JSFC SISTEMA AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements as of June 30, 2009 and December 31, 2008 and for the Six Months Ended June 30, 2009 and 2008

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of JSFC Sistema:

We have reviewed the accompanying condensed consolidated statement of financial position of JSFC Sistema and subsidiaries (the "Group") as of June 30, 2009 and the related condensed consolidated statements of operations and comprehensive (loss)/income and cash flows for the six months ended June 30, 2009 and 2008. These condensed consolidated financial statements are the responsibility of the Group's management.

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

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

The Group has determined that its investment in the shares of OJSC "Telecommunication Investment Company" ("Svyazinvest') in the amount of $1,165 million as of June 30, 2009 is not other that temporarily impaired. In the absence of readily ascertainable market information related to the value of the investment in Svyazinvest, management reached its conclusion based on the use of estimates incorporating various unobservable market inputs. Because of the uncertainty inherent in such analysis, 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 carrying amount.

Further, as described in Note 3, in April 2009, the Group acquired controlling stakes in oil and energy companies in the Republic of Bashkortostan for a total cash consideration of $2.0 billion. The allocation of purchase price for these acquisitions was not complete as of the date of these financial statements. Accordingly, in the accompanying financial statements the Group reported provisional amounts for the consideration transferred, assets acquired, liabilities assumed and, if applicable, noncontrolling interests as required by Statement on Financial Reporting Standards No. FAS 141(R), "Business Combinations".

Deloitte & Touche

September 4, 2009
Moscow, Russia

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2009 AND DECEMBER 31, 2008
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2009	December 31, 2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 2,543,079	$ 1,936,414
Short-term investments		918,416	717,329
Loans to customers and banks, net		3,467,407	3,330,974
Accounts receivable, net		1,265,925	1,012,216
Prepaid expenses, other receivables and other current assets, net		1,326,231	1,266,117
VAT receivable		188,707	176,845
Inventories and spare parts		1,068,181	683,426
Deferred tax assets, current portion		351,486	262,722
Assets of discontinued operations		-	1,988,908
Total current assets		11,129,432	11,374,951
NON-CURRENT ASSETS:			
Property, plant and equipment, net	5	13,736,608	9,251,631
Advance payments for non-current assets		430,676	197,028
Goodwill		1,404,107	1,351,202
Licenses, net		1,106,254	1,174,503
Other intangible assets, net		1,759,076	1,694,157
Investments in affiliates		314,307	1,350,110
Investments in shares of Svyazinvest		1,165,226	1,240,977
Loans to customers and banks, net of current portion		1,426,439	1,402,298
Debt issuance costs, net		79,947	39,388
Deferred tax assets, net of current portion		232,242	168,056
Long-term investments		837,554	245,971
Other non-current assets		158,472	133,151
Total non-current assets		22,650,908	18,248,472
TOTAL ASSETS		$ 33,780,340	$ 29,623,423

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF JUNE 30, 2009 AND DECEMBER 31, 2008
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2009	December 31, 2008
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 1,229,313	$ 1,584,877
Bank deposits and notes issued, current portion		3,373,745	3,584,772
Taxes payable		612,437	192,531
Deferred tax liabilities, current portion		52,401	70,903
Subscriber prepayments, current portion		436,544	493,870
Derivative financial instruments		-	86,370
Accrued expenses and other current liabilities		2,366,505	1,114,899
Short-term loans payable	6	1,688,410	1,298,712
Current portion of long-term debt	7	2,700,088	2,218,642
Liabilities of discontinued operations		-	1,796,476
Total current liabilities		12,459,443	12,442,052
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	7	8,488,587	6,022,848
Subscriber prepayments, net of current portion		111,153	119,481
Bank deposits and notes issued, net of current portion		1,120,355	803,112
Deferred tax liabilities, net of current portion		503,771	466,335
Asset retirement obligation and decommissioning provision		335,957	85,371
Postretirement benefits obligation		33,975	35,464
Deferred revenue		109,603	115,732
Total long-term liabilities		10,703,401	7,648,343
TOTAL LIABILITIES		23,162,844	20,090,395
Commitments and contingencies	11	-	-
Redeemable non-controlling interest		196,394	237,949
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,278,981,940 shares outstanding as of June 30, 2009 and December 31, 2008 with par value of 0.09 Russian Rubles)		30,057	30,057
Treasury stock (371,018,060 shares as of June 30, 2009 and December 31, 2008 with par value of 0.09 Russian Rubles)		(466,345)	(466,345)
Additional paid-in capital		2,417,238	2,417,238
Retained earnings		3,804,390	3,953,673
Accumulated other comprehensive income		(417,388)	(446,770)
Total JSFC Sistema shareholders' equity		5,367,952	5,487,853
Noncontrolling interest in subsidiaries		5,053,150	3,807,226
TOTAL SHAREHOLDERS' EQUITY		10,421,102	9,295,079
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 33,780,340	$ 29,623,423

See notes to condensed consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2009	Six months ended June 30, 2008
Sales		$ 6,630,593	$ 7,285,843
Revenues from financial services		330,947	334,810
TOTAL REVENUES		6,961,540	7,620,653
Cost of sales, exclusive of depreciation and amortization shown separately below		(2,941,605)	(2,832,450)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(204,664)	(146,583)
Selling, general and administrative expenses		(1,525,515)	(1,656,963)
Depreciation and amortization		(979,367)	(1,141,222)
Provision for doubtful accounts		(67,905)	(62,097)
Loss from impairment of other long-lived assets		(11,647)	-
Other operating expenses, net		(127,938)	(72,808)
Equity in net income of investees		2,683	47,432
(Loss)/gain on disposal of interests in subsidiaries and affiliates		(19,356)	18,759
OPERATING INCOME		1,086,226	1,774,721
Interest income		60,374	39,485
Change in fair value of derivative instruments		(8,444)	14,518
Interest expense, net of amounts capitalized		(453,368)	(212,050)
Currency exchange and translation (loss)/gain		(269,580)	205,045
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		415,208	1,821,719
Income tax expense		(197,833)	(536,777)
Equity in net income of energy companies in the Republic of Bashkortostan, net of minority interest of $2,076 and $33,759, respectively		4,400	120,978
Income from continuing operations		$ 221,775	$ 1,405,920

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Amounts in thousands of U.S. dollars, except share and per share amounts)

