

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 20-F

- Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
or
 Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009
or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
or
 Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report
Commission file number 333-12032



MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on which Registered

**AMERICAN DEPOSITARY SHARES,
EACH REPRESENTING 5 SHARES OF COMMON STOCK
COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE**

**NEW YORK STOCK EXCHANGE
NEW YORK STOCK EXCHANGE⁽¹⁾**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 1,916,869,262 ordinary shares, par value 0.10 Russian rubles each and 155,479,301 American Depositary Shares as of December 31, 2009.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by
the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(1) Listed, not for trading or quotation purposes, but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

Table of Contents

Cautionary Statement Regarding Forward Looking Statements	1
Item 1. Identity of Directors, Senior Management and Advisors	3
Item 2. Offer Statistics and Expected Timetable	3
Item 3. Key Information	3
A. Selected Financial Data	3
B. Capitalization and Indebtedness	6
C. Reasons for the Offer and Use of Proceeds	6
D. Risk Factors	6
Item 4. Information on Our Company	55
A. History and Development	55
B. Business Overview	59
C. Organizational Structure	118
D. Property, Plant and Equipment	118
Item 4A. Unresolved Staff Comments	119
Item 5. Operating and Financial Review and Prospects	119
Item 6. Directors, Senior Management and Employees	171
A. Directors and Senior Management	171
B. Compensation of Directors and Senior Management	175
C. Board Practices	178
D. Employees	180
E. Share Ownership	181
Item 7. Major Shareholders and Related Party Transactions	182
A. Major Shareholders	182
B. Related Party Transactions	183
C. Interests of Experts and Counsel	187
Item 8. Financial Information	188
A. Consolidated Statements and Other Financial Information	188
B. Significant Changes	192
Item 9. Offer and Listing Details	195
Item 10. Additional Information	196
A. Share Capital	196
B. Charter and Certain Requirements of Russian Legislation	196
C. Material Contracts	212
D. Exchange Controls	214
E. Taxation	215
F. Dividends and Paying Agents	223
G. Statement by Experts	224
H. Documents on Display	224
I. Subsidiary Information	224
Item 11. Quantitative and Qualitative Disclosures about Market Risk	224
Item 12. Description of Securities Other Than Equity Securities	231
Item 13. Defaults, Dividend Arrearages and Delinquencies	234
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	234
Item 15. Controls and Procedures	234
Item 16A. Audit Committee Financial Expert	236
Item 16B. Code of Ethics	236
Item 16C. Principal Accountant Fees and Services	236
Item 16D. Exemption from the Listing Standards for Audit Committees	238
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	238

Item 16F.	Change in Registrant’s Certifying Accountant	239
Item 16G.	Corporate Governance	239
Item 17.	Financial Statements	241
Item 18.	Financial Statements	241
Item 19.	Exhibits	241

Unless otherwise indicated or unless the context requires otherwise, references in this document to (i) “MTS,” “the Group,” “we,” “us,” or “our” refer to Mobile TeleSystems OJSC and its subsidiaries; (ii) “MTS-Ukraine” or “UMC” are to CJSC Ukrainian Mobile Communications, our Ukrainian subsidiary; (iii) “MTS-Uzbekistan” are to Uzdurobita, our Uzbekistan subsidiary; (iv) “MTS-Turkmenistan” are to BCTI, our Turkmenistan subsidiary; (v) “Comstar” or “Comstar UTS” are to COMSTAR—United TeleSystems, our fixed line subsidiary; and (vi) “MGTS” are to Moscow City Telephone Network, our Moscow PSDN fixed line subsidiary. We refer to Mobile TeleSystems LLC, our 49% owned joint venture in Belarus, as “MTS Belarus.” As MTS Belarus is an equity investee, our revenues and subscriber data do not include MTS Belarus. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

In this document, references to “U.S. dollars,” “dollars,” “\$” or “USD” are to the lawful currency of the United States, “rubles” or “RUR” are to the lawful currency of the Russian Federation, “hryvnias” are to the lawful currency of Ukraine, “soms” are to the lawful currency of Uzbekistan, “manats” are to the lawful currency of Turkmenistan, “drams” are to the lawful currency of Armenia and “€,” “euro” or “EUR” are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992. References in this document to “shares” or “ordinary shares” refers to our ordinary shares, “ADSs” refers to our American depositary shares, each of which represents five ordinary shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs. “CIS” refers to the Commonwealth of Independent States.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, or the U.S. Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, or the U.S. Exchange Act. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Mobile TeleSystems OJSC, or MTS, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “predict,” “plan,” “may,” “should,” “could” and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on Our Company—B. Business Overview,” “Item 5. Operating and Financial Review and Prospects,” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk” and include statements regarding:

- our strategies, future plans, economic outlook, industry trends and potential for future growth;
- our liquidity, capital resources and capital expenditures;
- our payment of dividends;
- our capital structure, including our indebtedness amounts;
- our ability to generate sufficient cash flow to meet our debt service obligations;
- our ability to achieve the anticipated levels of profitability;
- our ability to timely develop and introduce new products and services;
- our ability to obtain and maintain interconnect agreements;
- our ability to secure the necessary spectrum and network infrastructure equipment;
- our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;
- our ability to maintain adequate customer care and to manage our churn rate; and
- our ability to manage our rapid growth and train additional personnel.

The forward looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters

discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- growth in demand for our services;
- changes in consumer preferences or demand for our products;
- availability of external financing on commercially acceptable terms;
- the developments of our markets;
- the highly competitive nature of our industry and changes to our business resulting from increased competition;
- the impact of regulatory initiatives;
- the rapid technological changes in our industry;
- cost and synergy of our recent acquisitions;
- the acceptance of new products and services by customers;
- the condition of the economies of Russia, Ukraine and certain other countries of the CIS;
- risks relating to legislation, regulation and taxation in Russia and certain other CIS, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia and other countries where we operate and taxation legislation relating to entities in Russia and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia and the CIS;
- political stability in Russia, Ukraine and certain other CIS countries; and
- the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission, or the SEC.

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Readers are cautioned not to place undue reliance on these forward-looking statements. Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data for the years ended December 31, 2007, 2008 and 2009, and as of December 31, 2008 and 2009, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. In addition, the following table presents unaudited selected consolidated financial data derived from our consolidated statement of financial position as of December 31, 2007. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition, other than with respect to our acquisition of Comstar, as further described below.

In October 2009, we acquired a 50.91% stake in Comstar, a provider of fixed line communication services in Russia, Ukraine and Armenia, from Sistema for 39.15 billion rubles (\$1.32 billion as of October 12, 2009). We subsequently increased our ownership stake in Comstar to 61.97% (or 64.03% excluding treasury shares) in December 2009. See “Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Acquisitions.”

As we and Comstar were under the common control of Sistema, our acquisition of a majority stake in Comstar has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests, *i.e.*, the assets and liabilities acquired were recorded at their historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if Comstar had been owned since the beginning of the earliest period presented. As a result, Comstar and its assets have been recorded at book value as if the businesses and assets of Comstar have been owned by us since the beginning of the periods presented. Accordingly, the financial data presented below for the years ended December 31, 2007 and 2008, the financial years preceding the acquisition, have been restated to include the financial position and results of operations of Comstar as if the acquisition had occurred as of January 1, 2007, and the financial data for the year ended December 31, 2009 includes the financial position and results of operations of Comstar for the full year. See Note 2 to our audited consolidated financial statements.

Financial information for the years ended December 31, 2005 and 2006 is not included herein, as such information cannot be provided on a restated basis to reflect the acquisition of Comstar without unreasonable effort or expense.

The selected financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, “Item 3. Key Information—D. Risk Factors” and

“Item 5. Operating and Financial Review and Prospects.” Certain industry and operating data are also provided below.

	Years Ended December 31,		
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)		
Consolidated statements of operations data:			
Net operating revenues:			
Service revenues and connection fees	\$ 9,634,698	\$ 11,822,006	\$ 9,505,837
Sales of handsets and accessories	89,208	78,928	317,705
Total net operating revenues	9,723,906	11,900,934	9,823,542
Operating expenses:			
Cost of services, excluding depreciation and amortization shown separately below	1,863,797	2,447,210	2,004,690
Cost of handsets and accessories	158,848	169,925	349,304
Sales and marketing expenses	775,240	931,245	755,902
Depreciation and amortization expenses	1,674,885	2,151,125	1,839,568
Sundry operating expenses ⁽¹⁾	2,066,208	2,554,093	2,326,511
Net operating income	3,184,928	3,647,336	2,547,567
Currency exchange and transaction (gain)/loss	(161,856)	565,663	252,945
Other (income) expenses:			
Interest income	(53,507)	(70,860)	(108,543)
Interest expense, net of capitalized interest	192,237	233,863	571,719
Equity in net income of associates	(71,116)	(75,688)	(60,313)
Impairment of investments	22,691	—	368,355
Change in fair value of derivatives	145,860	41,554	5,420
Other income, net	38,781	22,745	23,254
Total other (income) expenses, net	274,946	151,614	799,892
Income before provision for income taxes and noncontrolling interests	3,071,838	2,930,059	1,494,730
Provision for income taxes	852,015	742,881	503,955
Net income (loss) attributable to the noncontrolling interest	132,408	187,059	(13,704)
Net income attributable to MTS	2,087,415	2,000,119	1,004,479
Dividends declared ⁽²⁾	\$ 747,213	\$ 1,257,453	\$ 1,265,544
Net income per share, basic and diluted	1.06	1.04	0.53
Dividends declared per share	0.38	0.63	0.65
Dividends declared per share, rubles	9.67	14.84	20.15
Number of common shares outstanding	1,960,849,301	1,885,052,800	1,916,869,262
Weighted average number of common shares outstanding—basic	1,973,354,348	1,921,934,091	1,885,750,147
Weighted average number of common shares outstanding—diluted	1,974,074,908	1,921,934,091	1,885,750,147

	Years Ended December 31,		
	2007 (restated, other than industry and operating data)	2008 (restated, other than industry and operating data)	2009
	(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)		
Consolidated cash flow data:			
Cash provided by operating activities	\$ 3,851,372	\$ 5,029,954	\$ 3,596,108
Cash used in investing activities	(3,247,320)	(2,707,989)	(2,384,686)
(of which capital expenditures) ⁽³⁾	(1,898,972)	(2,612,825)	(2,328,309)
Cash provided by/(used in) financing activities	(258,069)	(1,678,542)	147,725
Consolidated balance sheet data (end of period):⁽⁴⁾			
Cash, cash equivalents and short-term investments	\$ 1,267,413	\$ 1,481,786	\$ 2,740,041
Property, plant and equipment, net	8,566,744	7,758,220	7,745,331
Total assets	15,874,942	14,717,179	15,780,745
Total debt (long-term and short-term) ⁽⁵⁾	4,529,374	5,368,275	8,329,516
Total shareholders' equity	8,339,558	6,219,907	4,403,069
Including capital stock ⁽⁶⁾	(317,794)	(1,376,195)	(1,004,368)
Financial ratios (end of period):			
Total debt/total capitalization ⁽⁷⁾	35.2%	46.3%	65.4%
Mobile industry and operating data:⁽⁸⁾			
Mobile penetration in Russia (end of period)	119%	129%	143%
Mobile penetration in Ukraine (end of period)	120%	121%	121%
Mobile subscribers in Russia (end of period, thousands) ⁽⁹⁾	57,426	64,628	69,342
Subscribers in Ukraine (end of period, thousands) ⁽⁸⁾	20,004	18,115	17,564
Overall market share in Russia (end of period)	33%	34%	33%
Overall market share in Ukraine (end of period)	36%	32%	32%
Average monthly usage per subscriber in Russia (minutes) ⁽¹⁰⁾	157	208	213
Average monthly usage per subscriber in Ukraine (minutes) ⁽¹⁰⁾	154	279	462
Average monthly service revenue per subscriber in Russia ⁽¹¹⁾	\$9	\$11	\$8
Average monthly service revenue per subscriber in Ukraine ⁽¹¹⁾	\$7	\$7	\$5
Subscriber acquisition costs in Russia ⁽¹²⁾	\$26	\$27	\$19
Subscriber acquisition costs in Ukraine ⁽¹²⁾	\$12	\$11	\$7
Churn in Russia ⁽¹³⁾	23.1%	27.0%	38.3%
Churn in Ukraine ⁽¹³⁾	49.0%	47.3%	40.0%

(1) "Sundry operating expenses" consist of general and administrative expenses, provision for doubtful accounts, impairment of long-lived assets and goodwill and other operating expenses (including charges incurred in connection with the "universal services reserve fund").

(2) Dividends declared in each of the years ended December 31, 2007, 2008 and 2009 were, in each case, in respect of the prior fiscal year (*i.e.*, in respect of each of the years ended December 31, 2006, 2007 and 2008, respectively). Includes dividends on treasury shares of \$6.0 million, \$36.5 million and \$45.6 million as of the years ended December 31, 2006, 2007 and 2008, respectively.

(3) Capital expenditures include purchases of property, plant and equipment and intangible assets.

(4) Consolidated balance sheet data as of the year ended December 31, 2007 is unaudited.

(5) Includes notes payable, bank loans, capital lease obligations and other debt.

- (6) Calculated as common stock less treasury stock.
- (7) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 5 above for the definition of "total debt."
- (8) Source: AC&M-Consulting and our data. Operating data is presented for mobile operations only. None of this data is derived from our audited consolidated financial statements.
- (9) We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of prepaid tariffs) or whose account does not have a negative balance for more than this period.
- (10) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period.
- (11) We calculate average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period. Prior to April 1, 2008, we excluded connection fees from service revenues. Average monthly service revenue per subscriber data for each of the years ended December 31, 2007, 2008 and 2009 presented in this table are based on our current calculation methodology.
- (12) Subscriber acquisition costs in Russia are calculated as total sales and marketing expenses for a given period divided by the total number of gross subscribers added during that period. In Ukraine, subscriber acquisition costs are calculated as total sales and marketing expenses, handset subsidies and cost of sim cards and vouchers for a given period divided by the total number of gross subscribers added during that period.
- (13) We define our churn as the total number of subscribers who cease to be a subscriber (as defined above) during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our securities involves a certain degree of risk. You should carefully consider the following information about these risks, together with other information contained in this document, before you decide to buy our securities. If any of the following risks actually occur, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of our securities could also decline and you could lose all or part of your investment. In addition, please read "Cautionary Statement Regarding Forward Looking Statements" where we describe additional uncertainties associated with our business and the forward looking statements included in this document.

Risks Relating to Business Operations in Emerging Markets

Emerging markets such as the Russian Federation, Ukraine and other CIS countries are subject to greater risks than more developed markets, including significant legal, economic, tax and political risks.

Investors in emerging markets such as the Russian Federation, Ukraine and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and Ukraine are subject to rapid change and that the information set out herein may become outdated relatively quickly. Furthermore, in doing business in various countries of the CIS, we face risks similar to (and sometimes greater than) those that we face in Russia and Ukraine. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their

investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

Risks Relating to Our Business

The telecommunications services market is characterized by rapid technological change, which could render our services obsolete or non-competitive and result in the loss of our market share and a decrease in our revenues.

The telecommunications industry is subject to rapid and significant changes in technology and is characterized by the continuous introduction of new products and services. The mobile telecommunications industry in Russia is also experiencing significant technological change, as evidenced by the introduction in recent years of new standards for radio telecommunications, such as WiFi, Worldwide Inter-operability for Microwave Access, or WiMAX, Enhanced Data Rates for Global Evolution, or EDGE, and Universal Mobile Telecommunications System, or UMTS, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products and enhancements and changes in customer requirements and preferences. Such continuing technological advances make it difficult to predict the extent of the future competition we may face and it is possible that existing, proposed or as yet undeveloped technologies will become dominant in the future and render the technologies we use less profitable or even obsolete. New products and services that are more commercially effective than our products and services may also be developed. Furthermore, we may not be successful in responding in a timely and cost-effective way to keep up with these developments. Changing our products or services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditures and access to related or enabling technologies in order to integrate the new technology with our existing technology.

We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

The wireless telecommunications services markets in which we operate are highly competitive, particularly in Russia and Ukraine, where mobile penetration exceeds 100%. We also face increased competition in our fixed line business, where the market for alternative fixed line communications services in Russia is rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service.

Our principal wireless competitors in Russia are Open Joint Stock Company “Vimpel Communications,” or Vimpelcom, and Open Joint Stock Company MegaFon, or MegaFon. We also face competition from several regional operators and Tele2, which has entered the market in several regions with aggressive pricing. The Russian government has also indicated its intent to establish a fourth national mobile communications operator as part of its restructuring of state-controlled telecommunications companies Svyazinvest Telecommunications Investment Joint Stock Company, or Svyazinvest, and Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom, or Rostelecom.

In February 2008, Vimpelcom completed a merger with Golden Telecom, a leading provider of fixed line integrated telecommunications and Internet services in Russia and the CIS and the principal competitor of Comstar. In addition, following the settlement of shareholder litigation between Vimpelcom’s two principal shareholders at the end of 2009, the company commenced a significant restructuring in 2010. Pursuant to this restructuring, a new parent company was incorporated in Bermuda, with all of Vimpelcom’s current wireless and fixed line operations, as well as Ukrainian

mobile operator Closed Joint Stock Company “KYIVSTAR” G.S.M., or Kyivstar, becoming subsidiaries of the new parent company.

The integration of Golden Telecom and subsequent restructuring may provide Vimpelcom with several advantages that may effectively increase its competitive position. For example, Vimpelcom has already spent two years integrating and rebranding its fixed line operations and may benefit from the ability to bundle and cross-sell its fixed and wireless service offerings and the economies of scale that may accompany the combining of complementary operations. In addition to significantly increasing the size of Vimpelcom’s operations, the restructuring of Vimpelcom offshore will also allow it to potentially access equity capital markets without the significant restrictions and offering limitations applicable to Russian issuers. All of these factors may allow Vimpelcom to grow and expand its service offerings and subscriber base, as well as provide it with greater access to capital, which may negatively impact our market share and competitive position.

In addition, the Russian government has been seeking greater involvement in the Russian telecommunications sector and is currently engaged in the restructuring of its telecommunications holdings. As part of this process, Svyazinvest, a state-controlled holding company controlling local fixed line operators throughout Russia (other than MGTS), is in the process of merging these local operators with Rostelecom, Russia’s largest long-distance telecommunications provider, with the aim of creating a single, national network. Svyazinvest has also announced plans to create a fourth nationwide mobile operator, and in November 2009, a non-binding memorandum of understanding was signed by Sistema, Comstar and Svyazinvest contemplating, among other things, the entry by Sistema and Svyazinvest into an exchange transaction, upon completion of which, Svyazinvest will control 100% of the share capital in Sky Link and Sistema will acquire the 23.33% stake in MGTS controlled by Svyazinvest. Sky Link is a Moscow-based code division multiple access, or CDMA, operator holding GSM licenses for a majority of the Russian regions, and it has expressed its intent to launch a GSM network across most of Russia by 2011. See “Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Acquisitions” and “Item 8. Financial Information—Significant Changes” for a description of the non-binding memorandum of understanding. In addition, Rostelecom won tenders for 38 out of 40 licenses to provide fourth-generation, or 4G, wireless services within the 2.3-2.4 GHz frequency band. Svyazinvest has also disclosed its intention to undertake an initial public offering in 2011.

According to Direct INFO, Svyazinvest controls over 80% of all fixed line telecommunications services in Russia. The emergence of Svyazinvest as an integrated nationwide provider of fixed line local and long distance communications services and mobile communications services may significantly increase competition in our markets. Moreover, any new mobile operator formed within the new state-controlled group may receive favorable pricing terms for interconnection from the regional fixed line operators within the group, putting us at a competitive disadvantage. See also “—If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues.”

Competition in the Ukrainian wireless telecommunications market has significantly intensified over the last three years. Our primary mobile competitor in Ukraine is Kyivstar, which is expected to merge with URS, Vimpelcom’s other Ukrainian mobile operator, in connection with Vimpelcom’s restructuring. Aggressive pricing by our competitors in Ukraine, driven primarily by Astelit, has also driven down the overall average price per minute levels significantly in Ukraine since 2006.

Increased competition, including from the potential entry of new mobile operators, government-backed operators, Mobile Virtual Network Operators and alternative fixed line operators in the markets where we operate, as well as the strengthening of existing operators and increased use of Internet protocol telephony, may adversely affect our ability to increase the number of subscribers and could result in reduced operating margins and a loss of market share, as well as different pricing,

service or marketing policies, and have a material adverse effect on our business, financial condition and results of operations.

Our controlling shareholder has the ability to take actions that may conflict with the interests of holders of our securities.

We are controlled by Sistema, which controls 52.7% of our total charter capital (54.8% excluding treasury shares). If not otherwise required by Russian law and/or our charter, resolutions at a shareholders' meeting will be adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, either directly or indirectly, a majority of our shares, will control the appointment of a majority of directors and removal of directors. Sistema is also able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, proposed reorganizations and substantial asset sales and other major corporate transactions, among other things. Thus, Sistema can take actions that may conflict with the interests of other security holders. In addition, under certain circumstances, a disposition by Sistema of its controlling stake in our company could harm our business. See also "—Risks Relating to Our Financial Condition—A disposition by our controlling shareholder of its stake in our company could materially harm our business."

Sistema has outstanding a significant amount of indebtedness. As of December 31, 2009, Sistema had consolidated indebtedness of approximately \$0.5 billion of short-term debt, \$4.2 billion comprising the short-term portion of its long-term debt, and \$11.4 billion of long-term debt (net of the short-term portion). At the corporate level, Sistema had \$215.1 million of short-term debt, \$590.1 million comprising the short-term portion of its long-term debt, and \$2,058.1 million of long-term debt (net of the short-term portion). Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Sistema voted in favor of declaring dividends of \$402.6 million in 2005 for 2004, \$561.6 million in 2006 for 2005, \$747.2 million in 2007 for 2006, \$1,257.5 million in 2008 for 2007 and \$1,265.5 million in 2009 for 2008. The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected.

In addition, our credit ratings can be affected by Sistema's activity and credit ratings. For example, in April 2009, Standard & Poor's placed our 'BB' long-term corporate credit rating on CreditWatch with negative implications following a similar rating action on Sistema. In placing the rating on CreditWatch, Standard & Poor's stated that our "rating remains constrained by Sistema's credit profile and majority ownership." The CreditWatch was subsequently removed in November 2009, with Standard & Poor's revising our outlook from positive to stable.

The failure of our geographic expansion strategy could hamper our continued growth and profitability.

Our continued growth depends, in part, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Our strategy contemplates the acquisition of additional operations within the CIS in both the mobile and fixed broadband segments. These acquisitions may occur in countries that represent new operating environments for us and, in many instances, may be located a great distance from our corporate headquarters in Russia. We therefore may have less control over their activities. We may also face uncertainties with respect to the operational and financial needs of these businesses, and may, in

the course of our acquisitions, incur additional debt to finance the acquisitions and/or take on substantial existing debt of the acquired companies. In addition, we anticipate that the countries into which we may expand will be emerging markets and, as with countries of our current presence, subject to greater political, economic, social and legal risks than more developed markets.

For example, see “—Legal Risks and Uncertainties—Our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of our acquisition and resulted in our write off of the costs relating to the purchase of Bitel, and we may face significant liabilities to the seller and Bitel.”

Our failure to identify attractive opportunities for expansion into new markets and to manage the operations of acquired or newly established businesses in these markets could hamper our continued growth and profitability, and have a material adverse effect on our financial condition, results of operations and prospects.

Acquisitions and mergers may pose significant risks to our business.

We have expanded our business through several acquisitions. As part of our growth strategy, we will continue to evaluate opportunities to acquire, invest in or merge with other existing operators or license holders in the CIS and in growing markets outside the CIS, as well as other complementary businesses.

Prior to 2009, most of our acquisitions were of regional operators with a focus on expanding our network and subscriber footprint. In 2009, our acquisition activity shifted to focus on dealer acquisitions, in furtherance of our effort to develop our distribution network, and the acquisition of Comstar, in furtherance of our strategy to become a provider of integrated telecommunications services. These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

- incorrect assessment of the value of any acquired target;
- assumption of the acquired target’s liabilities and contingencies;
- failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;
- problems integrating the acquired businesses, technologies or products into our operations;
- incurrence of debt to finance acquisitions and higher debt service costs related thereto;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;
- more onerous government regulation;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets; and
- lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

In 2009, for example, we had write downs of \$349.4 million related to Comstar’s investment in Svyazinvest, the government-controlled holding for fixed line telephone companies, which contributed to our loss in the fourth quarter of 2009.

In addition, companies that we acquire may not have internal policies, including accounting policies and internal control procedures that are compatible, compliant or easily integrated with ours.

If any of our future business combinations is structured as a merger with another company or we merge a company subsequent to its acquisition by us, such a merger would be considered a corporate reorganization under Russian law. In turn, this would provide our creditors with a statutory-based right to file a claim seeking to accelerate their claims or terminate the respective obligations, as well as seek damages. To prevail, the creditors would need to prove in court that we will not perform our obligations in due course and the amount of damages suffered. Secured creditors would be required to further prove that the security provided by us, our shareholders or third parties is not sufficient to secure our obligations. Creditors whose claims are secured by pledge do not have the right to claim additional security.

In addition, a merger, as well as any corporate reorganization and any business combination that constitutes a “major transaction” under Russian law, would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See “—Legal Risks and Uncertainties—Shareholder rights provisions under Russian law could impose additional obligations and costs on us.”

Difficulties integrating the operations of Comstar with our existing operations may prevent us from achieving the expected benefits from the acquisition.

We acquired a controlling stake in Comstar in furtherance of our strategy to become a full service provider of integrated telecommunications services and strengthen our position in the growing fixed and mobile broadband markets. This strategy is premised on our belief that consumer Internet use in our markets will continue to rapidly grow, the mobile and fixed line assets of MTS and Comstar are complementary, and the combination of our respective telecommunications assets will enable us to develop and provide bundled telecommunications services and take advantage of cross-selling opportunities. If any of these assumptions are incorrect or if we are unable to effectively execute our strategy, the return on our substantial investment in Comstar may not materialize and our business, financial condition and results of operations and prospects would be materially adversely affected. For example, as we and Comstar are separate legal entities, Russian personal data protection rules prevent the sharing of personal subscriber data as between our two companies without prior subscriber consent. If we and Comstar are unable to obtain such consents, our ability to provide certain bundled telecommunications services and perform certain other cross-selling activities may be inhibited.

Our ability to fully integrate Comstar and realize operational and commercial synergies may also depend on our ability to consolidate 100% of Comstar, and we may therefore consider acquiring the remaining stake of, and/or a merger with, Comstar. See “—Acquisitions and mergers may pose significant risks to our business” for a description of the risks associated with mergers and “Item 4. Information on Our Company—B. Business Overview—Business Strategy.”

