was reduced to the extent of the interest acquired, and the increased ownership obtained was accounted for by increasing the acquired entity's basis from historical cost to fair value for the portion of the assets acquired and liabilities assumed based on the additional ownership acquired. Acquisitions of the noncontrolling interests which occurred on or after January 1, 2009 are accounted for as equity transactions.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. Any difference between the purchase price and the net assets acquired is reflected in equity.

Goodwill – Goodwill arising on acquisitions is recognized as an asset and initially measured at cost. For the acquisitions for which the acquisition date was before January 1, 2009, goodwill is determined as the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized, and the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is allocated on a pro-rata basis to decrease the value of certain long-term assets. For the acquisitions where the acquisition date was January 1, 2009 and thereafter, goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

Goodwill is not amortized to operations, but instead is reviewed for impairment at least annually Goodwill is reviewed for impairment by comapring the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of the reporting unit. If the reporting unit's carrying amount is greater than its fair value, a second step is performed whereby the protion of the reporting unit's fair value that relates to the reporting unit's goodwill is compared to the carrying value of the reporting unit's goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Group has determined that there are no impairment losses in respect of goodwill for the reporting periods covered by these consolidated financial statements.

License Costs and Other Intangible Assets – License costs are capitalized as a result of (a) the purchase price allocated to licenses acquired in business combinations; and (b) licenses purchased directly from government organizations, which require license payments.

License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity which is from three to fifteen years.

Acquired customer bases are amortized over the estimated average subscriber life from 12 to 96 months. Deferred telephone numbering capacity costs with limited contractual life are being amortized over their contractual lives, which vary from 5 to 20 years. Acquired radio frequencies are amortized over the estimated average life of 96 months. Software costs and other intangible assets are being amortized over 3 to 10 years. All finite-life intangible assets are being amortized using the straight-line method.

Other intangible assets represent acquired customer bases, trademarks, telephone numbering capacity, radio frequencies and various purchased software costs. Trademarks and telephone numbering capacity with unlimited contractual life are not amortized, but are reviewed, at least annually, for impairment. The Group tests indefinite-lived intangible assets at the unit of accounting level by making a determination of the fair value of the intangible asset. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized in an amount equal to the difference. The Group also evaluates the remaining useful life of its intangible assets that are not subject to amortization on an annual basis to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, that asset is tested for impairment. After recognition of the impairment, if any, the asset is amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization.

Investments – The Group's share in the net assets and net income of certain entities, where the Group holds 20% to 50% of voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") is included in the consolidated net assets and operating results using the equity method of accounting. The Group's share in the net income of affiliates where the Group has day-to-day involvement in business activities and which are integral to the Group's business is recorded within operating income. In other cases, the Group's share in net income is shown after the income tax provision. Other-than-temporary decreases in the value of the investment in affiliates are recognized in net income.

All other equity investments, which consist of investments for which the Company does not have the ability to exercise significant influence, are accounted for under the cost method or at fair value. Investments in private companies are carried at cost, less provisions for other-than-temporary impairment in value. For public companies that have readily determinable fair values, the Company classifies its equity investments as available-for-sale or trading. For available for sale securities, the Group records these investments at their fair values with unrealized holding gains and losses included in the consolidated statement of comprehensive income/(loss), net of any related tax effect. For trading securities, the Group records the investment at fair With unrealized holding gains and losses for trading securities are included in earnings.

The Group purchases promissory notes for investing purposes. These notes are carried at cost and the discount against the nominal value is accrued over the period to maturity. A provision is made, based on management assessment, for notes that are considered uncollectible. The notes are classified as held-to-maturity.

Investments which are expected to be realized within twelve months after the balance sheet date are classified as short-term investments. Other investments are classified as long-term investments.

Debt Issuance Costs – Debt issuance costs are recoded as an asset and amortized using the effective interest method over the terms of the related loans.

Impairment of Long-lived Assets Other Than Goodwill, Indefinite Life Intangibles and Investments – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets.

The Group identified cerrtain assets that had indicators of impairment as of December 31, 2009 and has recognized an impairment charge relating to its long lived assets other than goodwill in the amount of $362.2.

Bank Deposits and Notes Issued – Bank deposits and notes issued arise out of operations of the banking division and include deposits from banks and customers and promissory notes issued.

Property, Plant and Equipment Contributions – Telecommunication equipment and transmission devices, installed at newly constructed properties in Moscow, have been historically transferred to MGTS by the Moscow City Government free of charge. These assets are capitalized by the Group at their market value at the date of transfer. Simultaneously, deferred revenue is recorded in the same amount and is amortized as a reduction of the depreciation charge in the consolidated statement of operations over the contributed assets' life.

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF was 20% in 2009. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. As of December 31, 2009, the corporate income tax rate in Ukraine was 25%.

Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Group recognizes interest relating to unrecognized tax benefits and penalties within income taxes.

Taxes Other Than Income Tax – Taxes other than income tax comprise extraction tax and customs, which relate mostly to the Oil&Energy segment, excises and property tax.

Treasury stock – if the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction of equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by JSFC Sistema or by other subsidiaries of the Group.

Stock-based Compensation – The Group calculates and records the fair value of equity instruments, such as stock options or restricted stock, awarded to employees for services received and recognizes such amounts in the consolidated statement of operations. The fair value of the equity instruments is measured on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments (Note 29). Stock-based compensation expense includes the estimated effects of forfeitures. Such estimates are adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and also impact the amount of expense to be recognized in future periods.

Retirement and Post-retirement Benefits – Subsidiaries of the Group contribute to the local state pension funds and social funds, on behalf of their employees.

In Russia, all social contributions, including contributions to the pension fund, are substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 20% to 2% depending on the annual gross salary of each employee. The contributions are expensed as incurred.

In Ukraine, the subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit to a pension fund, an unemployment fund and a social security fund. The contributions are expensed as incurred.

In addition, Intracom Telecom and MGTS have defined benefit plans to provide their employees certain benefits upon and after retirement. The net period cost of the Group's defined benefit plans is measured on an actuarial basis using the projected unit credit method and several actuarial assumptions. The recognition of expense for retirement pension plans is significantly impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, mortality rates, future rates of compensation increase and other related assumptions. Gains and losses occur when actual experience differs from actuarial assumptions. If such gains or losses exceed ten percent of the greater of plan assets or plan liabilities the Company amortizes those gains or losses over the average remaining service period of the employees.

The Group records on the balance sheet the funded status of its pension plans based on the projected benefit obligation.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the year ended December 31, 2009 and 2008 amounted to $87.5 million and $144.0 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2009 and 2008 were $440.7 million and $479.2 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Research and Development Costs – Research and development ("R&D") costs are fully charged to the consolidated statements of operations when incurred and for the year ended December 31, 2009 and 2008, equaled $21.3 million and $41.2 million, respectively. Such costs were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Costs of producing software incurred between the start of the related projects and the date on which technological feasibility is established and when the related software product is available for general release to customers are capitalized.

Redeemable Non-controlling Interests – From time to time to optimize the structure of business acquisitions and to defer payment of the purchase price the Group enters into put and call option agreements to aquire noncontrolling stake in the existing subsidiary. These put and call option agreements are qualified for redeemable securities and are accounted for at redemption value which is generally the fair value of redemable noncontrolling interests as of reporting date.
Fair value of redeemable noncontrolling interests is assessed based on discounted future cash flows of the acquired entity ("Level 3" significant unobservable Inputs of the hierarchy established by the US GAAP guidance). Changes in redemption value of redemable noncontrolling interests are accounted for in the Group's retained earnings. Redemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

As of December 31, 2008 redeemable non-controlling interests outstanding consist of $145.7 million attributable to MTS' subsidiaries and $92.2 million attributable to Sitronics shares.

As of December 31, 2009 redeemable non-controlling interests outstanding of $82.3 million are attributable to MTS' subsidiaries.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the year ended December 31, 2009 and 2008.

Diluted EPS reflect the potential dilution related stock options granted to employees. The diluted weighted average number of shares and diluted EPS are not materially different from basic for the years ended December 31, 2009 and 2008.

Distributions to Shareholders – Distributable retained earnings of the Group are based on amounts extracted from the statutory accounts of JSFC Sistema and may significantly differ from amounts calculated on the basis of U.S. GAAP.

Recent Accounting Pronouncements

<u>Adopted during the year</u>

On January 1, 2008, the Group adopted the authoritative guidance issued by the FASB on fair value measurements for financial assets and liabilities which provides a single definition of fair value establishes a framework for measuring fair value and expands disclosure requirements of fair value measurement. On January 1, 2009, the Group adopted this guidance for all non-financial instruments accounted for at fair value on a non-recurring basis. The full adoption of this guidance did not have a material impact on the Group's consolidated financial position, results of operations or cash flows at the date of adoption.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on business combinations, including assets acquired and liabilities assumed arising from contingencies. This guidance significantly changes the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. Upon the adoption of this guidance, the Group was required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of this guidance, contingent consideration is to be recorded at fair value as an element of purchase price with subsequent adjustments recognized in operations.

Contingent consideration was previously accounted for as a subsequent adjustment of purchase price. Also, changes to valuation allowances for acquired deferred income tax assets and adjustments to unrecognized tax benefits acquired generally are to be recognized as adjustments to income tax expense rather than goodwill. The impact of the adoption of the new guidance on the Group's consolidated financial statements is largely dependent on the size and nature of the future business combinations. In 2009 the Group recognized acquisition-related costs in the amount of $14.2 million in the consolidated statement of operations and recorded a liability for contingent consideration in the amount of $30.8 million in its consolidated balance sheet as of December 31, 2009. Following the adoption of the guidance the Group also recognized gain on bargain purchase of $2,728.8 million as a result of acquisitions in 2009 as discussed in Note 3.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB that changes the accounting for non-controlling interests in the consolidated financial statements. Non-controlling interests (previously referred to as "minority interest") are to be reported as part of consolidated net earnings, and the accumulated amount of non-controlling interests is to be included as part of shareholders' equity. In addition to these financial reporting changes, the guidance provides for significant changes in accounting related to non-controlling interests; specifically, increases and decreases in the Group's controlling financial interests in consolidated subsidiaries will be reported in equity similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings. The adoption of the new guidance resulted in the reclassification of non-controlling interests to equity and presentation of net income and other comprehensive income gross of amounts attributable to non-controlling shareholders of the subsidiaries of the Group.

In connection with the issuance of the guidance on non-controlling interests, EITF Topic D-98, Classification and Measurement of Redeemable Securities, (further – "Topic D-98") was revised to include the SEC Staff's views regarding the interaction between Topic D-98 and the new guidance. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance required by Topic D-98 applies to non-controlling interests (e.g., when the noncontrolling interest is redeemable at a fixed price or fair value by the holder or upon the occurrence of an event that is not solely within the control of the issuer). The revisions to Topic D-98 that are specific to accounting for non-controlling interests should be applied no later than the effective date of the new guidance. The adoption of the provisions of Topic D-98 as of January 1, 2009. which were retrospectively applied to as of the first period presented, resulted in reduction of Group's retained earnings by $68.0 million related to the redeemable non-controlling interest in MTS' subsidiaries.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB relating to disclosures about derivative instruments and hedging activities which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB which modifies the determination of the useful life of intangible assets from a requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions to one that requires an entity to consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This guidance also requires disclosure of information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and ability to renew or extend the arrangements. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows for the year ended December 31, 2009. The Group expects that the new guidance will have an impact on its accounting for future acquisitions of intangible assets.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB for intangible assets acquired in a business combination or asset acquisition that an entity does not intend to actively use but intends to hold as defensive intangible assets to prevent others from obtaining access to them, referred to as defensive intangible assets. Historically, these assets have been typically allocated little or no value. Under this guidance defensive intangible assets are required to be accounted for as a separate identifiable asset recognized at fair value with an assigned useful life. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows for the year ended December 31, 2009. The Group expects that the new guidance will have an impact on its accounting for future acquisitions of intangible assets.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on equity method investment accounting considerations. This guidance considers the effects of the issuances of the new guidance related to business combinations and noncontrolling interests on an entity's application of the equity method: determination of the initial carrying value of an equity-method investment, impairment assessment of an underlying indefinite-lived intangible asset of an equity-method investment, accounting for issuance of shares by an equity investee, and accounting for a change in an investment from the equity method to the cost method. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on an employer's disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this guidance are to provide users of financial statements with an understanding of (a) how investment allocation decisions are made; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The adoption of this guidance had no material impact on the Group's financial statements.

On June 15, 2009, the Group prospectively adopted the authoritative guidance issued by the FASB regarding the accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued. The adoption of this guidance had no material impact on the Group's financial statements.

On July 1, 2009, the Group adopted the FASB Accounting Standards Codification ("the Codification") and the revised guidance on the Hierarchy of Generally Accepted Accounting Principles introduced by the FASB. The Codification became the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. With the adoption of this codification the Group has accordingly updated the financial statements disclosures.

On October 1, 2009, the Group adopted an additional guidance on measuring the fair value of liabilities issued by the FASB in August 2009 and effective the first interim or annual reporting period beginning after August 28, 2009. The new guidance specifies that the entity determine whether a quoted price exists for an identical liability when traded as an asset (i.e. a Level 1 fair value measurement) and if not, the entity must use a valuation technique based on the quoted price of a similar liability traded as an asset, or another valuation technique (i.e. market approach or income approach) and that the entity should not make a separate adjustment for restrictions on the transfer of a liability in estimating fair value. The adoption of this guidance had no material impact on the Group's financial statements.

To be adopted in future periods

In June 2009, the FASB updated the guidance related to consolidation accounting for variable interest entities to require an enterprise to perform an analysis to determine whether the entity's variable interest or interests give it a controlling interest in a variable interest entity. The Group does not have any significant variable interest entities for which it is the pimary beneficiary and as such, the adoption of this guidance, effective January 1, 2010, is not expected to have an impact on the Group's consolidated financial statements.

In October 2009, the FASB amended the revenue recognition for multiple deliverable arrangements guidance to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This updated guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this guidance, effective January 1, 2011, is not expected to have a significant impact on the Group's consolidated financial statements.

In January 2010, the FASB issued additional guidance that requires new disclosures related to transfers into and out of Level 1 and Level 2 of fair value measurements and separate presentation of information about purchases, sales, issuances, and settlements in the roll forward for Level 3 inputs. The update also clarifies existing guidance for fair value measurements for each class of assets and liabilities as well as for disclosures about inputs and valuation techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures related to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010.

The adoption of the revised guidance will impact disclosures in the Group's consolidated financial statements.

In February 2010, the FASB updated the authoritative guidance on the accounting for, and disclosure of subsequent events to remove the requirement for an entity that files or furnished financial statements with the SEC to disclose a date through which subsequent events have been evaluated in both originally issued and restated financial statements. Restated financial statements include financial statements revised as a result of the correction of an error or retrospective application of US GAAP. The updated guidance removes potential conflicts with the SEC's literature. The Group adopted the revised guidance in February 2010.

Reclassifications – Certain reclassifications of prior years' amounts, related primarily to the acquisition of Bashkirian assets, have been made to conform to the presentation adopted for the year ended December 31, 2009.