		Six months ended	
	Notes	**June 30, 2009**	**June 30, 2008**
(Loss)/income from discontinued operations, net of income tax benefit/(expense) of $826 and $(10,859), respectively	4	(63,431)	10,126
(Loss)/gain from disposal of discontinued operations, net of income tax effect of $nil and $280, respectively	4	(59,360)	2,053
NET INCOME		$ 98,984	$ 1,418,099
Noncontrolling interest		(248,237)	(742,104)
NET (LOSS)/INCOME ATTRIBUTABLE TO JSFC SISTEMA		$ (149,253)	$ 675,995
Other comprehensive income:			
Change in fair value of interest rate swaps, net of income tax effect of $446 and $537, respectively		2,492	(1,700)
Effect of disposal of discontinued operations, net of minority interest of $6,167 and income tax effect of $nil		23,202	-
Unrecognized actuarial losses, net of minority interest of $287 and $512, respectively, and income tax effect of $nil		(349)	(252)
Effect of changes in the functional currency, net of minority interest of $nil and $13,125		-	52,499
Translation adjustment, net of minority interests of $157,381 and $160,349, respectively, and income tax effect of $nil		4,037	213,682
Comprehensive (loss)/income		$ (119,871)	$ 940,224
Weighted average number of common shares outstanding		9,278,981,940	9,278,169,513
Income/(loss) per share, basic and diluted, US cent			
(Loss)/income from continuing operations		$ (0.43)	$ 7.26
(Loss)/income from discontinued operations		(1.18)	0.03
Net (loss)/income attributable to JSFC Sistema		(1.61)	7.29

See notes to condensed consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2009	Six months ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 98,984	$ 1,418,099
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	979,367	1,149,253
Loss/(gain) from disposal of discontinued operations	59,360	(2,141)
Loss from discontinued operations	63,431	4,282
Equity in net income of investees	(7,083)	(168,229)
Deferred income tax benefit	(131,244)	(94,190)
Change in fair value of derivative financial instruments	8,444	(14,518)
Foreign currency transactions loss/(gain) on non-operating activities	269,615	(233,227)
Debt issuance cost amortization	10,374	11,724
Non-cash compensation to employees of subsidiaries	6,554	16,759
Loss/(gain) on disposal of interests in subsidiaries and affiliates	19,356	(18,759)
Gain on disposal of long-term investments	-	(30,091)
Loss from impairment of other long-lived assets	11,647	-
Loss/ (gain) on disposal of property, plant and equipment	2,141	(11,077)
Amortization of connection fees	(28,706)	(31,664)
Provision for doubtful accounts receivable	67,905	65,931
Allowance (recovery of allowance) for loan losses	14,883	(9,372)
Inventory obsolescence expense	18,002	4,382
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(78,590)	(90,355)
Loans to banks issued by the banking division	(133,237)	310,968
Accounts receivable	(136,165)	(171,826)
VAT receivable	(11,736)	98,822
Other receivables and prepaid expenses	441,416	(417,992)
Inventories	(43,546)	(173,968)
Accounts payable	(649,497)	59,320
Subscriber prepayments	(22,400)	41,007
Taxes payable	172,174	168,030
Accrued expenses, subscriber prepayments and other liabilities	407,062	43,997
Dividends received	82,380	8,132
Postretirement benefit obligation	(1,489)	3,456
Net cash provided by operations	$ 1,489,402	$ 1,936,753

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Amounts in thousands of U.S. dollars)

		Six months ended		
		June 30, 2009		**June 30, 2008**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment		(1,489,657)		(1,580,043)
Payments for purchases of intangible assets		(212,232)		(501,477)
Payments for purchases of businesses, net of cash acquired		(1,613,809)		(114,881)
Payments for purchases of shares of subsidiaries		(330,084)		(832,174)
Proceeds from sale of subsidiaries, net of cash disposed		5,090		224,794
Payments for purchases of long-term investments		(32,632)		(22,203)
Payments for purchases of short-term investments		(178,225)		(167,220)
Payments for purchases of other non-current assets		(654,852)		(105,311)
Proceeds from sale of other non-current assets		74,039		120,817
Decrease in restricted cash		8,100		340,221
Proceeds from sale of property, plant and equipment		2,575		49,318
Proceeds from sale of long-term investments		-		30,091
Proceeds from sale of short-term investments		164,695		147,516
Net increase in loans to customers of the banking division		(194,554)		(1,075,714)
Net cash used in investing activities	$	(4,451,546)	$	(3,486,266)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings, net		538,117		972,843
Net increase in deposits from customers of the banking division		123,383		986,261
Net (decrease)/increase in promissory notes issued by the banking division		(112,284)		74,053
Proceeds from long-term borrowings, net of debt issuance costs		4,423,621		1,946,742
Debt issuance costs		(50,933)		(807)
Principal payments on long-term borrowings		(1,393,164)		(1,800,540)
Principal payments on capital lease obligations		(4,378)		(2,852)
Proceeds from capital transactions of subsidiaries		-		131,000
Payments to shareholders of subsidiaries		-		3,020
Net cash provided by financing activities	$	3,524,362	$	2,309,720
Effects of foreign currency translation on cash and cash equivalents	$	44,447	$	33,476
INCREASE IN CASH AND CASH EQUIVALENTS	$	606,665	$	793,683
CASH AND CASH EQUIVALENTS, beginning of the period		1,936,414		1,061,733
CASH AND CASH EQUIVALENTS, end of the period	$	2,543,079	$	1,855,416
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	(397,409)	$	(152,216)
Income taxes		(156,310)		(606,100)

See notes to condensed consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

The Group – JSFC Sistema and subsidiaries ("the Group") operate in telecommunications, high technology, oil and energy, banking and other sectors, including real estate development, retail, tourism, healthcare and others. The main focuses 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 on Russian stock exchanges.