In addition, our management will be required to devote substantial time and resources over the next several years to integrating the operations of Comstar and MTS, which will decrease the time that they are able to devote to managing the combined company’s business. Additionally, we will depend to a significant extent upon the continued performance and contributions of Comstar’s senior management, as Comstar offers services that we have little or no experience providing. Our inability to integrate successfully with Comstar could have a material adverse effect on our business, financial condition, results of operations and prospects.

If our purchase of UMC is found to have violated Ukrainian law or the purchase is unwound, our business, financial condition, results of operations and prospects would be materially adversely affected.

On June 7, 2004, the Deputy General Prosecutor of Ukraine filed a claim against us and others in the Kiev Commercial Court seeking to unwind the sale by Joint Stock Company Ukrtelecom, or Ukrtelecom, of its 51% stake in UMC to us. The complaint also sought an order prohibiting us from alienating 51% of our stake in UMC until the claim was resolved on the merits. The claim was based on a provision of the Ukrainian privatization law that included Ukrtelecom among a list of “strategic” state holdings prohibited from alienating or encumbering its assets during the course of its privatization. While the Cabinet of Ministers of Ukraine in May 2001 issued a decree specifically authorizing the sale by Ukrtelecom of its entire stake in UMC, the Deputy General Prosecutor asserted that the decree contradicted the privatization law and that the sale by Ukrtelecom was therefore illegal and should be unwound. On August 12, 2004, the Kiev Commercial Court rejected the Deputy General Prosecutor’s claim.

On August 26, 2004, the General Prosecutor’s Office requested the Constitutional Court of Ukraine to review whether certain provisions of the Ukrainian privatization law limiting the alienation of assets by privatized companies were applicable to the sale by Ukrtelecom of UMC shares to us. On January 13, 2005, the Constitutional Court of Ukraine refused to initiate the constitutional proceedings arising from the request of the General Prosecutor’s Office on the grounds that the request was incompatible with the requirements of the Ukrainian constitutional law, and that the issue as it was raised in the request did not fall within the jurisdiction of the Constitutional Court of Ukraine. This, however, does not prevent other persons having the right to apply to the Constitutional Court of Ukraine from challenging the constitutionality of provisions of the Ukrainian privatization law applicable to the sale by Ukrtelecom of the UMC shares, and does not preclude the challenging of such sale in the commercial courts of Ukraine.

If the Constitutional Court of Ukraine determines that the provisions of the Ukrainian privatization legislation applicable to Ukrtelecom’s sale of its stake in UMC are unconstitutional, the Kiev Commercial Court could be requested to re-open the case based on new circumstances and could potentially include additional persons that were not parties to the original proceeding and/or additional claims.

In addition, as UMC was formed during the time when Ukraine’s legislative framework was developing in an uncertain legal environment, its formation and capital structure may also be subject to challenges. In the event that our purchase of UMC is found to have violated Ukrainian law or the purchase is unwound, in whole or in part, our business, financial condition, results of operations and prospects would be materially adversely affected.

If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability.

Our ability to increase our subscriber base depends upon the success of our network expansion. We have expended considerable amounts of resources to enable both organic expansion and expansion through acquisitions and plan to continue to do so. Limited information regarding the markets into which we have or are considering expanding, either through acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues. In addition, we may not be able to integrate previous or future acquisitions successfully or operate them profitably. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

The buildout of our network is also subject to risks and uncertainties, which could delay the introduction of service in some areas and increase the cost of network construction, including difficulty in obtaining base station sites on commercially attractive terms. In addition, telecommunications

equipment used in Russia, Ukraine and other CIS countries is subject to governmental certification, and periodic renewals of the same. We are also required to receive permits for the operation of telecommunications equipment as well as governmental certification and/or permission for the import and export of certain network equipment, which can result in procurement delays and slow network development. The failure of any equipment we use to receive timely certification or re-certification could hinder our expansion plans.

For example, the import and export of products containing cryptographic hardware is subject to special documentation requirements and approvals. As telecommunication networks comprise various components with cryptographic hardware, we must comply with these requirements in order to import such components. Moreover, where imported equipment does not contain cryptographic hardware, the federal customs service requires manufacturers to provide written confirmation regarding the absence of such hardware. The range of goods requiring the provision of “certificates of conformance” by suppliers and manufactures prior to their import into Russia has also been expanded to cover most of our key network components, and imported radioelectronic equipment is required to be licensed by the Russian Ministry of Industry and Trade. Similar requirements regarding the import and export of cryptographic hardware exist in Ukraine.

In addition, we, and reportedly, our competitors, have experienced a delay in the import of 3G network equipment into Russia. In the event that these delays prevent us from launching 3G services by the date required under our 3G license, we risk losing the 3G frequencies assigned to us. See “—We may not realize the benefits we expect to receive from our investments in 3G wireless services, which could have a material adverse effect on our business and results of operations.”

Furthermore, as a result of the current downturn in the global financial markets, certain banks have curtailed their lending programs, which may limit our ability to obtain external financing and, in turn, result in the reduction of our capital expenditure program. To the extent we fail to expand our network on a timely basis, we could experience difficulty in expanding our subscriber base.

Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

Mobile penetration in Russia and Ukraine reached 143.2% and 120.6%, respectively, as of December 31, 2009, according to AC&M-Consulting. While customer growth has been, and we expect it will continue to be, a principal source of revenue growth, increasing competition and market saturation will likely cause the increase in subscribers to continue to slow in comparison to our historical growth rates. As a result, we will need to continue to develop new services, including value-added, 3G, Internet, Blackberry services, integrated telecommunications services and others, as well as consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

The reduction, consolidation or acquisition of independent dealers and our failure to further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues.

We have historically enrolled a vast majority of our subscribers through a network of independent dealers. In October 2008, Vimpelcom acquired a 49.9% stake in Morefront Holdings Ltd., a company that owns 100% of the Euroset Group, the largest mobile handset retailer and leading dealer for major mobile network operators in Russia. Although the Federal Antimonopoly Service, or FAS, approval relating to the sale of Euroset specifically prohibits Euroset from discriminating against or providing preferential treatment to any mobile operator following the acquisition, we believe that we faced discriminatory treatment following Vimpelcom’s acquisition, including the promotion of Vimpelcom’s

services over ours at Euroset outlets, notwithstanding these regulatory prohibitions. As a result, we ceased working with Euroset as of April 1, 2009. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation.”

Subscribers enrolled through Euroset accounted for around 20%-25% of our total new subscribers in 2008. However, following Vimpelcom’s acquisition of its stake in Euroset and in view of the deteriorating financial condition of many nationwide dealer networks, we accelerated the development of our proprietary distribution network and have been working to increase our relationship with small regional dealers. See “Item 4. Information on Our Company—B. Business Overview—Mobile Operations—Sales and Marketing—Sales and Distribution.”

If we are not successful in expanding our proprietary network and maintaining and further developing our distribution network of national, regional and local retailers, our subscriber growth rate, market share and revenues may decrease, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues.

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed line and mobile operators in Russia, Ukraine and other countries in which we operate. Fees for interconnection are established by agreements with network operators and vary depending on the network used, the nature of the call and the call destination.

In Russia, the government in the past has expressed its intent to privatize Svyazinvest. In Ukraine, the government plans to privatize Ukrtelecom, which, according to its public disclosure, has a 71% share of the local telephony market and an 83% share of the domestic and international long distance market in Ukraine. The timing of these privatizations is not yet known; however, according to the plan of the State Property Fund of Ukraine published in May 2010, the auction sale of a 92.79% stake in Ukrtelecom will be announced in August 2010. It is currently unclear how the privatizations will affect our interconnection arrangements and costs.

Although Russian legislation requires that operators of public switched telephone networks that are deemed “substantial position” operators cannot refuse to provide interconnections or discriminate against one operator over another, we believe that, in practice, some operators attempt to impede wireless operators by delaying interconnection applications and establishing technical conditions for interconnection feasible only for certain operators. Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which could have a material adverse effect on our business and results of operations. See also “—If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a “substantial position,” the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.”

In addition, as part of the restructuring of Svyazinvest, the Russian government has expressed its intent to establish a fourth national mobile operator in Russia. As Svyazinvest controls regional fixed line operators in all regions of Russia (other than Moscow), a mobile operator established as part of the Svyazinvest group may receive preferential terms for interconnecting with these operators, which would allow it greater flexibility in setting tariffs and put us at a competitive disadvantage. See also “—We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.”

Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations.

Under the Ukrainian Telecommunications Law, adopted in November 2003, the National Commission for the Regulation on Communications, or the NCRC, is authorized to regulate the tariffs for public telecommunications services rendered by fixed line operators within one geographical numbering zone. While mobile cellular operators (including MTS-Ukraine) are generally entitled to set their retail tariffs and negotiate interconnect rates with other operators, the NCRC is entitled to regulate the interconnect rates of any mobile cellular operator declared a “dominant market force” by the Antimonopoly Committee of Ukraine, or the AMC. Although MTS-Ukraine had a 31.8% market share of the wireless communications market in Ukraine as of December 31, 2009, it has not been declared a dominant market force by the AMC.

However, over the course of 2007-2009, the AMC conducted an investigation of the telecommunications interconnection market among mobile operators in Ukraine and issued a finding in May 2009 that eight mobile operators, including MTS-Ukraine and its closest competitors, are monopolists in relation to the market for interconnecting to each of their respective networks. MTS-Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. If the decision is ultimately upheld and MTS-Ukraine is declared a monopolist, the interconnection fees we charge for terminating calls connecting to our respective networks would be subject to regulation by the NCRC which, in turn, may cause a significant decrease in the interconnect revenues we receive and have a material adverse effect on our results of operations. If the other mobile operators are declared monopolists, the interconnect fees we pay to other mobile operators in Ukraine may decrease as well. See “Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in Ukraine—Competition” for additional information.

In February 2010, the NCRC approved interconnect rates for telecommunications operators found by the AMC to be monopolists. If the AMC’s finding that MTS-Ukraine and its competitors are monopolists is upheld, our interconnect rates will be established in accordance with these rates, which may be lower than the current interconnect rates we pay and receive.

In addition, we believe that the state owned fixed line operator monopoly, Ukrtelecom, is currently able to influence telecommunications policy and regulation and may cause substantial increases in interconnect rates for access to fixed line operators’ networks by mobile cellular operators. In November 2008, Ukrtelecom announced its plans to increase the interconnect rates for access to fixed line operators’ networks by mobile cellular operators commencing January 1, 2009. As a result, the contract between MTS-Ukraine and Ukrtelecom was not extended upon its termination on December 31, 2008, and MTS-Ukraine filed a lawsuit against Ukrtelecom seeking to reinstate the 2008 interconnect rates. Ukrtelecom and MTS-Ukraine continued to provide traffic transit services to each other until a new contract was signed and the litigation was settled in December 2009. The new interconnect contract provides, *inter alia*, for a gradual (until the end of 2010) decrease of the interconnect rate charged by MTS-Ukraine to access its mobile network and retained the current interconnect rate for MTS-Ukraine to access Ukrtelecom’s fixed line network, which may negatively affect our revenues.

Similarly, Ukrtelecom may cause substantial decreases in interconnect rates for access to mobile cellular operators’ networks by fixed line operators, which could cause our revenues to decrease and materially adversely affect our results of operations.

We may not realize the benefits we expect to receive from our investments in 3G wireless services, which could have a material adverse effect on our business and results of operations.

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded each of MegaFon, Vimpelcom and us a license to provide 3G services in the Russian

Federation. The 3G license allows us to provide mobile radio telephone services using the International Mobile Telecommunications-2000, or IMT-2000/UMTS standard. Historically, mobile operators that have developed 3G networks have experienced various difficulties and challenges, including a limited supply of 3G-compatible handsets, limited international roaming capabilities, as well as 3G software and network-related problems. We may experience similar problems or encounter new difficulties when developing our 3G network and may be unable to fully resolve them. For example, we cannot be certain that:

- we will be able to build out our 3G network in a timely manner;
- our 3G network and services will deliver the quality and level of service that our customers demand or prefer;
- we will be able to provide all contemplated 3G services at reasonable prices and within a reasonable timeframe;
- manufacturers and content providers will develop and offer products and services for our 3G network on a timely basis;
- there will be sufficient demand for 3G services in the markets where we operate;
- our 3G network will be commercially viable in all of the locations we are required to operate pursuant to our 3G license;
- our competitors will not offer similar services at lower prices; and
- changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

See also “—If we cannot successfully develop our network, we will be unable to expand our subscriber base and maintain our profitability.”

In addition, Russian military authorities also use frequencies on the 3G spectrum, which may limit the availability of 3G frequencies for commercial use in certain areas. During the construction of our 3G network, there is also a risk that the frequencies assigned to us for commercial use may overlap with frequencies used by the Russian military. For example, conflicts over the availability of frequency long reserved for military use in Moscow caused delay in the commercial launch of 3G services in Moscow by all of the 3G license holders, although some of these frequencies were released for commercial use in 2009. If additional overlap were to occur, it could cause problems or delays in the development and operation of our 3G network in Russia.

We may also face competition from operators using second generation, or 2G, or other forms of 3G technology. For example, licenses for the use of CDMA technology have already been granted for the provision of fixed wireless services in a number of regions throughout Russia. CDMA is a 2G digital cellular telephony technology that can be used for the provision of both wireless and fixed services. Currently, CDMA technology is offered by certain mobile operators in Russia who operate using the Nordic Mobile Telephone 450 MHz, or NMT-450, standard. If CDMA operators were able to develop widespread networks throughout Russia, we would face increased competition.

In addition, the development of WiMAX networks will likely pose additional competition for 3G providers operating in the IMT-2000/UMTS standard. The Russian government also recently held a tender for the issuance of licenses to operate 4G networks in 40 regions throughout Russia. Fourth-generation wireless services are expected to provide faster, higher quality data transfer and streaming capabilities as compared to 2G and 3G and may pose additional competition for 3G providers. Rostelecom won the tender for 38 of the 40 4G licenses, and will be required to build its network and commence operation within 18 months.

Potential competition from other 3G, CDMA, WiMAX and 4G providers, together with any substantial problem with the rollout of our 3G network and provision of 3G services in the future, could materially adversely affect our business, financial condition and results of operations.

Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms or at all may negatively affect our competitive position in Ukraine.

In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine with the starting price set at 400 million hryvnia (equivalent to \$50.1 million at December 31, 2009). However, the NCRC canceled the planned tender in November 2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold. Following the election of Viktor Yanukovich as Ukraine's new President in February 2010, further steps toward a tender for one or more 3G/UMTS licenses in Ukraine are expected, although the timing and terms are not yet clear.

Our ability to prevail in a tender for a 3G/UMTS license in Ukraine may require us to pay a significant amount for the license as well as incur significant costs in building out the 3G network, and we may not be able to recoup these costs through our service revenues. If we do not obtain a 3G/UMTS license, the award of the license to one of our competitors would increase the competition we face in the provision of both GSM and 3G services in Ukraine and inhibit our expansion efforts. Either of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

Service disruptions on our networks could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

We are able to deliver services only to the extent that we can protect our network systems against damage from communications failures, computer viruses, power failures, natural disasters and unauthorized access. Any system failure, accident or security breach that causes interruptions in our operations could impair our ability to provide services to our customers and materially adversely affect our business and results of operations. In addition, to the extent that any disruption or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these disruptions or security breaches.

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

Our computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, loss of power, telecommunications failures, interconnection failures, physical or software break-ins, viruses and similar events. Although our computer and communications hardware is insured against fires, storms and floods, we do not carry business interruption insurance to protect us in the event of a catastrophe, even though such an event could have a material adverse effect on our business.

Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations.

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates.

In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction and interconnection rules, among others. The license requirements applicable to our fixed line businesses include participation in a federal communications network, adherence to technical standards, investment in network infrastructure, employment of Russian technical personnel and the provision of certain services to the federal government and PSTN subscribers at regulated tariffs, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. In addition to the impact on our operations, the suspension or loss of certain licenses could also cause an event of default under certain of our debt obligations. A suspension or termination of our licenses or other necessary governmental authorizations could therefore have a material adverse effect on our business and results of operations.

Failure to renew our licenses or receive renewed or new licenses with similar terms to our existing licenses could have a material adverse effect on our business and results of operations.

Our telecommunications licenses expire in various years from 2010 to 2021. These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other CIS countries in which we operate have broad discretion in deciding whether to renew a license, and may not renew licenses after their expiration. If licenses are renewed, they may be renewed with additional obligations, including payment obligations. In addition, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with the new licenses requirements. The suspension or loss of certain licenses could significantly limit our operations and cause certain of our debt to be accelerated.

Failure to renew our telecommunications licenses or receive renewed or new licenses with similar terms to existing licenses could significantly limit our operations, which could have a material adverse effect on our business and results of operations.

If frequencies currently assigned to us are reassigned to other users or if we fail to obtain renewals of our frequency allocations, our network capacity will be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

There is a limited number of frequencies available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. If frequencies are not allocated to us in the future in the quantities, with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas, our business, financial condition, results of operations and prospects may be materially adversely affected.

A loss of allocated spectrum, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner or at all. If our frequencies are revoked or we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

We have in the past been unable to obtain certain requested frequency allocations. For example, our application in Ukraine for additional frequencies for the CDMA-450 spectrum was denied in March 2010. If we are not allocated the requested frequencies, our ability to expand CDMA-450 services in Ukraine may be hindered.

An increase in the fees for frequency spectrum usage could have a negative effect on our financial results.

The terms of our licenses in Russia and the CIS require that we make payments for frequency spectrum usage. Any significant increase in the fees payable for the frequency channels that we use or additional frequency channels that we need in Russia or the CIS could have a negative effect on our financial results. For example, in April 2010, the Cabinet of Ministers of Ukraine significantly increased the amount of payment for frequency spectrum usage for cellular communications.

If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, leading to loss of market share and revenues.

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers. We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues, and even if they do, such operating revenues may not offset the operating expenses we incur in building our brands. Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues. Our failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

We engage in transactions with related parties, which may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces.

We have purchased interests in various mobile telecommunications companies from Sistema and entered into arrangements with subsidiaries and affiliates of Sistema for the provision of advertising services (Open Joint Stock Company Advertising Agency Maxima, or Maxima, and Closed Joint Stock Company Mediaplanning, or Mediaplanning), IT services and hardware purchases (LLC Kvazar-Micro.RU, or Kvazar), banking services (Moscow Bank of Reconstruction and Development, or MBRD) and the purchase of a new billing system (Open Joint Stock Company Sitronics), among others. Related party transactions with Sistema and other companies within the Sistema group may present conflicts of interest, potentially resulting in the conclusion of transactions on terms less favorable than could be obtained in arm's-length transactions. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions."

In the event that our minority shareholders or the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions that may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and parties involved. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations and, as a result, it is possible that our and our subsidiaries' interpretation and application of these provisions could be subject to challenge. Any such challenges, if successful, could result in the invalidation of transactions, which

could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase of shares by the company and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring minority shareholder or supermajority approval. In the event that these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

Our competitive position and future prospects depend on our senior managers and other key personnel.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel. Moreover, competition in Russia and in the other countries where we operate for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. As a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the labor markets in these countries. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. In addition, it is not common practice in Russia and the other countries where we operate to purchase key-man life insurance policies, and we do not carry such policies for our senior management and other key personnel. The loss or decline in services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

In the event that deficiencies or ambiguities in privatization legislation are exploited to challenge our ownership in our privatized subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interests in our subsidiaries or their assets, which could materially adversely affect our business, financial condition and results of operations.

Through our acquisition of a controlling stake in Comstar, we gained a controlling stake in its subsidiary, MGTS, the incumbent PSTN operator in Moscow, and our business strategy may involve the acquisition of additional privatized companies. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are vulnerable to challenge, including selective challenges. For instance, a series of presidential decrees issued in 1991 and 1992 that granted to the Moscow City government the right to adopt its own privatization procedures were subsequently held to be invalid by the Constitutional Court of the Russian Federation, which ruled, in part, that the presidential decrees addressed issues that were the subject of federal law. While this court ruling, in theory, did not require any implementing actions, the presidential decrees were not officially annulled by another presidential decree until 2000.

Sistema won a privatization tender for MGTS in April 1995 and was issued 25% of MGTS' share capital. As part of its tender obligations, Sistema committed to invest approximately \$106 million in MGTS over a three-year period in exchange for the right to purchase an additional issue of MGTS' ordinary shares. In 1998, upon satisfying its tender obligations, Sistema exercised this right and increased its stake to 50% of MGTS' share capital. At the time Sistema took possession of this interest, there were press reports that certain minority shareholders of MGTS had filed complaints with the prosecutor's office and the Federal Commission on the Securities Market (currently the FSFM) objecting to the share issuance. In addition, certain members of the Russian parliament requested the

Audit Chamber of the Russian Federation and other governmental agencies to investigate whether there was compliance with the relevant rules and regulations governing MGTS' privatization. Although no formal action or claim against MGTS or its shareholders was ever made by any governmental entity, in the event that any of our privatized companies are subject to challenge in the future as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition and results of operations.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge. While Russian law provides for a three year statute of limitations for challenging private merger and acquisition transactions, there is no statute of limitations for challenging privatizations.

The entry of Mobile Virtual Network Operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a loss of our market share and decreased revenue.

On December 29, 2008, the Ministry of Communications and Mass Media adopted an order establishing the requirements for Mobile Virtual Network Operators, or MVNOs. MVNOs are companies that provide mobile communications services but do not own the radio frequencies and, often, network infrastructure required to do so. According to the order, MVNOs in Russia must be licensed, and their use of frequencies and infrastructure and rendering of services will be done pursuant to agreements entered into between MVNOs and existing frequency holders. There is no requirement that existing frequency holders transact with the MVNOs, and agreements between them will be entered into at their option.

The aim of the Ministry in establishing the legal framework for MVNOs to operate is to increase competition in the Russian mobile services market, which is currently dominated by us, Vimpelcom and MegaFon. While existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure, we expect these revenues to be lower than the revenues we would receive if providing services directly to subscribers. In addition, in the event we lose subscribers to MVNOs that lease their frequencies and infrastructure from an operator other than us, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

To date, nine MVNO licenses have been issued in Russia, although none of the MVNO license holders have commenced operations. We are currently in discussions with a leading Russian retail chain regarding the potential launch of an MVNO. In addition, MegaFon recently launched a new tariff plan under a separate brand name as a pseudo-MVNO.

While the impact of MVNOs' entry into the Russian mobile communications market is not yet clear, the emergence of any of the foregoing trends could have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by the Federal Antimonopoly Service that we have acted in contravention of antimonopoly legislation could have a material adverse affect on our business, financial condition and results of operation.

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to FAS or its predecessor agencies. In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior approval or notification. While

we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If FAS were to conclude that our acquisition or formation of a new company was done in contravention of applicable legislation, it could impose administrative sanctions and require the divestiture of such company or other assets, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, in March 2010, FAS commenced proceedings against us, Vimpelcom and MegaFon alleging violations of antimonopoly laws on competition relating to our pricing for roaming services. Although we believe that we have not violated the law, we could be liable for fines of up to 15% of the revenues we derived from roaming services in 2009 if a violation is found. See also “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation.”

If we are found to have a dominant position in the markets where we operate, the government may regulate our subscriber tariffs and restrict our operations.

Under Russian legislation, FAS may categorize a company controlling between 35%-50% or over 50% of a market or otherwise able to control market conditions as a dominant force in such market. Companies controlling over 35% or otherwise occupying a dominant position on the market are listed by FAS in a special register and may become subject to monitoring and reporting requirements with respect to such markets. Current Russian legislation does not clearly define “market” in terms of the types of services or the geographic area. One of our subsidiaries, MGTS, is categorized by the Federal Tariff Service as a natural monopoly in the Moscow telecommunications market. As a result, MGTS’ tariffs are subject to regulation by Federal Tariff Service. See “—Comstar and MGTS are subject to extensive regulation of their tariffs, and these tariffs may not fully compensate us for the cost of providing required services.”

We were also categorized by FAS as a company with a market share exceeding 35% in the mobile communications market in Moscow and the Moscow region, Ivanovo region, Arkhangelsk region, Magadan region, Omsk region and Nenets Autonomous District. In the event that we are found in the future to have a dominant position on these or any additional markets, the Federal Tariff Service would have the right to impose certain restrictions provided for under the antimonopoly laws, including a mandated reduction in our tariffs, and FAS would have the right to impose certain restrictions on our operations in such markets. See “Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in the Russian Federation—Competition, Interconnection and Pricing” for additional information.

Additionally, MTS-Ukraine, which according to AC&M-Consulting had a 31.8% market share of the Ukrainian wireless communications market as of December 31, 2009, can be categorized as a company with a dominant position in the market and therefore could become subject to certain government imposed restrictions. While MTS-Ukraine has not, as at the date of this document, been categorized as a company with a dominant position in the market, it reduced certain of its tariffs at the recommendation of the AMC in April 2004. See “Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in Ukraine—Competition” for additional information.

If we or any of our subsidiaries were to be classified by FAS (or the AMC with respect to our operations in Ukraine) as a dominant market force or as having a dominant position in the market, FAS and the Federal Tariff Service (or the AMC, as the case may be) would have the power to impose certain restrictions on our or their businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous and/or set interconnect rates between operators that may adversely affect our revenues. Moreover, our refusal to adjust our tariffs according to such government-determined rates could result in the imposition of fines. Additionally, geographic

restrictions on our expansion could reduce our subscriber base and prevent us from fully implementing our business strategy.

Comstar and MGTS are subject to extensive regulation of their tariffs, and these tariffs may not fully compensate us for the cost of providing required services.

As the PSTN operator in Moscow, MGTS is considered to be a company holding a dominant position as well as a natural monopoly in the Moscow telecommunications market under Russian antimonopoly regulations. Consequently, the Federal Tariff Service regulates MGTS' tariffs for most services provided to its PSTN subscribers, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan). In addition, the interconnect tariffs established by Comstar and MGTS are also subject to regulation by the Federal Tariff Service. While we believe the tariffs currently set by the Federal Tariff Service are sufficient to compensate us for the costs of providing these services, future tariffs may not be set at a level that fully compensates us for the provision of these services or increased in parallel with corresponding increases in our costs and/or inflation.

Although we are permitted to petition the Federal Tariff Service for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, it is possible that future requested increases may not be granted or that the Federal Tariff Service may not adequately take such factors into account in setting tariffs. If the tariffs applicable to Comstar and MGTS do not compensate us for the cost of providing services, our business and results of operations could be materially adversely affected.

If we or any of our mobile operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

In addition to the regulation of dominant operators by FAS, the Federal Law on Communications provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.*, operators which, together with their affiliates, have 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic in a geographically defined zone within in the Russian Federation. These regulations provide for governmental regulation of the key terms of such operators' interconnect agreements, including the interconnect tariffs. In addition, such operators are required to develop standard interconnect agreements and publish them as a public offer made to all operators who intend to interconnect to the networks of those operators. For additional information, see "Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in the Russian Federation."