3. ACQUISITIONS

Oil and energy companies in the Republic of Bashkortostan

In April 2009, the Group increased its share in oil and energy companies in the Republic of Bashkortostan to controlling stakes for a total cash consideration of $2.0 billion. As a result of this transaction, the Group increased its stakes to a 76.5% stake in ANK Bashneft, a 65.8% stake in Ufaneftekhim, a 87.2% stake in Novoil, a 73.0% stake in Ufaorgsintez, a 78.5% stake in UNPZ and a 73.3% stake in BNP and acquired control over Bashkirenergo since ANK Bashneft, Ufaneftekhim, Novoil and UNPZ's aggregated stake in ordinary shares of Bashkirenergo is 50.2%.

The business combination was accounted for by applying the acquisition method.

The purchase price allocation for the acquisition was as follows:

Current assets	$	1,416,325
Property, plant and equipment		8,754,709
Other non-current assets		367,892
Current liabilities		(1,030,318)
Non-current liabilities		(205,128)
Deferred taxes		(984,986)
Non-controlling interest		(2,552,102)
Net assets acquired		**5,766,392**
Carrying value of the Group's investments in energy companies in the Republic of Bashkortostan as of the date of acquisition		(983,557)
Gain on acquisition		(2,782,835)
Cash cosnideration paid	**$**	**2,000,000**

Eurotel acquisition

In December 2009, MTS acquired a 100% stake in Eurotel OJSC ("Eurotel"), a Russian federal provider of fixed line communication services, from Mortfield Holdings Limited (Cyprus). The purchase price amounted to $110 million with a portion payable by the end of February 2011 should the company satisfy certain conditions set forth in the purchase agreement. At the acquisition date the estimated fair value of this contingent consideration was $20 million.

Eurotel has an extensive optical fiber network of 19.5 thousand km, which connects approximately 20 major cities in Russia. As a result of the combination, MTS' network extends up to 35 thousand km.

The acquisition was accounted for using the purchase method. The purchase price allocation for the acquisition has not been finalized as of the date of these financial statements, as the Group has not completed the valuation of individual assets of the Eurotel. The preliminary purchase price allocation for the acquisition was as follows:

Current assets	$	15,517
Non-current assets		62,792
Goodwill		103,754
Current liabilities		(70,960)
Non-current liabilities		(1,103)
Fair value of contingent consideration		20,000
Consideration paid	**$**	**90,000**

The excess of the purchase price over the value of net assets acquired and the fair value of contingent consideration was preliminarily allocated to goodwill. Goodwill is mainly attributable to the synergies from reduction of interconnect and internet-traffic expenses of MTS. Due to the timing of acquisition purchase price allocation was not completed as of December 31, 2009.

Sistema Shyam TeleServices Limited

In January 2008, the Group entered into a purchase agreement to increase its stake in SSTL from 10% to 51% for cash consideration of $91.4 million. Simultaneously, the Group entered into a call option agreement with SSTL's shareholders giving the Group the right to increase its stake in SSTL to a maximum of 74%. The call option could be exercised after 16 months from the date of the agreement, and the purchase price would be based on the fair market value of the company at the time of such additional purchase.

In May 2008, the call option agreement was amended to give the Group the right to accelerate the exercise date of the call option, and the Group purchased an additional 21% stake in SSTL. The total cash consideration paid for the 21.0% was $190.1 million.

In June 2008, the Group increased its stake in SSTL from 72.0% to 73.7% as a result of a pro rata charter capital increase of SSTL in the amount of $470.0 million, with the Group's contribution being $348.0 million, including $11.8 million paid for the stake acquired.

Associated with the additional acquisition of interest in SSTL in June 2008, an agreement was entered into by the Group and SSTL which requires the Group to make additional payments to the former shareholders of SSTL based on SSTL's fair value, as determined by an independent investment bank, as at June 30, 2008, December 31, 2008 and 2009. The Group paid an additional $156.0 million based on SSTL's fair value as of June 2008 and the amount was included in the purchase price of SSTL. As of December 31, 2008 the fair value of future payments could not be reliably determined, and no payments were made. In 2009 the Group entered into negotiations with the Russian Government concerning its potential equity participation in SSTL. Pending the results of the negotiations no additional payments to the former shareholders are being made and any future payments have not been included in the final purchase price allocation below.

These acquisitions were accounted for using the purchase method of accounting. The summary of the purchase price allocation for the acquisitions was as follows:

Current assets		8,521
Non-current assets		132,398
Licences		20,868
Goodwill		440,940
Current liabilities		(33,506)
Deferred tax liabilities		(4,173)
Non-current liabilities		(104,338)
Purchase price	**$**	**460,710**

Goodwill is mainly attributable to the economic potential of India, given the low mobile penetration level of the market. Goodwill is not deductible for income tax purposes.

During the year ended December 31, 2008, SSTL was awarded unified telecommunication licenses for the provision of fixed-line and cellular services across India and received radio frequencies for building mobile networks in all Indian circles. The Group guaranteed $520.0 million for obtaining the licenses and paid $366.5 million during the year ended December 31, 2008.

Acquisitions of non-redeemable and redeemable non-controlling interests

In October 2009, JSFC Sistema made a mandatory offer of RUB 286.5 per ordinary share to the shareholders of Bashneft to acquire outstanding shares. As a result of the offer, the Group's ownership in Bashneft increased by approximately 1.2% for a total cash consideration of $23.0 million. The transaction was accounted for directly in equity and resulted in the decrease in non-controlling interests by $47.0 million.

In July 2009 redeemable non-controlling interests outstanding attributable to Sitronics shares were redeemed for a total cash consideration of $96.6 million. The transaction was accounted for directly in equity and resulted in the decrease in redeemable non-controlling interests of $97.3 million.

In January 2009, Glaxen Corp. ("Glaxen"), the minority shareholder of Dagtelecom, exercised its put option over its 25.5% stake in the company. Consideration payable by the Group on the put option agreement comprised $51.3 million. Payment made by the Group was reduced by $12.5 million to offset the loan receivable from Glaxen at the date of acquisition. The transaction was accounted for as a decrease in redeemable non-controlling interests of $43.4 million.

During 2008, MTS repurchased 77,193,757 of its own shares for a total cash consideration of $1,059.8 million. As a result of transactions, the Group's ownership interest in MTS increased from 53.4% as of December 31, 2007 to 55.7% as of December 31, 2008. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded cost of fixed assets by $23.7 million, trademark cost by $96.4 million, the customer base cost by $154.8 million, the license cost by $250.9 million and $97.7 million was recognized as goodwill. Goodwill is not deductible for tax purposes and is mainly attributable to the economic potential of the markets where MTS is operating.

In November 2008, MGTS Finance S.A., a subsidiary of Comstar UTS, purchased 46,232,000 shares of Comstar UTS for the total consideration of $463.6 million. As a result of this transaction, the Group's ownership interest in Comstar UTS increased from 52.6% as of December 31, 2007 to 59.4% as of December 31, 2008. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded cost of the customer base by $94.5 million.

In March 2008, SITRONICS purchased a 49.0% stake in its subsidiary, SITRONICS IT B.V. (previously – Kvazar-Micro Corporation B.V.) for a total consideration of $174.8 million, increasing its stake to 100.0%. During the first stage of the transaction, 36.0% of shares were acquired from Melrose Holding, a company related to former management of Kvazar-Micro, for a cash consideration of $116.9 million. In June 2008, SITRONICS acquired the remaining 13.0% of the shares from Melrose Holding for $57.9 million and retired those shares. SITRONICS paid cash of $107.5 million in 2008, with $67.3 million remaining payable. In 2009, $4.4 million was paid and the remaining amount payable was offset against an outstanding receivable and a loan due from Melrose Holdings (Note 4). The allocation of purchase price increased the recorded cost of the customer base by $17.3 million, and $123.4 was recognized as goodwill. The customer base is amortised over the remaining term of contractual relationships of approximately three years. Goodwill is not deductible for income tax purposes and is attributable to the economic potential of the system integration market in CIS and synergies realized by the Group. In April 2009, a portion of distribution business of SITRONICS IT B.V. was disposed of (Note 4).

Other acquisitions

Below are the other acquisitions for the years ended December 31, 2009 and 2008:

	For the year ended December 31, 2009					
			Ownership interest			Purchase
Acquiree	Principal activity	Date of acquisition	Before acquisition	After acquisition	Acquiring segment	price (in millions)
Eldorado	Mobile retailer	March 2009	0%	100%	Telecommu-nications	17.8
Telefon.ru	Mobile retailer	February 2009	0%	100%	Telecommu-nications	60.0
Dagtelecom	Mobile operator	February 2009	75%	100%	Telecommu-nications	51.3
Kolorit Dizayn Inc	Outdoor advertising services	September 2009	0%	100%	Telecommu-nications	39.7
Teleforum	Mobile retailer	October 2009	0%	100%	Telecommu-nications	2.2
Eurotel	Fixed provider	December 2009	0%	100%	Telecommu-nications	90.0
Total						**$ 261.0**

As a result of the purchase price allocation related to other acquisitions, the Group assigned $2.1 million to the acquired brand, $293.1 million to the goodwill and $30.3 to the fair value of contingent consideration.

			For the year ended December 31, 2008			
			Ownership interest			Purchase
Acquiree	**Principal activity**	**Date of acquisition**	**Before acquisition**	**After acquisition**	**Acquiring segment**	**price (in millions)**
Strategia	Fixed line operator	July 2008	0%	100%	Telecommu-nications	43.5
Interlink Group	Fixed line operator	June 2008	0%	100%	Telecommu-nications	8.4
Orient	Tour operator	June 2008	0%	100%	Consumer Business	5.0
Watt Drive	Semiconductors producer	June 2008	0%	75%	Technology and Industry	22.3
Detskiy Mir	Retail and wholesale operator	March 2008	75%	100%	Consumer Business	51.4
MSS	Mobile operator	February 2008	91%	100%	Telecommu-nications	16.0
Total						**$ 146.6**

As a result of purchase price allocation related to other acquisitions the Group assigned $70.2 million to the acquired customer base and related customer relationships, $9.0 million to the licenses cost and $84.6 to the cost of fixed assets. The subscriber base is amortized over the weighted average period of 10 years. License costs are amortized over the remaining contractual terms of the license of approximately 3 years.

Pro forma results of operations (unaudited)

The following pro forma financial data for the years ended December 31, 2009 and 2008, give effect to the acquisitions of Novoil, UNPZ, Ufaneftekhim, Bashneft, Ufaorgsintez, BNP, Bashkirenergo, Eurotel, Teleforum, Kolorit Dizayn, Eldorado and Telefon.ru as if they had occurred as of January 1, 2008:

	Year ended December 31,	
	2009	**2008**
Revenues	$ 19,798,903	$ 26,533,162
Net income	2,374,867	1,883,875

The pro forma information is based on various assumptions and estimates. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Group’s acquisitions had been consummated at the beginning of the respective period, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions.

4. DISPOSITIONS, CAPITAL TRANSACTIONS OF SUBSIDIARIES AND AFFILIATES AND DISCONTINUED OPERATIONS

Transactions within Oil and Energy segment

In December 2009, JSFC Sistema sold its stakes in Ufaneftekhim, Novoil, Ufaorgsintez and UNPZ to Bashneft, a group subsidiary. The objective of these transactions is to create a vertically integrated oil group. Upon completion of these transactions, the Group’s effective ownership in Ufaneftekhim, Novoil, Ufaorgsintez and UNPZ and Bashkirenergo has decreased. The transactions were accounted for directly in equity and resulted in the increase in non-controlling interests by $671.0 million.

In October 2009, the Group reduced its equity stake in Bashneft from 77.8% to 72.9% for a total cash consideration of $122.3 million. The transaction was accounted for directly in equity and resulted in the increase in non-controlling interests by $127.0 million.

Transactions within Telecommunications segment

In December 2009, through a series of transactions, a group of investment funds have exchanged their joint 14.2% stake in OJSC Moscow City Networks (MGTS) for 1.6% of the outstanding shares of MTS, previously held in treasury and $7.3 million in cash. Simultaneously, MTS received 11.06% of the total shares outstanding of Comstar UTS from MGTS Finance S.A., a wholly owned subsidiary of MGTS. As a result of the transactions, the Group's effective ownership in MTS decreased from 55.7% to 54.8% and its effective ownership in Comstar UTS increased from 33.1% to 35.1%. The transaction was accounted for directly in equity and resulted in the decrease in non-controlling interests by $64.8 million.

In October 2009, JSFC Sistema and Sistema Telecom, a Sistema subsidiary, sold their stakes in Comstar UTS to MTS. As a result of above transactions, the Group's effective ownership in Comstar UTS decreased (Note 2). The transaction was accounted for directly in equity and resulted in the decrease in non-controlling interests by $154.6 million.

Issuance of common shares of SMM

In October 2009, SMM issued additional share capital which in exchange for non-controlling interest in Russian World Studios (RWS), a SMM subsidiary. As a result of the transaction, SMM acquired a 100% stake in RWS and the Group share in SMM decreased from 100% to 75%. The transaction was accounted for directly in equity and resulted in the increase in non-controlling interests by $38.0 million.

Disposal of Sistema-Hals

In a series of transactions in April – October 2009, the Group sold its controlling stake in Sistema-Hals for a total consideration of RUB 60.0. As a result of the transactions the Group's share in Sistema-Hals decreased from 80% to 28%. The transactions resulted in recognition of a loss on disposal of $364.9 million and the decrease in non-controlling interests of $50.5.

Disposal of investment in MTT

In March 2009, the Group sold 50.0% of the voting shares in MTT for a total consideration of $54.0 million. The transaction resulted in recognition of a loss of $19.4 million.

Discontinued operations of SITRONICS

In April 2009, SITRONICS disposed of distribution businesses of its wholly-owned subsidiary, SITRONICS IT B.V. Seven distribution companies were transferred to Melrose Holding (a Company owned by former management of SITRONICS IT B.V.) for a total consideration of $49.8 million.

The assets and liabilities of the discontinued operations of SITRONICS IT B.V. as at the date of disposal, April 14, 2009 and December 31, 2008, consisted of the following:

		April 14, 2009		**December 31, 2008**
Current assets	$	121,066	$	145,746
Non-current assets		1,096		1,492
Total assets of discontinued operations	**$**	**122,162**	$	**147,238**
Current liabilities	$	33,164	$	56,990
Non-current liabilities		13,000		13,359
Total liabilities of discontinued operations	**$**	**46,164**	$	**70,349**

As a result of the sale and subsequent settlement transactions, the Group reported a loss on disposal of discontinued operations of $26.2 million.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $1,952.4 million and $1,039.7 million as of December 31, 2009 and 2008, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities of less than 90 days.

Also included in cash as of December 31, 2009 and 2008, are $26.0 million and $4.7 million, respectively, which represent MBRD's minimum reserve deposit, required by the Central Bank of the RF.

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Trading securities:		
RF Eurobonds	$ 205,232	$ 11,111
Corporate bonds	292,466	141,092
Corporate notes	157,148	-
Government and municipal bonds	41,129	5,807
Corporate shares	2,343	2,676
Other trading securities	-	1,321
	698,318	162,007
Available for sale securities	57,885	51,580
Other short-term investments:		
Promissory notes and deposit certificates from third parties	259,250	293,335
Promissory notes from and loans to related parties	24,942	90,503
Bank deposits with original maturities exceeding 90 days	130,016	7,338
Funds in trust managment	20,077	-
Advance made to investment broker	-	11,977
Other short-term investments	20,120	500
	454,405	403,653
Total	**$ 1,210,608**	**$ 617,240**

Corporate bonds are publicly traded obligations of Russian companies. They are reflected at period-end market value based on the last trade prices obtained from the Moscow Interbank Currency Exchange ("MICEX").