The principal activities of the significant entities of the Group as at June 30, 2009 are as follows:

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission, internet services and cable television
Sistema Shyam TeleServices Limited	SSTL	Wireless telecommunication services
Sistema Mass Media and subsidiaries	Sistema Mass Media	Advertising, production and distribution of periodicals, movie production
Consumer Assets Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities
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	Production and marketing of integrated circuits, wafers, electronic devices, research and development, IT and systems integration
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals

Significant Entities	Short Name	Principal Activity
Oil and Energy Segment:		
JSC ANK Bashneft	Bashneft	Oil and gas production
JSC Ufaneftekhim	Ufaneftekhim	Refining activity
JSC Novoil	Novoil	Refining activity
JSC Ufaorgsintez	Ufaorgsintez	Refining activity
JSC Ufimskiy NPZ	UNPZ	Refining activity
JSC Bashkirnefteproduct	BNP	Retail and wholesale oil products trading
JSC Bahskirenergo	Bahskirenergo	Energy production

Operating Environment – Since late 2008, major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. This has resulted in a significant economic downturn. 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 economy, general business conditions, access to capital and the marginal cost of such capital for the Group and its counterparties and as well as consumer purchase patterns, which could affect the Group's financial position, results of operations and business prospects.

As of June 30, 2009, the Group had a working capital deficit of $1,330.0 million, which was primarily attributable to the borrowings to be repaid within the next twelve months. During the rest of 2009, management expects to finance this deficit using the Group's operating cash flows and by obtaining external financing to the extent necessary. While access to such financing has become more difficult with the tightened credit markets, management believes they will be able to obtain such financing due to reasonable gearing and good the credit standing of the Group, however the associated financing costs are expected to increase. In addition, capital expenditures, such as acquisition of property, plant and equipment can be deferred to meet short-term liquidity requirements. Accordingly, management believes that the Group's existing cash, cash flows from operating and financing activities, along with possible reductions in spending will be sufficient for the Group to meet its obligations as they become due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying condensed consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting. 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.

In the opinion of the Group's management, these unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of the interim periods. Certain information and related footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, although the Group believes that disclosures in these financial statements are adequate to make the information presented not misleading. The financial results of operations for interim periods shown are not necessarily indicative of the results for the entire fiscal year.

These interim condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements as of and for the years ended December 31, 2008 and 2007.

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 a 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 June 30, 2009 and December 31, 2008 are as follows:

	Ownership interest		**Voting interest**	
Significant entities	**June 30, 2009**	**December 31, 2008**	**June 30, 2009**	**December 31, 2008**
MTS	56%	56%	56%	56%
Comstar UTS	59%	59%	59%	59%
Sistema Shyam TeleServices Limited	74%	74%	74%	74%
SITRONICS	70%	70%	70%	70%
MBRD	97%	97%	100%	100%
Bashneft	77%	26%	91%	21%
Ufaneftekhim	66%	29%	79%	23%
Novoil	87%	30%	95%	27%
Ufaorgsintez	73%	26%	84%	23%
UNPZ	78%	28%	88%	24%
BNP	73%	28%	79%	26%
Bahskirenergo	37%	13%	50%	0%
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%

Sistema-Hals' assets and liabilities were deconsolidated from the consolidated statement of financial position as of June 30, 2009 while the operating results up to the date of disposal were included in the consolidated statement of income for the six months ended June 30, 2009 as results of discontinued operations.

New accounting policies – In connection with the acquisition of controlling interests in energy companies in the Republic of Bashkortostan as discussed in Note 3 the Group has adopted the following new accounting policies:

<u>Revenue recognition</u>

<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.

<u>Power and Utilities</u>

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.

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.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the six months ended June 30, 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 six months ended June 30, 2009 and 2008.

Recently Adopted Accounting Pronouncements – In December 2007, the FASB issued FAS No. 141(R), "Business Combinations", and FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". These statements substantially change the way companies account for business combinations and noncontrolling interests (minority interests in previous GAAP). Compared with their predecessors, FAS No. 141(R) and FAS No.160 requires among other changes: (a) more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; (b) liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period; (c) an acquirer to expense acquisition-related costs (e.g., deal fees for attorneys, accountants, investment bankers); and (d) noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Both Statements are to be applied prospectively (with one exception related to income taxes) for fiscal years beginning on or after December 15, 2008. Accordingly, the Group applies these statements from January 1, 2009. Presentation and disclosure requirements of FAS No.160 have been applied retrospectively (e.g., by reclassifying noncontrolling interests to appear in equity, revaluating of noncontrolling interests at fair value), as required. The adoption of SFAS 141(R) did not have a significant impact on the Group's condensed consolidated financial statements, and the impact that its adoption will have on our consolidated financial statements in future periods will depend on the nature and size of any future business combinations.

In connection with the issuance of FAS No. 160, the SEC revised EITF Topic D-98 "Classification and Measurement of Redeemable Securities" to include the SEC Staff's views regarding the interaction between Topic D-98 and SFAS No. 160. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance required by Topic D-98 applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price by the holder or upon the occurrence of an event that is not solely within the control of the issuer). This includes noncontrolling interests redeemable at fair value. The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of FAS No. 160. Accordingly, the Group applies it starting from January 1, 2009. The adoption of FAS No. 160 and Topic D-98 resulted in the reclassification of minority interests to equity and presentation of net income and other comprehensive income gross of amounts attributable to minority shareholders.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the application of SFAS No. 157 for all non-financial assets and liabilities that are measured at fair value on a non-recurring basis to fiscal years beginning after November 15, 2008. Therefore, beginning January 1, 2009, the Group also applies SFAS No. 157 to all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis as required by FAS No. 157. The adoption of FSP FAS 157-2 did not have material effect on the Group's financial statements.

New Accounting Pronouncements – In April 2009, the FASB issued FSP SFAS 157-4 which provides additional guidance for estimating fair value in accordance with SFAS 157, "Fair Value Measurements", when the volume and level of activity for the asset or liability have significantly decreased. FSP SFAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS 157-4 requires the disclosure of the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. The adoption of this statement did not have a material impact on the Group's financial position, results of operations, or cash flows.

In June 2009, the FASB issued FAS No. 165 "Subsequent Events" ("FAS 165"). FAS 165 requires companies to recognize in the financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued. Companies are not permitted to recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued. Some non recognized subsequent events must be disclosed to keep the financial statements from being misleading. For such events a company must disclose the nature of the event, an estimate of its financial effect, or a statement that such an estimate cannot be made. This Statement applies prospectively for interim or annual financial periods ending after June 15, 2009. The adoption of FAS 165 did not have a material impact on the Group's financial position, results of operations, or cash flows.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 ("SFAS 168"). Upon its adoption, the FASB Accounting Standards Codification (the "Codification") will become the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. Following SFAS 168, the FASB will not issue new accounting standards in the form of FASB Statements, FASB Staff Positions, or Emerging Issues Task Force abstracts. SFAS 168 will also modify the existing hierarchy of GAAP to include only two levels – authoritative and non-authoritative. SFAS 168 will be effective for financial statements issued for interim and annual periods ending after September 15, 2009, and early adoption is not permitted. The Group does not expect that the adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

Reclassifications – Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for the six months ended June 30, 2009.