At present, the foregoing regulations apply only to fixed line operators in Russia, including Comstar and MGTS. However, draft legislation was introduced in 2008 that would extend the law to apply to mobile operators. If the new legislation is adopted and we and any of our mobile operator subsidiaries operating in Russia are identified as operators occupying a "substantial position," regulators may reduce our interconnection tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

The enactment of regulations allowing mobile network subscribers to select their long distance providers could have a material adverse effect on our financial condition and results of operations.

We currently provide long distance services to our subscribers pursuant to our license for mobile services and route the long distance traffic through long distance transit operators. We receive revenue from our subscribers for these calls, and remit an interconnection fee to the long distance transit operators. In providing long distance services, we select the transit operators based on cost and quality

considerations. Subscribers making domestic or international long distance, or DLD/ILD, calls on their mobile phones do not have the option of selecting their long distance provider.

In contrast, fixed line telephone users in Russia have the legal right to select their long distance operator, either by pre-selecting the operator for all of their future calls, or through a “hot choice” option, the latter of which allows callers to select their preferred long distance provider before each long distance call.

The Ministry of Communications and Mass Media is currently considering whether to extend the right to select long distance providers to mobile network subscribers. In the event that this occurs, we will need to make substantial investments in our network infrastructure to support the “hot choice” feature. In addition, allowing our subscribers to select their long distance providers may result in their selection of higher cost providers, causing higher interconnect fees to be payable by us and, consequently, lower revenues. As a result, extending the right to select long distance providers to mobile subscribers could have a material adverse effect on our financial condition and results of operations.

Much of our fixed line infrastructure is outdated, and we may be required to make significant investments beyond those that are currently planned to modernize it.

A significant portion of MGTS’ infrastructure has not been modernized. For example, only approximately 63.4% of its active lines were digitalized as of December 31, 2009. As a result, those subscribers who connect to our fixed line network using analog lines will not be able to receive value-added services, such as voicemail and call forwarding. In addition, we will not be able to reduce substantially our number of employees and associated costs until the digitalization of our network is complete. Furthermore, MGTS’ network switching equipment may become obsolete or unusable, in which case we may be required to make significant investments to modernize MGTS’ infrastructure in order to ensure that it fulfills its regulatory obligation to provide telephony services as a PSTN operator. The overburdening of MGTS’ infrastructure may inconvenience subscribers by causing incoming and outgoing calls to have lower completion rates.

MGTS invested approximately 116 million rubles in 2009 (\$3.8 million as of December 31, 2009) and plans to invest approximately 2.2 billion rubles in 2010 (\$72.7 million as of December 31, 2009) to upgrade its infrastructure. If MGTS is not able to upgrade its network in a timely manner or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, trademarks, trade secrets and similar intellectual property, including our rights to certain domain names, as important to our continued success. We rely upon trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. Nonetheless, intellectual property rights are especially difficult to protect in the markets where we operate. In these markets, the regulatory agencies charged to protect intellectual property rights are inadequately funded, legislation is underdeveloped, piracy is commonplace and enforcement of court decisions is difficult. For example, in Russia, legislation in the area of copyrights, trade marks and other types of intellectual property was significantly changed in 2008, and Russian courts have limited experience in applying and interpreting the new laws.

In addition, litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of resources, and, if decided unfavorably to us, could have a material adverse effect on our business and results of operations. We also may incur

substantial acquisition or settlement costs where doing so would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties.

We are in the process of transferring to a new billing system, which could have a material adverse effect on our business and results of operations in the short term.

We have substantially completed implementation of a new billing system in Russia and Belarus. The transition to the new billing system in the other countries where we operate will take longer to complete. Although we have already begun to experience increases in our overall efficiency and reductions in our expenses as a result of the new billing system, we are still required to run both the old and new billing systems simultaneously during the transition period, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period. These factors may increase our operational risks and expenses and inconvenience for subscribers in the short term. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

If leaks of confidential information, including information relating to our subscribers, occur it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.

Although we make efforts to protect confidential information, breaches of security and leaks of confidential information, including information relating to our subscribers may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.

For example, in January 2003, we discovered that part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. The database contained information such as the names, addresses, home phone numbers, passport details and other personal information of approximately five million of our subscribers. In addition, in May 2003, certain subscriber databases of several operators in the North-West region, including those of us, MegaFon, Delta Telecom and two other operators, were stolen. In each case, the stolen databases were thereafter available for sale in Russia.

In December 2003, we completed our internal investigation relating to the theft of our subscriber databases and found that these incidents were due to weaknesses in our internal security in relation to physical access to such information. We have taken measures that we believe will prevent such incidents from occurring in the future, but such incidents may nonetheless recur.

In January 2003, lawsuits were filed by two of our subscribers seeking compensation for damages resulting from the leak of the subscribers' confidential information. While the subscribers subsequently withdrew their claims, if similar lawsuits are successful in the future, we might have to pay significant damages, including consequential damages, which could have a material adverse effect on our results of operations.

Alleged medical risks of cellular technology may subject us to negative publicity or litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to these emissions. The actual or perceived health risks of transmitter masts and mobile handsets could materially adversely affect us by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty in obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry.

Risks Relating to Our Financial Condition

We may be adversely affected by the current economic environment.

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), decreased prices for major export commodities (including oil and metals) and other macro-economic challenges currently affecting many of the economies in which we operate, our subscribers' disposable incomes and our vendors' cash flows may be adversely impacted. Consequently, subscribers may modify or decrease their usage of our services or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing or reduce their output.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. For example, in 2008, we extended a short-term loan to Closed Joint Stock Company "Beta Link", or Beta Link, mobile handset retailer and MTS dealer, for \$28.2 million. Beta Link subsequently filed for bankruptcy in March 2009, and we believe it is unlikely that we will be able to recover the loan amount or accounts receivable due from Beta Link. See also "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation" and Note 5 to our audited consolidated financial statements.

A decline in subscriber usage, an increase in bad debts, material changes in equipment pricing or financing terms or the potential bankruptcy of our corporate subscribers or partners may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as a difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. Future write downs relating to the value of the goodwill or portion of such value could have a material adverse effect on our financial condition and results of operations.

Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.

Since the summer of 2007, turmoil in the international credit markets, the recession in the United States and several major European economies and the collapse or near collapse of several large banks and financial services companies in the United States and United Kingdom have resulted in increased volatility in the securities markets in the United States and across Europe, including Russia. In addition, many financial market indices in Russia and other emerging markets, as well as developed markets, have declined significantly since the summer of 2008, and continue to be depressed. Continued volatility in the United States, European and/or Russian securities markets stemming from these or other factors may continue to adversely affect the value of our shares and ADSs.

The downturn in the global financial markets has also caused some companies to experience difficulties accessing their cash equivalents, trading investment securities, drawing on revolvers, issuing debt and raising capital generally. A continuation of this downturn may negatively impact our ability to obtain financing on commercially reasonable terms and the level and volatility of the trading price of our shares and ADSs, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Servicing and refinancing our indebtedness will require a significant amount of cash. Our ability to generate cash or obtain financing depends on many factors beyond our control.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2009, our consolidated total debt, including capital lease obligations, was \$8,329.5 million. Our interest expense for the year ended December 31, 2009 was \$571.7 million, net of amounts capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. Furthermore, as of December 31, 2009, approximately 35% of the debt we have incurred is at floating rates of interest linked to indices, such as LIBOR and EURIBOR, and we have hedged the interest rate risk only with respect to approximately 65% of our floating interest rate debt. As a result, our interest payment costs can increase if such indices rise.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons; for example, the terms of some of our loan agreements may require us to prepay the loan in certain circumstances, such as a deterioration in our credit rating, we are delisted or our retained earnings drop below a certain level. This, in turn, may force us to sell assets, reduce or delay capital expenditures or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

Ruble depreciation could increase our costs, decrease our cash reserves, or make it more difficult for us to comply with financial ratios and to repay our debts and will affect the value of dividends received by holders of ADSs.

Over the past two decades, the ruble has fluctuated, at times substantially over short periods of time, against the U.S. dollar. In particular, it significantly depreciated against the U.S. dollar in 2008 and 2009 as a result of the ongoing global financial downturn. For example, on December 31, 2008, the official exchange rate published by the Central Bank of Russia, or CBR, was 29.38 rubles per one U.S. dollar, as compared to 24.55 rubles per one U.S. dollar on December 31, 2007. The ruble continued to depreciate against the U.S. dollar in early 2009, reaching 36.43 rubles per one U.S. dollar on February 19, 2009. As of December 31, 2009, the exchange rate was 30.24 rubles per one U.S. dollar and as of May 1, 2010, the exchange rate was 29.15 rubles per one U.S. dollar. The ruble has also depreciated against the euro. On December 31, 2009, the official exchange rate was 43.38 rubles per one euro, as compared to 41.44 rubles and 35.93 rubles per one euro on December 31, 2008 and 2007, respectively.

The CBR from time to time has imposed various currency-trading restrictions in attempts to support the ruble. The ability of the government and the CBR to maintain a stable ruble will depend on many political and economic factors. These include their ability to finance the budget without

recourse to monetary emissions, to control inflation and to maintain sufficient foreign currency reserves to support the ruble.

A majority of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with the financial ratios contained in our various loan agreements or fund cash payments on our indebtedness on time. A decline in the value of the ruble against the U.S. dollar will also result in a translation loss when we translate the ruble revenues into U.S. dollars for inclusion in our audited consolidated financial statements. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses.

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of the ADSs. See also “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

Changes in the exchange rate of local currencies in the countries where we operate against the U.S. dollar and/or euro could adversely impact our revenues reported in U.S. dollars and costs in terms of local currencies.

A significant portion of our expenditures and liabilities, including capital expenditures and borrowings (including our U.S. dollar denominated notes), are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially all of our revenues are denominated in local currencies of the countries where we operate. As a result, the devaluation of local currencies against the U.S. dollar and/or euro can adversely affect our revenues reported in U.S. dollars and increase our costs in terms of local currencies. If local currencies decline against the U.S. dollar and/or euro and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. In addition, local regulatory restrictions on the sale of hard currency in Turkmenistan and Uzbekistan may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in those countries. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

The Ukrainian hryvnia experienced significant volatility over the last quarter of 2008 and in 2009, with the official exchange rate falling from 4.86 hryvnias per one U.S. dollar as of October 1, 2008 to 7.70 hryvnias and 7.97 hryvnias per one U.S. dollar as of December 31, 2008 and 2009, respectively.

The exchange rate volatility and continued devaluation of the Turkmenistan manat may also adversely affect our revenues from this market. From 1998 to 2007, the official Turkmenistan manat to U.S. dollar exchange rate was fixed at 5,200 manat per one U.S. dollar. In January 2008, a Presidential Decree was issued establishing a new official exchange rate at 6,250 manat per one U.S. dollar and a commercial exchange rate at which companies and banks can buy and sell currency of up to 20,000 manat per one U.S. dollar. In May 2008, an additional Presidential Decree changed the official exchange rate to 14,250 manat per one U.S. dollar. As a result of the changes in the manat-to-U.S. dollar exchange rate, the revenues of MTS-Turkmenistan declined significantly in the year ended

December 31, 2008, as we experienced a significant currency exchange loss when translating the manat revenue of MTS-Turkmenistan to U.S. dollars, our reporting currency.

On December 31, 2008, the Central Bank of Turkmenistan announced the redenomination of the manat and the introduction of new banknotes and coins of national currency as of January 1, 2009. Under the new currency, 1 new manat equals 5,000 old manat. The Central Bank of Turkmenistan established the exchange rate at 2.85 new manat per one U.S. dollar. As conversion of local currency in Turkmenistan is subject to government regulations, it is difficult to predict the extent of further exchange rate fluctuations. See also “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

A disposition by our controlling shareholder of its stake in our company could materially harm our business.

Under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Sistema disposes of its stake in our company or a third party takes a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment which leads to an event of default, could trigger cross default/cross acceleration provisions under certain of our other debt agreements. In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders’ equity. If Sistema were to dispose of its stake in us, our company may be deprived of the benefits and resources that it derives from Sistema, which could harm our business.

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We will need to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of software for our mobile and fixed line networks. We spent \$1,899.0 million in 2007, \$2,612.8 million in 2008 and \$2,328.3 million in 2009, for the fulfillment of our capital spending plans. In addition, the acquisition of 3G licenses and frequency allocations and the buildout of our 3G and broadband Internet networks will require additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- construction of the wireless networks at a faster rate or higher capital cost than anticipated;
- pursuit of new business opportunities or investing in existing businesses that require significant investment;
- acquisitions or development of any additional wireless licenses;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;
- changes in existing interconnect arrangements; or
- a deterioration in the economies of the countries where we operate.

Our indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and

place us at a possible competitive disadvantage relative to our competitors. Also, currently we are not able to raise equity financing through newly issued depositary receipts such as ADSs, due to Russian securities regulations providing that no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005 and at the time of our initial public offering, this threshold was 40% and our current ADSs program is near its full capacity. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and adversely affect our results of operations.

The Russian and Ukrainian economies have been characterized by high rates of inflation. According to the Federal Statistics Service, inflation reached 8.8% in Russia in 2009. Inflation reached 15.9% in Ukraine in 2009, according to the State Statistics Committee of Ukraine. As we tend to experience inflation-driven increases in certain of our costs, which are sensitive to rises in the general price level in Russia and Ukraine, our costs will rise. In addition, media inflation in Russia continues to be very high and shows little sign of slowing, which may lead to higher marketing expenditures by us in order to remain competitive. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine could increase our costs and decrease our operating margins. See also "Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Inflation."

Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International could have a material adverse effect on our financial condition and results of operations.

In September 2008, we 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 a three-year period. Pursuant to the agreement, we are also to incur certain iPhone promotional costs. In both 2009 and 2008, we did not fulfill our total purchase installment contemplated by the agreement. As a result, it is possible that Apple may bring a claim against us, which could have a material adverse effect on our financial condition and results of operations. 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.

Indentures relating to our notes contain, and some of our loan agreements and Sistema's loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.

Covenants in the loan agreement relating to our notes due 2020 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, our outstanding notes contain covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. Some of our loan agreements contain similar and other covenants, including in relation to the incurrence of indebtedness, creation of liens and disposal of assets. Failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which controls 52.7% of our total charter capital (54.8% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in its credit facilities. These covenants impose restrictions on Sistema and its restricted subsidiaries (including

us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In the indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy.

If a change in control occurs, our noteholders and other debt holders may require us to redeem notes or other debt, which could have a material adverse effect on our financial condition and results of operations.

Under the terms of our outstanding notes, if a change in control occurs, our noteholders will have the right to require us to redeem notes not previously called for redemption. The price we will be required to pay upon such event will be 101% of the principal amount of the notes, plus accrued interest to the redemption date. A change in control will be deemed to have occurred in any of the following circumstances:

- With respect to our outstanding notes due 2010 and 2012, any person acquires beneficial ownership of 50% or more of the total voting power of all shares of our common stock; provided that the following transactions would not be deemed to result in a change in control:
 - any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded; and
 - any acquisition by us, our subsidiary or our employee benefit plan.
- With respect to the notes due 2020, any person acquires beneficial or legal ownership of, or control over, more than 50% of our issued shares, ownership of or control over more than 50% of the voting interests in our share capital or obtains the power to elect not less than half of our directors, provided that the following transactions would not be deemed to result in a change of control:
 - any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded;
 - any acquisition by us, our subsidiary or our employee benefit plan; and
 - a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.
- With respect to our outstanding notes due 2010 and 2012, if we merge or consolidate with or into, or convey, sell, lease or otherwise dispose of all or substantially all of our assets to, another entity or another entity merges into us and, immediately following such transaction, Sistema does not beneficially own at least 50% of the total voting power of all shares of common stock of such entity.
- With respect to our outstanding notes due 2010 and 2012, we no longer beneficially own more than 50% of the issuer's share capital.

Some of our loan agreements contain similar change of control provisions. If a change in control occurs, and our noteholders and other debt holders exercise their right to require us to redeem all of their notes or debt, such event could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Countries of Operation

Economic Risks

Economic instability in the countries where we operate could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the economies of Russia and other CIS countries where we operate have experienced periods of considerable instability and have been subject to abrupt downturns. Most notably, following the Russian government's default on its ruble denominated securities in August 1998, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in the immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a substantial decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the subsequent near collapse of the Russian banking sector, with the termination of banking licenses of a number of major Russian banks. This crisis had a severe impact on the economies of Russia and the other CIS countries.

While the economies of Russia and the other CIS countries where we operate have experienced positive trends in recent years, such as increases in gross domestic product, relatively stable national currencies, strong domestic demand, rising real wages, increased disposable income, increased consumer spending and a relatively reduced rate of inflation, these positive trends have been supported, in part, by increases in global commodity prices, and may not continue or may abruptly reverse. The current financial downturn, as well as any future economic downturns or slowturns in Russia or the other CIS countries where we operate could lead to decreased demand for our services, decreased revenues and negatively affect our liquidity and ability to obtain debt financing, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated as compared to other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

In recent years, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked

the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Recently a number of banks and credit institutions have lost their licenses due to deficiency of capital and failure to meet the CBR requirements. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

The recent disruptions in the global markets have generally led to reduced liquidity and increased cost of funding in Russia. Borrowers have generally experienced a reduction in available financing both in the inter-bank and short-term funding market, as well as in the longer term capital markets and bank finance instruments. The non-availability of funding to the banking sector in the Russian Federation has also negatively affected the anticipated growth rate of the Russian Federation. In December 2008, Standard & Poor's lowered Russia's long-term sovereign credit rating to BBB and maintained its negative outlook, citing the "rapid depletion" of Russia's financial reserves. In addition to anticipated slower asset growth on the Russian banking market, the Russian Federation is facing significant inflation, a significant decline in stock prices and a substantial outflow of capital from the country. The Russian government and the CBR provide financial support only to a limited number of banks, which may result in the liquidation of other banks and financial institutions. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

There is currently a limited number of sufficiently creditworthy Russian banks and few ruble-denominated financial instruments in which we can invest our excess ruble cash. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The physical infrastructure in Russia and Ukraine is in poor condition, which could disrupt our normal business activities.

The physical infrastructure in Russia, Ukraine and the other countries where we operate largely dates back to Soviet times and has not been adequately funded and maintained over the past two decades. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, a major accident occurred at Russia's largest power plant, the Sayano-Shushenskaya hydroelectric power station, resulting in flooding of the engine and turbine rooms, a transformer explosion and the death of 75 people. Power generation from the station ceased completely following the incident, which led to a major power outage in the nearby residential areas and at certain industrial facilities as well as pollution of the rivers and soil as a result of an oil spill from the transformer.

In addition, the road conditions throughout our countries of operation are poor with many roads not meeting minimum quality standards, causing disruptions and delays in the transportation of goods to and within these countries. The Russian and Ukrainian governments are actively considering plans to reorganize their national rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of the physical infrastructure in Russia, Ukraine and other countries where we operate harms the national economies, adds costs to doing business in these countries and generally disrupts normal business activities. These difficulties can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia

and Ukraine, as well as the other countries where we operate, could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, Ukraine and elsewhere in the CIS, and businesses in these countries could face severe liquidity constraints, further adversely affecting their economies. Additionally, because Russia and Turkmenistan produce and export large amounts of oil and gas, the Russian and Turkmen economies are especially vulnerable to the price of oil and gas on the world market and a decline in the price of oil and gas could slow or disrupt the Russian and Turkmen economies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia and Ukraine are also major producers and exporters of metal products and their economies are vulnerable to world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

The disruptions recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, including us, may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs. To the extent that the current market downturn continues or worsens, it may lead to constraints on our liquidity and ability to obtain debt financing.

Political and Social Risks

Political and governmental instability in Russia and the CIS could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Since 1991, Russia has sought to transform from a one-party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. Ukraine and the other CIS countries where we operate are similarly vulnerable.

Current and future changes in the Russian and other CIS governments, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

Potential conflict between central and regional authorities could create an uncertain operating environment hindering our long-term planning ability.

The Russian Federation is a federation of 83 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal

government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighboring regions. For example, violence and attacks relating to the Chechen conflict have spread to other parts of Russia and several terrorist attacks have been carried out in other parts of Russia, including Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business and the value of our shares and ADSs.

In Ukraine, tensions between certain regional authorities and the central government were ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the conference of the representatives of the regional authorities in eastern Ukraine decided to conduct a referendum on creating an autonomous region, separate from Ukraine. Though the regional authorities ultimately backed down from this intention, and tensions in Ukraine subsided, the reemergence of these tensions in Ukraine in the future may cause our long-term planning ability and operations in Ukraine to suffer.

A deterioration in relations between Russia and other former Soviet republics and/or the United States and the European Union could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, a significant armed conflict erupted between Russia and Georgia over the separatist regions of South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years. The possible accession by Ukraine and Georgia to the North Atlantic Treaty Organization is also a significant source of tension between Russia and these countries. Although we currently do not have operations in Georgia, our operations in Ukraine are significant. If disputes with Ukraine were to disrupt or reduce the flow of Russia's trade with Ukraine, the Ukrainian economy could be materially adversely affected. Declines in the Ukrainian economy could have a material adverse effect on our operations in Ukraine and, consequently, on our financial condition, results of operations and prospects.

The conflicts between Russia and these and other former Soviet republics have, in some instances, also strained Russia's relationship with the United States and the European Union which, at times, has negatively impacted Russia's financial markets.

The emergence of new or escalated tensions between Russia and other former Soviet republics could further exacerbate tensions between Russia and the United States and the European Union, which may have a negative effect on the Russian economy, our ability to obtain financing on commercially reasonable terms, and the level and volatility of the trading price of our shares and

ADSs. Any of the foregoing circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations.

Changes to the Constitution of Ukraine that came into effect on January 1, 2006 shifted important powers from the President to the Parliament, including the right to appoint the Prime Minister and to form the Government. Although these new changes were intended to prevent an impasse between the President and the Parliament, they effectively caused a protracted political struggle.

On February 7, 2010, Viktor Yanukovich, a leader of the Party of Regions, won 48.95% of the popular vote in a tightly contested presidential election campaign over Ukraine's then Prime Minister, Yulia Tymoshenko, a leader of the Yulia Tymoshenko Bloc, who won 45.47% of the popular vote. Although Ms. Tymoshenko initially contested the results of the election, she subsequently conceded and Mr. Yanukovich was inaugurated as the President of Ukraine on February 25, 2010. The close results of the Presidential election and the significantly different political platforms on which the candidates based their campaigns are indicative of a significant split in popular opinion amongst the general public over the best path forward for Ukraine.

On March 3, 2010, Ms. Tymoshenko was removed from the position of Prime Minister after the Parliament concluded a vote of no confidence. In March 2010, the law governing the formation of parliamentary coalitions, or the Parliament Law, was amended to enable President Yanukovich to form a new parliamentary coalition and appoint Mr. Mykola Azarov as the Prime Minister on March 11, 2010. The amended Parliament Law was challenged by members of Parliament in the Constitutional Court of Ukraine by two groups of Parliament members, with one group requesting an official interpretation of certain provisions of the law, and the other challenging the constitutionality of certain provisions of the law. In April 2010, the Constitutional Court issued a ruling in connection with the application requesting an official interpretation, but it did not expressly opine on the constitutionality of such provisions. Accordingly, any future ruling by the Court that relevant provisions of the Parliament Law are unconstitutional may result in further political instability in Ukraine.

As at the date of this document, relations between the Ukrainian President, Government and Parliament, as well as the procedures and rules governing the political process in Ukraine, including formation and dissolution of a parliamentary coalition and of factions, remain in a state of uncertainty and may be subject to change. A number of additional factors could adversely affect political stability in Ukraine, including:

- failure to obtain or maintain the number of parliamentary votes required to support a stable Government;
- lack of agreement within the factions and amongst the deputies that form a parliamentary coalition;
- court action taken by opposition parliamentarians against decrees and other actions of the President, the Government or parliamentary coalition;
- political polarization in Ukrainian society resulting from what is seen as insufficiently balanced or controversial position of the President and the Government on various domestic and foreign policy issues; and
- growing opposition of certain factions in the Parliament and certain political parties and associations which are not represented in the Parliament to what is broadly seen as significant concessions made by the President and the Government to the Russian Federation in certain political and economic areas.

If political instability continues or heightens, it may have negative effects on the Ukrainian economy and, as a result, have a material adverse effect on our business, results of operations and financial condition.

Crime and corruption could disrupt our ability to conduct our business.

The political and economic changes in the countries where we operate in recent years have resulted in significant dislocations of authority. The local and international press have reported the existence of significant organized criminal activity, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the media in the countries we operate in regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity, disrupt our ability to conduct our business and could thus materially adversely affect our business, financial condition, results of operations and prospects.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

Increased unemployment rates, the failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement in the economies of the countries where we have operations; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation in the countries where we operate create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and ADSs.

Each of the countries we operate in is still developing the legal framework required to support a market economy. The following risk factors relating to these legal systems create uncertainty with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the constitution, federal and regional laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

The recent nature of much of the legislation in the CIS countries, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of these legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, legislation in these countries often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. Moreover, it is possible that regulators, judicial authorities or third parties may challenge our internal procedures and bylaws, as well as our compliance with applicable laws, decrees and regulations.

Russian and Ukrainian companies can be forced into liquidation on the basis of formal non-compliance with certain legal requirements.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation.

For example, in Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or liquidate. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations as well as demand compensation of any damages.

The existence of negative assets may not accurately reflect the actual ability to pay debts as they come due. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

The amount of net assets of some of our subsidiaries is below the minimum legal requirements. Although we are currently taking steps to remedy this and these subsidiaries continue to meet all of their obligations to creditors, there is a minimal risk of their liquidation.

There have also been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group. Ukrainian law also contains provisions similar to Russian law, whereby a company's failure to comply with certain legal requirements concerning its formation, net assets or operation may be grounds for its liquidation.

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.

The judicial systems in the countries where we operate are not always independent or immune from economic, political and nationalistic influences, and are often understaffed and underfunded. Judges and courts are generally inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems in these countries can also be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes.

These uncertainties also extend to property rights. For example, during Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against uncompensated expropriation and nationalization. However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our inability to gain operational control over Bitel has prevented us from realizing the expected benefits of our acquisition and resulted in our write off of the costs relating to the purchase of Bitel, and we may face significant liabilities to the seller and Bitel.

In December 2005, our wholly owned subsidiary MTS Finance S.A., or MTS Finance, acquired a 51.0% stake in Tarino Limited, or Tarino, from Nomihold Securities Inc., or 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, or 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 we did not regain operational control over Bitel's operations in 2005, we accounted for our 51.0% investment in Bitel at cost as at December 31, 2005. We appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. We 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 us that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for us to appeal the decision of the Kyrgyz Supreme Court. Consequently, we decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in our audited annual consolidated financial statements for the year ended December 31, 2006.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell 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 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. In the event MTS Finance does not prevail in the arbitration, we 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, we recognized a liability in the amount of \$170.0 million in our audited annual consolidated financial statements with a corresponding charge to other non-operation expenses as of December 31, 2006 and for the year then ended.