Corporate notes and promissory notes from third parties, mostly denominated in RUB, bear interest rates varying from 6.0% to 20% as of December 31, 2009. The promissory notes from related parties denominated in RUB bear 11-14% interest rates, while USD denominated notes bear interest rates of 3-5% as of December 31, 2009.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2009 are 6.5-9.0% for RUB and USD denominated deposits. As of December 31, 2008, the effective interest rates on bank deposits with original maturities exceeding 90 days were 5.3-7.6% for RUB and USD denominated deposits

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Loans to customers	$ 3,414,359	$ 3,273,049
Loans to banks	2,150,102	1,499,019
	5,564,461	4,772,068
Less: allowance for loan losses	(228,000)	(193,394)
Less: amounts maturing after one year	(1,264,153)	(1,402,298)
Loans to customers and banks, current portion	**$ 4,072,308**	**$ 3,176,376**

Loans to customers as of December 31, 2009 and 2008 included loans to affiliates and other related parties of $65.5 million and $53.4 million, respectively. Management anticipates no losses in respect of these amounts.

The following table presents the effective average interest rates by categories of loans as of December 31, 2009 and 2008:

	2009			2008		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Loans to customers						
- corporate customers	16.3%	15.7%	15.4%	15.1%	8.4%	11.9%
- individuals	14.6%	13.6%	13.2%	16.9%	12.3%	5.5%
Loans to banks	8.3%	0.4%	0.1%	10.0%	6.0%	2.8%

The movement in the allowance for loan losses for the years ended December 31, 2009 and 2008 was as follows:

	2009	2008
Allowance for loan losses, beginning of the year	$ 193,394	$ 203,913
Additions charged to the results of operations	87,433	41,246
Write-downs credited against the allowance	(51,182)	(7,403)
Currency translation adjustment	(1,645)	(44,362)
Allowance for loan losses, end of the year	**$ 228,000**	**$ 193,394**

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Trade receivables	$ 1,559,171	$ 1,209,576
Less: provision for doubtful accounts	(225,002)	(121,400)
Total	**$ 1,334,169**	**$ 1,088,176**

Trade receivables as of December 31, 2009 and 2008 include receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $105.5 million and $81.6 million, respectively. Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

9. PREPAID EXPENSES, OTHER RECEIVABLES AND OTHER CURRENT ASSETS, NET

Prepaid expenses, other receivables and other current assets, net of provision for doubtful accounts, as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Prepaid expenses and advances to suppliers	$ 860,302	$ 754,462
Prepaid taxes	351,666	140,905
Interest receivables	23,364	40,565
Assets held for sale	18,519	46,426
Net investments in leases	68,018	57,966
Dividends receivable from energy companies in the Republic of Bashkortostan	-	111,533
Receivables for sale of Glorerly shares	-	79,000
Other	173,698	135,058
Less: provision for doubtful accounts	(68,773)	(28,599)
Total	**$ 1,426,794**	**$ 1,337,316**

The components of net investment in finance lease as of December 31, 2009 and 2008 are as follows:

	2009	2008
Minimum lease payments	$ 98,892	$ 161,689
Less: unearned finance income	(23,199)	(43,709)
Net investment in finance lease	**75,693**	**117,980**
Current portion	68,018	57,966
Long-term portion (Note 17)	7,675	60,014
Net investment in finance lease	**$ 75,693**	**$ 117,980**

10. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Raw materials and spare parts	$ 483,322	$ 237,338
Finished goods and goods for resale	479,207	369,917
Work-in-progress	183,911	127,147
Costs and estimated earnings in excess of billings on uncompleted contracts	8,646	159,347
	1,155,086	893,749
Less: long-term portion	(17,792)	(30,768)
Total	**$ 1,137,294**	**$ 862,981**

11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Switches, transmission devices, network and base station equipment	$ 10,069,994	$ 8,228,558
Refining, marketing, distribution and chemicals	5,096,275	-
Exploration and production assets	3,515,365	-
Other plant, machinery and equipment	1,855,183	1,693,454
Buildings and leasehold improvements	1,823,421	1,643,781
Power and utilities	1,661,599	-
Construction in-progress and equipment for installation	956,202	1,467,577
Telecommunication equipment for installation	432,908	688,151
Land	33,208	308,422
Real estate construction projects	-	781,072
	25,444,155	14,811,015
Less: accumulated depreciation	(6,177,205)	(4,483,147)
Total	**$ 19,266,950**	**$ 10,327,868**

Depreciation and depletion expenses for the year ended December 31, 2009 and 2008 amounted to $2,017.3 million and $1,682.5 million, respectively.

12. GOODWILL

The carrying amount of goodwill attributable to each reportable operating segment with goodwill balances and changes therein, are as follows:

	Telecom-munications	Technology and Industry	Consumer business	Total
Balance as of January 1, 2008	$ 843,336	$ 198	$ 16,485	$ 860,019
Adjustments to preliminary allocations	37,716	-	(15,755)	21,961
Purchase price allocations	499,640	124,351	63,560	687,551
Impairment losses	(49,891)	-	(63,560)	(113,451)
Currency translation adjustment	(104,867)	-	(11)	(104,878)
Balance as of December 31, 2008	**$ 1,225,934**	**$ 124,549**	**$ 719**	**$ 1,351,202**
Adjustments to preliminary allocations	42,005	-	-	42,005
Purchase price allocations	328,565	-	-	328,565
Currency translation adjustment	(74,653)	190	(207)	(74,670)
Balance as of December 31, 2009	**$ 1,521,851**	**124,739**	**512**	**1,647,102**

Amounts of goodwill in the Telecommunications segment are attributable to the following reporting units: MTS, SSTL and SMM. Goodwill in the Technology and Industry segment is attributable to SITRONICS.

Values assigned to key assumptions and estimates used to measure the unit's fair value are consistent with external sources of information and historic data for each reporting unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

No impairment was recognized based on the goodwill impairment test as of December 31, 2009.
Fair value of respective reporting units was measured using combination of present value technique, Gordon model and multiples.

13. LICENSES, NET

Licenses, net of accumulated amortization, as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Operating licenses	$ 1,370,913	$ 1,450,278
Less: accumulated amortization	(345,451)	(275,757)
Total	**$ 1,025,462**	**$ 1,174,521**

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include the targets for start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

Licenses that expired during the year ended December 31, 2009 and 2008 were renewed, however their carrying value in accompanying consolidated balance sheet is immaterial due to low cost of renewal. Management does not presently assume renewals in its determination of the useful lives of its licenses as the Group has limited experience with renewal of licenses.

Amortization expense for licenses for the year ended December 31, 2009 and 2008 amounted to $78.7 million and $149.4 million, respectively.

The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,	
2010	$ 311,781
2011	288,161
2012	181,426
2013	76,815
2014	67,942
Thereafter	99,337
	$ 1,025,462

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new licenses acquisitions, changes in useful lives and other relevant factors.

14. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses as of December 31, 2009 and 2008 consisted of the following:

	2009			2008		
	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value
Amortized intangible assets:						
Acquired customer base	$ 596,583	(251,352)	345,231	$ 771,944	$ (235,005)	$ 536,939
Radio frequencies	239,045	(75,351)	163,694	205,922	(48,622)	157,300
Numbering capacity with finite contractual life, software and other	2,105,459	(1,089,064)	1,016,395	1,803,254	(1,033,524)	769,730
	2,941,087	(1,415,767)	1,525,320	2,781,120	(1,317,151)	1,463,969
Unamortized intangible assets:						
Trademarks	220,173	-	220,173	230,170	-	230,170
Numbering capacity with indefinite contractual life	27,047	-	27,047	29,688	-	29,688
Total intangible assets	**$ 3,188,307**	**(1,415,767)**	**1,772,540**	**$ 3,040,978**	**$ (1,317,151)**	**$ 1,723,827**

Amortization expense recorded on other intangible assets for the years ended December 31, 2009 and 2008 amounted to $394.5 million and $484.4 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,		
2010	$	450,110
2011		372,569
2012		307,560
2013		197,279
2014		58,576
Thereafter		139,226
	$	**1,525,320**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

15. INVESTMENTS IN AND LOANS TO AFFILIATES

Investments in affiliates as of December 31, 2009 and 2008 consisted of the following:

	2009		**2008**		
	Voting power, %	**Carrying value**	**Voting power, %**		**Carrying Value**
Shares of energy companies in the Republic of Bashkortostan	Consolidated		Various	$	975,097
MTT (Note 4)	-	-	50%		48,906
MTS Belarus	49%	220,450	49%		235,756
Sitronics NANO	49%	203,041	-		-
Skylink	50%	133,590	50%		77,541
Construction joint venture with Apsys	-	-	50%		46,880
Construction joint venture with Saraya	-	-	50%		19,518
Loans to MTS Belarus	-	-	-		1,000
Other investments at cost and loans to investees	Various	74,741	Various		22,370
Total		**631,822**			**1,427,068**

Shares of energy companies in the Republic of Bashkortostan – As discussed in Note 3, in April 2009, the Group acquired controlling stakes in the shares of energy companies in the Republic of Bashkortostan for a total cash consideration of $2.0 billion.

SITRONICS-NANO – In December 2009, SITRONICS contributed equipment with a book value of RUB 5.5 billion ($181.8 million as of December 31, 2009) into the share capital of SITRONICS-NANO and RUSNANO contributed RUB 6,480 million in cash.

The primary purpose of SITRONICS-NANO is to acquire equipment and licenses necessary to launch 90 nanometer microchip production and to lease them to SITRONICS and provide financing to SITRONICS. The purchases will be financed through the equity of SITRONICS-NANO and external borrowings.

RUSNANO has a put option to sell its shares to the Group at market price +25% not earlier than in 9 years and not later than in 10.5 years from the date of financing (December 2009). The Group has a call option to acquire at any time RUSNANO's shares at RUB 6.5 billion plus 18% p.a.

In addition, during the first nine years of operations of SITRONICS-NANO on non-fulfillment of certain criteria, RUSNANO can put its share in SITRONICS-NANO to SISTEMA at RUB 6,480.0 million plus 18% p.a., less any net profit attributed and paid to RUSNANO during the period from the date of the put option application.

16. INVESTMENT IN SHARES OF SVYAZINVEST

In December 2006, as a part of its program of regional expansion, Comstar UTS acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company ("Svyazinvest") from Mustcom Limited for a total consideration of approximately $1,390.0 million, including cash of $1,300.0 million and the fair value of the call and put option of $90.0 million (see Note 25). Comstar UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest. Svyazinvest is a holding company that holds controlling stakes in seven publicly traded incumbent fixed-line operators ("MRKs") based in all seven Federal districts of Russia, Rostelecom, a publicly traded long-distance fixed-line operator operating a Russia-wide network, and several other entities, the majority of which are non-public.

Based on the analysis of all relevant factors, the management determined that the acquisition of the 25% plus one share of Svyazinvest does not allow the Group to exercise significant influence over this entity due to its legal structure and certain limitations imposed by Svyazinvest's charter documents. Accordingly, the Group accounts for its investment in Svyazinvest under the cost method.

In November 2009, the Group and Svyazinvest ("the Parties") have signed a non-binding memorandum of understanding ("MOU"), under which the Parties agreed to enter in a series of transactions which would ultimately result in (i) disposal of the Group's investment in Svyazinvest to a state-controlled enterprise; (ii) noncash extinguishment of the Group's indebtedness to Sberbank (see Note 20); (iii) increase in the Group's ownership in Sky Link (currently a 50% affiliate of the Group, see also Note 15) to 100% and disposal of this investment to a state-controlled enterprise; and (iv) disposal of 28% of MGTS' common stock owned by Svyazinvest to the Group. In addition, certain cash consideration, the amount of which is yet to be negotiated between the parties, is to be paid to Svyazinvest under the MOU.

Based on the estimated fair values of the elements of the assets to be exchanged and liabilities to be extinguished under the MOU and other relevant factors, management believes that as of December 31, 2009 there were indicators of potential impairment of the Group's investment in Svyazinvest.

Svyazinvest is a non-public entity and the Group has no access to consolidated financial information of Svyazinvest at a level of detail necessary to perform a complete fair value assessment of the Svyazinvest business directly, based on estimated future cash flows or otherwise. As a result, management has determined that the best estimate of the fair value of the Group's investment in Svyazinvest is the amount determined based on the MOU. Based on the MOU, the estimated fair value of the investment, which included significant unobservable inputs (Level 3 measurement), is approximately RUB 26.0 billion ($859.7 million as of December 31, 2009) compared to a carrying value of RUB 36.5 billion ($1,205.5 million as of December 31, 2009). As a result, during the year ended December 31, 2009 the Group has recorded an impairment loss of RUB 10.5 billion ($349.4 million at December 2009 average rate).

At the date of these consolidated financial statements, the Group did not have a legally binding commitment to enter into the transaction contemplated by the MOU and there is an uncertainty as to the ability of the Group to complete the transaction in the near future. Because of the material uncertainties inherent in the valuation of Svyazinvest, the value the Group could realize had a disposal of this investment been made between a willing buyer and seller may differ materially from its resultant carrying amount.

17. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Term deposits	$ 2,962,849	$ 3,664,004
Deposits repayable on demand	1,472,648	464,074
Promissory notes issued	72,448	213,289
	4,507,945	4,341,367
Less: amounts maturing after one year	(1,259,065)	(803,112)
Total	**$ 3,248,880**	**$ 3,538,255**

Bank deposits and notes issued as of December 31, 2009 and 2008 include deposits from and promissory notes issued to affiliates and other related parties for $11.4 million and $88.0 million, respectively.

The fair value of bank deposits and notes issued approximates their carrying value.