3. ACQUISITIONS

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 Ufimskiy NPZ and a 73.3% stake in Bashkirnefteproduct and acquired control over Bashkirenergo since ANK Bashneft, Ufaneftekhim, Novoil and Ufimskiy NPZ's common stake in ordinary shares of Bashkirenergo is 50.2%.

The business combination was accounted for by applying the acquisition method in accrodance with requirements of FAS 141(R).

The initial accounting for the business combination of the oil and energy companies in the Republic of Bashkortostan is not finalized as of the date of these financial statements. The provisional amounts for the transaction were as follows:

Current assets	$	1,409,583
Property, plant and equipment		4,147,567
Other non-current assets		310,989
Current liabilities		(1,102,334)
Non-current liabilities		(23,296)
Deferred taxes		(4,382)
Minority interest		(1,754,893)
Carrying value of the Group's investments in energy companies in the Republic of Bashkortostan as of the date of acquisition		(978,537)
Purchase price	**$**	**2,004,697**

The amounts of revenue and net income of the oil and energy companies in the Republic of Bashkortostan included in Group's consolidated income statement for the six months ended June 30, 2009 are $1,167.4 million and $92.0 million, respectively.

Pro forma results of operations (unaudited)

The following pro forma financial data for the six months ended June 30, 2009 and 2008, give effect to the acquisitions of Novoil, Ufimskiy NPZ, Ufaneftekhim, ANK Bashneft, Ufaorgsintez and Bashnefteproduct and Bashkirenergo as if they had occurred as of January 1, 2008:

	Six months ended			
		June 30, 2009		**June 30, 2008**
Revenues	$	8,056,590	$	12,890,739
Net income		220,491		1,949,843

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.

Other acquisitions

Below are the other acquisitions during the six months ended June 30, 2009:

	For the six months ended June 30, 2009					
			Ownership interest			
Acquiree	Principal activity	Date of acquisition	Before acquisition	After acquisition	Acquiring segment	Purchase price (in millions)
Eldorado	Mobile retailer	March 2009	0%	100%	Telecommu-nications	22.9
Telefon.ru	Mobile retailer	February 2009	0%	100%	Telecommu-nications	60.0
Dagtelecom	Mobile operator	February 2009	75%	100%	Telecommu-nications	41.6

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES AND AFFILIATES

Sistema-Hals

In April 2009, the Group sold a 19.5% stake in Sistema-Hals for RUB 30.0 to Vneshtorgbank (“VTB”) and simultaneously sold a 30.5% stake in Sistema-Hals for RUB 30.0 to CJSC Hals-Finance, 100% subsidiary of Sistema-Hals. The transactions resulted in recognition of a loss on disposal of $33.2 million. In April 2009, CJSC Hals-Finance has signed an agreement with VTB for a call option to acquire 31.5% of the issued ordinary shares of Sistema-Hals for RUB 30.

Following is the summary of disposed operations on the date of disposal:

Current assets	$	415,274
Non-current assets		1,244,822
Total assets of discontinued operations	**$**	**1,660,096**
Current liabilities	$	510,212
Non-current liabilities		1,046,119
Total liabilities of discontinued operations	**$**	**1,556,331**

SITRONICS IT B.V.

In April 2009, SITRONICS disposed of a portion of the distribution business of its wholly-owned subsidiary, SITRONICS IT B.V. Seven distribution companies have been transferred to Melrose Holding (a Company owned by current and former management of SITRONICS IT B.V.) for a total consideration of $49.8 million. As a result of the sale and subsequent settlement transactions, the Group reported a loss on disposal of $26.2 million.

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 loss of $19.4 million.

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Land	$ 33,588	$ 33,805
Exploration and production assets	2,196,359	-
Refining, marketing, distribution and chemicals	1,358,138	-
Power and utilities	1,108,537	-
Buildings and leasehold improvements	1,602,454	1,597,137
Switches, transmission devices, network and base station equipment	8,866,742	8,228,558
Other plant, machinery and equipment	1,573,578	1,655,945
Construction in-progress and equipment for installation	1,467,359	1,499,683
Telecommunication equipment for installation	455,584	688,151
	18,662,339	13,703,279
Less: accumulated depreciation	(4,925,731)	(4,451,648)
Total	**$ 13,736,608**	**$ 9,251,631**

Depreciation expense for the six months ended June 30, 2009 and June 30, 2008 amounted to $772.3 million and $817.9 million, respectively.

6. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of June 30, 2009 and December 31, 2008 consisted of the following:

	Interest rate (Actual at June 30, 2009)	June 30, 2009	December 31, 2008
USD-denominated:			
Vnesheconombank	LIBOR+7% (8.1%)	$ 230,000	$ 155,000
Gazprombank	9.5%	47,938	200,000
National Reserve Bank	14.5%	40,000	-
Gazenergoprombank	8.0%	31,509	-
HSBC Bank plc	LIBOR+2.5%-8.5% (3.6%-9.6%)	27,375	27,054
FBME Bank Ltd.	12.0%	24,771	24,986
The Royal Bank of Scotland	LIBOR+6.0% (7.1%)	15,000	15,000
Access Telecommunications Cooperatief	16.0%	-	263,552
Alexandria Capital plc	9.3%	-	75,000
Raiffeisenbank	LIBOR+6.6% (7.7%)	-	55,105
Standard Bank	LIBOR+2.3% (3.4%)	-	50,000
Other	Various	43,543	51,750
		460,136	917,447
EUR-denominated:			
Societe Generale – Geniki Bank	EURIBOR+1.5% (2.8%)	16,805	14,105
ING Bank	EURIBOR+1.3% (2.6%)	5,811	6,428
Hellenik Bank	LIBOR+4.0% (5.0%)	4,293	4,253
Other	Various	27,727	-
		54,636	24,786

	Interest rate (Actual at June 30, 2009)	June 30, 2009	December 31, 2008
RUB-denominated:			
Sberbank	8.0-19.0%	660,963	23,206
Raiffeisenbank	MosPrime+5.5% (18.5%)	69,278	-
MDM Bank	18.5%	62,849	-
RussBank	15.0%	51,924	-
Uralsib	14.0%	51,700	-
B&N Bank	12.5%	49,536	-
HSBC Bank plc	MosPrime+2.5% (15.0%)	8,661	13,546
Other	Various	114,049	50,646
		1,068,960	87,398
Other currencies	Various	2,335	60,125
Loans from related parties	Various	102,343	208,956
Total		**$ 1,688,410**	**$ 1,298,712**

The loan facility of RUB 20.0 billion from Sberbank is collateralized by the pledge of 208,970,430 shares of Comstar UTS. The facility is subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets, etc.