In addition, three Isle of Man companies affiliated with us, or 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, we may be liable to Bitel for such claims. The KFG Companies have also asserted counterclaims against Bitel and other defendants including Altimo LLC, or Altimo, and Altimo Holdings and Investments Limited, or Altimo Holding, for the wrongful appropriation and control of Bitel. In November 2007, the Isle of Man court set aside orders it had previously issued granting leave to serve the non-Manx 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 in November 2008, the appellate court ruled in our favor, holding that the case should proceed under its jurisdiction. The defendants against whom the KFG Companies have brought the action sought and were granted leave to appeal to the Judicial Committee of the Privy Council of the United Kingdom. The appeal hearing before the Privy Council is scheduled to commence on November 29, 2010. 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, or 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, or the Transfer Agreement, concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited, or 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 Tribunal has scheduled a directions (or status) hearing for September 10, 2010.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects.

Governmental authorities in the countries where we operate have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government acts, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, in recent years, the Russian tax authorities have aggressively brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, approvals, authorizations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, approvals, authorizations and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. See also "—The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors."

Due primarily to delays in the issuance of permits, approvals and authorizations by regulatory authorities, frequently it is not possible to procure all of the permits for each of our base stations or other aspects of our network before we put the base stations into commercial operation or to amend or maintain all of the permits when we make changes to the location or technical specifications of our base stations. At times, there can be a significant number of base stations or other communications facilities and other aspects of our networks for which we do not have final permits to operate and there can be delays in obtaining the final permits, approvals and authorizations for particular base stations or other communications facilities and other aspects of our networks.

Our failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to operate telecommunications equipment or the findings of government inspections may also result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Moreover, an agreement or transaction entered into in violation of Russian law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or

sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects.

Developing corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud, insider trading and fiduciary duties of directors and officers remain underdeveloped. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for the Financial Markets;
- FAS;
- the CBR; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct capital markets transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

There is little minority shareholder protection in Russia.

Minority shareholder protection under Russian law principally derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. In practice, enforcement of these protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of our shares and ADSs.

While the Federal Law on Joint Stock Companies of December 26, 1995, or the Joint Stock Companies Law, provides that shareholders owning not less than 1% of the company's stock may bring

an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our shares and ADSs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation, the Federal Law “On Joint Stock Companies,” or the Joint Stock Companies Law, and the Federal Law “On Limited Liability Companies” generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an “effective parent.” The entity whose decisions are capable of being so determined is deemed an “effective subsidiary.” The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent’s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could impose additional obligations and costs on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a “major transaction,” which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights.

For example, from 2004 through December 31, 2008, we merged 25 of our wholly owned subsidiaries into MTS. Following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased shares from investors who voted against or abstained from voting on the merger in the amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase), or 10% of our net assets as of March 31, 2008 calculated according to Russian accounting standards.

Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year after the date of repurchase, we have to reduce our charter capital accordingly.

It is not yet clear how the new Strategic Foreign Investment Law will affect us and our foreign shareholders.

On May 7, 2008, the Federal Law "On the Procedure for Foreign Investment in Commercial Organizations of Strategic Importance for the Defense and Security of the State," or the Strategic Foreign Investment Law, came into force in Russia. This law sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance." Among others, companies with a dominant position in the Russian telecommunications market are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions to these companies set out by the Strategic Foreign Investment Law. For purposes of the Strategic Foreign Investment Law, a mobile telecommunications provider is deemed to be dominant if its market share in the Russian market exceeds 25%, as may be determined by FAS. In addition, a company may be considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by an authorized governmental agency. In addition, foreign investors are required to notify this authorized governmental agency about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies. Within 180 days from the effective date of the Strategic Foreign Investment Law, foreign investors having 5% or more of the charter capital of strategically important companies were required to notify the authorized governmental agency about their current shareholding in such companies.

On April 8, 2009, MTS and two of our subsidiaries, Dagtelecom LLC and Sibintertelecom CJSC, were added to the register of companies occupying a dominant position on the market with a market share exceeding 25% for the purpose of the Strategic Foreign Investment Law.

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital. In addition, the Strategic Foreign Investment Law contemplates the adoption of a number of implementing regulations. It is currently unclear how these regulations will affect us and our foreign shareholders.

Reduction of the Calling Party Pays Settlement Rate and other regulatory changes in Russia may have a material adverse effect on our financial condition and results of operations.

An amendment to the Federal Law on Communications, which became effective July 1, 2006, implemented the Calling Party Pays, or the CPP, principle prohibiting mobile operators from charging their subscribers for incoming calls. Prior to the implementation of the CPP, subscribers of fixed line operators could initiate calls to mobile phone users free of charge (*i.e.*, there was no charge in addition to the monthly fee for fixed line service). Under the new system, fixed line operators began charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known

as the “settlement rate.” Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

In addition, potential regulatory changes that may be enacted in the future, such as mobile numbering portability and the introduction of new rules regulating MVNOs could weaken our competitive position in the mobile telecommunications market and, as a result, materially adversely affect our financial condition and results of operations.

Our failure to comply with new personal data protection laws in Russia may have a material adverse effect on our business, financial condition and results of operations.

The Federal Law on Personal Data and certain regulations enacted thereunder require us to bring our information storage, processing and protection practices in compliance with the statutory standards by January 1, 2011. The implementation of these standards involves significant technical, financial and managerial undertakings. For example, we will be required to treat subscribers’ personal data with the level of protections afforded to state secrets, obtain state certification of our installed information protection facilities and ensure that our automated accounting systems do not have any undeclared capabilities. At the same time, the standards contain significant ambiguity, which may impede our ability to comply and creates the potential for Russian authorities to form differing views on compliance.

If the resources required to develop and implement data protection systems meeting the new standards are greater than expected, or we fail to comply with the data protection laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations.

The Ukrainian Law on Telecommunications came into force on December 23, 2003 (certain articles became effective in 2004 and 2005). However, certain regulatory bodies established by the law were unable to duly exercise their regulatory functions for an extended period of time. For example, the NCRC was established in August 2004 by a Decree of the President of Ukraine. On January 1, 2005, it was vested with the powers of the central regulatory body in the sphere of communications by the Ukrainian Law on Telecommunications. The NCRC was considered formed and began to perform its regulatory activity in April 2005, when both the chairperson and its members were appointed as required by the Ukrainian Law on Telecommunications. However, in 2007 and 2008, the authority to appoint the NCRC chairperson and its members became the subject of a dispute between the President of Ukraine and the Cabinet of Ministers of Ukraine and the respective appointments were challenged in Ukrainian courts because of conflicting orders and regulations issued by the President of Ukraine and the Cabinet of Ministers. On October 8, 2008, the Constitutional Court of Ukraine passed a resolution pursuant to which the right of the Cabinet of Ministers to appoint the NCRC members and adopt its regulations was confirmed. Thus, the NCRC chairperson and its members are currently appointed by the Cabinet of Ministers. However, this uncertainty and any future challenges to the NCRC’s authority or composition may have an adverse effect on our business, financial condition and results of operations.

In addition, the Ukrainian Law on Telecommunications may require, among other things, companies with a dominant position in the telecommunications market to develop public telecommunications services if directed to do so by the regulatory authorities. As, according to AC&M-Consulting, the market share of MTS-Ukraine in mobile telecommunications services in Ukraine was 31.8% as of December 31, 2009, implementation of this law may materially adversely

affect our financial condition and results of operations. See “Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in Ukraine—Legislation.”

The Russian taxation system is underdeveloped and any imposition of significant additional tax liabilities could have a material adverse effect on our business, financial condition or results of operations.

The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in our shares and ADSs. See also “Item 10. Additional Information—E. Taxation.”

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. In some instances, although it may be viewed as contrary to Russian constitutional law, the Russian tax authorities have applied certain new tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

On October 12, 2006, the Plenum of the High Arbitration Court of the Russian Federation issued Resolution No. 53 formulating the concept of “unjustified tax benefit,” which is described in the Resolution by reference to circumstances, such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the recharacterization of the transaction. There has been very little further guidance on the interpretation of this concept by the tax authorities or courts, but it is likely that the tax authorities will actively seek to apply this concept when challenging tax positions taken by taxpayers in Russian courts. While the intention of this Resolution might have been to combat abuse of tax laws, in practice, there is no assurance that the tax authorities will not seek to apply this concept in a broader sense.

Generally, tax returns in Russia remain open and subject to tax audit by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, during the eligible three-year period by a superior tax authority. On July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax audit. Moreover, recent amendments to the Tax Code of the Russian Federation, effective January 1, 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” or “created insurmountable obstacles” in respect of a tax audit and to ultimately seek review and possibly apply penalties beyond the three-year terms. On March 17, 2009, the Constitutional Court of the Russian Federation issued a decision preventing the Russian tax authorities from carrying out a subsequent tax audit of a tax period if, following the initial audit of such tax period, a court decision was made concerning a tax dispute between the relevant taxpayer and the relevant tax authority arising out of such tax period, and such decision has not been revised or discharged. Currently it is not clear how this decision will be applied by the Russian tax authorities.

There is no guarantee that the tax authorities will not review our compliance with applicable tax law beyond the three-year limitation period. Any such review could, if it concluded that we had

significant unpaid taxes relating to such periods, have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, the financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In a policy document entitled “Major Trends in Russian Tax Policy for 2009-2011,” the Russian Government proposed to introduce consolidated tax reporting in order to enable Russian taxpayers which are already part of a group for profit tax purposes to consolidate their financial results. We are aware that a draft law on consolidated tax reporting has already been drafted; however, at this stage it is not possible to predict whether, when or in what form the law will be enacted. In addition, intercompany dividends are subject to a withholding tax of 0% or 9% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

The Russian tax authorities may take more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may nonetheless be subject to challenge in the future. The foregoing factors raise the risk of the imposition of arbitrary or onerous taxes on us, which could adversely affect the value of our shares and ADSs.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities, in some cases, are increasingly taking a “substance and form” approach, which may cause additional tax exposures to arise in the future. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden.

In January 2008, the Russian tax authorities initiated an audit of our compliance with tax legislation for the years ended December 31, 2005 and 2006. Based on the results of this audit, we were assessed an additional amount of 1,130.0 million rubles (approximately \$38.5 million as of December 31, 2008), including taxes, fines and penalties. As of December 31, 2008, we paid to the tax authorities the full amount assessed. However, we also filed a petition with the Arbitration Court of the Moscow District seeking to invalidate part of the assessment in the amount of 1,026.1 million rubles (approximately \$34.9 million as of December 31, 2008). In December 2008, the court ruled to partially invalidate the assessment in the amount of 981.5 million rubles (approximately \$33.4 million as of December 31, 2008). This ruling was upheld by higher courts, most recently by the Federal Arbitration Court of the Moscow District. The amount invalidated was used to set off subsequent tax liability.

In 2009, the tax authorities completed a tax audit of our subsidiary, Sibintertelecom, in respect of the years ended December 31, 2006, 2007 and 2008. As a result of the audit, the tax authorities imposed additional tax liability in the amount of 174.5 million rubles (approximately \$5.8 million as of December 31, 2009), including taxes, fines and penalties. Sibintertelecom is currently appealing this assessment with a higher tax authority. See also “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation—Tax Audits and Claims.”

The implications of the tax system in Ukraine are uncertain and various tax laws are subject to different interpretations.

Ukraine currently has a number of laws related to various taxes imposed by both central and regional authorities. Applicable taxes include value added tax, or VAT, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time compared to more developed market economies and are constantly changed and amended. Accordingly, few precedents regarding tax issues are available.

Although the Ukrainian Constitution prohibits retroactive enforcement of any newly enacted tax laws and the Law on Taxation System specifically requires legislation to adopt new tax laws at least six months prior to them becoming effective, such rules have largely been ignored. In addition, tax laws are often vaguely drafted, making it difficult for us to determine what actions are required for compliance. For example, MTS-Ukraine believes that the services rendered to its subscribers within the networks of foreign operators that serve as roaming partners for MTS-Ukraine are not subject to VAT. However, due to the ambiguity of the Ukrainian tax legislation, the state tax authorities may conclude that VAT applies to these services. In such case, MTS-Ukraine will be obligated to pay the VAT sums and penalties.

Uncertain transfer pricing rules and their inconsistent application by the Ukrainian tax authorities and courts may also adversely affect MTS-Ukraine’s operations. MTS-Ukraine’s transactions with its related parties as well as certain transactions with non-Ukrainian entities that are not MTS-Ukraine’s related parties may be affected by the application of the transfer pricing rules. No “safe harbor” margin is provided under Ukrainian legislation if the sale price deviates from the arm’s length price.

Due to the poor quality of the applicable tax legislation and its inconsistent interpretation, it is possible that MTS-Ukraine’s prices could be subject to challenge and adjustment for corporate income tax or VAT purposes. Profit repatriation arrangements, such as the level of royalties for trademarks or loan interest paid by MTS-Ukraine from Ukraine abroad, may also be challenged for the same reasons. If such price adjustments are implemented, MTS-Ukraine’s effective tax rate may increase and its financial results may be adversely affected.

The recent significant increase in the radio frequency resource duty and increases in the Pension Fund duty payable by mobile telecommunications operators may also negatively affect the financial performance of MTS-Ukraine.

Differing opinions regarding the legal interpretation of tax laws often exist both among and within governmental ministries and organizations, including the tax administration, creating uncertainties and areas of conflict for taxpayers and investors. In practice, the Ukrainian tax authorities tend to interpret the tax laws in an arbitrary way that rarely favors taxpayers.

Tax declarations/returns, together with other legal compliance areas (e.g., customs and currency control matters), may be subject to review and investigation by various administrative divisions of the tax authorities, which are authorized by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for a three-year period. However, this term may not be observed or may be

extended under certain circumstances, including in the context of a criminal investigation. While we believe that we are currently materially in compliance with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues, which may result in a material adverse effect on our results of operations and financial condition.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact our business and results of operations.

Russian transfer pricing legislation became effective in the Russian Federation on January 1, 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all “controlled” transactions, provided that the transaction price differs from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (*i.e.*, if the price with respect to such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer pricing provisions are established for operations with securities and derivatives. Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied.

If the Russian tax authorities were to impose significant additional tax liabilities through the introduction of transfer pricing adjustments, it could have a material adverse impact on our business, financial condition and results of operations. Further, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for a correlative adjustment to be made for the counterparty in the transaction that is subject to adjustment. Although such an adjustment can be made for cross-border transactions in accordance with the mutual agreement procedure set forth in most of the double taxation agreements entered into between Russia with other countries, to date this procedure has not been used in practice. In addition to the usual tax burden imposed on Russian taxpayers, these conditions and uncertainties complicate tax planning and related business decisions.

The State Duma of the Russian Federation is currently in the process of adopting new transfer pricing rules and it is anticipated that the same may come into force from January 1, 2011. The implementation of these amendments should help to align domestic rules with OECD principles. The amendments are expected to considerably toughen the existing law by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation. In addition, the amendments:

- introduce the ‘arm’s length’ principle as a fundamental principle of the Russian transfer pricing rules;
- establish a new list of controlled transactions (which would cover cross-border transactions with certain commodities, cross-border transactions with related parties and tax haven residents, and certain intra-Russian transactions with related parties);
- extend the list of related parties;
- extend the list of transfer pricing methods (including the Transactional Net Margin Method and the Profit Split method) with the choice of method depending on the allocation of functions performed, risks assumed and assets employed by the parties to a transaction (instead of a rigid priority of methods under current legislation);
- replace the existing permitted deviation threshold with the ‘arm’s length’ range of market prices (profitability);

- introduce correlative adjustments in relation to domestic transactions; and
- introduce special transfer pricing audits by federal tax authorities and specific transfer pricing penalties (more severe than in case of other, non-transfer pricing related, tax assessments).

The introduction of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities and, therefore, may have a material impact on our business and results of operations. It will also require us to ensure compliance with the new transfer pricing documentation requirements proposed in such rules.

The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors.

We operate in an uncertain regulatory environment. The legal framework with respect to the provision of telecommunications services in Russia and Ukraine and the other countries where we operate or may operate in the future is not well developed, and a number of conflicting laws, decrees and regulations apply to the telecommunications sector.

Moreover, regulation is conducted largely through the issuance of licenses and instructions, and governmental officials have a high degree of discretion. In this environment, political influence or manipulation could be used to affect regulatory, tax and other decisions against us on the basis of other than legal considerations. For example, Russian government authorities investigated Vimpelcom in late 2003 on grounds that it was illegally operating in Moscow pursuant to a license issued to its wholly owned subsidiary rather than to Vimpelcom itself. In addition, some of our competitors may receive preferential treatment from the government, potentially giving them a substantial advantage over us. For example, according to press reports, MegaFon and Kyivstar, our competitors in Russia and Ukraine, respectively, received preferential treatment in regulatory matters in the past.

Risks Relating to the Shares and ADSs and the Trading Market

Government regulations may limit the ability of investors to deposit shares into our ADS facility.

The ability of investors to deposit shares into our ADS facility may be affected by current or future governmental regulations. For example, under Russian securities regulations, no more than 30% of a Russian company's shares and no more than 25% with respect to strategically important companies may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005, and at the time of our initial public offering, this threshold was 40%. Although we believe that the new lower threshold does not apply to our ADSs, in the future, we may be required to reduce the size of our ADS program or amend the depositary agreement for the ADSs.

Because our ADS program is regularly at or near capacity, purchasers of our shares may not be able to deposit these shares into our ADS facility, and ADS holders who withdraw the underlying shares from the facility may not be able to re-deposit their shares in the future. As a result, effective arbitrage between our ADSs and our shares may not always be possible. Our shares are listed and trade on the Moscow Interbank Currency Exchange. Due to the limited public free float of our common stock, the public market for our shares is significantly less active and liquid than for our ADSs. The cumulative effect of these factors is that our shares may from time to time, and for extended periods of time, trade at a significant discount to our ADSs.

Because the depositary may be considered the owner of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognize a distinction between legal owners of securities, such as the depositary, and the beneficial owners of securities, such as the ADS holders. In these jurisdictions, the shares held by the depositary on behalf of the ADS holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying the ADSs and, accordingly, may not recognize ADS holders' beneficial ownership therein.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying the ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary seeking the seizure of various Russian companies' shares represented by ADSs issued by that depositary. In the event that this type of suit were to be successful in the future against our depositary, and the shares underlying our ADSs were to be seized or arrested, the ADS holders involved could lose their rights to such underlying shares and all of the money invested in them.

The market price of our ADSs has been and may continue to be volatile.

The market price of our ADSs experienced, and may continue to experience, significant volatility. The closing price of our ADSs on the New York Stock Exchange ranged from a low of \$21.67 per ADS to a high of \$101.9 per ADS in 2008, and a low of \$18.60 to a high of \$54.54 per ADS in 2009.

Numerous factors, including many over which we have no control, may have a significant impact on the market price of our ADSs, including, among other things:

- periods of regional or global macroeconomic instability;
- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;
- announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;
- announcements of acquisitions or consolidations involving industry competitors or industry suppliers;
- sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and
- impact and development of any lawsuit, currently pending or threatened, or that may be instituted in the future.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs and relevant requirements of Russian law.

ADS holders will have no direct voting rights with respect to the shares represented by the ADSs. They will be able to exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

ADS holders by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depository. The depository has undertaken, in turn, as soon as practicable thereafter, to mail to you the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then instruct the depository how to vote the shares represented by the ADSs they hold. Because of this additional procedural step involving the depository, the process for exercising voting rights may take longer for ADS holders than for holders of the shares and we cannot assure ADS holders that they will receive voting materials in time to enable them to return voting instructions to the depository in a timely manner. ADSs for which the depository does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the depository to split the votes with respect to the shares underlying the ADSs in accordance with instructions from ADS holders, there is little court or regulatory guidance on the application of such regulations, and the depository may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. ADS holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs. We cannot assure you that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the depository, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

ADS holders may be unable to repatriate distributions made on the shares and ADSs.

We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depository in rubles and will be converted into U.S. dollars by the depository and distributed to holders of ADSs, net of the depository's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited by size, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is a limited market for the conversion of rubles into foreign currencies outside of Russia and limited market in which to hedge ruble and ruble-denominated investments.

ADS holders may be unable to benefit from the United States—Russia income tax treaty.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. The domestic tax rate applicable to dividends payable by

Russian companies to non-resident individuals has been reduced from 30% to 15% effective from January 1, 2008. This tax may potentially be reduced to 5% or 10% for legal entities and organizations and to 10% for individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, or the United States—Russia income tax treaty, provided a number of conditions are satisfied. However, the Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that advance clearance would be possible. The Russian tax rules applicable to ADS holders are characterized by significant uncertainties. In a number of clarifications, the Ministry of Finance of the Russian Federation expressed a view that ADS holders (rather than the depository) should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residencies of the ADS holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the ADS holders in this regard. Thus, we may be obliged to withhold tax at standard non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States—Russia income tax treaty. See also “Item 10. Additional Information—E. Taxation” for additional information.

Capital gain from the sale of shares and ADSs may be subject to Russian income tax.

Under Russian tax legislation, gains realized by non-resident legal entities or organizations from the disposition of shares and securities of Russian organizations, as well as financial instruments derived from such shares, such as the ADSs, may be subject to Russian withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition of the foregoing types of securities on foreign stock exchanges by non-resident holders who are legal entities or organizations are not subject to taxation in Russia.

The taxation of income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. The Russian tax laws do not give a definition of how the “source of income” should be determined with respect to the sale of securities, other than that income from the sale of securities “in Russia” should be considered as Russian source income. As there is no further definition of what should be considered to be a sale “in Russia,” the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares or other similar criteria.

Non-residents who are individuals are taxable on Russian-source income. Provided that gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income, then such income should not be taxable in Russia. However, gains arising from the disposition of the same securities and derivatives “in Russia” by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See also “Item 10. Additional Information—E. Taxation.”

The lack of a developed share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the ADSs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register

and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a developed share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the depository, under the terms of the deposit agreement, will not be liable for the unavailability of our shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares.

Foreign judgments may not be enforceable against us.

Our presence outside the United States may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States. As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in our shares and ADSs. The deposit agreement provides for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption.

Other Risks

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of more developed countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public

information. In addition, the veracity of some official data released by the Russian government may be questionable. In 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and subsequently sentenced by a court in 2004 in connection with their misuse of economic data.

Because no standard definition of a subscriber, average monthly service revenue per subscriber (ARPU), average monthly usage per subscriber (MOU) or churn exists in the telecommunications industry, comparisons between certain operating data of different companies may be difficult to draw.

The methodology for calculating subscriber numbers, ARPU, MOU and churn varies substantially in the telecommunications industry, resulting in variances in reported numbers from that which would result from the use of a uniform methodology. Therefore, comparisons of certain operating data between different telecommunications companies may be difficult to draw.

Item 4. Information on Our Company

A. History and Development

Mobile TeleSystems CJSC, or MTS CJSC, our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the remaining 47%. Sistema currently owns 52.7% of our share capital (54.8% excluding treasury shares). See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders.”

MTS CJSC inaugurated service in the Moscow license area in 1994 and began expanding into nearby regions in 1997. Since that time, we have continued to grow by applying for GSM licenses in new regions, investing in new GSM licensees, increasing our ownership percentage in these licensees and acquiring existing GSM license holders and operators in Russia and the CIS. We expanded into the fixed line communications market in 2009 with our acquisition of Comstar.

Mobile TeleSystems OJSC was created on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, a wholly owned subsidiary. In accordance with Russian merger law, MTS CJSC and RTC CJSC ceased to exist and MTS OJSC was created with the assets and obligations of the predecessor companies. Our charter was registered with the State Registration Chamber on March 1, 2000, which is our date of incorporation, and with the Moscow Registration Chamber on March 22, 2000. Our initial share issuance was registered by the Russian Federal Commission on the Securities Market on April 28, 2000.

We completed our initial public offering on July 6, 2000, and listed our shares of common stock, represented by ADSs on the New York Stock Exchange under the symbol “MBT.” Each ADS represents two underlying shares of our common stock. Prior to May 3, 2010, each ADS represented five shares.

In April 2003 and December 2004, T-Mobile completed offerings of approximately 5.0% and 15.1% of our shares, respectively, in the form of GDRs through an unsponsored GDR program. In September 2005, T-Mobile sold its remaining 10.1% interest in us on the open market.

Our legal name is Mobile TeleSystems OJSC, and we are incorporated under the laws of the Russian Federation. Our head office is located at Vorontsovskaya Street 5, Bldg. 2, Moscow 109147, Russian Federation, and the telephone number of our investor relations department is +7 495 223-2025. We maintain a website at www.mtsgsm.com. The information on our website is not a part of this report. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our authorized agent for service of process for any suit or proceeding arising out of or relating to our shares, ADSs or the Deposit Agreement.

Geographic Expansion

Russia

In furtherance of our goal to be a nationwide operator in Russia, we have extended our focus beyond our original market of Moscow and the Moscow region with a view towards developing our existing license areas in the regions, acquiring new regional licenses and acquiring regional operators. For a listing of our acquisitions in the last three years, see “Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Acquisitions” and Note 3 to our audited consolidated financial statements.

Ukraine

In March 2003, we purchased a 57.7% stake in UMC for \$199.0 million. We purchased a 16.33% stake from KPN, a 16.33% stake from Deutsche Telekom, and a 25.0% stake from Ukrtelecom. In June 2003, we purchased an additional 26.0% stake in UMC from Ukrtelecom for \$87.6 million pursuant to a call option agreement, which increased our ownership in UMC to 83.7%. We purchased the remaining 16.33% stake in UMC from TDC for \$91.7 million in July 2003 pursuant to a put and call option agreement. Since July 2007, we have operated under the MTS brand in Ukraine.

Uzbekistan

In August 2004, we acquired a 74% stake in Uzdunrobita, the largest wireless operator in Uzbekistan, for \$126.4 million in cash. We acquired the remaining 26% stake in June 2007 pursuant to a put option agreement for \$250.0 million in cash. Since May 2006, we have operated under the MTS brand in Uzbekistan.

Turkmenistan

In two separate purchases in June and November 2005, we acquired 100% of BCTI, the leading wireless operator in Turkmenistan, for \$46.7 million in cash. Since October 2006, we have operated under the MTS brand in Turkmenistan.