The following table presents the effective average interest rates by categories of bank deposits and notes issued as of December 31, 2009 and 2008:

	2009			2008		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Term deposits:						
- corporate customers	9.2%	5.6%	5.0%	10.2%	7.1%	6.7%
- individuals	12.8%	9.3%	8.6%	10.8%	9.4%	8.4%
Promissory notes issued	12.9%	9.9%	8.3%	13.6%	6.9%	8.6%
Deposits repayable on demand:						
- corporate customers	0.3%	0.3%	0.1%	1.5%	0.5%	0.5%
- individuals	0.4%	0.6%	0.5%	0.4%	0.5%	0.9%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Payroll and other accrued expenses	$ 402,550	$ 211,354
Customers' advances	566,670	234,231
Accrued interest on loans	266,541	121,547
Accruals for services	232,551	192,268
Bitel liability (Note 30)	170,000	170,000
Tax and legal provisions	125,660	17,112
Financial instruments at fair value	95,103	20,892
Liabilities on factoring operations	31,545	31,699
Dividends payable	9,037	3,005
Payable for purchase of Kvazar-Micro Corporation shares	-	67,494
Other	472,277	295,403
Total	**$ 2,371,934**	**$ 1,365,005**

19. SHORT-TERM LOANS PAYBLE

Short-term loans payable as of December 31, 2009 and 2008 consisted of the following:

	Interest rate (Actual at December 31, 2009)	December 31, 2009	December 31, 2008
USD-denominated:			
Deutsche Bank AG, London Branch	11.5%	$ 20,408	$ -
Access Telecommunications Cooperatief	16.0%	-	263,552
Gazprombank	9.5%	-	200,000
Vnesheconombank	LIBOR+7% (7.5%)	-	155,000
Alfa Bank	LIBOR+5.5%-6.0% (6.0%-6.5%)	-	90,001
Alexandria Capital plc	9.3%	-	75,000
Raiffeisenbank	LIBOR+6.6% (7.1%)	-	55,105
Standard Bank	LIBOR+2.3% (2.8%)	-	50,000
HSBC Bank plc	LIBOR+2.5%-8.5% (3.0%-9.0%)	-	27,054
FBME Bank Ltd.	12.0%	-	24,986
The Royal Bank of Scotland	LIBOR+6.0% (6.5%)	-	15,000
Other	Various	47,940	58,750
		68,348	1,014,448
EUR-denominated:			
Gazenergoprombank	8.0%	32,278	$ -
Societe Generale – Geniki Bank	EURIBOR+2.25% (3.25%)	17,215	14,105
ING Bank	EURIBOR+1.3% (2.3%)	-	6,428
Hellenik Bank	LIBOR+4.0% (4.5%)	-	4,253
Other	Various	26,398	-
		75,891	24,786
RUB-denominated:			
B&N Bank	12.5%	51,249	-
Uralsib	14.0%	50,367	-
MDM Bank	13.0%	46,767	-
Raiffeisenbank	MosPrime+5.5% (13.3%)	30,645	-
Sberbank	16.0%	22,120	23,206
RussBank	13.0%	6,761	-
HSBC Bank plc	MosPrime+2.5% (10.3%)	-	13,546
Other	Various	135,096	113,580
		343,005	150,332
Other currencies	Various	5,838	60,125
Loans from related parties	Various	46,297	208,956
Total		**$ 539,379**	**$ 1,458,647**

Short-term loans and notes payable mature in 2010.

20. LONG-TERM DEBT

Long-term debt as of December 31, 2009 and 2008 consisted of the following:

	December 31, 2009	December 31, 2008
Loans from banks and financial institutions	$ 8,648,249	$ 6,373,507
Notes and corporate bonds	6,558,103	2,681,890
Loans from related parties	118,013	52,866
Capital leases	181,047	20,492
Other borrowings	124,845	67,303
	15,630,257	9,196,058
Less amounts maturing within one year	(4,229,864)	(2,234,507)
Total	**$ 11,400,393**	**$ 6,961,551**

Notes and corporate bonds as of December 31, 2009 and 2008 consisted of the following:

	Currency	Interest rate	December 31, 2009	December 31, 2008
Bashneft Bonds due 2016	RUB	12.5%	$ 1,653,209	$ -
JSFC Sistema Bonds due 2014	RUB	14.8%	661,284	-
JSFC Sistema Bonds due 2016	RUB	12.5%	628,220	-
MTS Notes due 2014	RUB	16.8%	495,963	-
MTS Notes due 2016	RUB	14.3%	495,963	-
MTS Finance Notes due 2012	USD	8.0%	400,000	400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
MTS Notes due 2018	RUB	8.7%	298,155	268,533
MTS Notes due 2015	RUB	14.0%	248,213	255,272
MTS Notes due 2013	RUB	14.0%	247,981	255,272
MBRD Bonds due 2013	RUB	15.0%	198,068	208,226
JSFC Sistema Bonds due 2013	RUB	19.0%	184,236	204,218
MBRD Bonds due 2013	RUB	15.0%	165,216	-
MBRD Bonds due 2014	RUB	15.0%	165,216	-
SITRONICS Bonds due 2010	RUB	22.0%	96,841	102,109
Sistema Capital Notes due 2011	USD	8.9%	89,480	345,000
MBRD Loan Participation Notes due 2016	USD	8.9%	58,945	60,491
DM-Center Bonds due 2015	RUB	8.5%	38,024	39,142
Intourist Bonds due 2010	RUB	9.0%	33,064	34,036
MGTS Bonds due 2010	RUB	16.0%	402	5,202
MBRD Capital Notes due 2009	USD	8.8%	-	99,694
MGTS Bonds due 2009	RUB	7.1%	-	5,233
			6,558,480	2,682,428
Less: unamortized discount			(377)	(538)
Total notes and corporate bonds			**$ 6,558,103**	**$ 2,681,890**

The fair values of notes and corporate bonds based on the market quotes as of December 31, 2009 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
Bashneft Bonds due 2016	MICEX stock exchange	100.0	$ 1,653,209
JSFC Sistema Bonds due 2014	MICEX stock exchange	106.8	706,251
JSFC Sistema Bonds due 2016	MICEX stock exchange	101.6	638,334
MTS Notes due 2014	London stock exchange	108.5	538,120
MTS Notes due 2016	MICEX stock exchange	110.1	546,055
MTS Finance Notes due 2012	Luxembourg stock exchange	104.3	417,000
MTS Finance Notes due 2010	Luxembourg stock exchange	104.1	416,212
MTS Notes due 2018	MICEX stock exchange	99.9	323,375
MTS Notes due 2015	MICEX stock exchange	101.7	252,432
MTS Notes due 2013	MICEX stock exchange	102.0	252,941
MBRD Bonds due 2013	MICEX stock exchange	103.9	205,793
JSFC Sistema Bonds due 2013	MICEX stock exchange	102.0	187,921
MBRD Bonds due 2014	MICEX stock exchange	101.3	167,281
MBRD Bonds due 2014	MICEX stock exchange	101.9	168,272
SITRONICS Bonds due 2010	MICEX stock exchange	103.3	100,037
Sistema Capital Notes due 2011	London stock exchange	104.8	93,788
MBRD Loan Participation Notes due 2016	London stock exchange	92.6	54,557
DM-Center Bonds due 2015	MICEX stock exchange	73.0	27,758
Intourist Bonds due 2010	MICEX stock exchange	98.0	32,403
MGTS Bonds due 2010	MICEX stock exchange	98.4	396
			$ 6,782,135

As of December 31, 2009, the fair value of all other long-term debt is not materially different from the carrying value due to the effective interest rates being at or near the market rate.

Subject to certain exceptions and qualifications, the indentures governing MTS Finance Notes contain covenants limiting MTS' ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person; and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101.0% of their principal amount plus accrued interest. The notes also have cross default provisions with publicly traded debt issued by JSFC Sistema. If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Bashneft bonds are subject to certain financial and non-financial covenants.

Sistema Capital Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness; restrictions on mergers or consolidations; and limitations on liens and dispositions of assets and limitations on transactions with affiliates. In addition, these notes provide the holders with a right to require the Group to redeem all of the notes outstanding at 101.0% of the principal amount of the notes plus accrued interest upon any change in control.

MTS has an unconditional obligation to repurchase Notes at par value if claimed by the holders of the notes subsequent to the announcement of the sequential coupon. The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses the notes as maturing in 2010 (MTS Notes due 2013, 2015, 2018), in 2011 (MTS Notes due 2015) and in 2012 (MTS Notes due 2016) in the aggregated maturities schedule as these are the reporting periods when the noteholders will first have the unilateral right to demand repurchase.

MBRD Loan Participation Notes and MBRD Capital Notes are subject to certain restrictive covenants including, but not limited to, limitations on mergers, liens and dispositions of assets and transactions with MBRD's subsidiaries and affiliates.

JSFC Sistema bonds are subject to certain restrictive covenants, including, but not limited to, compliance with certain financial ratios.

The principal of DM-Center bonds is fully and unconditionally guaranteed by the Moscow City Government. Concurrently, JSFC Sistema has pledged to Moscow City Government real estate and shareholdings with approximate book value of $11.2 million.

Management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of December 31, 2009.

Loans from banks and financial institutions as of December 31, 2009 and 2008 consisted of the following:

	Maturity	Interest rate (Actual at December 31, 2009)	December 31, 2009	December 31, 2008
USD-denominated:				
VTB	2010-2013	8.5-11.8%	$ 756,597	$ 602,271
Sberbank	2010-2013	10.5%	370,000	370,000
Syndicated Loan Facility granted to MTS in 2009	2011-2012	LIBOR+6.5% (7%)	360,000	-
Syndicated Loan Facility granted to MTS in 2006	2010-2011	LIBOR+1.15% (1.58%)	323,077	1,168,462
Skandinaviska Enskilda Banken AB	2010-2017	LIBOR+0.23%-1.8% (0.66%-2.23%)	279,519	159,047
Golden Gates (Bank of Moscow)	2011	LIBOR+8.0% (8.5%)	230,000	-
EBRD	2010-2014	LIBOR+1.5%-3.3% (2.0%-3.8%)	200,000	233,333
The Royal Bank of Scotland	2010	LIBOR+0.35% (0.78%), 2.4%	152,649	243,936
HSBC Bank plc and ING BHF Bank AG	2010-2014	LIBOR+0.3% (0.8%)	90,985	110,726
Citibank International plc and ING Bank N.V.	2010-2013	LIBOR+0.4% (0.9%)	84,560	108,048
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2010-2015	LIBOR+0.3% (0.8%)	76,180	92,789
Commerzbank AG, ING Bank AG and HSBC Bank plc	2010-2014	LIBOR+0.3% (0.8%)	66,557	81,348
Barclays Bank plc	2010-2014	LIBOR+0.13%-0.15% (0.56%-0.58%)	59,203	72,360
Raiffeisenbank	2010-2010	LIBOR+5.3% (5.8%)	-	86,560
HSBC Bank plc	2011	5.2%	44,667	67,000
Unicredit	2011-2012	LIBOR +4.2% (4.7%) 6.3%-10.0%,	37,824	45,938
Standard Bank	2015	LIBOR+6.5% (7.0%)	30,000	-
Commerzbank (Eurasia)	2010-2011	LIBOR+3.5%-6.5% (4.0%-7.0%)	21,167	30,826
Vnesheconombank	2009-2014	LIBOR+3.0% (3.5%)	-	113,320
Merrill Lynch International	2011	LIBOR+11.4% (11.9%)	-	70,000
Gazprombank	2011	12.5%	-	26,000
Other	2010-2015	Various	24,362	32,463
			3,207,347	3,714,427
EUR-denominated:				
EBRD	2010-2016	EURIBOR+6.9% (7.9%), 13.0%	484,895	-
Syndicated Loan Facility granted to MTS in 2009	2011-2012	EURIBOR+6.5% (7.5%)	341,580	-
Gazprombank	2010-2011	8%-12%	286,920	423,150
Syndicated Loan to Sitronics	2010-2011	EURIBOR+1.5% (2.5%)	193,671	211,575
European Investment Bank	2010-2016	EURIBOR+6.4% (7.4%)	164,979	-
Nordic Investment Bank	2010-2016	EURIBOR+6.5%-6.9% (7.5%-7.9%)	114,768	-
The Royal Bank of Scotland	2010-2013	EURIBOR+0.4% (1.4%)	19,859	24,406
Other	2010-2011	Various	23,469	35,066
			1,630,141	694,197
RUB-denominated:				
Sberbank	2011-2013	11%-17%	2,878,897	892,167
Gazprombank	2012	13.0%	213,600	-
Unicredit	2011-2016	MosPrime+1.8% (9.3%)	57,278	25,958
RussBank	2010	14.1%	53,512	56,787
Raiffeisenbank	2010-2012	MosPrime+5.4% (12.9%)	39,677	-
VTB	2012	15%-17.5%	-	801,849
Other	Various	Various	49,619	69,876
			3,292,583	1,846,637
Other currencies	2010-2018	Various	518,178	118,246
Total			**$ 8,648,249**	**$ 6,373,507**

The syndicated Loan Facility to MTS provided by a group of international financial institutions, including The Bank of Tokyo-Mitsubishi UFJ Ltd., Bayerische Landesbank, HSBC Bank plc., ING Bank N.V., Raiffeisen Zentralbank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Ltd., is subject to certain restrictive covenants, including, but not limited to, certain financial ratios, and limitations on dispositions of assets and limitations on transactions with the Group.

The loan facility of $150.0 million from VTB is collateralized by the pledge of 101,868,642 shares of ANK Bashneft. The facility is subject to certain restrictive covenants, including, but not limited to, any merger, consolidation or disposition of assets, which can deteriorate Sistema's solvency.

The loan facility of EUR 150.0 million from Gazprombank is collateralized by the pledge of MTS notes, Pekin Hotel, Sistema Tower building and the corporate head office building at Mokhovya, 13. The facility is subject to certain restrictive covenants, including, but not limited to, any merger, consolidation or disposition of assets, which can deteriorate Sistema's solvency.

The loan facility of $600.0 million from VTB is collateralized by the pledge of 223,777,955 shares of Novoil, 139,111,061 – of UNPZ, 61,758,034 – of Ufaneftekhim, 42,542,439 – of ANK Bashneft, 24,311,642 – of Ufaorgsintez and 2,523,138 – of BNP. The facility is subject to certain restrictive covenants, including, but not limited to, any merger, consolidation or disposition of assets, which can deteriorate Sistema-Invest's solvency.

The loan facility of RUB 26 billion (equivalent of $859.7 million as of December 31, 2009) from Sberbank is collateralized by the pledge of the Group's 25.0% plus one share of Svyazinvest. The facility is subject to certain restrictive covenants, including, but not limited to certain financial ratios, requirements to maintain ownership of Comstar UTS in MGTS not less than 50% plus one share of the voting shares and requirements to maintain ownership of JSFC Sistema in Comstar UTS not less than 50% plus one share of the voting shares.

The loan facility of RUB 25 billion (equivalent of 826.6 million as of December 31, 2009) from Sberbank granted to MTS is collateralized by the pledge of a 50.18% stake in Comstar UTS as well as equipment with a net book value of RUB 30 billion as of December 31, 2009 (equivalent of $991.9 million as of the reporting date).

Other credit facilities provided to MTS by international financial institutions, including (i) EBRD, (ii) Citibank International plc and ING Bank N.V., (iii) HSBC Bank plc and ING BHF Bank AG, (iv) Commerzbank AG, ING Bank AG and HSBC Bank plc, (v) HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank, (vi) Barclays Bank plc and (vii) The Royal Bank of Scotland, are subject to certain restrictive covenants, including, but not limited to, certain financial ratios and covenants restricting MTS's ability to convey or dispose its properties and assets to another person and limitations on transactions with the Group.

The syndicated Loan Facility to Sitronics provided by a group of international financial institutions, including Alphabank, HSBC Bank plc, Geniki Bank of Greece S.A., National Bank of Greece S.A., Piraeus Bank S.A., EFG Eurobank S.A., FBB-First Business Bank S.A., Aspis Bank, Millennium Bank S.A. is guaranteed by JSC Sitronics and Intracom Holding S.A. and contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios.

Equipment with approximate carrying value of $67.7 million is pledged to collateralize some of the other loan facilities provided to the Group.