The loan facility of $230.0 million from Vhesheconombank is collateralized by the pledge of 5,728,252,000 shares of SITRONICS. The facility is subject to certain restrictive covenants, including, but not limited to, certain limitations on dispositions of assets, change in charter documents etc.

7. LONG-TERM DEBT

Long-term debt as of June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Loans from banks and financial institutions	$ 7,803,506	$ 5,386,473
Notes and corporate bonds	3,224,910	2,681,890
Loans from related parties	72,763	52,822
Capital leases	11,670	20,492
Other borrowings	75,826	99,813
	11,188,675	8,241,490
Less amounts maturing within one year	(2,700,088)	(2,218,642)
Total	**$ 8,488,587**	**$ 6,022,848**

Notes and corporate bonds as of June 30, 2009 and December 31, 2008 consisted of the following:

	Currency	Interest rate	June 30, 2009	December 31, 2008
MTS Notes due 2014	RUB	16.8%	$ 479,380	-
MTS Finance Notes due 2012	USD	8.0%	400,000	$ 400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
Sistema Capital Notes due 2011	USD	8.9%	345,000	345,000
MTS Notes due 2018	RUB	8.7%	284,295	268,533
MTS Notes due 2015	RUB	14.0%	240,340	255,272
MTS Notes due 2013	RUB	14.0%	240,117	255,272
MBRD Bonds due 2013	RUB	15.0%	197,362	208,226
JSFC Sistema Bonds due 2013	RUB	19.0%	181,429	204,218
MBRD Bonds due 2013	RUB	15.0%	167,328	-
MBRD Bonds due 2014	RUB	15.0%	160,404	-
MBRD Loan Participation Notes due 2016	USD	8.9%	60,524	60,491
DM-Center Bonds due 2015	RUB	8.5%	36,752	39,142
Intourist Bonds due 2010	RUB	9.0%	31,959	34,036
MGTS Bonds due 2010	RUB	7.1%	477	5,202
SITRONICS Bonds due 2010	RUB	10.0%	-	102,109
MBRD Capital Notes due 2009	USD	8.8%	-	99,694
MGTS Bonds due 2009	RUB	7.1%	-	5,233
			3,225,367	2,682,428
Less: unamortized discount			(457)	(538)
Total notes and corporate bonds			**$ 3,224,910**	**$ 2,681,890**

The fair values of notes and corporate bonds based on the market quotes as of June 30, 2009 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
MTS Notes due 2014	MICEX stock exchange	102.2	$ 489,927
MTS Finance Notes due 2012	Luxembourg stock exchange	99.0	396,000
MTS Finance Notes due 2010	Luxembourg stock exchange	101.7	406,800
Sistema Capital Notes due 2011	MICEX stock exchange	96.7	333,615
MTS Notes due 2018	MICEX stock exchange	95.1	270,365
MTS Notes due 2015	MICEX stock exchange	100.5	241,542
MTS Notes due 2013	MICEX stock exchange	100.4	241,078
MBRD Bonds due 2013	MICEX stock exchange	100.0	197,362
JSFC Sistema Bonds due 2013	MICEX stock exchange	103.2	187,235
MBRD Bonds due 2013	MICEX stock exchange	100.1	167,495
MBRD Bonds due 2014	MICEX stock exchange	100.0	160,404
MBRD Loan Participation Notes due 2016	London stock exchange	75.0	45,393
DM-Center Bonds due 2015	MICEX stock exchange	70.9	26,058
Intourist Bonds due 2010	MICEX stock exchange	90.0	28,763
MGTS Bonds due 2010	MICEX stock exchange	104.0	496
Total notes and corporate bonds			**$ 3,192,533**

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.

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, 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 due 2018 at par value if claimed by the holders of the notes subsequent to the announcement of the sequential coupon after June 2010. MTS Finance Notes due 2013 and 2015 are both subject to a put option in 2010. The notes therefore can be defined as callable obligation under SFAS No. 78, "Classification of Obligations That Are Callable by the Creditor", as the holders have the unilateratel right to demand repurchase of the notes at par value upon announcement of coupons for the coupon period starting in June 2010 for the notes due 2018 and for the coupon period starting in April 2010 for the notes due 2013 and 2015. SFAS No. 78 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 in the aggregated maturities schedule represented below as 2010 represents the reporting period when the noteholders will first have the unilateral right to demand repurchase. The indentures governing the notes contain certain covenants which limit the Group's ability to delist the notes from the quotation lists and delay the coupon payments.

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 June 30, 2009.

Loans from banks and financial institutions as of June 30, 2009 and December 31, 2008 consisted of the following:

	Maturity	Interest rate (Actual at June 30, 2009)	June 30, 2009	December 31, 2008
USD-denominated:				
VTB	2010-2011	8.5-11.8%	$ 2,601,850	$ 602,271
Syndicated Loan Facility to MTS	2009-2011	LIBOR+1.0%-1.2% (2.1%-2.3%)	430,769	1,168,462
Sberbank	2010-2013	10.5%	370,000	370,000
Skandinaviska Enskilda Banken AB	2017	LIBOR+0.2% (1.3%)	306,562	159,047
ABN AMRO N.V., ABSOLUT BANK	2012	LIBOR+6.5% (7.6%)	295,000	-
EBRD	2013-2014	LIBOR+1.5%-3.3% (2.6%-4.4%)	216,667	233,333
The Royal Bank of Scotland	2010-2014	LIBOR+0.4%-2.7% (1.5%-3.8%)	198,292	243,936
Commerzbank AG, ING Bank AG and HSBC Bank plc	2009-2014	LIBOR+0.3% (1.4%)	100,856	110,726
HSBC Bank plc and ING BHF Bank AG	2009-2013	LIBOR+0.4% (1.5%)	96,266	108,048
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2009-2014	LIBOR+0.3% (1.4%)	84,484	92,789
Citibank International plc and ING Bank N.V.	2009-2014	LIBOR+0.3% (1.4%)	73,952	81,348
Raiffeisenbank	2009-2010	LIBOR+5.3% (6.4%)	70,500	86,560
HSBC Bank plc	2011	5.2%	66,909	67,000
Barclays Bank plc	2009-2014	LIBOR+0.2% (1.3%)	65,782	72,360
Vnesheconombank	2009-2014	LIBOR+3.0% (4.1%)	60,000	60,000
Unicredit	2011-2015	LIBOR+4.2%-7.0% (5.3%-8.1%)	38,004	45,938
Standard Bank	2015	LIBOR+6.5% (7.6%)	30,000	-
Commerzbank (Eurasia)	2009-2010	LIBOR+3.5% (5.3%)	25,764	30,826
Other	2009-2015	Various	28,432	32,463
			5,160,089	3,565,107
EUR-denominated:				
Gazprombank	2009-2011	12%-12.5%	630,180	423,150
ABN AMRO N.V., ABSOLUT BANK	2009-2012	EURIBOR+6.5% (7.8%)	300,386	-
Syndicated Loan to Sitronics	2009-2011	EURIBOR+1.2% (2.5%)	210,060	211,575
The Royal Bank of Scotland	2009-2013	EURIBOR+0.4% (1.7%)	21,808	24,406
Other	2009-2010	Various	26,002	35,066
			1,188,436	694,197
RUB-denominated:				
Sberbank	2009-2013	13.4%	887,977	892,167
RussBank	2010	14.1%	53,321	56,787
Unicredit	2010-2016	MosPrime+1.8% (14.8%)	44,976	25,958
Other	Various	Various	33,750	34,010
			1,020,024	1,008,922
Other currencies	2009-2018	Various	434,957	118,247
Total			**$ 7,803,506**	**$ 5,386,473**

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, limitations on dispositions of assets and limitations on transactions with the Group.

The loan facility of $2,000.0 million from VTB is collateralized by the pledge of 455,150,450 shares of Novoil, 329,324,463 – of Ufimskiy NPZ, 143,409,851 – of Ufaneftekhim, 104,245,046 – of ANK Bashneft, 56,730,034 – of Ufaorgsintez, 7,019,716 – of Bashnefteproduct and 338,865,443 – of MTS. 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. According to the contract JSFC Sistema is obliged to pledge additionally 82,624,666 shares of Novoil, 14,877,505 – of Ufimsky NPZ, 9,779,338 – of ANK Bashneft within 180 days after the date the loan is received.

The loan facility of EUR 150.0 million from Gazprombank is collateralized by the pledge of MTS notes, Pekin Hotel, Sistema Tower building and 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 Ufimskiy NPZ, 61,758,034 – of Ufaneftekhim, 42,542,439 – of ANK Bashneft, 24,311,642 – of Ufaorgsintez and 2,523,138 – of Bashnefteproduct. 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 $830.9 million as of June 30, 2009) from Sberbank is collateralized by the pledge of 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 voting shares and requirements to maintain ownership of JSFC Sistema in Comstar UTS not less than 50% plus one share of voting shares.

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 June 30, 2009.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on June 30, 2009 is as follows:

Year ended June 30,		
2010	$	2,700,088
2011		3,852,615
2012		1,728,765
2013		357,806
2014		747,895
Thereafter		1,801,506
Total	**$**	**11,188,675**

8. 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 June 30, 2009:

		Level 1	Level 2	Level 3	Total
Assets at fair value:					
Trading securities	$	377,223	-	-	377,223
Available for sale securities		55,863	1,658	-	57,521
Derivative financial instruments		324	-	29	353
Total assets	**$**	**433,410**	**1,658**	**29**	**435,097**
Liabilities at fair value:					
Derivative financial instruments		-	(23,763)	-	(23,763)
Total liabilities	**$**	**-**	**(23,763)**	**-**	**(23,763)**

The table below presents a reconciliation of the beginning and ending balances of assets and liabilities having fair value measurements based on unobservable inputs (Level 3):

		Balance as of January 1, 2009	Acquisitions/ settlements	Included in earnings	Included in other compre-hensive income	Balance as of June 30, 2009
Purchased call option	$	5,830	-	(4,810)	(991)	29
Total assets	**$**	**5,830**	**-**	**(4,810)**	**(991)**	**29**

Comstar UTS Purchased Call Option – In order to hedge the exposure resulting from the employee phantom option program introduced in April 2008, in the third quarter of 2008 Comstar UTS acquired a phantom call option on its GDRs for $19.4 million from an investment bank. 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 Comstar UTS 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, Comstar UTS estimated the fair value of the respective asset using an option pricing model and re-measures it as of each balance sheet date. The respective gains and losses are included in the statement of income for the period.

MTS Hedges – MTS, as part of its risk management policy, enters into interest rate swaps for purposes of managing interest rate risk with the objective of decreasing the cost of borrowings. These derivatives qualify as, and have been documented as, cash flow hedges of interest rate risk. For cash flow hedges a total loss of $16.7 million was deferred in other comprehensive income during the course of the year. MTS expects that $4.3 million of the amount deferred in accumulated other comprehensive income will be realized through the statement of income in the next year as the interest payments being hedge by the derivative become due.

In January 2006, MTS entered into a variable-to-fixed interest rate swap agreement with HSBC Bank as a cash flow hedge of MTS' exposure to variability of future cash flows caused by the change in EURIBOR related to the borrowed loan. MTS agreed with HSBC Bank to pay a fixed rate of 3.3% and receive a variable interest of EURIBOR on €26.0 million for the period from April 2006, up to October 2013.

In December 2007, MTS entered into several variable-to-fixed interest rate swap agreements with HSBC Bank, Rabobank, Citibank and ING Bank as a cash flow hedge MTS' exposure to variability of future cash flows caused by the change in LIBOR related to the borrowed loans.