Armenia

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telekom, the leading wireless operator in Armenia, for €260.0 million (\$361.2 million as of the date of acquisition), and entered into call and put option agreement valid until 2012 for the remaining 20%. According to the sale and purchase agreement, an additional €50.0 million (\$69.0 million as of the date of acquisition) will be paid to the sellers over the course of three years from 2008 to 2010 provided certain financial targets are met by K-Telekom. We also agreed to extend a €140.0 million (\$194.5 million as of the date of acquisition) technical loan to the company to finance the repayment of payables for equipment and other liabilities due as of the date of acquisition.

K-Telekom operates in the GSM-900/1800 standard, covering the entire territory of Armenia. It historically operated under the VivaCell brand, and was rebranded as VivaCell-MTS in September 2008.

Belarus

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. Pursuant to the tender conditions:

- we formed a company in Belarus, MTS Belarus, and contributed approximately \$2.5 million in exchange for 49% of the share capital of the company (the other 51% of which is held by a state-owned enterprise);
- we paid a lump sum of \$10 million to the government of Belarus;
- MTS Belarus made a one-time payment of \$5 million (which was funded by a \$5 million loan from us to it); and
- we paid a total of \$6 million to the government of Belarus in five annual installments of \$1.2 million from 2003 through 2007.

On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002. MTS Belarus is an equity investment, and its results are not consolidated in our financial statements.

MTS Belarus operates under a license to carry out telecommunications activities issued by the Ministry for Communications and Information Technology of the Republic of Belarus, valid until August 23, 2017.

Operational Expansion—Acquisition of Comstar

In October 2009, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema, and subsequently increased our ownership interest to 61.97% (or 64.03% excluding treasury shares) in December 2009.

As we and Comstar were under the common control of Sistema, our acquisition of a majority stake in Comstar has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests, *i.e.*, the assets and liabilities acquired were recorded at their historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if Comstar had been owned since the beginning of the earliest period presented. As a result, Comstar and its assets have been recorded at book value as if the businesses and assets of Comstar have been owned by us since the beginning of the financial periods presented in this document. See “Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Acquisitions.”

Comstar operates in both the alternative and traditional fixed line communications markets, offering voice telephony, broadband Internet and pay-TV, operator interconnect and other services to its subscribers. Among Comstar’s subsidiaries is MGTS, Moscow’s incumbent fixed line operator with “last mile” access to approximately 96% of the households in Moscow. We believe the acquisition of Comstar provides us access to important growth markets in corporate and residential broadband in furtherance of our strategy to develop convergent telecommunications services and evolve into an integrated telecommunications operator. We have begun rebranding Comstar to our main MTS brand and aim to complete this process in major Russian cities by the end of 2010. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Difficulties integrating the operations of Comstar with our existing operations may prevent us from achieving the expected benefits from the acquisition” and “—Business Strategy.”

Capital Expenditures

We spent in total \$2,328.3 million in 2009 for network development in Russia and the other countries where we operate, which included \$1,942.4 million in cash expenditures on property, plant and equipment, and \$385.9 million for the purchase of intangible assets. We expect to spend approximately \$2,598.0 million in 2010 for our current operations, including for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the buildout of our 3G and broadband Internet networks. We plan to finance our capital expenditures primarily through operating cash flows, and to the extent necessary, through additional external financing activities. The actual amount of our capital expenditures for 2010 may vary depending on subscriber growth, demand and network development, as well as currency volatility, vendor terms and the availability of external financing. The capital expenditure estimate for 2010 excludes expenditures that may be made in connection with acquisitions or new licenses. A breakdown of our capital expenditures in 2009 by country is set forth below. For the first quarter of 2010 and continuing into the second quarter, our principal capital expenditures have related to the buildout of our 3G network and other expenditures related to the maintenance and expansion of our GSM network which we have financed through operating cash flows.

Excluding our acquisition of Comstar, we spent \$270.5 million in 2009 for acquisitions of subsidiaries, net of cash acquired. We additionally spent \$1,322.3 million for the acquisition of a 50.91% stake in Comstar, as well as additional consideration in the form of cash and MTS common shares for the acquisition of an additional 11.06% in Comstar in December 2009. See also “Item 5. Operating and Financial Review and Prospects—Certain Factors Affecting our Financial Position and Results of Operations—Acquisitions” and Note 3 to our audited consolidated financial statements.

Russia

We spent \$1,389.7 million in 2009 for network development in Russia, including \$1,113.7 million in cash expenditures on property, plant and equipment, and \$276.0 million for the purchase of intangible assets.

Ukraine

We spent \$377.4 million in 2009 for network development in Ukraine, including \$310.4 million in cash expenditures on property, plant and equipment, and \$67.0 million for the purchase of intangible assets.

Uzbekistan

We spent \$460.3 million in 2009 for network development in Uzbekistan, including \$429.7 million in cash expenditures on property, plant and equipment, and \$30.6 million for the purchase of intangible assets.

Turkmenistan

We spent \$52.4 million in 2009 for network development in Turkmenistan, including \$47.4 million in cash expenditures on property, plant and equipment, and \$5.0 million for the purchase of intangible assets.

Armenia

We spent \$48.5 million in 2009 for network development in Armenia, including \$41.2 million in cash expenditures on property, plant and equipment, and \$7.3 million for the purchase of intangible assets.

Belarus

MTS Belarus spent \$83.2 million in 2009 for network development in Belarus. We do not include the capital expenditures of MTS Belarus in our capital expenditures described above as MTS Belarus' results are not consolidated in our financial statements.

B. Business Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value-added services, as well as selling equipment and accessories. According to AC&M-Consulting, we are the largest mobile operator in Russia, Uzbekistan, Turkmenistan and Armenia and the second largest in Ukraine in terms of mobile subscribers and revenues. As of December 31, 2009, we had a mobile subscriber base of approximately 97.81 million (approximately 69.34 million in Russia, 17.56 million in Ukraine, 7.07 million in Uzbekistan, 1.76 million in Turkmenistan and 2.07 million in Armenia), an increase of 7.1% compared to December 31, 2008. Through Comstar, we are also the largest operator in the Moscow residential broadband market, with a 32% market share as of December 31, 2009, according to Direct INFO. Our revenues for the year ended December 31, 2009 were \$9,823.5 million, a decrease of 17.5% from the year ended December 31, 2008. Our net income for the year ended December 31, 2009 was \$1,004.5 million, a decrease of 49.8% from the year ended December 31, 2008.

Russia is our principal market, both in terms of subscribers and revenues. For the years ended December 31, 2009, 2008 and 2007, approximately 81%, 79% and 78% of our revenues came from operations in Russia; approximately 11%, 14% and 17% of our revenues came from operations in Ukraine; and approximately 8%, 7% and 5% of our revenues came from operations in our other countries, respectively.

At December 31, 2009, approximately 71% of our mobile subscriber base was in Russia and approximately 18% was in Ukraine. According to AC&M-Consulting, we had a 33.4% market share of total mobile subscribers in Russia at December 31, 2009. In Ukraine, we had a 31.8% market share at December 31, 2009, according to AC&M-Consulting.

The table below sets forth our total mobile subscribers as of the end of the last five years:

<u>Period</u>	<u>Subscribers⁽¹⁾</u> <u>(in thousands)</u>
2005	58,194
2006	72,858
2007	81,970
2008	91,335
2009	97,810

(1) Excludes MTS Belarus subscribers. We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of our prepaid brand tariffs) or whose account does not have a negative balance for more than this period.

Our mobile subscriber base continued to grow in 2010. At May 1, 2010, we had approximately 98.65 million subscribers, including approximately 69.73 million in Russia, 17.37 million in Ukraine, 7.43 million in Uzbekistan, 2.01 million in Turkmenistan and 2.11 million in Armenia.

Overall mobile cellular penetration in Russia was at approximately 143.2% at December 31, 2009, according to AC&M-Consulting. Mobile cellular penetration in Ukraine was at approximately 120.6% at December 31, 2009, according to AC&M-Consulting. According to our estimates, mobile cellular

penetration in Uzbekistan, Turkmenistan and Armenia was at approximately 57.0%, 40.5% and 84.6% at December 31, 2009, respectively.

As of December 31, 2009, we had mobile licenses to operate and commercial mobile operations in 82 regions of Russia with a population of approximately 144 million people, or approximately 99% of the country's total population, for the entire territory of Ukraine with a population of approximately 46 million people, for the entire territory of Uzbekistan with a population of approximately 28 million people, for the entire territory of Turkmenistan with a population of approximately 5 million people and for the entire territory of Armenia with a population of approximately 3 million people.

MTS Belarus had approximately 4.56 million subscribers and a leading market share of 46% at December 31, 2009, according to AC&M-Consulting. The subscriber base of MTS Belarus grew to approximately 4.57 million at May 1, 2010. Belarus, a country with a population of approximately 10 million, had a mobile cellular penetration rate of approximately 102% at December 31, 2009, according to AC&M-Consulting.

In 2009, we significantly expanded our operations in an effort to meet the challenges of our evolving markets and further the goals of our new "3i" strategy. Through our acquisition of a controlling stake in Comstar in October 2009, we have become a leading integrated fixed line services provider in Russia. We also continued to aggressively develop our proprietary sales and distribution network both organically and through the acquisition of national and regional retail chains. We additionally focused on the development of online platforms and content, launching Omlet.ru in September 2009. Omlet.ru is an online and mobile content portal offering a large selection of videos, music and games for sale and a high degree of interoperability between mobile devices and computers as well as network flexibility (e.g. EDGE and 3G).

To maintain and increase our market share and brand awareness, we use a combination of print media, radio, television, direct mail and outdoor advertising, focusing on brand and image advertising, as well as promotion of particular tariff plans. Supporting these efforts, we have developed an extensive distribution network comprising 3,260 points-of-sale, including 1,236 franchise points-of-sale and 2,024 points-of-sale owned by us as of December 31, 2009.

Business Strategy

Our primary strategic goal is to be the leading communications operator in the territories of our presence, providing our customers with mobile and fixed telephony, high-speed Internet access at home and on the move, cable TV and the widest choice of licensed content on the market. We strive to maintain and strengthen our market position by investing in network and product development, new technologies and customer service.

From October 2009, we have adopted the new "3i" strategy, which we believe represents a logical development of our previous strategic principles and corresponds to the changing market environment. Consistent with our new strategy, we moved beyond simple mobile access, both horizontally and vertically, through our acquisition of Comstar, the rapid build-out of our proprietary distribution network and the launch of our first online content platform, Omlet.ru. Our development beyond mobile access is the intrinsic part of our new "3i" strategy, which is focused on the following key directions:

- **Integration:** developing new pipelines and customer touch points. We aim to provide a comprehensive integrated service portfolio for all of our customers' communication needs, through both fixed line and wireless access. Through the networks and platforms we develop, we will seek to create a seamless and unsurpassed user experience.
- **Internet:** offering universal connectivity. Our customers increasingly expect faster and broader connectivity as more devices and services depend on integrated mobile and fixed networks. Our goal is to create smarter pipelines so customers can realize the full benefits of today's

technologies, while creating additional value for us. Through so-called “smart pipes,” we will strive to offer best-in-class content applications and market-leading services, enable transactions and bring us closer to our customers.

- **Innovation:** differentiating ourselves from our competitors by offering a unique mix of products and services. We will offer exclusive devices, distinct packages of services catering to all customer segments and a market-leading end-to-end user experience at home, work and on the move.

We believe our integration with Comstar will put us in a better position to capture growth and gain market share in the Russian telecommunications market, as well as to meet customer needs and desires and benefit from convergent revenue and cost synergies. We may also continue to expand our footprint as attractive opportunities arise.

Implementation of these strategies is subject to a number of risks. See “Item 3. Key Information—D. Risk Factors” for a description of these and other risks we face.

Current Operations

We are a provider of mobile cellular communications services in Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia. Following our acquisition of a majority stake in Comstar in October 2009, we became a leading fixed line communications services provider in Russia. We describe our mobile and fixed line business operations below.

Subsidiaries

For a list of our major subsidiaries and our ownership percentages in these subsidiaries, see “Item 4. Information on our Company—C. Organizational Structure”.

Consistent with our efforts to increase operating efficiencies and integrate our existing businesses into a single company, from 2004 up to the date of this document, we have merged 25 of our wholly and majority owned Russian subsidiaries into MTS OJSC. In each case, these mergers were undertaken following the requisite shareholder and regulatory approvals.

Mobile Operations

Services Offered

Network Access

We primarily offer mobile cellular voice and data communication services to our subscribers on the basis of various tariff plans designed for different market segments. In general, most of our tariff plans combine per minute usage charges, value-added services and, in some cases, monthly network access fees. See “Item 4. Information on Our Company—B. Business Overview—Mobile Operations—Tariffs.”

Automatic Roaming

Roaming allows our customers, both subscribers and guest roamers, to receive and make international, local and long-distance calls while traveling outside of their home network. Roaming is provided through individual agreements between us and other GSM operators. Unlike many non-GSM providers that require additional equipment or prior notification, our roaming service is instantaneous, automatic and requires no additional equipment.

As of December 31, 2009, we had bilateral roaming contracts with 634 wireless operators in 224 countries, including with regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators. In Russia, as of December 31, 2009, in addition to our network coverage area in 82 of the 83 regions of Russia, GSM service is available to our subscribers in the region of Russia where we do not currently operate through our roaming agreements with 13 regional operators.

Value-Added Services

We offer various value-added services to our customers. These services may be included in the tariff plan selected by the subscriber or subscribers may pay additional monthly charges and, in some cases, usage charges for them. Some basic value-added services that we offer include:

- Blackberry
- Call Barring
- Call Waiting
- Call Divert/Forwarding
- SMS
- MMS
- Caller ID Display and anti-Caller ID Display
- Mobile Office
- Melody Ring Tones
- Voicemail
- Missed Call Alert
- Conference Calling
- Mobile banking
- Itemization of Monthly Bills
- WiFi
- Wireless Application Protocol (WAP)
- Information and Directory Service
- Location-Based Service (LBS)
- MTS-Connect
- International Access Service
- GPRS
- SIM-browser
- WEB and WAP portal
- Intelligent call assistant
- Point-to-point transfer
- Real IP
- APN remote access point
- Unstructured Supplementary Services Data (USSD)
- Automatic Customer Care System and Customer Care System via the Internet
- Fixed Mobile Convergence
- High-Speed Downlink Packet Access (HSDPA)
- Ring Back Tone
- Enhanced Data rates for GSM Evolution (EDGE)

We also provide many voice and SMS-based value-added services in cooperation with various content providers.

GPRS and Internet Access

We offer GPRS services, enabling our subscribers to access the Internet, WAP and MMS in all of the countries where we operate. We also provide international GPRS roaming to our subscribers, enabling them to use various GPRS-based services while traveling abroad.

In 2005, we commercially launched EDGE services in the Moscow metropolitan area and expanded EDGE services between 2006 and 2008 to cover the most developed markets where we operate. EDGE is a high-speed, high-quality data transfer technology capable of transmitting streamline video and TV programs onto mobile phones. At present, EDGE services are available to our subscribers in Russia, Ukraine, Armenia, Uzbekistan, Turkmenistan and Belarus. We expanded our data transmission network in 2009, which allowed us to significantly expand our EDGE network coverage.

We also offer the MTS-Connect service, which allows our subscribers to get mobile Internet access through a GPRS/EDGE/3G connection, using a computer, PC-card and USB-modem. This service is available to our subscribers in Russia and Ukraine and in more than 167 countries where we have GPRS roaming.

We signed an agreement with Research In Motion in September 2005 to offer BlackBerry services to our subscribers and were the first mobile operator to offer BlackBerry services in the CIS. Following our receipt of the required regulatory approvals, we began providing BlackBerry services to corporate

users in Ukraine in October 2007 and to corporate users in Russia in June 2008. In addition to corporate users, we also provide BlackBerry services to mass market subscribers in Ukraine and in Moscow and the Moscow region in Russia. In May 2009, we launched BlackBerry Internet Service in Moscow and the Moscow region, and in October 2009, we launched commercial operations of BlackBerry Enterprise Server (BES) and BlackBerry Internet Service (BIS) in 39 regions of Russia.

3G Technology

The key benefit of a 3G network, using UMTS technology, is the ability to provide subscribers with faster data download speeds with top download capacity using high speed packet access technology up to 3.6 Mbit per second. This is over 10 times faster than the currently available 2G EDGE technology.

In April 2007, the Russian Ministry of Communications and Mass Media announced the results of a tender for 3G licenses. We were one of three companies, along with Vimpelcom and MegaFon, who received a nationwide 3G/UMTS license in Russia. The license is valid through 2017 and covers the entire territory of Russia. In accordance with the conditions set forth in the tender documentation, we, Vimpelcom and MegaFon were required to begin undertaking the construction of a 3G network over a period of two years from the time the license was received. Over the course of 2008 and 2009, we commercially launched our 3G network in 76 Russian cities.

In May 2009, we, along with Vimpelcom and MegaFon, were allocated 3G/UMTS frequencies to begin testing our 3G network in Moscow and the Moscow region. Starting from May 2009, we were allowed to launch our 3G network inside buildings and other indoor structures in Moscow as well as in the Moscow metro. As of May 1, 2010, our 3G indoor network operates in 40 trade and business centers in Moscow and in various metro stations. We also provide 3G services to various large companies within Moscow. In December 2009, we obtained a permit to install 783 base stations in the UMTS standard in Moscow and commercially launched our 3G network in Moscow. Our 3G network uses 1950-1965 MHz, 2015-2020 MHz and 2140-2155 MHz frequencies and compliments our existing GSM network.

In July 2006, MTS-Ukraine was licensed to provide telecommunications services using CDMA 450 technology. CDMA 450 is a 3G telecommunication standard ratified by the International Telecommunication Union. We commenced commercial services using CDMA 450 technology in Ukraine in November 2007 and currently offer high-speed mobile Internet access to our subscribers.

In Uzbekistan, the Communications and Information Agency of Uzbekistan allocated a 3G/UMTS license to us in April 2007. The license is valid through 2016 and covers the entire territory of the country. In December 2008, we commercially launched our 3G network in Uzbekistan's two largest cities, Tashkent and Samarkand, followed by the launch in three additional cities—Urganch, Khiva and Bukhara—in January 2009.

In Armenia, our subsidiary K-Telekom is licensed to offer 3G services in the UMTS standard throughout Armenia pursuant to its wireless services license. In October 2007, K-Telekom was allocated frequencies to offer 3G services throughout the entire territory of Armenia. The frequencies were allocated for a 10-year period. In April 2009, we commercially launched our 3G network in Armenia's three largest cities: Yerevan, the capital, Gyumri and Vanadzor. We significantly expanded the network in 2009, improving coverage in these cities and extending coverage to all of Armenia's regional centers.

Other Services

In addition to cellular communication services, we offer corporate clients a number of telecommunications services such as design, construction and installation of local voice and data networks capable of interconnecting with fixed line operators, installation and maintenance of cellular payphones, lease of digital communication channels, access to open computer databases and data

networks, including the Internet, and provision of fixed, local and long-distance telecommunications services, as well as video conferencing.

Strategic Partnership with Vodafone

In October 2008, we announced a strategic agreement with Vodafone aimed at drawing on Vodafone's expertise in building and developing 3G networks and mobile broadband products, working with leading global equipment providers and deploying innovative client relationship management, or CRM, practices to enhance quality and further improve the efficiency of our operations. In addition, the agreement allows us exclusive access to a range of products, services and devices from Vodafone for our markets of operation in Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia.

Sales and Marketing

Target Customers

Our target customers historically included companies, professionals, high-income individuals, reporters, government organizations, businesspersons and diplomats. However, with mobile cellular penetration in these segments becoming saturated, we began to more aggressively promote our mobile cellular services to a much wider group of the population. Over time, we adjusted our service model to provide differentiated levels of service to meet the needs of distinctive customer segments as such segments have developed. In 2002, we launched a group of prepaid tariff plans with low connection and no monthly fees which appealed to mass-market subscribers. We also continue to actively target high-end customers who provide us with larger profit margins through high ARPU and MOU. For example, the "Maxi" and unlimited tariff plans offer a higher level of customer service, technical support and a wide range of services, including personalized service and support with minimum waiting time. Today, we are considered a mass-market mobile network operator with a wide range of subscribers in all customer segments.

To promote subscriber loyalty, we offer discounts with respect to our tariff plans for customers willing to enter into extended contracts with us. This strategy also helps to mitigate churn rates among our subscribers in a highly competitive market.

Advertising and Marketing

Our advertising and public relations initiatives include:

- brand and image advertising and public relations to position us as the leading mobile cellular operator in Russia, Ukraine, Belarus, Uzbekistan, Turkmenistan and Armenia;
- information advertising and promotion to inform potential customers of the advantages of the high quality and variety of our services and the extensive coverage we offer; and
- product- and tariff-related advertising and promotion for specific marketing campaigns, new tariff plans for various target audiences and pricing discounts.

We use a combination of newspaper, magazine, radio, television and outdoor advertising, including billboards and signs on buses and kiosks, and exhibitions to build brand awareness and stimulate demand. We also advertise on-line to market and promote our products and services to younger tech-savvy consumers. Our indirect advertising includes sponsorship of selected television programs, sporting events, concerts and other popular events. We also coordinate the advertising policies of our dealers to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. As we have expanded our network, we have concentrated a greater part of our advertising and marketing effort on international and cross market offers with other companies, positioning the MTS brand as truly national brand. In addition, we focus our advertising

and marketing on the affordability and variety of our tariff plans, on the broad coverage of our network and the use and availability of national roaming.

Our key marketing efforts in 2009 included the launch of an advertising campaign in July 2009 to promote our loyalty program, under which eligible subscribers receive free airtime and value-added services. We also launched a comprehensive campaign in September 2009 to promote a new youth tariff, Red Energy, which attracted over 1.5 million new subscribers through the end of 2009.

Renewed Brand

In May 2006, Sistema introduced a universal brand featuring a new egg-shaped logo for each of the telecommunications companies operating within the Sistema group, including us. We believe that our new brand symbolizes leadership and a dynamic and innovative approach to doing business. The re-branding reflects a shift in our marketing strategy with a renewed focus on the simplification of our communications to the general public. One of the goals of our re-branding efforts is to create a simple set of tariff plans with clear advantages over our competitors and easy-to-understand descriptions of the wide range of our services and product offerings. In addition, we aim to simplify the purchasing experience for our customers by creating a universal format for our sales offices, transforming them into visually appealing, practical and convenient venues where buyers can obtain product information and test our latest products and services.

The changes relating to our brand renewal had an impact on each of our operational regions. We launched a federal advertising campaign with new advertising and informational materials, and revised our website with the new brand and logo. We redesigned each of our sales offices with new signs that reflect the service standards and philosophy of the new brand.

Under this universal brand, our subscribers have access to a wide range of telecommunications products and services, including Internet access, mobile and fixed line telephones, single billing and a single interface for all of the subscriber's telecommunications needs. We believe that our re-branding efforts will increase our recognition among existing and potential clients, promote cross-sales of the companies using the brand and enhance subscriber loyalty.

In July 2007, we launched the MTS brand in Ukraine. Prior to this date, we operated in Ukraine under the "UMC" brand. In connection with this re-branding effort, we have sought to retain our existing subscribers by continuing to provide high quality communications services, launching new services and introducing new tariff plans. We believe that the MTS brand is now well established in Ukraine. We also operate under the MTS brand in Uzbekistan, Turkmenistan, and Belarus. In Armenia, we have operated under the VivaCell-MTS brand since September 2008.

In December 2008, we reached an agreement with Sistema Shyam TeleServices Limited, or Sistema Shyam, allowing Sistema Shyam to use the MTS brand in India. Sistema Shyam is a joint venture between Sistema and Shyam Group of India, with Sistema controlling a 73.71% stake in the venture. Sistema Shyam has licenses and spectrum to provide mobile telephony services across India.

Under the terms of the agreement, Sistema Shyam has the right to use the MTS brand in India beginning March 2009, and we will receive 0.16% of Sistema Shyam's revenues commencing April 2009. The agreement is limited to Sistema Shyam using the MTS brand in India and does not contemplate our participation in Sistema Shyam's operations. The terms also stipulate that we will act as the brand guardian to ensure brand usage and marketing communications adhere to our brand guidelines.

In furtherance of our effort to integrate Comstar within our group, develop and offer integrated communication services and create a unified platform for subscribers, we have commenced the process of rebranding Comstar with our main MTS brand. Our goal is to complete the rebranding in major Russian cities by the end of 2010.

Global recognition

In April 2010, MTS was ranked No.72 in the BRANDZ™ Top 100 Most Powerful Brands, an independent ranking published by the *Financial Times* and Millward Brown, a leading global market research and consulting firm. We were the first Russian company to join the ranks of the most powerful brands in the world in 2008 and remain the highest ranked brand in Russia.

Sales and Distribution

We have historically enrolled a vast majority of our subscribers through a network of independent dealers that operate numerous points-of-sale in places with high consumer activity, such as supermarkets, shopping centers, air terminals and markets. However, the financial downturn and tightening of the credit markets resulted in virtually all of the large national and regional mobile handset retailers in Russia facing liquidity issues or being on the verge of bankruptcy, according to press reports. In addition, as of April 1, 2009, we ceased working with Euroset, the largest mobile handset retailer in Russia, following Vimpelcom's indirect acquisition of a 49.9% stake. As a result of these factors, the share of our subscribers enrolled through these retailers dropped dramatically during the last quarter of 2008 and continued to drop in 2009. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—The reduction, consolidation or acquisition of independent dealers and our failure to further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues."

As the share of subscribers enrolled through large national and regional dealers has decreased, the share of our subscribers enrolled through small dealer and subdealer networks and our own distribution network is increasing, and we are working to expand our relationships with these small dealer networks while continuing our efforts to grow our proprietary distribution network.

In furtherance of these efforts, we changed the strategy and structure of our retail operations in 2009 by significantly expanding our proprietary sales and distribution network both organically and through the acquisition of several national and regional retail chains. Over the course of 2009, we acquired 100% of handset retailer Telefon.Ru, which at the date of acquisition operated 512 stores in 180 cities in Russia; 100% of the Eldorado handset retail chain, which operated 383 stores in 153 cities in Russia; and 100% of handset retailer Teleforum, which operated 180 stores in St. Petersburg and several other regions of Russia. In addition, in March 2009, we entered into a three-year executive services agreement with the majority shareholder of the Svyaznoy group of companies, which operates a nationwide dealer network in Russia. Under the agreement, the Svyaznoy shareholder provides operational and strategic consultancy services to us, as well as procures that certain managers from the Svyaznoy group, as set forth in the agreement, cease to be employed by the Svyaznoy group and become our full time employees. In addition, we organized our retail operations under a wholly owned subsidiary, Russian Telephone Company, or RTC. RTC handles all functions relating to our retail operations, including the management of points-of-sale, the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. It also endeavors to secure optimal locations for our points-of-sale and monitors the effectiveness of their operations.

Our proprietary distribution network consists of MTS-branded franchise points-of-sale (third-party dealers operating under the MTS brand) and MTS-branded points-of-sale owned by us. As of December 31, 2009, our proprietary distribution network in Russia consisted of 3,260 points-of-sale, including 1,236 franchise points-of-sale and 2,024 points-of-sale owned by us.