Management believes that the Group is in compliance with all restrictive provisions of notes, corporate bonds, loans and credit facilities as of December 31, 2009.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on December 31, 2009 is as follows:

Year ended December 31,		
2010	$	4,229,864
2011		3,572,656
2012		5,942,983
2013		1,260,009
2014		287,196
Thereafter		337,549
Total	**$**	**15,630,257**

21. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Current portion		
Advances and customers' deposits	$ 503,807	$ 474,000
Connection fees	50,602	22,775
	554,409	496,775
Non-current portion		
Connection fees	130,153	119,722
Total	**$ 684,562**	**$ 616,497**

22. INCOME TAX

The Group's provision for income taxes for the year ended December 31, 2009 and 2008 was:

	2009	2008
Current provision	$ 776,622	$ 1,091,101
Deferred income tax benefit	(29,954)	(237,006)
Total income tax expense	**$ 746,668**	**$ 854,095**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate to income from continuing operations before income tax and non-controlling interests. The items causing this difference are as follows:

	2009	2008
Income tax provision computed on income before taxes at statutory rate of 20% in 2009 and 24% in 2008	$ 611,789	$ 470,390
Adjustments due to:		
Change in valuation allowance	93,937	142,821
Other non-deductible items	226,920	137,826
Additions/(reductions) to unrecognized tax benefits	(10,451)	10,315
Dispositions of subsidiaries	68,209	-
Non-taxable gain on bargain purchase	(556,567)	-
Effect of Group restructuring	232,900	-
Earnings distribution from subsidiaries	101,642	-
Settlements with tax authorities on prior period income tax	(43,347)	-
Effect of rates different from standard	18,765	(5,697)
Currency exchange and translation differences	2,871	51,554
Impairment of goodwill and long-lived assets	-	57,787
Effect of tax rate change	-	(9,789)
Stock-based compensation non-deductible for tax purposes	-	(3,401)
Put and call option revaluation	-	9,973
Non-taxable items	-	(7,684)
Income tax expense	**$ 746,668**	**$ 854,095**

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented below:

	2009	2008
Deferred tax assets		
Property, plant and equipment	$ 286,177	$ 201,794
Accrued expenses	178,605	209,280
Tax losses carried forward	160,959	196,553
Intangible assets	46,637	49,786
Deferred revenues	33,610	20,265
Allowance for doubtful accounts and loans receivable	18,229	44,396
Deferred connection fees	16,663	35,502
Valuation of investment in Svyazinvest	78,761	-
Other	122,834	61,532
	942,475	819,108
Less: valuation allowance	(183,001)	(196,716)
Total deferred tax assets	**$ 759,474**	**$ 622,392**
Deferred tax liabilities		
Property, plant and equipment	(1,375,148)	(201,983)
Intangible assets	(247,571)	(330,634)
Undistributed earnings of subsidiaries and affiliates	(161,294)	(102,238)
Debt issuance costs	(32,505)	(28,317)
Other	(48,562)	(91,076)
Total deferred tax liabilities	**$ (1,865,080)**	**$ (754,248)**
Net deferred tax assets, current	$ 348,965	$ 262,989
Net deferred tax assets, long-term	$ 243,569	$ 181,317
Net deferred tax liabilities, current	$ (87,415)	$ (70,903)
Net deferred tax liabilities, long-term	$ (1,610,725)	$ (505,259)

Effective January 1, 2009, the Government of the Russian Federation changed the income tax rate from 24% to 20%.

As of December 31, 2009, deferred tax assets relating to tax losses carried forward in the amount of $94.2 million with no limit of expiration is attributable to MGTS Finance S.A., deferred tax assets relating to tax losses carried forward in the amount of $17.1 million with a period for carryforward 2011-2019 is attributable to Comstar UTS, RTK and other Russian subsidiaries of MTS. Deferred tax assets relating to tax losses carried forward in the amount of $5.0 million expiring in 2012, are attributable to SITRONICS. These tax losses can be utilized through 2019 years in Russia and till 2012 in Czech Republic. The remaining amount of deferred tax assets relating to tax losses carried forward is mainly attributable to Retail and Mass Media companies of the Group, and fully expires by 2019.

Management established a valuation allowance against tax loss carry-forwards of MGTS Finance S.A. and $30.9 million of deferred tax asset on valuation of investment in Svyazinvest which is allocable to MGTS Finance S.A. because there will be no sufficient future taxable income to realize those deferred tax assets. Management also established a valuation allowance for the remaining $47.9 million of deferred tax asset on valuation of investment in Svyazinvest relating to Comstar UTS, because such impairment loss, if realized, could be offset only against gains from disposal of Comstar UTS' shares in subsidiaries and other investments, which, management believes, are not likely to arise in the foreseeable future.

In 2009 the Group recognized deferred income tax liabilities of $70.5 million for income taxes on future dividend distributions from foreign subsidiaries (UMC, K-Telecom), which are based on $1,431.9 million cumulative undistributed earnings of those foreign subsidiaries because such earnings are intended to be repatriated. The Group did not record any deferred tax liabilities related to undistributed earnings of its subsidiaries in 2008 and prior reporting periods as there was no intention to repatriate the earnings. No deferred tax liability was recognized on undistributed earnings of Uzdunrobita as the Group plans to indefinitely reinvest those. As of December 31, 2009 and December 31, 2008 the amount of undistributed earnings of Uzdunrobita in accordance with local statutory accounting regulations amounted to $530.7 million and $401.6 million, respectively (unaudited). Potential earnings distributions from our subsidiary BCTI is tax free, so that no deferred tax liability arise in this regard.

The Group does not record a deferred tax liability related to undistributed earnings of its subsidiaries, except for MTS, as it intends to permanently reinvest these earnings or because potential distributions are tax free. The deferred tax liability on future distributions of MTS is recorded in accordance with MTS' dividend policy.

As of December 31, 2009 and 2008, the Group included accruals for uncertain tax positions in the amount of $11.2 million and $19.8 million, respectively, as a component of income tax payable.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2009	2008
Balance, beginning of the year	$ 19,798	$ 42,346
Additions based on tax positions related to the current year	2,094	23,330
Additions based on tax of acquired entities	1,521	-
Reduction on tax positions of disposed entities	(4,045)	-
Reduction in tax positions related to prior years	(1,778)	(10,204)
Reductions in tax positions due to change of tax position during the year	(2,848)	-
Reversal of tax positions from prior years due to expiration of statute of limitations	-	(3,997)
Settlements with tax authorities	(3,305)	(31,456)
Currency translation adjustment	(258)	(221)
Balance, end of the year	**$ 11,179**	**$ 19,798**

As of December 31, 2009 and 2008, the Group also accrued interest and penalties related to unrecognized tax benefits of $6.3 million and $12.2 million, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

23. POSTRETIREMENT BENEFITS

Intracom Telecom

According to the Greek labor legislation, Intracom Telecom is obliged to provide certain postretirement benefits to its employees. The defined benefit pension plan is unfunded.

The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	6.2% p.a.
Annual payroll increase	4.5% p.a.
Long-term inflation	2.0% p.a.
Staff turnover for voluntary resignation (up to 30)	11.0% p.a.
Staff turnover for voluntary resignation (from 31 to 50)	5.5% p.a.
Staff turnover for voluntary resignation (for ages above 51)	2.0% p.a.
Staff turnover for dismissal (for ages below 51)	0.2% p.a.

The change in the projected benefit obligation for the year ended December 31, 2009 is presented in the following table:

	2009	2008
Projected benefit obligation, beginning of the year	$ 8,215	$ 7,255
Service cost	596	675
Interest cost	386	369
Amendments	1,104	3,054
Benefit payments	(2,935)	(2,343)
Actuarial gain	(305)	(483)
Currency translation effect	105	(312)
Projected benefit obligation, end of the year	**$ 7,166**	**$ 8,215**
Short-term portion	832	2,001
Long-term portion	6,334	6,214

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2010 – $0.8 million; 2011 – $0.9 million, 2012 – $1.0 million, 2013 – $1.0 million, 2014 – $1.1 million and an aggregate of $2.3 million in 2015 to 2019.

The components of the net periodic pension costs for the years ended December 31, 2009 and 2008 are as follows:

		2009		2008
Service cost	$	596	$	675
Interest cost		386		369
Net periodic pension cost	**$**	**982**	**$**	**1,044**

Amounts recognized in other comprehensive income for the years ended December 31, 2009 and 2008 are as follows:

		2009		2008
Unrecognized gain	$	306	$	246
Total recognized in other comprehensive income	**$**	**306**	**$**	**246**

As of December 31, 2009, the long-term portion of the postretirement benefit obligations was $6.3 million, and is included in long-term liabilities on the consolidated balance sheet. The short-term portion amounted to $0.8 million and is included in accrued expenses and other current liabilities.

MGTS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards, which include monthly regular pension, death-in-service payments, lump-sum upon retirement payments, death-while-pensioner payments and 50% monthly telephone subsidy for the pensioners who served more than 30 years at MGTS. As of December 31, 2009, there were 10,010 active employees eligible to the program. The pension plan is terminally funded, i.e., upon retirement MGTS transfers all its obligations to a pension fund (NPF “Sistema”), a subsidiary of the Group, and from that moment onwards has no more obligations towards the pensioner regarding the pension plan. All other program benefits are financed on a pay-as-you-go basis.

MGTS’ pension obligations are measured as of the eyar end. The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	9.00% p.a.
Expected return on plan assets	9.22% p.a.
Projected salary growth	9.72% p.a.
Discount rate used for annuity contracts calculation	7.00% p.a.
Rate at which pension payment are assumed to be indexed	0.00% p.a.
Long-term inflation	5.50% p.a.
Staff turnover (for ages below 50)	5.00% p.a.

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2009 and 2008 are presented in the following table:

	2009			2008		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Change in projected benefit obligation						
Projected benefit obligation, beginning of the year	$ 11,924	$ 17,797	$ 29,721	$ 17,381	$ 20,909	$ 38,290
Service cost	491	737	1,228	807	794	1,601
Interest cost	914	1,371	2,285	1,102	1,083	2,185
Plan amendments losses	-	-	-	66	1,844	1,910
Actuarial (gains)/losses	17	(1,686)	(1,669)	(2,355)	265	(2,090)
Benefit payment s	-	(3,043)	(3,043)	-	(5,701)	(5,701)
Settlement and curtailment gain	(1,245)	-	(1,245)	(2,689)	-	(2,689)
Termination benefits	-	-	-	-	2,102	2,102
Foreign currency translation effect	(332)	(636)	(968)	(2,388)	(3,499)	(5,887)
Projected benefit obligation, end of the year	**$ 11,769**	**$ 14,540**	**$ 26,309**	**$ 11,924**	**$ 17,797**	**$ 29,721**
Change in fair value of plan asset						
Fair value of plan assets, beginning of the year	$ 471	$ -	$ 471	$ 2,473	$ -	$ 2,473
Correction of asset value, beginning of year	(188)	-	(188)	-	-	-
Actual return on plan assets	-	-	-	187	-	187
Employer contributions	1,733	3,044	4,777	604	5,701	6,305
Benefits paid	-	(3,044)	(3,044)	-	(5,701)	(5,701)
Settlement	(1,245)	-	(1,245)	(2,689)	-	(2,689)
Foreign currency translation effect	1	-	1	(104)	-	(104)
Fair value of plan assets, end of the year	**$ 772**	**$ -**	**$ 772**	**$ 471**	**$ -**	**$ 471**
Unfunded status of the plan, end of the year, net	**$ (10,997)**	**$ (14,540)**	**$ (25,537)**	**$ (11,453)**	**$ (17,797)**	**$ (29,250)**

Reconciliations of the unfunded status of the plan for the years ended December 31, 2008 and 2007 are as follows:

	2009			2008		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Unfunded status of the plan, beginning of the year	$ 11,453	$ 17,797	$ 29,250	$ 14,908	$ 20,909	$ 35,817
Net periodic benefit cost	2,115	2,726	4,841	2,570	4,576	7,146
Contributions made	(1,733)	(3,044)	(4,777)	(604)	(5,701)	(6,305)
(Credit)/charge to other comprehensive income/(loss), net	(505)	(2,303)	(2,808)	(3,137)	1,512	(1,625)
Foreign currency translation effect	(333)	(636)	(969)	(2,284)	(3,499)	(5,783)
Unfunded status of the plan, end of the year	**$ 10,997**	**$ 14,540**	**$ 25,537**	**$ 11,453**	**$ 17,797**	**$ 29,250**

The components of the net periodic pension expense for the years ended December 31, 2009 and 2008 are as follows:

	2009			2008		
	Old age pension	Other benefits	Total	Old age pension	Other benefits	Total
Service cost	$ 491	$ 737	$ 1,228	$ 807	$ 794	$ 1,601
Interest cost	914	1,371	2,285	1,102	1,083	2,185
Return on assets	-	-	-	(187)	-	(187)
Termination benefits in connection with established staff reduction program	-	-	-	-	2,102	2,102
Net actuarial loss recognized in a year	582	438	1,020	933	597	1,530
Amortization of prior service cost	(60)	180	120	(85)	-	(85)
Correction of asset value, beginning of year	188	-	188	-	-	-
Net periodic pension expense	**$ 2,115**	**$ 2,726**	**$ 4,841**	**$ 2,570**	**$ 4,576**	**$ 7,146**

Amounts recognized in other comprehensive income/(loss) for the years ended December 31, 2009 and 2008 are as follows:

	2009			2008		
	Old age pension	Other benefits	Total	Old age pension	Other benefits	Total
Unrecognized benefit	$ (565)	$ (2,123)	$ (2,688)	$ (3,289)	$ (331)	$ (3,620)
Unrecognized prior service cost/(benefit)	60	(180)	(120)	152	1,843	1,995
Total recognized in other comprehensive (income)/loss	**$ (505)**	**$ (2,303)**	**$ (2,808)**	**$ (3,137)**	**$ 1,512**	**$ (1,625)**

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income/(loss) into net periodic benefit cost over the year ending December 31, 2010 are $0.5 million and $0.1 million, respectively.

The Group's management expects contributions to the plan during the year ended December 31, 2010 to amount to $3.0 million.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2010 – $1.8 million; 2011 – $2.0 million, 2012 – $2.3 million, 2013 – $3.2 million, 2014 – $3.5 million and an aggregate of $20.6 million in 2015 to 2019.

NPF "Sistema" does not allocate any separately identifiable assets to its clients such as MGTS. Instead, it operates a pool of investments where it invests the funds from the pension solidarity and individual accounts. The pool of investments includes primarily investments in Russian corporate bonds, Russian governmental bonds and shares of Russian issuers.

24. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

Deferred revenue is comprised of plant and equipment contributions received by the Group and as of December 31, 2009 and 2008 was as follows:

	2009	2008
Property, plant and equipment contributions at the beginning of the year	$ 115,732	$ 139,980
Contributions received during the year	3,213	2,880
Currency translation effect	(3,282)	(21,421)
	115,663	121,439
Amortization for the year	(3,408)	(5,015)
Effect of acquisitions	-	(692)
Property, plant and equipment at the end of the year	**$ 112,255**	**$ 115,732**

25. FAIR VALUE MEASUREMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The following fair value hierarchy table presents information regarding Group's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

	Level 1 (Quoted Prices in Active Markets for Identical Assets or Liabilities)	Level 2 (Significant Other Observable Inputs)	Level 3 (Significant Unobservable Inputs)	Balance as of December 31, 2009
Assets at fair value:				
Trading securities	$ 698,318	$ -	$ -	$ 698,318
Available for sale securities	57,885	-	-	57,885
MTS interest rate swaps	-	3,391	-	3,391
Total assets	**$ 756,203**	**$ 3,391**	**$ -**	**$ 759,594**
Liabilities at fair value:				
MTS interest rate swaps	$ -	$ (32,636)	$ -	$ (32,636)
MTS cross-currency interest rate swaps	-	(26,559)	-	(26,559)
MTS foreign currency options	-	(4,280)	-	(4,280)
JSFC Sistema foreign currency forward agreement	-	(11,000)	-	(11,000)
Rosnano put option (Note 15)	-	-	(20,627)	(20,627)
Redeemable non-controlling interests (Note 2)	-	-	(82,261)	(82,261)
Total liabilities	**$ -**	**$ (74,475)**	**$ (102,888)**	**$ (177,363)**

The Group uses derivative instruments as part of its overall strategy to manage its exposure to market risks primarily associated with fluctuations in foreign currency and interest rates. The Group does not use derivatives for trading or speculative purposes.