MTS designated a series of interest rate swaps as a cash flow hedge of issued debt. MTS agreed with HSBC Bank to pay a fixed rate of 4.1% and receive a variable interest of LIBOR on $96.1 million for the period from March 2008 to September 2014. MTS agreed with Rabobank to pay a fixed rate of 4.1% and receive a variable interest rate of LIBOR on $86.1 million for the period from April 2008 to April 2014. MTS agreed with Citibank to pay a fixed rate of 4.3% and receive a variable interest of LIBOR on $53.5 million for the period from September 2007 to September 2013. Two agreements were signed with ING Bank. Under the first agreement MTS pays to ING Bank a fixed rate of 4.2% and receives a variable interest of LIBOR on 92.6 million for the period from February 2008 to February 2014. Under the second agreement, MTS pays to ING Bank a fixed rate of 4.4% and receives a variable interest of LIBOR on $67.0 million for the period from July 2007 to January 2014.

In October 2008, MTS entered into two interest rate swap agreements with HSBC Bank. MTS as a part of a fair value hedge agreed to pay a variable interest of LIBOR and receive a fixed rate of 3.7% on $88.7 million for the period from September 2008 to September 2014. Additionally, under a cash flow hedge strategy, MTS agreed to pay a fixed rate of 3.7% and receive a variable interest of LIBOR on $81.3 million for the period from November 2008 to May 2014.

9. SEGMENT INFORMATION

FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards 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, Oil and Energy and Consumer Assets. 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 as of June 30, 2009 and December 31, 2008 is as follows:

For the six months ended June 30, 2009	**Telecommu-nications**	**Technology and Industry**	**Consumer Assets**	**Oil and Energy**	**Corporate and Other**	**Total**
Net sales to external customers [a]	4,553,250	457,644	766,749	1,167,418	16,479	6,961,540
Intersegment sales	2,479	111,425	8,611	-	5,959	128,474
Equity in net income of investees	2,459	-	224	-	4,400	7,083
Interest income	41,346	9,065	1,537	8,922	50,172	111,042
Interest expense	231,244	36,471	20,568	85,554	123,552	497,389
Net interest revenue [b]	-	-	23,166	-	-	23,166
Depreciation and amortization	853,510	30,001	19,700	69,105	7,051	979,367
Operating income	1,081,059	5,799	(48,167)	128,853	(43,732)	1,123,812
Income tax expense	(194,358)	(1,245)	2,855	(41,102)	9,328	(224,522)
Investments in affiliates	316,408	8,661	2,570	-	6,259	333,898
Segment assets	17,451,519	2,492,426	9,635,716	6,355,484	3,611,774	39,546,919
Indebtedness [c]	5,833,555	764,468	1,153,665	2,702,805	2,422,593	12,877,086
Capital expenditures	1,402,633	37,258	25,781	151,184	61,299	1,678,155

(a) – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group's consolidated financial statements.
(b) – The Banking segment 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 segment. Therefore, only the net amount is disclosed.
(c) – Represents the sum of short-term and long-term debt.

For the six months ended June 30, 2008	**Telecommu-nications**	**Technology and Industry**	**Consumer Assets**	**Oil and Energy**	**Corporate and Other**	**Total**
Net sales to external customers [a]	5,924,068	704,691	957,173	-	34,721	7,620,653
Intersegment sales	9,000	144,021	3,464	-	1,608	158,093
Equity in net income of investees	47,432	-	-	-	154,737	202,169
Interest income	32,353	4,774	3,327	-	33,071	73,525
Interest expense	100,582	22,510	11,909	-	70,938	205,939
Net interest revenue [b]	-	-	56,248	-	-	56,248
Depreciation and amortization	1,066,253	37,569	29,037	-	8,363	1,141,222
Operating income	1,810,135	12,980	13,821	-	15,297	1,852,233
Income tax expense	(422,677)	(18,652)	(3,670)	-	(91,778)	(536,777)
Investments in affiliates	482,204	11,564	2,077	-	1,005,660	1,501,505
Segment assets	19,449,405	2,858,399	8,088,304	-	3,368,742	33,764,850
Indebtedness [c]	4,479,670	897,599	1,028,238	-	2,091,717	8,497,224
Capital expenditures	1,480,691	180,462	42,995	-	81,624	1,785,772

(a) – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group's consolidated financial statements.
(b) – The Banking segment 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 segment. 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 minority interests and reconciliation of assets to the consolidated segment assets are as follows:

	Six months ended	
	June 30, 2009	**June 30, 2008**
Total segment operating income	$ 1,123,812	$ 1,852,233
Intersegment eliminations	(37,586)	(77,512)
Interest income	60,374	39,485
Change in fair value of derivative financial instruments	(8,444)	14,518
Interest expense	(453,368)	(212,050)
Currency exchange and translation (loss)/gain	(269,580)	205,045
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$ 415,208**	**$ 1,821,719**

For the six months ended June 30, 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.

	June 30, 2009	June 30, 2008
Total segment assets	$ 39,546,919	$ 33,764,850
Intersegment eliminations	(5,766,579)	(828,138)
Consolidated assets	**$ 33,780,340**	**$ 32,936,712**

For the six months ended June 30, 2009 and 2008, the Group's revenues outside of the RF were as follows:

	June 30, 2009	June 30, 2008
Ukraine	$ 610,517	$ 1,219,801
Greece	93,526	213,819
Central and Eastern Europe	130,703	224,029
Other	651,189	399,996
Total	**$ 1,485,935**	**2,057,645**

As of June 30, 2009 and 2008, the Group's long-lived assets located outside of the RF were as follows:

	June 30, 2009	June 30, 2008
Ukraine	$ 1,903,116	$ 2,343,007
Asia and Pacific region	141,041	289,241
Greece	120,856	139,712
Other	1,546,424	1,205,683
Total	**$ 3,711,437**	**$ 3,977,643**

10. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the six months ended June 30, 2009 and 2008, the Group entered into transactions with related parties as follows:

	June 30, 2009	June 30, 2008
Sale of goods and services	$ (71,603)	$ (20,317)
Telecommunication services provided	(27,937)	(49,513)
Revenues from financial services	(15,636)	(5,136)
Telecommunication services purchased	14,775	97,282
Purchases of goods for resale	11,459	-
Other	9,276	10,725

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

Related party balances as of June 30, 2009 and December 31, 2008 are disclosed in the corresponding notes to the financial statements.

11. 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 2057.