We are continuing in 2010 to optimize our proprietary network in Russia by closing overlapping locations. As of May 2, 2010, we operated 3,291 points-of-sale, including 1,115 franchise points-of-sale and 2,176 points-of-sale owned by us. Of the retail outlets acquired by us, 401 were re-branded as MTS mono-brand outlets in 2009, and an additional 327 are expected to be re-branded as MTS mono-brand outlets by the end of 2010.

As a result of our new strategy, approximately 35% of our new subscribers in Russia were enrolled directly by us during the year ended December 31, 2009 as compared to 20% during the year ended December 31, 2008. All other new subscribers, comprising 65% and 80% of our total new subscribers in the years ended December 31, 2009 and 2008, respectively, were enrolled through independent dealers. In Ukraine, approximately 93% of new subscribers were enrolled through independent dealers and 7% were enrolled directly by us in each of 2009 and 2008.

Our proprietary distribution network outside of Russia as of December 31, 2009 consisted of 45 points-of-sale in Ukraine, 26 points-of-sale in Uzbekistan, 39 points-of-sale in Turkmenistan and 105 points-of-sale in Armenia.

For newly acquired mobile subscribers in Russia, we link commissions payable to a dealer on a monthly basis to the amount of revenues we receive during the six-month period from the date a subscriber is activated by such dealer. In addition, we have established caps, or a maximum commission amount payable to our dealers. The dealer commissions in Russia currently range between \$5 and \$60 per subscription.

In Ukraine, we link dealer commissions to the tariff package sold, category of subscriber, subscriber revenue, the duration of a subscriber's activation, city of subscription, and status of the dealer itself. We have different commission structures based on whether the subscriber is prepaid, postpaid or a CDMA-only subscriber (*i.e.*, subscribers using only mobile Internet services). For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed or monthly payments based on the revenue generated from the subscriber. The dealer commissions in Ukraine for postpaid tariffs consist of one-time commissions ranging from \$5 to \$25, and we are entitled to retain the full commission amount if the subscriber deactivates within five months following the month of connection. Prepaid tariff commissions are paid monthly for up to six months following activation in an amount equal to the lesser of 50% of the monthly revenue or \$6.3 to \$9.4, depending on the type of subscriber. We also pay dealer commissions for contract prolongation and for high quality, long-term subscribers, as well as compensation of between \$127 and \$1,897 to exclusive dealers who sell only MTS-Ukraine subscriptions. In connection with CDMA subscriptions, we typically pay dealers a one-time fee upon subscriber connection ranging from \$3.8 to \$5.0, as well as monthly payments for up to 12 months based on the revenue generated by the subscriber.

We believe that our method for paying commissions to dealers provides dealers with greater incentives to add new subscribers, reduces the risk of dealer fraud and improves our cash-flow management.

Competition

The Russian wireless telecommunications market

Demand for wireless communications services in Russia has grown rapidly over the last 10 years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. As of December 31, 2009, overall wireless penetration in Russia was approximately 143.2%, or approximately 207.9 million subscribers, according to AC&M-Consulting.

The Russian market has achieved high levels of penetration in Moscow and St. Petersburg, where penetration reached approximately 190.7% and 186.8%, respectively, at December 31, 2009, according to AC&M-Consulting. The average penetration rate in regional markets reached approximately 134.3% at December 31, 2009, according to AC&M-Consulting.

The following table sets forth key data on Russia's wireless telecommunications market as of the dates indicated:

	As of December 31,				
	2005	2006	2007	2008	2009
	(amounts in millions, except for percentages)				
Subscribers ⁽¹⁾	125.8	151.9	172.9	187.8	207.9
Subscriber penetration	87%	105%	119%	129%	143%

Source: AC&M-Consulting.

(1) Based on registered subscribers (SIM cards only). There is no uniform definition of active subscribers in the Russian wireless market.

According to AC&M-Consulting, we accounted for 47.4% and 41.9% of subscribers in Moscow, 30.8% and 31.4% of subscribers in St. Petersburg and 34.4% and 33.4% of total Russian subscribers as of December 31, 2008 and 2009, respectively. We believe that the decrease in our market share in Russia, particularly in Moscow, is the result of our effort to restructure our subscriber base to minimize the number of subscribers who have a positive balance but are infrequent users of our mobile services. We believe that this restructuring will increase the overall rate of usage and ultimately have a positive influence on average revenue per user in the future.

The primary mobile competitors in Russia include us, Vimpelcom and MegaFon, each of which has effective national coverage in Russia. Competition today is based largely on local tariff prices and secondarily on network coverage and quality, the level of customer service provided, roaming and international tariffs and the range of services offered. For a description of the risks we face from increasing competition, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2007, 2008 and 2009:

Operator	As of December 31,		
	2007	2008	2009
	(Amounts in millions)		
MTS	57.4	64.6	69.3
Vimpelcom	51.7	47.7	50.9
MegaFon	35.5	43.3	50.2
Others	28.4	32.2	37.5

Source: AC&M-Consulting.

Vimpelcom. Vimpelcom, which operates GSM 900/1800/UMTS (3G) networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers.

According to AC&M-Consulting, it had approximately 50.9 million subscribers in Russia as of December 31, 2009, including 10.8 million in the Moscow license area. At December 31, 2009, according to AC&M-Consulting, Vimpelcom had a 33.5% market share in Moscow, a 17.8% market share in St. Petersburg and a 24.5% market share of total wireless subscribers in Russia.

MegaFon. In addition to Vimpelcom, we also compete with MegaFon, which is the third largest GSM wireless operator in Russia in terms of subscribers. The MegaFon group holds GSM 900/1800/UMTS (3G) licenses to operate in all 83 regions of the Russian Federation.

According to AC&M-Consulting, MegaFon had a subscriber base of approximately 50.2 million in Russia at December 31, 2009, including 7.4 million subscribers in the Moscow license area. At December 31, 2009, according to AC&M-Consulting, MegaFon had a 23.0% market share in Moscow, a 33.4% market share in St. Petersburg and a 24.2% market share of total wireless subscribers in Russia.

Other Operators. In addition to our principal competitors, Vimpelcom and MegaFon, we also compete with local GSM operators in several Russian regions.

In certain areas of Russia, we compete with Tele2, which had approximately 14.5 million subscribers as of December 31, 2009. In certain regions of the Urals part of Russia, our primary competitor is Uralsvyazinform, which had approximately 5.7 million subscribers as of December 31, 2009. In certain regions of the Volga part of Russia, we compete with Smarts, which had approximately 3.5 million customers as of December 31, 2009. In addition, in certain parts of Siberia, we compete with Sibirtelecom, which had approximately 5.2 million customers as of December 31, 2009. The preceding subscriber numbers, in each case, are according to AC&M-Consulting.

The Ukrainian wireless telecommunications market

From 2003 to 2007, the Ukrainian wireless telecommunications market enjoyed rapid growth, in part, due to broader economic recovery in Ukraine, changes in ownership of the two major operators, the introduction of CPP billing arrangements and the launch of the new Beeline brand in April 2006 by Ukrainian RadioSystems, or URS, a wholly owned subsidiary of Vimpelcom. The two largest wireless telecommunications providers in Ukraine are MTS-Ukraine and Kyivstar who share 71.6% of the market, with 31.8% and 39.9%, respectively, as of December 31, 2009, according to AC&M-Consulting. Competition between these two companies is based on the service and network quality, prices and brand perception. The remaining key competitors in Ukraine are Astelit, operating under the Life brand, and URS, operating under the Beeline brand.

Competition in the Ukrainian wireless telecommunications market has significantly intensified over the last three years and there was little growth in the overall number of subscribers and nationwide penetration between 2007 and 2009. Astelit's continued campaign of aggressive pricing in the market has driven down the overall average price per minute levels significantly since 2006. In response to the increasingly competitive operating environment, MTS-Ukraine continued to focus on developing and marketing its network quality and coverage while improving the quality of its subscriber base and increasing usage levels to stimulate improved subscriber loyalty. As a result, overall minutes of use per subscriber increased more than 80% during 2008 and more than 65% during 2009, offsetting a decline in average price per minute.

As of December 31, 2009, overall wireless penetration in Ukraine was approximately 120.6%, or approximately 55.3 million subscribers, according to AC&M-Consulting.

The following table shows the number of subscribers of the top mobile operators in Ukraine as of the dates indicated and the coverage area of MTS-Ukraine and our competitors in Ukraine:

<u>Operator</u>	<u>December 31, 2008</u>	<u>December 31, 2009</u>	<u>Coverage Area</u>
	(amounts in thousands)		
Kyivstar	23,530	22,022	Nationwide
MTS-Ukraine	18,115	17,564	Nationwide
Astelit	11,230	12,212	Nationwide
URS (Vimpelcom)	2,028	2,005	Nationwide

Source: Subscriber information based on AC&M-Consulting data.

In Ukraine, we compete primarily with Kyivstar, a GSM operator with approximately 22.0 million subscribers as of December 31, 2009. Kyivstar is a subsidiary of Vimpelcom and is expected in the future to merge with URS, Vimpelcom's other Ukraine mobile operator. Kyivstar offers wireless services using GSM 900/1800 technologies. Kyivstar is also licensed to provide fixed line DLD/ILD services. Astelit is owned by System Capital Management and Turkcell Iletisim Hizmetleri A.S., or Turkcell, and 13.2% of Turkcell is owned by Alfa Group. Astelit offers services in GSM 900/1800 standards under the Life brand. URS is a wholly owned subsidiary of Vimpelcom. It has a nationwide GSM 900 license and a GSM 1800 license for major regions of Ukraine and provides wireless mobile services under the Beeline brand.

In July 2006, we received a license to provide telecommunications services on the entire territory of Ukraine using the CDMA-450 standard. Following our development strategy in Ukraine, we launched a broadband network using CDMA 2000, deployed in the 450 MHz spectrum band, in November 2007. Our CDMA business in Ukraine faces competition from other operators, including People.net, Utel (the only UMTS license holder in Ukraine), fixed broadband operators and Wi-Max operators.

The Uzbekistan wireless telecommunications market

The Uzbekistan wireless telecommunications market is characterized by low but rapidly increasing penetration rates. In 2009, overall wireless penetration in Uzbekistan increased from approximately 44.8% to 57.0%, or approximately 16.0 million subscribers, according to our estimates and AC&M-Consulting data.

The following table shows the number of subscribers as of the dates indicated and the coverage area of MTS-Uzbekistan and our competitors in Uzbekistan:

<u>Operator</u>	<u>December 31, 2008</u>	<u>December 31, 2009</u>	<u>Coverage Area</u>
	(amounts in thousands)		
MTS-Uzbekistan	5,646.9	7,073.5	Nationwide
Unitel (Vimpelcom)	3,636.2	3,514.5	Nationwide
Ucell (Coscom)	2,683.0	5,074.0	Nationwide
Others	302.1	303.1	Nationwide

Source: Subscriber information based on our estimates, Vimpelcom estimates (for Unitel) and AC&M-Consulting data.

MTS-Uzbekistan offers wireless services in Uzbekistan using GSM and UMTS technologies. As of December 31, 2009, it had approximately 7.1 million subscribers and a 44.3% market share according to AC&M-Consulting and our estimates. In Uzbekistan, we compete primarily with Ucell (Coscom), a GSM operator beneficially owned by TeliaSonera with approximately 5.1 million subscribers and a

31.8% market share as of December 31, 2009. We also compete with Beeline (Unitel), a GSM operator owned by Vimpelcom with approximately 3.5 million subscribers and a 22.0% market share as of December 31, 2009.

The Turkmenistan wireless telecommunications market

The Turkmenistan wireless telecommunications market is characterized by low but rapidly increasing penetration rates. In 2009, overall wireless penetration in Turkmenistan increased from approximately 20.1% to 40.5%, or approximately 2.1 million subscribers, according to our estimates.

The following table shows the number of subscribers as of the dates indicated and the coverage area of MTS-Turkmenistan and our competitor in Turkmenistan:

Operator	December 31, 2008	December 31, 2009	Coverage Area
	(amounts in thousands)		
MTS-Turkmenistan	927.4	1,757.6	Nationwide
Altyn Asyr	133.0	309.6	Nationwide

Source: Subscriber information based on our estimates.

As of December 31, 2009, MTS-Turkmenistan had an 85.0% market share according to AC&M-Consulting and our estimates. MTS-Turkmenistan offers wireless services using GSM 900 and GSM 1800 technologies. In Turkmenistan, we compete only with a state-owned GSM operator Altyn Asyr with 310,000 subscribers as of December 31, 2009.

The Armenian wireless telecommunications market

As of December 31, 2009, overall wireless penetration in Armenia was approximately 85.9%, or approximately 2.8 million subscribers, according to our estimates.

The following table shows the number of subscribers as of the dates indicated and the coverage area of VivaCell-MTS and our competitor in Armenia:

Operator	December 31, 2008	December 31, 2009	Coverage Area
	(amounts in thousands)		
VivaCell-MTS	2,017.0	2,073.1	Nationwide
ArmenTel (Vimpelcom)	544.3	545.2	Nationwide
Orange (France Telecom)	—	131.2	Nationwide

Source: Subscriber information based on our estimates.

As of December 31, 2009, VivaCell-MTS had approximately 2.1 million subscribers and a 75.4% market share according to AC&M-Consulting and our estimates. In Armenia, we compete with ArmenTel, a fixed line and mobile operator wholly owned by Vimpelcom. ArmenTel holds a license in the GSM 900 standard for the entire territory of Armenia and a radio frequency permit for fixed line communications with CDMA equipment. Starting from 2009, we also compete with Orange (France Telecom), which was granted a GSM-900/1800 network license in October 2008.

Tariffs

We customize our marketing efforts and pricing policies in each region of Russia and our other countries of operation by considering such factors as average income levels, local currency exchange rates, the competitive environment and subscriber needs, all of which vary from region to region. Consistent with our marketing strategy, we have developed tariff plans to appeal to a broader market.

Starting in June 2006, we launched a new set of prepaid tariff plans geared at mass-market subscribers in all regions of Russia, which include no monthly subscription fee, free incoming calls and special features for different segments of the mass-market subscribers. To offset losses for providing free incoming calls under CPP, we increased the price for the first minute of all outgoing calls made by our prepaid subscribers.

The following table shows the mix between prepaid and other subscribers, such as contract and corporate customers, for Russia and Ukraine for the periods indicated:

	At December 31,		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Russia			
Prepaid	88%	87%	79%
Other	12%	13%	21%
Ukraine			
Prepaid	92%	92%	92%
Other	8%	8%	8%

We are actively seeking to migrate our customers from advance payment plans to credit payment plans in an effort to stimulate ARPU and reduce churn. We endeavor to mitigate the risk of bad debt through the implementation of credit scoring algorithms that assess and help manage the risk of potential bad debt.

We currently have a unified system of tariff plans offered to subscribers throughout Russia. The unified system is aimed at achieving such benefits as clarity, simplicity and transparency for prospective subscribers by offering the same set of tariff categories throughout Russia. Under each tariff category, we offer different tariff plans with different connection fees, per minute call charges and a wide range of value-added services. Although we offer the same categories of tariff plans throughout Russia, the prices of these plans differ from region to region taking into account such factors as the average income, competitive environment and subscriber needs in a particular region. Our tariff plans are more expensive in the Moscow license area than in other license areas.

Prior to January 1, 2007, our tariffs in Russia were primarily denominated in “conventional units” based on the U.S. dollar converted to rubles at a certain exchange rate, except for some regions of Russia where tariffs were quoted in rubles. Due to the enactment of regulatory changes in Russia prohibiting companies from establishing prices in currencies other than rubles as well as the growth in the share of our ruble denominated expenditures, we began pricing our services and invoicing customers in Russia in rubles from January 1, 2007. All tariffs presented below are expressed in U.S. dollars converted from rubles using the exchange rate as of December 31, 2009.

By advertising on a national rather than regional or local level, we have been able to streamline and reduce our advertising and marketing expenses through unified advertising campaigns throughout Russia. Furthermore, we are able to convey to consumers a more uniform perception of our brand and services.

Currently, each of our tariff plans in Russia combines per minute usage charges, value-added services in packages and different monthly network access fees (with the exception of the prepaid tariff plans) designed for different market segments. Our tariff plans are designed to be simple and appeal to particular segments of the market taking into account such factors as customer needs and consumption levels. Our tariff plans are currently divided into four categories—“Prepaid,” “Maxi,” “Unlimited” and “Corporate”—with each category designed to target specific segments as follows:

- *Prepaid:* Prepaid tariff plans are geared towards consumers who use their mobile phones for personal communication. These plans do not have monthly subscription fees and the per-minute

fee charges depend largely on the tariff plan chosen. For example, we offer a tariff plan geared towards students and youth that allows subscribers to elect on-demand additional unlimited on-net, SMS and data options that are charged on a daily basis. We also offer a family-oriented tariff plan that permits family members to make calls among themselves at discounted prices. Subscribers to our prepaid plans can reduce the price of their calls by using tariff options which have a subscription fee. There are at least four prepaid plans available in each of the Russian regions where we operate. After our customers subscribe to a particular prepaid plan, they have the option of switching to a different prepaid plan by sending an SMS message (USSD request) to a designated number.

- *Maxi*: “Maxi” tariff plans are geared toward mid- and heavy users who use their mobile phones for personal and business communications. These plans feature unlimited on-net calls, as well as monthly fees for a certain pre-determined number of minutes and reduced fees for subscribers who exceed this limit. “Maxi” subscribers choose between a local and federal number with the local number being more expensive, and from a wide range of value-added services, including caller ID, conference calling, call transferring and call waiting/holding. Regular subscribers of the “Maxi” plans are provided an additional discount of up to 25% on their local and mobile calls and an increase of allotted minutes of up to 25% at no extra charge. In addition, subscribers of some of the “Maxi” plans are offered access to our personal customer care service and credit payment system.
- *Unlimited*: “Unlimited” tariff plans are designed for heavy users who call primarily within their domestic region. Subscribers of unlimited tariff plans are provided an unlimited number of local minutes, an opportunity to pay through our credit payment system and access to personal customer care service. In the Moscow region, for those subscribers issued a local number, monthly fees start from \$279 and those using a federal number pay from \$165 per month.
- *Corporate*: We offer up to four tariff plans in each region targeted to meet the demands of our corporate clients and allowing them to optimize their communication expenses in accordance with their individual consumption patterns. These plans feature specialized customer care, payment through our credit system and volume and tenure discounts. In addition, we provide customized pricing offers and technical solutions to our biggest clients.

Our tariffs vary from plan to plan. The following description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2009, the per-minute tariff for local calls within the MTS network varied from \$nil per minute to \$0.29 per minute. Different rates apply to local calls to other networks and vary from \$0.005 per minute to \$0.29 per minute. Higher rates apply to domestic long distance calls and we assess a surcharge for all international calls that range from \$0.28 per minute for calls to MTS subscribers within the CIS to \$1.96 per minute for calls to other parts of the world. Certain value-added services, such as Caller ID and Call Forwarding, are included in all current tariff plans at no additional charge (other than for subscribers using old tariff plans that we no longer offer, some of which carry a charge of up to \$2.85 per month for these services). Periodically, we run various promotional campaigns, either on the federal or regional level, in which we provide temporary discounts to our regular prices.

We also offer unified tariff plans throughout Ukraine and, in connection with our re-branding efforts in Ukraine during 2007 and 2008, we developed new tariff plans that focus on the differing needs of subscribers in the various market segments. Our tariff plans in Ukraine consist of two post paid and two prepaid nationwide tariff plans and a set of regional and group-specific plans that are not offered nationwide.

- *MTS Postpaid Business*: A set of postpaid contract tariff plans designed to appeal to business segment subscribers, offering special prices, free minutes for calls among corporate subscribers and, within the MTS network, with no call setup fee.

- *MTS Postpaid Private*: A set of postpaid tariff plans designed to appeal to mass-market subscribers, offering free calls within the MTS network.
- *MTS Prepaid Private*: A set of prepaid tariff plans designed to appeal to mass-market subscribers, offering special prices on calls within the MTS network, no fee for the first minute and various loyalty offers.
- *MTS Prepaid Youth*: Special tariffs designed to appeal to youth- market subscribers based on low flat rates on voice calls bundled with free SMS traffic.
- *MTS Regional*: These are more aggressive tariff plans tailored to the particular region where the plans are offered, which are typically regions where we have a relatively low market share.

As of December 31, 2009, the standard per minute tariff for calls in Ukraine varied from \$0.02 per minute to \$0.29 per minute. The standard per minute tariff for calls made within the MTS-Ukraine network ranged from \$0.001 per minute to \$0.14 per minute. Higher rates applied to international calls ranging from \$0.13 per minute to \$9.3 per minute. All tariffs for MTS-Ukraine subscribers are quoted in hryvnias. The tariffs set forth above are translated from hryvnias to U.S. dollars using the exchange rate as of December 31, 2009.

Customer Payments and Billing

We enroll new subscribers, except for certain corporate and exclusive clients, in an advance payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2009, approximately 83% of our consolidated subscriber base was enrolled in the advance payment program and 17% used the credit system.

Our advance payment system monitors each subscriber account and sends an advance warning on the subscriber's mobile telephone when the balance on the subscriber's account decreases below a certain threshold.

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2009, subscribers using the credit system of payment had credit limits of up to \$1,000 for corporate customers and \$330,000 for key corporate customers in Russia. When a credit limit is reached, we block the telephone number until the balance is settled. There are no credit limits established for certain exceptional, high loyalty level customers.

In 2007, we began to actively promote our credit payment system to our existing and new subscribers with the aim of migrating our subscriber base to the credit payment system from the existing advance payment system. In furtherance of this effort, during 2007, we introduced the new "Credit" service, which allows our prepaid customers who subscribe to this service to continue using services when the balance on the subscriber's account becomes negative. We assign credit limits to our subscribers based on their payment history. As of December 31, 2009, subscribers using the "Credit" service had a maximum credit limit of \$10. We also offer individual credit limits, which are established based on a subscriber's average usage during a 3 month period. When the limit is reached, we block the phone number until the balance is settled. Similarly to the credit payment system, the subscribers are billed monthly in arrears for usage. The invoice, which can be delivered to the customer by e-mail, fax, regular post and Internet, should be settled within 24 days. If the invoice is not paid five to seven days prior to the due date, the system sends an additional reminder. The telephone number is blocked on the 25th day if the invoice is not settled.

We have substantially completed implementation of a new billing system in Russia and Belarus and have already begun to experience increases in our overall efficiency and reductions in our expenses. The transition to the new billing system in the other countries where we operate will take longer to complete. The new billing system allows us to offer all of our subscribers a uniform and consistently high level of service and is also capable of monitoring account usage in real time and provides us with the ability to offer flexible tariff plans with various usage discounts and subscriber loyalty bonuses. In addition, we are able to provide our corporate subscribers with more sophisticated customized billing solutions. For example, our corporate subscribers who use multiple phone numbers in different regions of Russia now receive a single invoice, whereas our old billing system could not support such a service.

In Ukraine, our post-paid corporate and high-end subscribers receive an invoice which must be paid by a specified date. If the subscriber fails to pay, we block the phone number until the balance is settled. Our advance payment subscribers are able to continue using our services once they reach a zero balance until their accounts reach the credit limit specified in their individual service contracts. When the limit for a subscriber is reached, we block the phone number until the balance is settled. We determine account terms and credit limits for each subscriber based on the subscriber's age, payment history, tariff plan and usage history.

In Russia and Ukraine, we offer our subscribers various ways to pay for our services, including by cash or credit card, wire transfer, on account, prepaid cards and express payment cards.

Customer Service

We believe that to attract and retain customers, we must provide a high level of service in the key areas of customer assistance, care and billing. In each of the markets where we operate, we have a call center that provides customer service 24 hours a day, seven days a week. Customer service representatives answer inquiries regarding disconnection due to lack of payment, handset operation, roaming capabilities, service coverage and billing. A special group of customer service representatives handles customer claims and assists customers who wish to change their services.

During 2006, we launched the call center performance management program to improve subscriber accessibility to customer services and establish higher standards of customer care through all of our call centers. Pursuant to this program, we successfully implemented the intellectual routing of calls designed to provide our most valuable and loyal customers with quicker access to customer support services when calling us. We are also continuing to transform our call centers into effective channels for CRM. In 2009, we implemented the CRM system for our customer care processes in each of our primary macro-regions in Russia. We intend to use the functionality of the CRM system to aid in the planning of our marketing activities.

We have established customer retention departments throughout the territory of Russia to develop and implement customer retention programs with respect to all key customer segments and each of our primary service offerings. Our customer retention personnel are responsible for training front line employees on handling customer claims and suggestions, as well as following up with those customers who disconnected from our network to understand the reasons for the disconnection and properly respond to the changing needs of our customers. Whereas we previously had back-offices (consisting of employees who process customer requests other than online requests) in various cities within each of our primary macro-regions, we now have one consolidated back-office in each macro-region, and the time for processing requests has been reduced to 24 hours for 95% of all requests processed.

We additionally intend to continue to expand our chain of exclusive mono-brand sales offices which, in addition to enrolling new subscribers and selling handsets and other equipment, offer customer service assistance to existing subscribers.

In Ukraine, we expanded our customer care “self-service” options in 2008, launching a web portal and providing free access at special terminals in our sales offices for contract customers. In 2009, we further enhanced the quality of our customer service as a result of the full integration of our interactive voice response systems (IVRs) and billing, and we intend to further improve and develop IVRs in 2010.

Network

Network Technology

We believe that geographic coverage, capacity and reliability of the network are key competitive factors in the sale of mobile cellular telecommunications services. Our 2G network is based primarily on GSM 900 infrastructure, augmented by GSM 1800 equipment. We use GSM 1800 equipment in high-use areas, because 1800 MHz base stations are more efficient in relieving capacity constraints in high traffic areas. Although there is no difference in quality between GSM 900 and GSM 1800 services, the higher frequency 1800 MHz signals do not propagate as far as 900 MHz signals. As a result, more 1800 MHz base stations are typically required to achieve the same geographic coverage. Accordingly, in regions where geographic coverage, rather than capacity, is a limiting factor, networks based on GSM 900 infrastructure are typically superior to those based on GSM 1800, because they require fewer base stations to achieve coverage and, therefore, cost less. In most markets, including Russia and Ukraine, the most efficient application of GSM technology is to combine GSM 900 and GSM 1800 infrastructure in a unified network, which is commonly referred to as a dual-band GSM network. Our 3G network is based on UMTS 2100, and our existing GSM infrastructure is actively used for our 3G rollout. During 2009, we continued implementation of UMTS 2100 networks in Russia, Uzbekistan and Armenia. We plan to combine our UMTS and GSM infrastructures in a unified network based on Single RAN technologies introduced by our vendors. We are also moving towards LTE technology.