Interest Rate Risk

A portion of the debt held by the Group is exposed to interest rate fluctuations. The company uses various hedging strategies and derivative financial instruments to create an appropriate mix of fixed and floating rate debt. The primary interest rate exposure was related to interest rate fluctuations in EURIBOR and LIBOR. The Group currently uses interest rate and cross-currency swaps as the derivative instruments in these hedging strategies. Several derivatives used to manage the risk associated with the Group's floating rate debt are designated as cash flow hedges.

Foreign Currency Risk

A portion of the debt held by the Group is denominated in US Dollars, and since most of the operations are in Russian Rubles, there is exposure to foreign currency rate fluctuations between the Ruble and the Dollar. The Group, from time-to-time, enters into foreign currency option agreements that allow the company to have a combination of put and call option rights to acquire foreign currencies at different rates. to manage the exposure to , specifically compared to fluctuations between the US Dollar and the Ruble.

A description of the Group's hedging activities is as follows:

Cash flow hedging

In 2009, 2008 and 2007 MTS entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges.

Further, in 2009 MTS entered into several cross-currency interest rate swap agreements. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from RUB-denominated amounts to USD- and EURO-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed USD- and EURO-denominated interest rate to a fixed RUB-denominated interest rate. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest swap matches the interest and principal payments of the underlying debt allowing for highly-effective hedges.

The following table presents the fair value of Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2009 and 2008.

		December 31,	
	Balance sheet location	**2009**	**2008**
Asset derivatives			
MTS interest rate swaps	Other non-current assets	$ 3,391	$ -
Total		3,391	-
Liability derivatives			
MTS interest rate swaps	Accrued expenses and other current liabilities	(32,636)	(20,892)
MTS cross-currency interest rate swaps	Accrued expenses and other current liabilities	(26,559)	-
Total		**$ (59,195)**	**$ (20,892)**

The following table presents the effect of Group's derivative instruments designated as hedges on the consolidated statements of operations for the years ended December 31, 2009 and 2008.

		Year ended December 31,	
	Location of loss recognised	**2009**	**2008**
Interest rate swaps	Interest expense	$ (8,392)	$ (2,002)
Cross-currency interest rate swaps	Currency exchange and transaction loss	(24,299)	-
Total		**$ (32,691)**	**$ (2,002)**

Ineffective portion of interest rate swap arrangements in amount of $0.9 million was included in interest expense in consolidated statement of operations for the year ended December 31, 2009. Ineffective portion of cross-currency interest rate swap arrangements in amount of $4.5 million was included in currency exchange and transaction loss in consolidated statement of operations for the year ended December 31, 2009.

The following table presents the effect of Group's derivative instruments designated as hedges on accumulated other comprehensive income for the years ended December 31, 2009 and 2008.

		2009		2008
Accumulated derivatives (loss)/gain, beginning of the year	$	(16,714)	$	(355)
Fair value adjustments on hedging derivatives (net of tax of $5.9 million and $3.8 million, respectively)		(28,764)		(18,361)
Amounts reclassified into earnings during the period		5,186		2,002
Accumulated derivatives loss, end of the year	**$**	**(40,492)**	**$**	**(16,714)**

As of December 31, 2009, the outstanding hedge instruments were highly effective. Approximately $48.6 million of net loss is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedge instruments were included in the cash flows from operating activities in the consolidated statement of cash flows for the years ended December 31, 2009 and 2008.

Non-designated derivative instruments

MTS foreign currency options – In 2009 the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. According to the agreements the Group has a combination of put and call option rights to acquire $80.0 million of USD at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements will mature in 2010-2011.

JSFC Sistema foreign currency forward agreement – In 2009 JSFC Sistema entered into foreign currency forward agreements to manage exposure to changes in currency exchange rates. As of December 31, 2009, Sistema recorded a liability of $11.0 million in relation to foreign currency forward contracts in the accompanying consolidated balance sheet and a loss of $15.0 million in the Group's consolidated statement of operations.

Comstar UTS purchased call option – In the third quarter of 2008 in order to mitigate the exposure resulting from the employee phantom option program introduced in April 2008 (Note 29), Comstar-UTS acquired a phantom call option on its GDRs for $19.4 million from an investment bank. The amount of cash paid was included in the cash flows from investing activities in the consolidated statement of cash flows for the year ended December 31, 2008. The agreement entitles Comstar-UTS to receive in the second quarter of 2010 a payment equal to the difference between the average of daily volume-weighted average trading prices of GDRs on the London Stock Exchange for the period between February 1 and March 31, 2010 and the phantom option exercise price of USD 10.2368, if positive, multiplied by 9,000,000. Subsequent to the acquisition of the instrument, the Group estimates the fair value of the respective asset using an option pricing model and re-measures it as of each balance sheet date. In April 2010 the purchased call option expired unexercised as it was out-of-money.

Comstar UTS Written call and put option – In 2006, simultaneously with the acquisition of the 25% stake plus one share in Svyazinvest (see Note 16), MGTS Finance S.A. and "2711 Centerville Cooperatief U.A." ("2711 UA"), an affiliate of Mustcom Limited, signed a call and put option agreement, which gives 2711 UA a right to purchase 46,232,000 shares of Comstar-UTS, representing 11.06% of total issued shares, from MGTS Finance S.A and sell them back to MGTS Finance S.A. The call option acquired by 2711 UA could be exercised at a strike price of USD 6.97 per share at any time following the signing of the agreement with respect to 10.5% of Comstar-UTS' shares. The call option for the remaining 0.56% stake could be exercised at any time beginning from April 1, 2007. The call option was to expire in one year from the date of signing of the agreement. 2711 UA had a right to exercise its put option at any time within two years from the date of exercising the call option at a strike price, which will be calculated based on a weighted average price of Comstar-UTS' GDRs during the 90 trading days period preceding the exercise of the put option.

Fair value of the call and put option as of December 11, 2006, the grant date, was estimated at $90.0 million and included in cost of investment in Svyazinvest. The Group was estimating the fair value of the respective liability using an option pricing model and was re-measuring it as of each balance sheet date.

On December 7, 2007, Access Telecommunications Cooperatief U.A. ("Access", previously known as 2711 UA) has exercised the call option for 46,232,000 shares and paid $322.2 million in cash to the Group.

On August 25, 2008, Access has initiated the process of exercising the put option, and on November 26, 2008 has sold MGTS Finance S.A. 46,232,000 shares of Comstar-UTS for the total of $463.6 million, $100.0 million of which had been paid on November 26, 2008 in cash, and the remaining portion had been restructured in the form of an interest-bearing promissory note repayable in four monthly installments, paid during 2009. Cash payment in the amount of $100.0 million was included in financing activities' section in the Group' consolidated statement of cash flows for the year ended December 31, 2008.

The following table presents the fair value of Group's derivative instruments not designated as hedges in the consolidated statements of financial position as of December 31, 2009 and 2008.

	Balance sheet location	December 31, 2009	December 31, 2008
Asset derivatives:			
Comstar purchased call option	Other non-current assets	$ -	$ 5,830
Total		**$ -**	**$ 5,830**
Liability derivatives:			
MTS foreign currency options	Accrued expenses and other current liabilities	$ (4,281)	$ -
JSFC Sistema foreign currency forward agreement	Accrued expenses and other current liabilities	(11,000)	
Rosnano put option (Note 15)	Accrued expenses and other current liabilities	(20,627)	-
Total		**$ (35,908)**	**$ -**

The following table presents the effect of Group's derivative instruments not designated as hedges on the consolidated statements of operations for the years ended December 31, 2009 and 2008.

	Location of gain/(loss) recognised	Year ended December 31, 2009	Year ended December 31, 2008
MTS foreign currency options	Currency exchange and transaction loss	$ (4,280)	$ -
JSFC Sistema foreign currency forward agreement	Change in fair value of derivative instruments	(15,005)	-
Comstar purchased call option	Change in fair value of derivative instruments	(5,420)	(13,614)
Comstar written call and put option	Change in fair value of derivative instruments	-	(27,940)
Redeemable non-controlling interests	Change in fair value of derivative instruments	(10,495)	(6,005)
Total		**$ (35,200)**	**$ (47,559)**

26. SHARE CAPITAL

As of January 1, 2008, JSFC Sistema had 9,650,000,000 voting common shares issued and 9,278,981,940 outstanding shares with a par value of RUB 0.09.

In June 2008, JSFC Sistema declared dividends for the year ended December 31, 2007, amounting to $102.8 million.

In June 2009, the Annual General Meeting of Shareholders made a decision not to pay dividends for the year ended December 31, 2008.

27. SEGMENT INFORMATION

ASC 280 “Segment Reporting”, provides guidance for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group’s operating segments are: Telecommunications, Technology and Industry, Consumer Assets, Oil and Energy and Corporate and Other. The Group’s management evaluates the performance of the segments based on both operating income and income from continuing operations.

Intercompany eliminations presented below consist primarily of the following items: intercompany sales transactions, elimination of gross margin in inventory and other intercompany transactions conducted under the normal course of operations.

An analysis and reconciliation of the Group’s business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2009 and 2008 is as follows:

For the year ended December 31, 2009	**Tele-communications**	**Techno-logy and Industry**	**Consumer Assets**	**Oil and Energy**	**Corporate and Other**	**Total**
Net sales to external customers [a]	9,948,871	1,186,046	1,866,814	5,729,349	18,736	18,749,816
Intersegment sales	7,085	322,410	29,965	1,298	14,131	374,889
Equity in net income of investees	20,413	-	(33,171)	-	4,400	(8,358)
Interest income	113,145	17,876	7,116	33,350	142,500	313,987
Interest expense	632,603	78,022	151,039	218,745	343,170	1,423,579
Net interest revenue [b]	-	-	51,887	-	-	51,887
Depreciation, depletion and amortization	1,864,168	68,027	52,414	498,191	7,714	2,490,514
Operating income	2,016,267	(6,408)	(153,945)	3,370,611	670,911	5,897,436
Income tax expense	551,403	(4,943)	5,310	114,667	80,231	746,668
Investments in affiliates	355,749	182,414	-	69,832	26,660	634,655
Segment assets	18,794,885	2,806,649	10,205,498	12,808,809	3,648,072	48,263,913
Indebtedness [c]	8,910,702	926,239	1,127,454	2,500,349	2,713,388	16,178,132
Capital expenditures	2,617,655	333,523	78,220	403,529	1,489	3,434,416

For the year ended December 31, 2008	**Telecommu-nications**	**Technology and Industry**	**Consumer Assets**	**Corporate and Other**	**Total**
Net sales to external customers [a]	12,069,329	1,476,474	2,500,489	24,835	16,071,127
Intersegment sales	12,184	456,291	96,018	36,138	600,631
Equity in net income of investees	15,876	(3)	(11,116)	241,867	246,624
Interest income	72,707	9,588	10,273	67,702	160,270
Interest expense	258,026	59,540	98,033	172,738	588,337
Net interest revenue [b]	-	-	51,726	-	51,726
Depreciation, depletion and amortization	2,158,424	83,877	64,699	9,268	2,316,268
Operating income	3,564,994	61,013	(105,675)	(118,350)	3,401,982
Income tax expense	803,175	19,065	31,439	416	854,095
Investments in affiliates	365,285	814	79,266	980,785	1,426,150
Segment assets	17,478,564	2,584,473	9,113,070	3,444,267	32,620,374
Indebtedness [c]	5,510,790	821,473	2,102,484	2,226,958	10,661,705
Capital expenditures	3,328,370	265,981	588,684	87,865	4,270,900

(a)-Interest income and expenses of the banking division are presented as revenues from financial services in the Group’s consolidated financial statements.

(b)-The banking division derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that division. Therefore, only the net amount is disclosed.

(c)-Represents the sum of short-term and long-term debt

The reconciliation of segment operating income to the consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and non-controlling interests and reconciliation of assets to the consolidated segment assets are as follows:

		2009		2008
Total segment operating income	$	5,897,436	$	3,401,982
Intersegment eliminations		(1,581,430)		(263,997)
Interest income		192,176		72,901
Change in fair value of derivative financial instruments		(32,200)		(47,559)
Interest expense		(1,328,609)		(554,614)
Currency exchange and translation gain		(92,825)		(890,455)
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan	**$**	**3,054,548**	**$**	**1,718,258**

		2009		2008
Total segment assets	$	48,263,913	$	32,620,374
Intersegment eliminations		(6,252,873)		(3,443,259)
Consolidated assets	**$**	**42,011,040**	**$**	**29,177,115**

For the years ended December 31, 2009 and 2008, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

For the years ended December 31, 2009 and 2008, the Group's revenues outside of the RF were as follows:

		2009		2008
Ukraine	$	1,074,127	$	1,838,691
Asia and Pacific region		1,070,251		872,103
Greece		390,199		157,997
Central and Eastern Europe		74,935		422,172
Other		77,210		691,701
Total	**$**	**2,686,722**	**$**	**3,982,664**

As of December 31, 2009 and December 31, 2008, the Group's long-lived assets located outside of the RF were as follows:

		2009		2008
Ukraine	$	1,512,379	$	1,677,003
Asia and Pacific region		2,503,655		1,852,077
Greece		140,581		136,039
Central and Eastern Europe		130,043		98,582
Other		44,038		40,444
Total	**$**	**4,330,696**	**$**	**3,804,145**

28. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the years ended December 31, 2009 and 2008, the Group entered into transactions with related parties as follows:

	2009	2008
Sale of goods and services	$ (139,082)	$ (32,791)
Telecommunication services provided	(5,625)	(224,608)
Revenues from financial services	(21,782)	(23,971)
Telecommunication services purchased	1,374	166,412
Purchases of goods for resale	712	837
Other	46,594	50,288

The Group enters into transactions to purchase telecommunication services from and provides telecommunication services to its equity investees, MTT, Skylink, MTS Belorussia and Sistema-Hals in the normal course of business.

Related party balances as of December 31, 2009 and, 2008 are disclosed in the corresponding notes to the financial statements.

29. STOCK BONUS AND STOCK OPTION PLANS

JSFC Sistema, and several of its subsidiaries operate share-based compensation plans in order to compensate their employees. This is primarily done through “Equity” plans, in which employees may exercise their options for shares of the JSFC Sistema or the subsidiaries, and “Phantom” plans, which generally allow employees to receive cash compensation which varies dependent on the share price of the parent company, or of the subsidiary that the options are linked to.

A description of the terms to significant share-based compensation plans offered by the Group are as follows:

<u>JSFC Sistema Share Option Plan</u>

The JSFC Sistema Share Option Plan is the only share option plan exclusive to the parent company of the Group. In December 2007, JSFC Sistema announced the launch of a long-term incentive program for up to 110 of its senior and middle managers. Participants of the program will be entitled to exercise options granted to them for a period of twelve months after the options vest. The options have a three year cliff vest. A total of up to 20,000 Sistema phantom share options, up to 996,000 MTS phantom share options, up to 1,190,500 Comstar UTS phantom share options, up to 37,600 Sistema-Hals phantom share options and up to 45,455,000 SITRONICS phantom share options will be distributed under the scheme. Upon vesting, the participants will be entitled to a cash compensation equal to the market price of the share at the time of exercise.