Rental expenses under the operating leases amounted to $191.7 million and $162.9 million for the six months ended June 30, 2009 and 2008, respectively. Future minimum rental payments under operating leases in effect as of June 30, 2009, are as follows:

Year ended June 30,		
2010	$	361,185
2011		163,552
2012		142,244
2013		134,904
2014		135,625
Thereafter		397,436
Total	**$**	**1,334,946**

Capital Commitments – As of June 30, 2009, MTS had executed purchase agreements in the amount of approximately $295.1 million to subsequently acquire property, plant and equipment and intangible assets and costs related thereto.

As of June 30, 2009, PGU TETs-5, a wholly owned subsidiary of Bashkirenergo had executed purchase agreements in the amount of approximately $85.6 million to subsequently acquire property, plant and equipment and construction costs related thereto.

In addition other companies of the Oil and Energy segment have purchase agreements in the amount of approximately $58.1 million as of June 30, 2009.

As of June 30, 2009, some of the Group companies were limited partners in the "Coral/Sistema Strategic Fund" ("Fund"). The Fund invests in securities of small business concerns primarily in technology driven companies with strategic value to the Group. As of June 30, 2009, the total commitment of the Group to invest in the Fund equaled $43.1 million.

Agreement with Apple – In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy certain quantities of iPhone handsets at list prices at the dates of the respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. The aggregate amounts of the Group's commitments under this agreement at list prices as of June 30, 2009 are $840.2 million for the years ended December 31, 2009, 2010 and 2011. The actual amounts to be paid in the future in connection with these purchases may vary due to changes in prices as well as due to the requirement to maintain a certain market share for iPhones purchased by Russian mobile network operators. The total amount paid for handsets purchased under the agreement for the six months ended June 30, 2009 amounted to $nil.

Pledges and guarantees – MBRD guaranteed loans for several companies, including related parties, which totaled $358.9 million as of June 30, 2009. EWUB issued guarantees to several companies and individuals on loans, which totaled $16.0 million as of June 30, 2009. Dalcombank issued guarantees to several companies and individuals on loans, which totaled $1.9 million as of June 30, 2009.

As of June 30, 2009, the Group has pledged 1,793,174 shares of JSC Sistema-Hals and 556,410 shares of MBRD as a security under Sistema-Hals loan facility from VTB.

The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of June 30, 2009, no event of default has occurred under any of the guarantees issued by the Group.

Industry Regulations – The Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. For the six months ended June 30, 2009 and 2008, the Group incurred approximately $29.5 million and $40.2 million in USF charges, respectively, which are recorded in other operating expenses in the accompanying condensed consolidated statements of income.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with the local regulatory environment including, but not limited to, the sale of hard currency on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is represented by a loss from currency translation transactions in Turkmenistan of $0.1 million and $7.6 million recognized as other non-operating expense in the Group's condensed consolidated statements of income for the six months ended June 30, 2009 and 2008, respectively.

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), UST, together with others. 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, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2009, tax declarations of the Group for the preceding three fiscal years were open for further review.

There were no significant movements in tax litigations as compared to December 31, 2008 during six months ended June, 30 2009.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying condensed consolidated financial statements. As of June 30, 2009 and December 31, 2008, the provision accrued amounted to $66.4 million and $27.6 million, respectively. In addition, the accrual for unrecognized income tax benefit, potential penalties and interest recorded in accordance with FIN No. 48 totalled $28.8 million and $32.0 million as of June 30, 2009 and December 31, 2008, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Legal Disputes – In May 2007, certain minority shareholders won a case in the court of first instance against MGTS in respect of non-payment of dividends on preferred shares for 2005. The court determined such decision of MGTS' general shareholders' meeting in respect of dividends for 2005 null and void. Such dividend, if declared and paid, may amount to RUB 879.0 million (approximately $28.1 million as of June 30, 2009). In February 2008, appeals to the court of the third instance ruled in favor of MGTS. Management believes that the likelihood of a ruling against MGTS in the case of an appeal by the minority shareholders to the Supreme Arbitration Court is remote. In April 2009, Moscow Arbitration Court ruled in favor of MGTS and period for appeal expired on July, 17 2009.

Bitel Liability – As described in the consolidated financial statements for the year ended December 31, 2008, the Group is involved in a number of legal proceedings in the London Court of International Arbitration and the Isle of Man courts in respect of the acquisition and ownership of Bitel LLC. During the six months ended June 30, 2009 no significant changes occurred. Currently these proceeding are pending and it is not possible to predict their outcome 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.

12. SUBSEQUENT EVENTS

In August 2009, Sistema's Board of Directors agreed to the acquisition of Sistema's 50.91% stake in Comstar-UTS by MTS for $1.272 billion. The Board of Directors has also set October 1, 2009 as the date for the Extraordinary General Shareholders' Meeting in order to vote on the proposed transaction.

In August 2009, Comstar UTS completed the first stage of the reorganization of its regional business through the merger of seven of its largest subsidiaries into CJSC Comstar-Regions.

In July 2009, Sistema obtained a EUR 120 million 3-year loan from the EBRD which matures in 2012 and which bears an interest rate of EURIBOR+7.3%-8.5%.

In July 2009, EBRD exercised put option and sold its minority stake in SITRONICS to the Group for total cash consideration of $96.6 million.

In July 2009, MTS placed its fifth ruble bond totalling RUB 15 billion which matures in 2016 and carries a 14.25% coupon rate.

In July 2009, MTS closed the syndication of its $695 million term loan facility which was originally signed in May 2009. The three-year facility carries a LIBOR/EURIBOR plus 6.5% annual interest rate and has a two-year grace period.

In July 2009, SSTL announced the launch of services under the MTS brand in Bihar, India, the second largest circle and the sixth circle of its operation, following Rajasthan, Tamil Nadu, Kerala, Kolkata and West Bengal (all India).

In July 2009, RTI Systems acquired a minority stake in OKB-Planet, a high-tech R&D institute, thus increasing its holding to 100%, for total cash consideration of $30 kUSD million.

In August 2009, Sistema placed RUB 20 billion unconvertible second series five-year bond with a put option exercisable in three years following the sixth coupon payment. The annual coupon rate was set at 14.75% for the first six semi-annual coupon payments.

In August 2009, the Group sold 9,779,338 ordinary shares (or 5.74% of total ordinary shares issued and outstanding) of ANK Bashneft for a total cash consideration of RUB 3.7 billion (approximately $119.0 million) to VTB Capital plc. As a result of this transaction, the Group's voting interest in ANK Bashneft has decreased to 84.9%.