Network Infrastructure and Frequency Allocation

We use switching and other network equipment supplied by Motorola, Nokia Siemens Network, Ericsson, Huawei, Alcatel-Lucent and other major network equipment manufacturers.

In the Moscow license area, we have allocated frequencies spanning 2×11.4 MHz of spectrum in the GSM 900 frequency band and 2×24.6 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network.

In St. Petersburg and the Leningrad region, we have allocated frequencies spanning 2×9.6 MHz of spectrum in the GSM 900 frequency band (including 2×1.6 MHz in the E-GSM band) and 2×18.2 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network.

We have allocated frequencies 1950-1965 MHz, 2010-2015 MHz and 2140-2155 MHz in the UMTS core frequency bands spanning 2×15 MHz (for FDD mode) and 5 MHz (for TDD mode) for UMTS network deployment for the entire territory of the Russian Federation.

We have frequencies allocated to us for the operation of GSM 900 and GSM 1800 frequency bands in all regions of Ukraine. The radio frequencies allocated to us for the operation of GSM 900 span from 2×4.0 MHz of spectrum in the Crimea Autonomous Republic to 2×5.8 MHz in the Nikolaev, Lugansk, Chernovtsy and Kirovograd regions and in Kiev. We also have been allocated frequencies spanning from 2×20.0 MHz in the Kiev region to 2×26.6 MHz in the Dnepropetrovsk region for operation of GSM 1800 base stations. In addition, we have been allocated frequencies spanning from 453.35 – 457.1 MHz and 463.35-467.1 MHz in the CDMA-450 core frequency and bands spanning 3×1.25 MHz for CDMA-450 network deployment for the entire territory of the Ukraine.

We believe that we have been allocated adequate spectrum in each of our license areas.

Base Station Site Procurement and Maintenance

The process of obtaining appropriate sites requires that our personnel coordinate, among other things, site-specific requirements for engineering and design, leasing of the required space, obtaining all necessary governmental permits, construction of the facility and equipment installation. In Russia, we use site development software supplied mainly by Aircom International to assess new sites so that the network design and site development are coordinated. Our software in Russia and Ukraine can create digital cellular coverage maps of our license areas, taking into account the peculiarities of the urban landscape, including the reflection of radio waves from buildings and moving automobiles. Used together, these software tools enable us to plan base station sites without the need for numerous field trips and on-site testing, saving us considerable time and money in our network buildout.

Base station site contracts are essentially cooperation agreements that allow us to use space for our base stations and other network equipment. The terms of these agreements range from one to 49 years, with the term of a majority of agreements being one to five years. Under these agreements, we have the right to use premises located in attics or on top floors of buildings for base stations and space on roofs for antennas. In areas where a suitable base station site is unavailable, we construct towers to accommodate base station antennae, mainly on leased plots of land. We anticipate that we will be able to continue to use our existing GSM 900 base station sites and to co-locate GSM 1800 and UMTS base stations at some of the same sites.

To provide quality service to subscribers, our maintenance department, staffed 24 hours per day, performs daily network integrity checks and responds to reported problems. Our technicians inspect base stations and carry out preventative maintenance at least once every six months.

Network Monitoring Equipment

We have operation and maintenance centers in major cities throughout Russia. We constantly control and monitor the performance of our network, call completion rate and other major key technical performance indicators. We use monitoring systems to optimize our network and to locate and identify the cause of failures or problems, and also to analyze our network performance and obtain network statistics. We have agreements with different suppliers for technical support services that allow us to obtain their assistance in trouble shooting and correcting problems with our network within the warranty period.

Our networks in Ukraine, Uzbekistan, Turkmenistan, Armenia and Belarus are monitored by our local operations and maintenance centers in each country. In addition to monitoring performance of the network, these operations and maintenance centers analyze network quality parameters and provide reports and recommendations to management.

The handling of any significant network problems and outages are monitored and coordinated at our corporate headquarters in Moscow, which also manages the cross-functional coordination of our networks in all of our countries of operation.

Interconnect Arrangements and Telephone Numbering Capacity

We operate various types of communications networks, including mobile cellular, DLD/ILD and local fixed line and zonal fixed line networks.

Cellular operators must interconnect with fixed zonal, wireless, long distance and international telephony operators to obtain access to their networks and, via these operators, to the networks of other operators around the world. Cellular operators must also obtain telephone numbering capacity to allocate to their subscribers. There are two categories of telephone numbers: "federal" 11-digit numbers and "local" seven-digit numbers. We have entered into various agreements for the provision of local telephone numbering capacity with several local telecommunications operators in Moscow and in

the other regions of Russia and in Ukraine, including our subsidiaries MGTS and other companies within the Comstar group, and Golden Telecom, Ukrtelecom and other public switched telephone network operators in Ukraine. We have also built our own local networks in certain cities within Russia (including Moscow) to provide local telephone numbering capacity to our subscribers. We are allocated federal telephone numbering capacity by the government and we provide interconnection services to other operators on the zonal level in all regions of Russia. Zonal/local interconnection typically entails payment of a one-time connection fee, a monthly fee per point of interconnection and a usage charge based on minutes of traffic.

To provide our subscribers in Russia with DLD/ILD services, we have interconnection agreements with national operators Rostelecom, MTT (an affiliate of Sistema until March 18, 2009), Golden Telecom (a subsidiary of Vimpelcom) and other national transit operators. We have also built and operate our own DLD/ILD network, which allows us to interconnect directly to foreign operators and thereby decrease our interconnect costs. Most interconnect fees payable for connecting users of other operators' fixed line and wireless networks to our network are based on a one-time connection fee, a monthly fee per point of interconnection and usage by minute which vary depending on the destination called.

Russian legislation requires that fixed line operators with a substantial position in the market cannot refuse to provide interconnection or discriminate against one operator in comparison to another, and the interconnect rates of operators with a substantial position are regulated by the government. See "Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in the Russian Federation—Competition, Interconnection and Pricing" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues."

The Ministry of Communications and Mass Media has allocated special numbering codes for federal 11-digit telephone numbers on a non-geographical basis for all cellular operators. We believe that we have been allocated sufficient numbering capacity for the development of our network. However, a combination of regulatory, technological and financial factors has led to the limited availability of local 7-digit telephone numbering capacity in Moscow and the Moscow region. Moscow's "495" code and the Moscow region's "496" code have already reached numbering capacity limits. As a result, the new "499" code was introduced in order to increase the Moscow numbering capacity. To meet subscriber demand and provide for an adequate inventory of numbering capacity, we used to enter into contracts with local fixed line providers for allocation of numbering capacity to us. However, the Russian regulator subsequently took the view that numbering capacity assigned to one operator could not be rented to other operators. Accordingly, we have entered into new arrangements whereby fixed line operators make their numbers available to our subscribers via agency contracts between the subscribers and us acting on behalf of such fixed line operators. Our right to use numbering capacity ranges from five years to an unlimited period of time. As of December 31, 2009, we had numbering capacity (federal and local) for over 22.3 million subscribers in the Moscow license area. For a description of how we amortize the acquisition costs of numbering capacity, see Note 2 to our audited consolidated financial statements.

Interconnection and traffic transit between the networks of mobile operators in Russia occur through direct channels connecting the switches of the different mobile operators within the same city; through the network of transit long distance operators, which connect the networks of different mobile operators in different cities; or through operators' proprietary long distance networks. MTT is the primary transit long distance operator providing interconnection and traffic transit services between cellular operators, although we endeavor to diversify the routing of our subscriber traffic among several transit operators.

In Ukraine, mobile operators are allocated numbering capacity by the NCRC. We believe that we have been allocated sufficient numbering capacity in Ukraine for the development of our mobile network. We also believe that we have been allocated sufficient fixed line numbering capacity with respect to the cities in which we are developing our fixed line network. However, we estimate that it would take between 1.5-2 years to obtain sufficient fixed line numbering capacity should we seek to expand our fixed line operations to additional cities.

Handsets

Almost all of our handset sales in 2008 and 2009 consisted of dual-band GSM 900/GSM 1800 handsets. These dual-band handsets are currently in widespread use on networks in Western Europe and, because they send and receive communications on both GSM 900 and GSM 1800 frequencies, they can relieve possible congestion on our network and increase the ability of our customers to roam. We also offer our subscribers tri-band handsets. These handsets, which function in the GSM 900, GSM 1800 and PCS-1900 standards, provide users with greater automatic roaming possibilities in Russia, Europe, the United States and Canada. We generally do not offer handset subsidies in Russia but do offer them in Ukraine to a limited number of contract subscribers as well as modem subsidies for GSM and CDMA users. For the years ended December 31, 2008 and 2009, we provided net handset subsidies of \$20.4 million and \$15.6 million, respectively, in Ukraine.

Starting in 2007, we decreased our selling activities in relation to dual-band and tri-band handsets and accessories and shifted our sales focus to a more limited line of equipment, including 3G compatible equipment, Blackberry and equipment designed for MTS-Connect services. In addition, from January 1, 2008, we reduced our purchases of handsets and accessories for resale and focused instead on commission sales whereby we receive handsets and accessories on consignment from third party equipment suppliers and sell them at our sales outlets for a commission. We also began renting sales office space to third party dealers who sell handsets and equipment under our brand name and are required to follow standards set by us relating to assortment, pricing, quality of goods and quality of customer service.

In 2009, we significantly changed the strategy and structure of our retail operations by significantly expanding our proprietary sales and distribution network both organically and through the acquisition of national and regional retail chains. We organized these operations under RTC, our wholly owned subsidiary. From 2009, RTC handles all functions relating to our retail operations, including the purchase and sale of handsets and accessories and subscriber enrollment at our retail outlets. RTC has entered into arrangements with Sony Ericsson, Nokia, Motorola, Samsung, Siemens, Alcatel and others to purchase handsets. We are not dependent on any particular supplier for handsets. We also offer an array of mobile telephone accessories.

In August 2008, we signed an agreement with Apple Sales International and launched iPhone 3G™ sales in October 2008. Under the agreement, we committed to purchasing a certain quantity of iPhone 3G™ headsets over 2009, 2010 and 2011. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Our failure to fulfill our iPhone handset purchase commitment under our agreement with Apple Sales International could have a material adverse effect on our financial condition and results of operations” and Note 30 to our audited consolidated financial statements.

Following our launch of iPhone 3G™ sales and in line with our strategy to expand our proprietary distribution network, we expect our handset sales to increase in 2010. See also “Item 5. Operating and Financial Review and Prospects—Revenues—Sales of Handsets and Accessories.”

Fixed Line Operations

Through our subsidiary Comstar, we are a leading supplier of integrated fixed line telecommunications solutions in Russia. Comstar operates in both the alternative and traditional fixed line communications markets, offering services in over 80 cities across Russia, covering a population of over 48 million people.

Comstar's alternative fixed line communications services include voice, data and Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnection services to other communications operators and numbering capacity to their subscribers. According to Direct INFO, as of December 31, 2009, Comstar was the largest operator in the Moscow residential broadband market, with a 32% market share. Comstar also operates in Ukraine and Armenia, where it provides digital telephony communications services, data transmission, Internet access and the renting of channels.

Comstar's traditional fixed line communications services are provided through incumbent operator MGTS. Through MGTS, Comstar owns "last mile" access to approximately 3.6 million households in Moscow, representing approximately 96% of the city's total households who are active users of fixed line voice telephony, according to Direct INFO. MGTS provides regulated and unregulated services, including local telephony services at tariffs regulated by the Russian government, DLD/ILD voice telephony through licensed operators, interconnection to other operators, Internet and data transmission services, and numbering capacity to subscribers of other communications operators through agency agreements concluded with such operators.

In December 2006, Comstar purchased a 25% + 1 share blocking stake in Svyazinvest. Svyazinvest owns a 23.33% stake in MGTS. In November 2009, Comstar, Sistema and Svyazinvest concluded a non-binding memorandum of understanding (MOU) that contemplates, among other things, a potential sale by Comstar of its interest in Svyazinvest, Comstar's acquisition of a stake in MGTS and the restructuring of certain indebtedness in connection with the transaction. The precise terms and consummation of the transactions remain subject to the negotiation and execution of definitive binding documentation by these and potentially other parties as well as satisfaction of any applicable conditions (including receipt of any required regulatory approvals and valuations).

As contemplated under the non-binding MOU, on May 20, 2010, Comstar, MGTS Finance S.A. (a company controlled by Comstar) and Rostelecom entered into agreements involving the sale of the 25% + 1 share of Svyazinvest to Rostelecom for RUR 26 billion. If consummated, the proceeds of the sale will be used by Comstar to pay down its outstanding debt to Sberbank in the amount of RUR 26 billion. The closing of the transactions is subject to a number of conditions. No assurance can be given that any of the parties will execute definitive documentation, the conditions will be satisfied or that any of the contemplated transactions will occur. See "Item 8. Financial Information—B. Significant Changes."

Comstar's shares of common stock, represented by Global Depositary Shares, have been listed on the London Stock Exchange under the symbol "CMST" since February 2006.

For a list of the telecommunications licenses held by Comstar, see "Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Licenses."

Customers and Services Offered—Alternative Fixed Line Business

We provide alternative fixed line communications services to corporate, operator and residential subscribers in over 80 cities throughout Russia. Specifically, we offer local voice, DLD/ILD voice, data and Internet and pay-TV services to our subscribers. The interconnect tariffs we charge to other telecommunications operators in Moscow are regulated by the Russian government. Tariffs for our

other services are not regulated and, consequently, we are permitted to establish our own tariff structures. We believe our alternative fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service.

The following table presents certain operating data for our alternative fixed line business in the Moscow market and in the Russian Regions and CIS as of and for the years ended December 31, 2008 and 2009.

<u>Alternative fixed line business</u>	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Moscow market		
Installed telephone lines (000s)	653	659
Residential		
Number of subscribers (000s) ⁽¹⁾	699	607
ARPU (RUR)	337	442
ARPU (US\$)	13.6	14.0
Corporate ⁽²⁾		
Number of subscribers (000s)	30	27
ARPU (RUR)	10,844	13,676
ARPU (US\$)	436.8	432.8
Operators		
Number of active lines (000s)	437	438
of which, used by mobile operators (000s)	307	307
Russian regions and CIS (excluding Moscow market)⁽³⁾		
Residential		
Number of subscribers (000s)(1)	505	2,606
ARPU (RUR)	236	155
ARPU (US\$)	9.5	4.9
Corporate ⁽²⁾		
Number of subscribers (000s)	44	52
ARPU (RUR)	4,002	3,573
ARPU (US\$)	161.6	113.1
Operators		
Number of active lines (000s)	2	2

(1) Subscribers to broadband Internet, pay-TV, voice and other services. We calculate our subscribers based on the number of active lines in service. A line is considered “active” if the subscriber has used and paid for the service within the last six months.

(2) Includes state-owned enterprises and government agencies.

(3) The data in the Russian regions and CIS for the year ended December 31, 2008 excludes our pay-TV operations. No reliable data is available on installed lines outside of the Moscow market.

Corporates

We target corporates covering a range of industries, such as business centers, hotels, financial institutions, professional services firms, consumer goods companies, manufacturers and companies involved in extractive industries, among others. These subscribers vary in size, ranging from large multinational and Russian corporations with thousands of employees to small- and medium-sized enterprises with up to several hundred employees. As of December 31, 2009, we had approximately 74,000 corporates.

As further described below, we offer voice, data transmission and Internet and various value-added services to our corporate subscribers.

Voice Services. We provide a full range of alternative fixed line voice services to corporates in Moscow, the Moscow region and other select regions of Russia, which include local and DLD/ILD services using our transmission network and leased capacity between major Russian cities. We also provide integrated voice and data services, voice over frame relay and certain ISDN services. We charge our corporates a connection fee of RUR 3,200-RUR 11,200 per number, as well as a monthly subscription fee of RUR 224-RUR 1,120 per number, based on the quantity of numbers used by the corporate subscriber.

Data Transmission and Internet Services. We offer high quality data transmission services to corporates, which allow for data exchange between their various branches or offices located within Russia and internationally. For data transmission services, our network is capable of transferring data at speeds of up to 10 Gbps and utilizes various technologies, such as 10 GE, GE, ATM, TDM, VPN-MPLS, xDSL, Wi-Max and Wi-Fi to provide high quality solutions at a relatively low cost. We endeavor to ensure the reliability of network connections by utilizing a full reservation approach to back up all elements of the network.

In addition, we offer a wide range of Internet services to corporates, including broadband Internet access, VoIP, VPNs and data center services using the following technologies: (1) NGN (up to 1 Gbps), (2) ADSL2+ (up to 29 Mbps), (3) radio Ethernet (up to 27 Mbps), (4) Wi-Fi (up to 54 Mbps), and (5) Wi-Max (up to 10 Mbps). We also provide continuous flexibility to upgrade their network capacity to handle additional Internet services, such as VPN. For example, we often integrate data transmission and Internet services for our clients as they expand their operations and need to interconnect and exchange data with newly opened offices and/or branches.

We offer a broad range of Internet packages that vary in terms of data transfer speeds and pricing, with higher tariffs for faster uploading and downloading capabilities. Corporates with ADSL-based broadband Internet packages generally experience data transfer speeds between 1.5 Mbps and 29 Mbps. In addition, we offer a premium broadband Internet service over our NGN in which subscribers enjoy data transfer speeds between 128 Kbps and 1 Gbps. The NGN provides subscribers with the benefit of the same uploading and downloading data transfer speeds, whereas Internet subscribers using an ADSL connection upload at speeds that are much slower than they can download.

For the provision of broadband Internet services, we have secured access to MGTS' network allowing data transmission at speeds of up to 29 Mbps along installed copper lines using ADSL technology. As of December 31, 2009, all of MGTS' 225 PoPs were DSL-enabled. In addition, we utilize MGTS' PDTN to provide high-speed reliable Internet services and create VPNs for our corporates.

We charge our corporate subscribers a connection fee of RUR 3,200-RUR 48,000 per digital channel, as well as a monthly subscription fee of RUR 1,600-RUR 57,600 per channel, based on the maximum speed of the connection.

Value-Added Services. We provide corporates with several value-added services, including Logic Line and integrated solutions. The Logic Line service is based on our proprietary IN and is designed to help our corporates manage the reception and servicing of a large volume of incoming calls. The unique multi-channel telephone number assigned to customers will not change even if the customer moves to a different location in Moscow, and does not require the customer to install any equipment. In addition, this service allows all incoming calls to be transferred to other fixed or mobile telephone numbers in Russia or in other countries. The IN identifies a subscriber by phone number, phone card or password, which allows our customers to bill their subscribers for services and, if necessary, block access for subscribers who have a negative balance on their account.

In addition, we serve as general contractor for the provision of a full range of integrated solutions to subscribers wishing to establish a modern integrated communications infrastructure. Each solution is customized for subscriber-specific needs. In developing these customized networks, we are able to offer the following range of services: site survey, cost analysis and optimum project planning, assistance with government-related documentation, supply of equipment and operational, technical and maintenance support on an ongoing basis. Once the infrastructure is established or renovated, as the case may be, we typically provide digital voice communications, voice intelligent services, high-speed Internet services, videoconferencing and other data transmission services. We intend to expand our service offerings to include customer premises management and network-centric IT solutions, such as CPE, LAN, firewall management and data security.

Operators

We offer a range of services to other fixed line communications operators, ISPs and to MTS, Vimpelcom and MegaFon, the three major Russian mobile telecommunications operators, including the following: (1) interconnection and completion services for telephone calls originating in Russia and the CIS, as well as calls terminating in Russia, (2) provision of a portion of our allocation of coveted “495” prefix Moscow telephone numbers to the subscribers of other alternative fixed line communications and mobile operators through agency agreements concluded with such operators, (3) data transmission services, including frame relay, SDH capacity and IP-VPNs, (4) IP transit ports, and (5) installation and maintenance of equipment on customers’ premises. Together with MGTS, Comstar had approximately 78% of the total active numbering capacity in Moscow as of December 31, 2009, according to Direct INFO.

As of December 31, 2009, we had 603 operator customers.

Residential

We offer voice, Internet and pay-TV services to residential subscribers.

Voice Services. We provide the same voice services to unregulated residential subscribers as those provided to corporates. For a more detailed discussion of these services, see “—Corporates—Voice Services.” Like corporate subscribers, residential subscribers in each of the regions that we have a presence, including, among others, the Moscow region, Rostov and Tyumen, seek a full range of high quality voice services equivalent to those provided in Western Europe. In addition to “basic” voice telephony services, we provide a number of additional services, such as call forwarding, call transferring, call waiting, conference, voicemail and Caller ID, among others. Residential voice services are primarily offered by our alternative fixed line business to high value residential subscribers in high-end housing.

Internet Services. We offer broadband Internet services to residential subscribers throughout Russia. As of December 31, 2009, we had a 32% share of the residential broadband Internet market in Moscow, according to Direct INFO. In 2009, we launched wireless broadband Internet services throughout Moscow based on mobile Wi-Max technology. As a result, the Internet is currently accessible for Moscow residents from nearly any place in the city using a range of our fixed and wireless technologies. Depending on the Internet connection speed, we charge residential subscribers a subscription fee of RUR 390-RUR 3,000 per month. We do not charge a connection fee in Moscow. In regions outside of Moscow, we charge a one-time connection fee of up to RUR 1,750 and a subscription fee of up to RUR 4,000 per month.

Pay-TV. In 2005, Comstar began commercial operation of Stream-TV, a digital TV service based on ADSL IP technology in Moscow. In addition, we offer pay-TV services in most of the regions in which we are present, including, among others, Rostov, Tyumen, Yekaterinburg and Astrakhan, based on HFC, FTTB, MMDS and DVB-C technologies. Special auxiliary equipment allows pay-TV

subscribers to access more than 100 channels of digital quality from a home television without satellite dishes or specialized antennas. International and Russian channels are included as part of the base services package. As of December 31, 2009, we had approximately 128,000 pay-TV subscribers in Moscow and approximately 1,996,000 subscribers in other regions of Russia.

Our pricing structure is designed to appeal to large numbers of consumers with various interests and purchasing power, and varies significantly from region to region. In Moscow, we charge a subscription fee of RUR 110-RUR 450 per month, depending on the number of channels included in the package. We do not charge a connection fee in Moscow. In the regions outside of Moscow, we charge a connection fee of up to RUR 500 and a subscription fee of up to RUR 320 per month for pay-TV services. In Moscow, we also offer bundled Internet and pay-TV services for RUR 260-RUR 1,480 per month, depending on the speed of the Internet connection and the number of pay-TV channels being provided.

Customers and Services Offered—Traditional Fixed Line Business

We provide traditional fixed line communications services through our subsidiary, MGTS, which is the incumbent fixed line PSTN operator in Moscow. MGTS owns Moscow's PSTN infrastructure, including switches, a transmission network, underground ducts, and owns or holds leases to properties housing its offices and equipment. As of December 31, 2009, MGTS had approximately 4.37 million active lines in service, a cable network of over 94,000 km, a fiber optic network of over 5,300 km and 4,000 payphones. Although MGTS' core backbone network is fully digital and is based on state-of-the-art SDH technology, only around 63% of installed lines were digital as of December 31, 2009. As a result, those subscribers who connect to our network using an analog ATE are currently not able to receive our value-added services. Residential subscribers accounted for approximately 82.6% of MGTS' total lines, corporates for 11.6% and public sector subscribers for 5.8%, as of December 31, 2009.

MGTS holds licenses and regulatory approvals to provide, among others, the following services:

- local telephony;
- DLD/ILD voice telephony through licensed DLD/ILD operators, including Comstar;
- interconnection to other operators;
- Internet and data transmission, including leased DLD/ILD services;
- inquiry and information, including telephone directories;
- use of payphones; and
- numbering capacity provided to the subscribers of other communications operators through agency agreements concluded with such operators.

As the only licensed PSTN operator in Moscow, MGTS is considered a monopoly under Russian antimonopoly regulations. Consequently, most of the services provided by MGTS are subject to governmental regulation. The Federal Tariff Service regulates MGTS' tariffs for voice telephony services provided to its PSTN subscribers, including monthly subscription fees, installation fees and local call charges. Operating revenues from regulated services accounted for approximately 68% of service operating revenues of Comstar's traditional fixed line business in 2008 and approximately 70% in 2009.

The Federal Tariff Service sets the tariffs MGTS can charge taking into account cost of services, network investment and a certain profit margin, and the current tariffs fully compensate MGTS for the cost of services provided to residential and government subscribers. According to Russian legislation, MGTS is allowed to petition the Federal Tariff Service for tariff increases upon certain conditions, such as inflation or increases in the cost of services. Historically, MGTS has petitioned the relevant Russian

government agency for tariff increases once or twice per year. The Federal Tariff Service has permitted MGTS to increase its tariffs several times.

MGTS also provides a number of unregulated services. According to Russian legislation, DLD/ILD services provided by licensed non-monopoly operators, public payphones, data transmission services, value-added services and a number of other services are not subject to tariff regulation. Among others, MGTS provides the following unregulated services:

- various value-added services, including call forwarding, call waiting, call holding, caller ID, provision of second direct inward dialing (DID) number;
- Internet access for residential subscribers and corporates; and
- Rent of air-conditioned space for telecommunications equipment of other operators connected to MGTS' network.

MGTS is not licensed to provide DLD/ILD communications services directly to its subscribers but must route such traffic through a licensed DLD/ILD operator. As a result, DLD/ILD traffic originated by MGTS subscribers is carried either by Comstar, with these services included in MGTS' monthly bill, or by other providers of DLD/ILD services, who bill MGTS subscribers directly or pay MGTS an agency fee for processing their bills.

The following table presents certain operating data for our traditional fixed line business as of and for the years ended December 31, 2008 and 2009.

<u>Traditional fixed line business</u>	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Installed telephone lines (000s)	4,851	4,897
Residential		
Number of subscribers (000s) ⁽¹⁾	3,591	3,608
CPP traffic (millions of minutes)	1,745	1,968
ARPU (RUR)	294	324
ARPU (US\$)	11.8	10.3
Corporate ⁽²⁾		
Number of active lines (000s)	769	761
Number of subscribers (000s)	96	70
CPP traffic (millions of minutes)	771	880
ARPU (excl. revenue from points of interconnect) (RUR)	4,594	5,591
ARPU (excl. revenue from points of interconnect) (US\$)	180.0	176.9
Number of points of interconnect (000s)	29	28
Average monthly revenue per point of interconnect (RUR)	4,960	5,539
Average monthly revenue per point of interconnect (US\$)	200.1	175.5
Operators		
Number of interconnected operators	247	207
Number of points of interconnect (000s)	223	225
Average monthly revenue per point of interconnect (RUR)	1,229	1,148
Average monthly revenue per point of interconnect (US\$)	50.4	36.3

- (1) We calculate our subscribers based on the number of active lines in service. A line is considered “active” if the subscriber has used and paid for the service within the last six months.
- (2) Includes state-owned enterprises and government agencies.