JSFC Sistema has also allocated part of its holding of ordinary shares in its unlisted subsidiaries for the purpose of the creation of the stock option programme. The total amount of the Group’s treasury stock currently being allocated to this option plan is expected to amount to 0.1% of JSFC Sistema’s total issued share capital. The Group’s Board of Directors may, from time to time, grant additional stock bonuses to senior and middle managers of the Group as part of annual individual incentive programmes.

The following table summarizes information about non-vested JSFC Sistema’s phantom common stock options in the year ended December 31, 2009:

	Quantity	Exercise price, per share, USD	Weighted average fair value of options, USD
Outstanding as of December 31, 2008	12,364,390	1.8	0.01
Granted	300	1.8	0.01
Forfeited	(1,087,998)	1.8	0.04
Outstanding as of December 31, 2009 (all non-vested)	11,276,692	1.8	0.13

The fair value of options granted was estimated using the Black-Scholes pricing model using the following assumptions:

Risk-free rate	0.50%
Expected dividend yield	0%
Expected volatility	72.34%
Expected term (years)	1,5

The total fair value of all the phantom options under JSFC Sistema's long-term incentive program as of December 31, 2009 is $2.1 million. All options outstanding as of December 31, 2009 are non-vested and will vest in 2010. None of the options were exercisable as of December 31, 2009 and therefore therefore had a negative intrinsic value.

For the year ended December 31, 2008 a reversal of previously recognized expense in the amount of $1.8 million was recorded, along with the corresponding deferred tax expense in the amount of 0.3 million. The compensation cost recorded during 2009 was $0.9 million, respectively, and is included in general and administrative expense. The related deferred tax benefit amounted to $0.2. The total fair value of all the phantom options under JSFC Sistema's long-term incentive program as of June 30, 2009 is $1.4 million.

Subsidiary Share-based Compensation Plans

MTS Stock Option ("MTS Equity") Plan

In 2000, MTS established the MTS Equity plan for selected officers and key employees. During its initial public offering in 2000 MTS allotted 9,966,631 shares of its common stock to fund the MTS Equity. Since 2002, MTS has made several grants pursuant to its stock option plan to its employees and directors. These options generally vest over a two year period from the date of the grant, contingent on continued employment of the grantee with MTS. The options are exercisable within two weeks after the vesting date, and, if not exercised, are forfeited. The exercise price of the options equaled the average market share price during the one hundred day period preceding the grant date.

In April 2008, the Board of Directors allotted an additional 651,035 ADSs (or 3,255,175 shares) to fund a Stock Option award to MTS' chief executive officer. The award vesting period is up to two years contingent upon employment with MTS. The award will vest only if at the end of the vesting period MTS is among the top 20 mobile operators in the world and the top mobile operator in Russia and the CIS, in each case in terms of revenue, and cumulative percentage of MTS' market capitalization growth since the grant date exceeds the predetermined threshold of 15%.

A summary of the status of the Group's Stock Option Plan for the year ended December 31, 2009 is presented below:

	Number of shares	Weighted average exercise price (per share), USD	Weighted average grant date fair value of options (per share), USD	Aggregate intrinsic value
Outstanding at December 31, 2008	1,302,070	$ 15.93	$ 2.44	$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at December 31, 2009	1,302,070	$ 15.93	$ 2.44	$ -

The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was $nil and $7.4 million, respectively.

Stock options outstanding as of December 31, 2009 will vest during the period ended July 1, 2010. None of the stock options outstanding as of December 31, 2009 were exercisable and therefore had a negative intrinsic value.

Compensation cost under MTS Equity of $1.2 million and $3.5 million was recognized in the consolidated statements of operations during the years ended December 31, 2009 and 2008 respectively. Related deferred tax benefit amounted to $0.2 million and $0.7 million for the years ended December 2009 and 2008, respectively.

The fair value of options granted during the year ended December 31, 2008 was estimated using the Monte-Carlo simulation model based on the following assumptions:

		2008
Risk free rate		2.3%
Present value of expected dividends, U.S. Dollars	$	4.17
Expected volatility		40.0%
Expected life, years		2
Fair value of options (per share), U.S. Dollar	$	2.44

Expected volatilities were based on the historical volatility of the MTS' ADSs.

The Group is required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of the Stock Option Plan awards will be achieved and only recognize expense for those awards expected to vest. The effect of the estimated forfeitures on Group's operations was nil and $2.3 million in 2009 and 2008, respectively.

As of December 31, 2009, there was $0.6 million of total unrecognized compensation cost related to non-vested stock-based compensation awards under the MTS Equity. This amount will be recognized over the period through July 1, 2010.

MTS Phantom Option ("MTS Phantom") Plan

In June 2007, MTS' Board of Directors approved the MTS Phantom plan to provide deferred compensation to certain key employees (the "Participants") of the Group during 2007-2011. The plan is based on units equivalent to MTS ADSs (the "Phantom ADSs"). Each Phantom ADS is the equivalent of five MTS common shares. Under the Phantom Stock Plan, the Participants are entitled to a cash payment equal to the difference between the initial grant price and the price of Phantom ADSs determined based on average market share price during the one hundred day period preceding the vesting date, multiplied by the number of Phantom ADSs granted, upon vesting of the award. The average vesting period is two years from the grant date, contingent upon the continuing employment of the Participants by the Group. Further, the award shall vest only if at the end of the vesting period the cumulative percentage of MTS market capitalization growth since the grant date exceeds the cumulative cost of equity determined by the Board of Directors for the same period.

In April 2008, the MTS Phantom plan was amended to increase the number of Phantom ADSs available under the plan from the initial 3,600,000 to 9,556,716 ADSs and to increase the number of Participants potentially eligible for the Plan to up to 420 top- and mid-level managers of the Group. Further, under the amended Plan, the Phantom ADSs granted in 2008 and thereafter will vest only if at the end of the vesting period MTS is among the top 20 mobile operators in the world and the top mobile operator in Russia and the CIS, in each case in terms of revenue, and the cumulative percentage of MTS' market capitalization growth since the grant date exceeds the predetermined threshold of 15%. At the end of the vesting period, participants are entitled to a cash payment equal to the difference between the initial grant price and the price of Phantom ADSs determined based on the average market share price during the one hundred day period preceding the vesting date, multiplied by the number of Phantom ADSs granted and adjusted by the ratio that reflects actual market capitalization growth rate. During the year ended December 31, 2008, 6,676,716 ADSs were granted to the participants, 4,562,830 of which were granted on May 1, 2008 (Phantom Grant 2008 (I)) and 2,113,886 ADSs were granted on July 1, 2008 (Phantom Grant 2008 (II)).The Phantom Grant 2008 (I) expired on July 1, 2009 and none of the Phantom Shares under the Phantom Grant 2008 (I) were exercisable as of the expiration date. Phantom Grant 2008 (II) will vest in 24 months after the grant date, contingent upon the continuing employment of the Participants.

A summary of the status of the MTS Phantom plan for the year ended December 31, 2009 is presented below:

	Number of ADSs	Weighted average exercise price (per ADS), U.S. Dollar	Weighted average fair value of options (per ADS), U.S. Dollar	Aggregate intrinsic value
Outstanding at December 31, 2008	6,013,610	$ 75.41	$ 0.78	$ -
Granted	-	-	-	
Exercised	-	-	-	
Expired	(3,883,144)	73.51	-	
Forfeited	(531,833)	76.62	0.03	
Outstanding at December 31, 2009	1,598,633	79.63	0.06	-

None of the Phantom ADSs expired during the year ended December 31, 2009 were exercisable as of the expiration date which was July 1, 2009 for the Phantom Stock Grant 2007 and 2008 (I).

All Phantom ADSs outstanding as of December 31, 2009 are non-vested and will vest during the period ended July 1, 2010. None of the Phantom Shares were exercisable as of December 31, 2009 and therefore they had a negative intrinsic value.

The fair value of the liability under the MTS Phantom plan as of December 31, 2009 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

	Phantom stock grant 2008 (II)
Risk free rate	Ranged from 0.05% to 0.2%
Present value of expected dividends, U.S. dollars	1.62
Expected volatility	50%
Remaining vesting period, years	0.5
Fair value of phantom share award (per phantom share), U.S. dollars	0.06

The fair value of the liability under the MTS Phantom plan as of December 31, 2008 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

	Phantom stock grant 2007	Phantom stock grant 2008 (I)	Phantom stock grant 2008 (II)
Risk free rate	0.2%	0.4%	0.4%
Present value of expected dividends, U.S. dollars	2.7	2.7	4.1
Expected volatility	135%	90%	90%
Remaining vesting period, years	0.5	0.5	1.5
Fair value of phantom share award (per phantom share), U.S. dollars	2.00	0.07	1.99

Expected volatilities were based on the historical volatility of the MTS' ADSs.

For the year ended December 31, 2009 a reversal of previously recorded expense under the Phantom Stock Grant 2007, 2008 (I) and 2008 (II) in the amount of $0.5 million, $0.1 million and $0.8 million, respectively, was recognized in the consolidated statements of operations as a result of underlying stock price decrease. The related deferred tax expense amounted to $0.3 million.

For the year ended December 31, 2008 a reversal of previously recorded expense in the amount of $8.9 million under the Phantom Stock Grant 2007 was recognized in the consolidated statements of operations as a result of underlying stock price decrease. The related deferred tax expense amounted to $1.8 million. The compensation cost under the Phantom Stock Grant 2008 (I) and (II) recognized in the consolidated statement of operations for the year ended December 31, 2008 amounted to $1.3 million and the related deferred tax benefit amounted to $0.3 million.

As of December 31, 2009, there was $0.02 million of total unrecognized compensation cost related to non-vested Phantom ADSs. This amount is expected to be recognized over a weighted-average period of 0.5 years. The Group is required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of the Phantom ADSs awards will be achieved and only recognize expense for those awards expected to vest. The Group's estimated forfeiture rate was 5.1%. The effect of forfeitures amounted to nil and $1.5 million for the years ended December 31, 2009 and 2008, respectively.

Comstar UTS 2006 ("Comstar UTS Equity") Program

On September 15, 2006, the Extraordinary General Meeting of shareholders of Comstar UTS approved the stock option and stock bonus program ("the 2006 Program") for the Board of Directors and senior management of Comstar UTS. The 2006 Program was being implemented based on separate decisions of the Board of Directors. In November 2006, the Company's Board of Directors approved the grant of stock options to certain members of the Board of Directors and senior management of Comstar UTS. The exercise price for these options is RUB 122.3 per one GDR (approximately USD 4.6 as of the grant date). These stock options were to cliff-vest in two years from the date of the grant and were exercisable over a period of 1 month after vesting. The 2006 Program provided for the ability of Comstar UTS to repurchase the GDRs issued under the 2006 Program from the participants, subject to separate decision of the Board of Directors. Management believed that the possibility of such repurchase was remote; accordingly, the 2006 Program originally was classified as equity. In March 2008, the Board of Directors of Comstar UTS has approved the repurchase of the GDRs purchased by the participants at the exercise of the options back to the Group at a price equal to an average price of one GDR for the 60 calendar days preceding the date of exercise weighted by trading volumes of Comstar UTS GDRs on the London Stock Exchange. Accordingly, as of December 31, 2007 the Group changed its estimate and re-classified the option program as liability.

During the year ended December 31, 2008 certain options have been forfeited, as employment of certain members of management and the Board of Directors has been terminated.

In June 2008, a General shareholder meeting of Comstar UTS took the decision to denominate the exercise price at USD 4.60 per share. The change did not have a significant impact on the compensation expense recognized by the Group.

In November 2008, the participants of the 2006 Program fully exercised their vested options, and acquired 2,403,159 GDRs from the Group for USD 4.60 per one GDR. The GDRs were then repurchased by the Group at USD 5.34 per one GDR, and the 2006 Program was closed. The total intrinsic value of the exercised options, taking into account the repurchase feature, amounted to $1.8 million. The costs recognized in accordance with the 2006 Program for the year ended December 31, 2008 approximated ($9.2) million (a reversal).

Comstar-UTS Phantom Option ("Comstar UTS Phantom") Program

In March 2008, the Board of Directors of Comstar UTS approved the employee phantom option program. Each phantom option is subject to the successful attainment of multiple market and performance conditions, such as shareholder return, market position and revenue growth. The compensation expense for these awards may be adjusted for subsequent changes in the Group's estimated or actual outcome of the performance conditions. The phantom options granted during 2008 vest on March 31, 2010. Upon vesting, the participants will be entitled to a cash compensation equal to the difference between weighted average price of one GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, if positive, timed by the number of phantom options granted.

The following table summarizes information about phantom options during the year ended December 31, 2009:

	Quantity	Exercise price, USD	Weighted average grant-date fair value, USD
Outstanding as of December 31, 2008 (all non-vested)	12,125,882	10.24	2.36
Granted	-	-	-
Forfeited	(1,580,000)	10.24	2.37
Outstanding as of December 31, 2009 (all non-vested)	10,545,882	10.24	2.35

The Group estimates the fair value of the phantom options using stock option pricing model based on Monte-Carlo simulation technique. The following assumptions were used in the option-pricing model as of December 31, 2009 and 2008:

	2009	2008
Risk-free interest rate	0.1%	2.4%
Expected residual option life (months)	3	15
Expected dividends	Nil	Notional
Expected volatility	97%	82%
Fair value of options (per share) as of December 31, USD	0.03	0.36

Expected volatility as of December 31, 2009 was based on historical volatility of the Company's GDRs in the fourth quarter of 2009. The costs recognized in accordance with phantom option plan for the years ended December 31, 2009 and 2008 amounted to negative $2.0 million and $2.3 million, respectively. Total expected future compensation cost related to non-vested awards not yet recognized as of December 31, 2009 which will be recognized on a straight-line basis over the three months ending March 31, 2010 was immaterial.

SITRONICS Stock Option ("SITRONICS Equity") Program

In July 2007, the SITRONICS established a stock option plan ("Plan") for certain of its employees that provided for the issuance of 627,783,968 shares, representing 6.57% of the share capital. The shares are to be issued from SITRONICS treasury stock. The options are contingent on the continued employment of the grantees with SITRONICS or, in some cases, with the Group. According to the terms of the plan, the grantees are entitled to buy option shares in four installments, representing 16.7% of the total amount due to each person during the years 2007, 2008, 2009, and the remaining amount of 49.9% in 2010. The exercise price is 1 RUB per share. The Group recognizes the expense for stock-based compensation on a straight-line basis over the period represented by each tranche of options. All the participants are restricted from selling their shares until 2010.

In July 2008, 94,636,956 stock options were exercised under the stock option program for a consideration of $4.1 million (representing 1 RUB per share). The Group transferred the equivalent number of treasury shares to the participants. The transaction resulted in a decrease in retained earnings in the amount of $2.7 million.

In July 2009, 87,959,256 stock options were exercised under the stock option program for a consideration of $2.8 million (representing 1 RUB per share). The Group transferred the equivalent number of treasury shares to the participants. The transaction resulted in a decrease in retained earnings in the amount of $3.1 million.

The compensation cost recorded during the year ended December 31, 2009 and 2008 was $5.2 million and $13.6 million, respectively and is included in general and administrative expense. The offsetting amount has been credited to additional paid-in capital.

The activity relating to the stock options for the year ended December 31, 2009 was as follows:

	Number of shares	Exercise price
Outstanding at December 31, 2008	350,783,623	-
Options granted	-	-
Options exercised	(87,959,254)	0.03
Options forfeited	-	-
Outstanding at December 31, 2009	262,824,369	0.03

The assumptions used for the Black-Scholes model for each the SITRONICS options are summarized in the table below:

Assumptions used in Black-Scholes Model	**Option 1**	**Option 2**	**Option 3**	**Option 4**
Grant date fair value	0.14	0.14	0.14	0.14
Exercise price	0.04	0.04	0.04	0.04
Option lifetime, years	0.0082	1.0103	2.0096	2.6749
Expected volatility p.a.	27.1%	27.1%	27.1%	27.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free rate p.a.	4.5%	5.3%	5.8%	5.9%
Exercise date	5 July 2007	5 July 2008	5 July 2009	5 March 2010

Assumptions on the expected volatility have been made on the basis of the average volatility of four different peer companies. The volatility for each of these companies was calculated based on quotes for the 3 years prior to the date of the grant, and volatility was based on daily observations of share prices for each peer company. The aggregate intrinsic value of the options outstanding at December 31, 2009 was $39.3 million.

As of December 31, 2009, there was $1.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a 1-year period.

30. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts which expire in various years through 2073.

Rental expenses under the operating leases amounted to $396.4 million and $345.8 million for the year ended December 31, 2009 and 2008, respectively. Future minimum rental payments under operating leases in effect as of December 31, 2009, are as follows:

Year ended December 31,		
2010	$	313,265
2011		139,940
2012		134,395
2013		123,172
2014		123,490
Thereafter		489,760
Total	**$**	**1,324,022**

Agreement with Apple – In August 2008, MTS entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million of iPhone handsets at list prices at the dates of the respective purchases over a three year period. Pursuant to the agreement, MTS shall also incur certain iPhone promotion costs. In 2009 and 2008, MTS made 0.4% and 7.2% of its total purchase installment contemplated by the agreement, respectively. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2009 and 2008 amounted to $3.4 million and $65.4 million, respectively.

Capital commitments – As at 31 December 2009, contractual capital commitment of the Group amounted to $178 million. These commitments are expected to be settled during the following financial year.

MGTS long-term investment program – In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012, providing for extensive capital expenditures, including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government on December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1,600.0 million and included reconstruction of 350 local telephone stations and installation of 4.3 million new phone lines. As a result of implementation of the investment program, new digital equipment is being installed in the buildings housing the telephone nodes, and a substantial amount of floor space will become available after the replacement of analogue switching equipment. The additional free floor space after reconstruction is expected to be sold to third parties or rented out. There are 113 automatic telephone station buildings which are to be reconstructed or rebuilt in the course of the investment program. Currently, the management has not made a decision whether to sell the free floor space created in the course of the investment program or to rent it out.

In November 2006, MGTS signed an agreement with the Moscow City Government, under which MGTS' investment program was approved. Under the agreement, the Moscow City Government is entitled to receive not less than 30% of the market value of the additional floor space constructed during the course of the investment program. The obligation arises at the time the reconstruction of the specified properties is completed. In December 2005, MGTS made a prepayment to the Moscow City Government under this program which will be offset against the future liability arising as a result of the investment program.

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema-Hals, an affiliate of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The substantial part of the work under these contracts was to be performed in 2006-2012. Under the agreements, Sistema-Hals was to prepare the project documentation and perform construction works on behalf of MGTS, and MGTS was to reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and to pay a fixed fee of $0.04 million per each building. During 2009 and 2008, project development and site preparation works were performed by Sistema-Hals on 98 sites, which resulted in $2.8 million and $11.0 million additional costs to construction in-progress in 2009 and 2008, respectively, and recognition of payable to Sistema-Hals. No construction or other works were performed in relation to the other sites in 2009, as the business plans are still under development.

In February 2009, the Board of Directors of MGTS approved the cancellation of the agreements with Sistema-Hals with respect to 26 sites, which also extinguishes the respective portion of MGTS' liability to Sistema-Hals, and signed 26 new agreements with investor companies (the "New Agreements"). Under the New Agreements, the investor companies would perform all the necessary reconstruction work and obtain the property rights for the reconstructed buildings except for the premises locating the digitalized nodes which would remain MGTS property. In addition, within 12 months after the transfer of the building into the investment project, MGTS is to receive a cash payment equal to MGTS' share in the value of the building before reconstruction as appraised by an independent valuation firm in 2008, plus interest at 20% per annum accrued for the period from transfer of the building into the project and the date of payment. As of December 31, 2009, cancellation of 3 out of the aforementioned 26 agreements was signed by Sistema-Hals.

Other Commitments – As of December 31, 2009 MBRD and Dalkombank guaranteed loans for several companies, including related parties, which totaled $278.0 million; JSFC Sistema guaranteed loans for a few related companies in total amount of $100.7 million; EWUB issued guarantees to several companies and individuals, which totaled $15.9 million.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2009, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of $6.9 million as of December 31, 2009) for each newly-founded bank. As of December 31, 2009, MBRD's share capital amounted to 1,360.9 million RUB (equivalent to $44.9 million as of December 31, 2009).

Taxation – Russia and Ukraine currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2009, tax declarations of MTS and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

MTS purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that customs duties are calculated in compliance with the applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional customs duties. As of December 31, 2009 and 2008, no provision was recorded in the consolidated financial statements in respect of such additional duties.

Pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities might be a subject to transfer pricing rules. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of December 31, 2009 and 2008, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2009 and 2008, the provision accrued amounted to $68.2 million and $27.6 million, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

With regard to matters where practice concerning payment of taxes is unclear in respect of Oil and Gas segment operations, management estimated possible tax exposure at 31 December 2009, to be approximately of $118 million.

3G license – In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media, awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that MTS will have to build a certain number of base stations that support 3G standards and will have to start services provision in the Russian Federation by a certain date, and also will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. As of December 31, 2009, MTS is in compliance with these conditions.

Legal Disputes-Bitel – In December 2005, MTS Finance S.A. ("MTS Finance") acquired a 51.0% stake in Tarino Limited ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for $150.0 million in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for "Option Shares," representing the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was $170.0 million.

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As the Group did not regain operational control over Bitel's operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities.

In January 2007, the Prosecutor General informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its audited annual consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of $170.0 million was recorded with an associated charge to non-operating expenses.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for $170.0 million to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase the Option Shares. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs. The matter is currently pending. MTS Finance is vigorously contesting this action and has asked the arbitration tribunal to dismiss Nomihold's claim.

A group of individual shareholders of Sistema has agreed to compensate MTS Finance for any potential loss up to $170.0 million should the arbitration decision regarding exercise of the aforementioned put option prove unfavorable to MTS Finance. Notwithstanding this, in the event MTS Finance does not prevail in the arbitration, the Group could be liable to Nomihold for $170.0 million plus any additional amounts that the arbitration tribunal might award to Nomihold.

In connection with the above mentioned put option exercise and the uncertainty as to the resolution of the dispute with Nomihold, the Group recognized a liability in the amount of $170.0 million in its audited annual consolidated financial statements with a corresponding charge to other non-operating expenses as of December 31, 2006 and for the year then ended.

In addition, three Isle of Man companies affiliated with the Group (the "KFG Companies"), have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately $25.2 million plus compensatory damages, and to recover approximately $3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, the Group may be liable to Bitel for such claims. The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo LLC ("Altimo"), and Altimo Holdings & Investments Limited ("Altimo Holding"), for the wrongful appropriation and control of Bitel.

On November 30, 2007 the High Court of Justice of the Isle of Man set aside orders it had previously issued granting leave to serve the non-Man defendants out of the jurisdiction as to the KFG Companies' counterclaims on the basis of a lack of jurisdiction. The KFG Companies appealed that ruling to the Isle of Man Staff of Government and the appeal hearing took place in July 2008. On November 28, 2008, the Staff of Government reversed the High Court and ruled that the case should proceed in the Isle of Man. The defendants have sought leave to appeal from the Judicial Committee of the Privy Council of the House of Lords of the United Kingdom. It is not possible at this time to predict the ultimate outcome or resolution of these claims.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC"), under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003 (the "Transfer Agreement"), concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited ("IPOC"), although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. At the request of the parties, the tribunal agreed to stay the damages phase of the proceedings pending the resolution of the appeals process now before the second instance court in the Isle of Man, as described above. The Group is not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

Other – In the ordinary course of business, the Group may be party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Group operates. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

31. SUBSEQUENT EVENTS

In April 2010 the Group through a serious of transactions raised its effective equity stake in Sky Link by 50% to 100%. The stake is expected to be disposed of in the transaction with Svyazinvest (note 16).

As of December 31, 2009 the Group has granted loans to various entities. Repayment of the loans was secured by the pledge of cliam rights towards shareholders of OJSC “SMARTS” under credit agreement with Vnesheconombank, including right to cliam pledged SMARTS shares. In March 2010, the Group filed with Moscow Arbitrary Court a petition for JSFC Sistema to be recognized as a creditor under a loan agreement with Vnesheconombank and to transfer rights of the pledge holder for SMARTS shares held by Vnesheconombank as collateral. As of the date of the financial statements the Group’s management is unable to measure any potential contingency loss for the outcome of the legal petition.

In March 2010, Sistema signed an agreement to acquire a 49% stake in OJSC Oil and Gas Company RussNeft (“RussNeft”). The total amount which is expected to be paid is contingent on RussNeft achieving a number of financial and operating indicators, but will not exceed $100 million. In April 2010, the Group acquired the 49% stake in RussNeft according to the previously signed agreement.

In April 2010, MTS signed a credit agreement with Bank of Moscow in the amount of RUB 22 billion (approximately US$ 688.9 million). The terms of the credit agreement stipulate a three-year maturity with a one-year extension option and an annual interest rate of 10.25%.

In March 2010, SSTL obtained a two-year loan in the amount of 5 billion Indian rupees (approximately $110 million) from the Central Bank of India.

In April 2010, the Group through a series of transactions raised its effective equity stake in Sky Link by 50% to 100%. The stake is expected to be disposed of in the transaction with Svyazinvest.

In March 2010, Comstar UTS agreed to amend the repayment schedule of a Sberbank credit line facility (see Note 21). Under the new schedule, the loan principal is repayable in eight quarterly installments of RUB 3,250.0 million ($107.5 million as of December 31, 2009) each starting from September 2010. In addition, the nominal interest rate was decreased to 10.5% per annum for the period from March 1, 2010 till September 27, 2010, and to 11.75% per annum thereafter.

In addition, in March, 2010 Sberbank approved a new RUB 5.8 billion ($191.8 million as of December 31, 2009) credit facility to the Group. This facility can be utilized by the end of 2010, has an interest rate of 10.5% and the repayments of the amounts borrowed under the facility start in 2012.

In February 2010, Comstar UTS acquired 100% in Tenzor Telecom, an alternative telecommunications operator based in Yaroslavl in Central Russia, for RUB 220 million ($7.3 million as of the date of acquisition). The acquisition was made in the frame of a regional expansion program of the Group.

In April 2010, Bashneft acquired 25% of shares of Sistema-Invest, a subsidiary of the Group, for a cash consideration of $202.0 million. As a result of acquisition the Group’s stake in Sistema-Invest inceased to

The Group manegement has evaluated subsequent events through April 26, 2010, the date when its financial statements were issued.

32. SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with ASC No. 932 Extractive Activities – Oil and Gas, subtopic 235, Note to Financial Statements (ASC No. 932) in six separate tables:

I. Capitalized costs relating to oil and gas producing activities;
II. Costs incurred in oil and gas property acquisition, exploration, and development activities;
III. Results of operations for oil and gas producing activities;
IV. Reserve quantity information;
V. Standardized measure of discounted future net cash flows;
VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

The Group does not have equity method investments in entities with oil and gas producing activities.

I. Capitalized costs relating to oil and gas producing and exploration activities

As of December 31, 2009	Total
Unproved oil and gas properties	13,230
Proved oil and gas properties	3,391,997
Accumulated depreciation, depletion and amortization	(136,428)
Net capitalized costs	3,268,799

Net capitalized costs related to exploration activities and asset retirement obligations in the amount of $13,2 million and $1.9 million respectively, was included in net capitalized costs as of December 31, 2009.

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Nine months ended 31, 2009	Total
Acquisition of proved properties	2,818,001
Exploration costs	13,230
Development costs	162,069
Total costs incurred	2,993,300

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with ASC No. 932, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

As of December 31, 2009	Total
Revenue	
Sales	1,296,753
Transfers	762,361
Total revenues	2,059,114
Production costs (excluding production taxes)	(347,050)
Exploration expenses	(9,699)
Depreciation, depletion and amortization	(115,212)
Accretion expense	(9,611)
Taxes other than income taxes	(698,775)
Related income taxes	(120,100)
Total results of operation of producing activities	758,667

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with ASC No. 932 existing economic and operating conditions are based on the 12-months average price (for the year 2009) or year-end price (as at March 31, 2009) and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. The law applies both to newly issued and old licenses and the management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

In January 2010, the FASB issued ASU No. 2010-03, *"Extractive activities – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures."* The negative effect of adoption of ASU No. 2010-03 on the Group's total proved reserves as at December 31, 2009 amounted to 33,600 thousand barrels.

Estimated net proved oil and gas reserves and changes thereto from the March 31, 2009 to December 31, 2009 are shown in the tables set out below.

Thousands of barrels (proved developed and undeveloped reserves)	**Total**
As of December 31, 2009	
Crude oil	
March 31, 2009	1,667,600
Revisions of previous estimates	179,775
Extensions and discoveries	14,200
Production	(66,475)
Sales of reserves	-
December 31, 2009	1,795,100
Proved developed reserves	
March 31, 2009	1,625,112
December 31, 2009	1,728,473
Proved undeveloped reserves	
March 31, 2009	42,488
December 31, 2009	66,627

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to oil and gas reserves in the Group's most significant oil fields, is calculated in accordance with the requirements of ASC No. 932. Estimated future cash inflows from production are computed by applying the 12-months average price (for the year 2009) or year-end price applied as of March 31, 2009 for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under ASC No. 932 requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

As of December 31, 2009	**Total**
Future cash inflows	34,444,850
Future production and development costs	(20,892,354)
Future income tax expenses	(2,710,499)
Future net cash flows	10,841,997
Discount for estimated timing of cash flows (10% p.a)	(6,824,445)
Discounted future net cash flows	4,017,552
Non-controlling share in discounted future net cash flows	-

VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Consolidated companies

Discounted present value as at March 31, 2009	**2,110,046**
Sales and transfers of oil and gas produced, net of production costs	(1,003,589)
Net changes in prices and production costs estimates	3,387,078
Net changes in mineral extraction taxes	(1,176,304)
Development costs incurred during the period	162,069
Changes in estimated future development costs	(384,829)
Revisions of previous quantity estimates	771,135
Net changes in income taxes	(385,297)
Other changes	366,316
Accretion of discount	170,927
Discounted present value at December 31, 2009	**4,017,552**