MGTS’ subscriber segments and the services provided to each subscriber segment are further described below.

Residential

MGTS provides basic regulated voice services to residential subscribers using its PSTN facilities and copper “last mile” access. Tariffs for these services are established by the Federal Tariff Service.

The following table illustrates MGTS' regulated tariff development in the period from February 1, 2007, when a new 3-tier tariff system was introduced, to February 1, 2010:

<u>MGTS Regulated Tariffs</u>	<u>February 1, 2007</u>	<u>February 1, 2008</u>	<u>March 1, 2009</u>	<u>February 1, 2010</u>
Residential⁽¹⁾				
Line rental (RUR per month)	125	125	135	155
Per minute tariff plan—local connection fee (RUR per minute)	0.28	0.28	0.30	0.36
Unlimited tariff plan—connection fee (unlimited connection, RUR per month)	255	220	245	250
Combined tariff plan—fee for fixed amount of minutes (RUR per month) ⁽²⁾	104	104	120	140
Combined tariff plan—fee for each additional minute (RUR per minute)	0.23	0.24	0.28	0.34
Corporate (non-governmental)⁽¹⁾				
Line rental (RUR per month)	160	160	160	175
Per minute tariff plan—local connection fee (RUR per minute)	—	0.28	0.30	0.36
Unlimited tariff plan—connection fee (unlimited connection, RUR per month)	—	342	342	350
Combined tariff plan—fee for fixed amount of minutes (RUR per month) ⁽³⁾	104	104	120	140
Combined tariff plan—fee for each additional minute (RUR per minute)	0.30	0.24	0.28	0.34
Corporate (governmental and state-funded organizations)⁽¹⁾				
Line rental (RUR per month)	125	136	145	160
Per minute tariff plan—local connection fee (RUR per minute)	—	0.28	0.3	0.36
Unlimited tariff plan—connection fee (unlimited connection, RUR per month)	—	302	331	350
Combined tariff plan—fee for fixed amount of minutes (RUR per month) ⁽³⁾	104	104	120	140
Combined tariff plan—fee for each additional minute (RUR per minute)	0.23	0.24	0.28	0.34

- (1) Tariffs for residential subscribers are shown including VAT; tariffs for non-governmental corporate subscribers and governmental/state-funded organizations are shown excluding VAT.
- (2) From February 1, 2007 until December 1, 2007, this plan included 370 minutes per month; from December 1, 2007 until February 1, 2010, this plan included 150 minutes per month; from February 1, 2010, this plan includes 400 minutes per month.
- (3) From February 1, 2007 until February 1, 2010, this plan included 450 minutes per month; from February 1, 2010, this plan includes 400 minutes per month.

Corporates

MGTS provides basic regulated voice services to corporates using its PSTN facilities and copper “last mile” access. Corporates are charged on a monthly basis according to the regulated tariffs set forth in the table above under “—Residential.”

In addition to basic voice services, MGTS also provides corporates with digital telecommunication, Internet and VPN deployment services, rental of high-speed communication channels and various other services.

Operators

MGTS provides interconnection, traffic transmission and leased line services to other communications operators. Interconnection is carried out on the local and zonal levels in accordance with terms and conditions that are publicly disclosed. MGTS also provides additional services to operators interconnecting to MGTS’ network, including access to emergency service, information and customer care numbers.

MGTS has also established an active presence in the data transmission market. Through its PDTN, MGTS can establish VPNs for other operators as well as provide other data network services. Operators can also rent space and utility systems from MGTS to house their network equipment.

Sales and Marketing

Alternative fixed line business

Our target customers include corporate, operator and residential subscribers.

To promote our product and service offerings, we use various communication channels for advertising and marketing, including direct marketing, printed mass media, television, Internet, radio, directories, outdoor advertising, advertising in the subway, special promotions and cross promotions. Through these various advertising and marketing channels, we intend to further develop our brand recognition. Our marketing strategy is designed to create a unified brand for each of our various product and service offerings with the aim of becoming a single source for all of our subscribers’ communications needs.

We also actively promote our services to existing subscribers with special bundled product offerings aimed at servicing their communications requirements and enhancing subscriber loyalty. We provide sponsorship support to various cultural, sport and other socially significant events to build positive brand awareness. Our advertising and information materials are aimed primarily at the promotion of the Comstar brand, as well as its specific product and service offerings such as Stream, Logic Line, MAXIcard, Wi-Max and Wi-Fi. Our advertising and marketing efforts are designed to convey a positive image of us to the market as a leading communications operator focused on customer satisfaction.

Traditional fixed line business

As the incumbent PSTN, MGTS has not invested significantly in sales and marketing. In the future, we anticipate that we will invest more in sales and marketing of our traditional fixed line services. For example, with the benefit of Comstar’s expertise in marketing its Internet services, MGTS recently launched its broadband offering “Internet from MGTS” through a marketing campaign that involved radio, newspaper and billboard advertisements in Moscow.

Competition

We compete with a number of fixed line telecommunications operators servicing Moscow, St. Petersburg and other major Russian cities. Moscow is the largest and most competitive of these

markets, with incumbent operators MGTS and Rostelecom accounting for only 28% of the market in terms of revenues as of December 31, 2009, according to Direct INFO. Alternative fixed line communications providers comprise the remainder of the Moscow market. Our primary competitors include:

- *Vimpelcom*, which is also our primary competitor in the Russian mobile communications market. Vimpelcom acquired alternative operators Golden Telecom and Corbina Telecom in 2008, and offers voice, data and Internet services to corporates, operators and residential subscribers in major cities throughout Russia, Ukraine, Kazakhstan and Uzbekistan using intercity fiber optic and satellite-based networks. We compete with Vimpelcom in the corporate, operator and residential fixed line telecommunications markets in Moscow and in certain other regions of Russia where we are present, including, among others, Rostov, Nizhny Novgorod, St. Petersburg, Yekaterinburg and Krasnodar.
- *Synterra Group*, a group of communication service providers that includes Synterra, MTT, PeterStar, Global Teleport, Synterra Ural and a number of other regional communication service providers. We compete with Synterra Group in the corporate and operator fixed line telecommunications markets in Moscow and Vologda.
- *Svyazinvest*, a Russian government-controlled holding company that controls Rostelecom, Russia's primary DLD/ILD operator, and local and multiregional fixed line operators throughout Russia. According to Direct INFO, Svyazinvest controls over 80% of all fixed line telecommunications services in Russia. We compete with the Svyazinvest in the corporate, operator and residential fixed line telecommunications markets in all regions where we operate in Russia (including the Moscow region), but not in Moscow.
- *Akado Group* (formerly Renova Media), comprised of AKADO Stolitsa, a leading provider of pay-TV, broadband Internet and digital telephony in Moscow; Comcor, a Moscow-based fiber optic network operator providing services under the AKADO Telecom brand; and several Internet and pay-TV providers in St. Petersburg, Ekaterinburg and Minsk (Belarus). We compete with the Akado primarily in the residential fixed line telecommunications markets in Moscow and Yekaterinburg.
- *Transtelecom*, a DLD/ILD voice telephony and broadband operator owned by Russian Railways. We compete with Transtelecom primarily in the corporate and operator fixed line telecommunications markets in Moscow and certain other regions where we are present, including, among others, Yekaterinburg, St. Petersburg, Nizhny Novgorod and Saratov.

Corporates

The following table sets forth the corporate subscriber market shares of the primary fixed line operators (including both alternative and incumbent operators) in Moscow as of December 31, 2009:

<u>Company</u>	<u>Moscow</u>
Comstar	10%
MGTS	8%
Vimpelcom	18%
Synterra	8%
Rostelecom	4%
Other	<u>52%</u>
Total	<u>100%</u>

Source: Direct INFO

In the corporate subscriber segment, we generally compete on the basis of network quality, individual and bundled service offerings, customer service, installation time, geographical presence and pricing.

Operator

The following table sets forth the market shares of the primary fixed line operators (including both alternative and incumbent operators) for operator services in Moscow as of December 31, 2009:

<u>Company</u>	<u>Moscow</u>
Comstar	9%
MGTS	19%
Vimpelcom	32%
Synterra	7%
Rostelecom	23%
Other	10%
Total	100%

Source: Direct INFO

In the operator services market, we generally compete on the basis of network quality (based on our extensive fiber-optic network), service offerings (including integrated solutions for operators and modern telecommunications services), customer service and pricing.

Residential

Voice services

The following table sets forth the market shares of the primary fixed line operators (including both alternative and incumbent operators) for voice services in Moscow as of December 31, 2009:

<u>Company</u>	<u>Moscow</u>
Comstar	8%
MGTS	35%
Vimpelcom	14%
Akado	9%
Rostelecom	5%
Other	10%
Total	100%

Source: Direct INFO

As Moscow’s only PSTN operator, MGTS faces limited competition in the market for residential local telephony services in Moscow. As of December 31, 2009, it provided local voice telephony services for approximately 96% of all residential subscribers in Moscow, according to Direct INFO.

In the alternative voice services market, we generally compete based on the availability of bundled packages comprising broadband Internet access and pay-TV services, value-added services, network quality, installation time and customer service.

Internet

According to Direct INFO, as of December 31, 2009, 75% of households in Moscow had at least one computer, of which 65% had Internet access. Of the households in Moscow that had Internet access as of December 31, 2009, approximately 67% used broadband Internet access. The following table sets forth the market shares of the primary operators in the residential broadband Internet market in Moscow as of December 31, 2009:

<u>Company</u>	<u>Moscow</u>
Comstar	23%
MGTS	9%
Akado	24%
Vimpelcom	22%
Qwertly (Centel)	5%
NetByNet	9%
Other	8%
Total	100%

Source: Direct INFO

In the broadband Internet market, we generally compete on the basis of pricing, network quality, upload and download speed, individual and bundled service offerings, customer service and installation time. We are also the leading broadband Internet service provider in terms of subscribers in each of Ulyanovsk, Astrakhan, Rostov and Norilsk.

Pay-TV

According to Direct INFO, as of September 30, 2009, pay-TV penetration was 25% in Moscow. The following table sets forth the market shares of the primary operators in the pay-TV market in Moscow as of September 30, 2009:

<u>Company</u>	<u>Moscow</u>
Comstar	13%
Akado	49%
NTV+	14%
Vimpelcom (Corbina)	9%
Kosmos TV	4%
Other	11%
Total	100%

Source: Direct INFO

In the pay-TV market, we generally compete on the basis of pricing, channel selection and content, individual and bundled service offerings, customer service and installation time.

Tariffs

We establish prices for our unregulated services and different subscriber segments based on certain common considerations, policies and goals. For example, we generally seek to establish competitive prices based on market rates for the services we offer and below market prices when our lower-than-average costs or economies of scale allow us to do so. We also offer subscribers bundled service packages with several services offered together at a discount to the cost of ordering each

individual service separately and to promote additional services to our existing subscribers. In addition, we often offer promotions to our various subscriber segments waiving or discounting installation fees in order to attract new subscribers or promote new services.

With regard to corporates, we generally aim to derive the bulk of our operating revenues from monthly payments. Thus, depending on the scale and type of services ordered, we will often discount or waive installation fees.

For services offered to other communications service providers, we aim to generate most our operating revenues from monthly payments and by offering an array of value-added services.

We develop tariffs for service offerings to residential subscribers with the aim of attracting new subscribers, as well as expanding the services used by existing subscribers in order to generate higher ARPU. In particular, we offer several flexible tariff plans customized for various types of residential subscribers, as well as various promotions, such as free installation and bundled service packages offered at a discount.

Network Infrastructure

Alternative fixed line business

The network infrastructure we maintain in Moscow is substantially different from the infrastructures we use in the regions. In Moscow, Comstar has primarily grown organically, while its regional development has largely been through the acquisition of companies with different business models and a focus on different services. As a result, the network infrastructures in the regions and the technologies used to support such infrastructures are different from the network infrastructure Comstar has established in Moscow.

Moscow and Moscow Region

Comstar's network infrastructure in Moscow consists of 14 switching nodes (12 Digital ATS, Softswitch Mepa MVTS) with installed capacity of over 600,000 numbers and 100% digitalization.

All of Comstar's ATSS are connected to a digital transport network, which uses SDH technology and covers the entire territory of Moscow and part of the Moscow region. The network ensures the functioning of Comstar's digital ATSS and their connectivity with analog and digital equipment of PSTNs of other operators. The digital transport network includes a trunk core STM-64, with connected half-rings STM-16 and STM-4. Multiplexers of access level are connected to trunk nodes by means of fiber-optic lines that organize streams STM-4 and STM-1. There are a total of 956 multiplexers. The management of the transport network and digital ATSS is carried out remotely from network operation centers.

For the provision of Internet access, IP-telephony and other services, Comstar has its own IP MPLS network, the core of which is constructed as IP MPLS rings with routers connected to each other by means of 10 GE channels. In addition, separate routers are used for inter-carrier connections and are connected to the core routers by means of 10 GE interfaces.

As of December 31, 2009, Comstar's wireless broadband network in Moscow and the Moscow region included 51 base stations in the 5 GHz frequency band. In the 2.4-2.5 GHz frequency band, Comstar is continuing the construction of its Wi-Max network, which consisted of over 170 base stations as of December 31, 2009. Comstar's radio-relay communication lines included 25 links. It also had 115 Internet hot-spots using Wi-Fi technology.

Russian Regions

Comstar has its own fiber-optic infrastructure and leased channels in every region in which it operates in Russia. As of December 31, 2009, it had 43 host stations and 244 trunk nodes. The trunk nodes are connected to the networks by GE interfaces. It also had 12 ATNs which were connected to SDH or IP networks, and 51 cores. Among the access equipment used are Ethernet switches, IP DSLAM and PON.

Traditional fixed line business

Public Switch Telephone Network (PSTN)

Our traditional fixed line communications has an installed capacity of more than 4.8 million numbers, of which 2.2 million is digital exchange, 1.8 million is analog exchange and 0.8 million is NGN exchange capacity. The digital portion of the network is based on the SDH backbone and the transport level of the PDTN. The total length of the fiber-optic network is more than 7,000 km.

The SDH network, which uses Lucent Technologies equipment, is configured as follows: 22 rings STM-4/STM-16, based on DACS cross-switches, located in the buildings with switches ATC 316 and ATC 201. There are a total of 161 multiplexers in the network, including ISM2000, ADM16/1, ADM16/1c, ADM4/1 and ADM4/1c. The SDH network allows for traffic transmission between exchanges and traffic exchange with interconnected carriers. The ECI SDH network topology (SDM 16, XDM500 and XDM1000) is multi-layered, with each network layer designed to carry a certain type of traffic.

Network management is carried out in two control centers: one active control center and one stand-by control center. These centers contain an ORION system to monitor and control the fiber-optic network and SyncView Manager 3.1.1 to monitor and control timing sources. Subscribers are connected directly on the level of host switches and remote units. The network currently operates 23 hosts with total capacity of 1,221,400 numbers. Hosts are interconnected to each other by mesh topology via transit nodes with the analog network. We use the following types of host switches: EWSD (Siemens), 5ESS (Lucent Technologies) and MEDIO (STROM Telecom). To provide services with instant dialing (e.g., emergency and information calls), MGTS has two nodes based on MEDIO IN equipment.

Monitoring of the digital network and management of switching equipment is centralized and carried out from MGTS' control centers.

Public Data Transmission Network (PDTN)

Our PDTN is a hierarchical 3-layer IP/MPLS network. The first level is the transport level for high rate traffic throughput over the PDTN. The second level is used for terminating subscriber sessions and, at the same time, to backhaul traffic from PoPs to the transport level. The third level allows subscribers to access the PDTN.

The first level comprises the core of the PDTN and contains 10 nodes based on Cisco 7600 (WS-SUP720-3BXL) routers. Topologically, the nodes are linked into a 10-node transport ring with an attached two-node "minor" ring based on Cisco CRS-16. The transport ring is designed to connect peripheral networks of the PDTN and overlay network equipment and for interconnections with partner providers. The minor transport ring covers the points of connection of Internet channel groups of other operators and content providers. On the transport level, the trunk connections are made by optical mono-mode 10 GE interfaces.

The second or termination level of the PDTN is based on Redback SE routers designed to direct traffic to the nearest transport node and to terminate subscribers. Topologically, the termination level is comprised of several Redback SE routers linked together by GE interfaces and forms a string which

abuts on both ends with GE interfaces of the transport routers of two different nodes of the transport network. All the routers of the transport level and termination level function in one IP/MPLS network with automatic re-routing.

The third or access level of PDTN is built based on IP DSLAM, linked by GE trunk interfaces and GE switches, linked by GE interfaces. The main function performed on the access level is data transmission on the “last mile” network. The network currently uses DSLAM D500 from Nokia and SmartAX MA5300 from Huawei. Both DSLAMs use an optical or electrical GE interface for trunk interfacing.

As access nodes (PoP), the PDTN uses MGTS’ switching centers connected with at least 4,000 subscribers. We currently have over 200 PoPs in service. The coupling of two or more DSLAMs within one PoP is through Catalyst 2970G GE switches or similar switches having a minimum of 12 GE ports. Each PoP is connected to an individual GE port of the nearest Redback SE400 router.

Principal suppliers

Our principal suppliers are Sitronics Telecom Solutions, Huawei, Nokia Siemens Networks, Nortel and NEC for switching equipment; ECI Telecom and Alcatel Lucent for transport network equipment; Cisco Systems, Huawei and Alcatel Lucent for Internet and data network equipment; Secure Media for crypto-protection conditional access software; and Tandberg TV for broadcasting equipment. All of our equipment is supplied directly through authorized dealers.

Intra-group sales within Comstar

Comstar had intra-group sales of \$130.3 million, \$172.6 million and \$120.9 million for the years ended December 31, 2007, 2008 and 2009, respectively. A substantial portion of these sales comprise the provision of services by MGTS to Comstar’s alternative fixed line business, including, among others, data transmission, channel rent, equipment servicing and commissions for DLD/ILD services. For the years ended December 31, 2007, 2008 and 2009, the services provided by MGTS amounted to \$127.0 million, \$141.5 million and \$91.3 million, respectively.

Seasonality

Our results of operations are impacted by certain seasonal trends. Generally, revenue is higher during the second and third quarter due to increased mobile phone use by subscribers who travel in the summer from urban areas to more rural areas where fixed line penetration is relatively low, as well as an increase in roaming revenues and guest roaming revenues during these quarters. Quarterly trends can also be influenced by a number of factors, including new marketing campaigns and promotions, and may not be consistent from year to year.

Regulation of Telecommunications in the Russian Federation and Ukraine

Regulation in the Russian Federation

In the Russian Federation, the federal government regulates telecommunications services. The principal law regulating telecommunications in the Russian Federation is the Federal Law on Communications, which provides, among other elements, for the following:

- licensing of telecommunications services;
- requirements for obtaining a radio frequency allocation;
- equipment certification;

- equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer telecommunications services;
- fair competition;
- freedom of pricing other than pricing by companies with a substantial position in public telecommunication networks; and
- liability for violations of Russian legislation on telecommunications.

The new Federal Law on Communications came into force on January 1, 2004 and replaced the law of 1995 regulating the same subject matter. The Federal Law on Communications creates a framework in which government authorities may enact specific regulations. Regulations enacted under the legislative framework in place prior to the enactment of the Federal Law on Communications continue to be applied to the extent they do not conflict with the Federal Law on Communications. The lack of interpretive guidance from the regulatory authorities regarding the new regulations and the uncertainty surrounding their compatibility with the regulations still in effect impedes our ability to assess effectively the full impact of the new regulations under the Federal Law on Communications on our business.

The Federal Law on Communications, which confers broad powers to the state to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender. In addition, the Federal Law on Communications provides for the establishment of a “universal services reserve fund” which is funded by a levy imposed on all operators of public networks, including us.

Regulatory Authorities

The Russian telecommunications industry is regulated by several governmental agencies. These agencies form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Federal Law on Communications, as well as from the large-scale restructuring of the Russian government in March 2004 and subsequent restructuring in May 2008. The system of regulation is still evolving and further changes are expected. See also “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Countries of Operation—Political and Social Risks—Political and governmental instability in Russia and the CIS could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.”

The Ministry of Communications and Mass Media is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry has the authority to issue certain regulations implementing the federal law on communications and other federal laws.

The Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media is a federal executive body that supervises and controls certain areas of communications and information technologies, including:

- the issuance of licenses and permissions in the area of communications and information technologies;
- the registration of radio-electronic and high-frequency equipment;
- the assignment of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such assignments;

- the technical supervision of networks and network equipment throughout Russia;
- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated and assigned to them;
- the enforcement of equipment certification requirements;
- the examination of electromagnetic compatibility of equipment with existing civil radio-electronic equipment;
- the organization of tenders with respect to licenses in the sphere of communications; and
- the control of activity in processing of personal data.

The Federal Agency of Communications is a federal executive body that implements governmental policy, manages state property and provides public services in the area of communications, including the allocation of numbering capacity and the certification of equipment for compliance with technical requirements.

The State Radio Frequencies Commission is an inter-agency coordination body acting under the Ministry of Communications and Mass Media which is responsible for the regulation of radio frequency spectrum and develops a long-term policy for frequency allocation in the Russian Federation.

The Federal Antimonopoly Service (FAS) is a federal executive body that supervises competition regulations and enforces the Federal Law on the Natural Monopolies and the regulations enacted thereunder. FAS controls certain activity of natural monopolies, including monitoring their execution of certain obligatory contracts, and can issue mandatory orders as provided for in the Federal Law on the Natural Monopolies.

Other regulatory authorities. In addition, the Federal Tariff Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local and DLD calls by subscribers of public switched telephone networks and installation and subscription fees. The Federal Service for Supervision in the Area of Consumer Rights Protection and Human Well-Being is responsible for the enforcement of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights. The Federal Registration Service is responsible for registering certain telecommunications infrastructure that is considered real property in accordance with Government Decree No. 68 dated February 11, 2005.

Licensing of Telecommunications Services and Radio Frequency Allocation

Telecommunications licenses are issued based on the Federal Law on Communications and Government Decree No. 8 dated January 12, 2006 on Approval of Regulations for Holding a Competitive Tender for Receipt of Telecommunication License. Under these regulations, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision in the Area of Communications and Mass Media. Officials of the Federal Service for Supervision in the Area of Communications and Mass Media have broad discretion with respect to both issuance and renewal procedures.

A company must complete a multi-stage process before the commercial launch of its communications network. A company must:

- receive a license from the Federal Service for Supervision in the Area of Communications and Mass Media to provide communications services;

- obtain approval to use specific frequencies within the specified band from the State Radio Frequencies Commission if providing wireless telecommunications services; and
- obtain permission from the Federal Service for Supervision in the Area of Communications and Mass Media for network operations. To receive this permission, a wireless telecommunications services provider must develop a frequency assignment and site plan, which is then reviewed and certified by the Federal Service for Supervision in the Area of Communications and Mass Media for electromagnetic compatibility of the proposed cellular network with other radio equipment operating in the license area. The Federal Service for Supervision in the Area of Communications and Mass Media has discretion to modify this plan, if necessary, to ensure such compatibility.

Effective January 1, 2004, licenses may be transferred in case of mergers or other reorganizations of the licensee upon application by a transferee as a new license holder. Additionally, the Ministry of Communications and Mass Media has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

If the terms of a license are not fulfilled or the service provider violates applicable legislation, the license may be suspended or terminated. Licenses may be suspended for various reasons, including:

- detection of violations which may cause damage to rights, interests, life or health of individuals or to interests of government administration including, but not limited to, presidential and government telecommunication networks, defense, security and protection of legal order in the Russian Federation;
- failure to comply with Russian law or the terms and conditions of the license;
- failure to provide services for over three months from the start-of-service date set forth in the license; and
- annulment of a frequency allocation if it results in the inability to render communications services.

In addition, licenses may be terminated for various reasons by a court, including:

- failure to remedy in a timely manner a violation that led to the suspension of the license;
- provision of inaccurate information in documents on the basis of which a license was issued; and
- failure to fulfill obligations undertaken in the process of a tender or auction.

The license may also be terminated by the Federal Service for Supervision in the Area of Communications and Mass Media in a number of cases, including liquidation of a license holder or failure to pay a license fee on time. A suspension or termination of a license may be appealed in court.

Frequencies are allocated for a maximum term of ten years, which may be extended upon the application of a frequency user. Under the Federal Law on Communications, frequency allocations may be changed for purposes of state management, defense, security and protection of legal order in the Russian Federation with the license holder to be compensated for related losses. Further, frequency allocations may be suspended or terminated for a number of reasons, including failure to comply with the conditions on which frequency was allocated.

The following one-time license fees are payable in respect of each region covered by the license: 15,000 rubles (equivalent to \$495 as of December 31, 2009), for services involving use of a frequency spectrum, lease of communication channels running beyond one region of Russia as well as in number of other cases specified by law; and 1,000 rubles (equivalent to \$33 as of December 31, 2009) in other cases. The license fee for a license received through a tender or auction is determined by the terms of such tender or auction.

In addition to licensing fees, a government decree enacted on June 2, 1998, requires payment of fees for the use of radio frequencies for cellular telephone services. The payment procedure was established by a government decree enacted on August 6, 1998, which requires that all wireless telecommunications services operators pay an annual fee set by the State Radio Frequencies Commission and approved by FAS for the use of their frequency spectrums. Furthermore, the Federal Law on Communications provides for the establishment of a “universal services reserve fund” for the purpose of supporting communications companies operating in less developed regions of Russia through the financing, construction and maintenance of telecommunications networks in low-profit and unprofitable sectors. This reserve fund is aimed at eliminating the practice of cross-subsidies by compensating operators for certain mandatory, loss-making local services in rural and sparsely populated areas. It is funded by a levy imposed on all operators of public networks, including us, in the amount of 1.2% of revenues from telecommunications services less the amount of taxes paid by subscribers. The universal service fund concept has been used in some developed countries and in Eastern Europe.

The Federal Law on Communications empowers the Russian government to determine and annually review the list of licensing requirements applicable to various communication services being licensed. The list of licensing requirements was enacted by Government Decree No. 87 dated February 18, 2005, as amended. Licenses also generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and certain other terms and conditions. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

Equipment Certification

Government Decree No. 532 adopted on June 25, 2009, sets forth the types of communications equipment that is subject to mandatory certification. Communications equipment must be certified, or its compliance with the established requirements must be declared and proved in the interconnected communications network of the Russian Federation, which includes all fixed line and wireless networks open to the public. All our networks must be certified. The Federal Agency of Communications issues certificates of compliance with technical requirements to equipment suppliers based on the Agency’s internal review. In addition, a Presidential decree requires that licenses and equipment certifications should be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

Further, certain high-frequency equipment, a list of which was approved by Government Decree No. 539 of October 12, 2004, as amended, manufactured or used in the Russian Federation requires special permission from the Federal Service for Supervision in the Area of Communications and Mass Media. These permissions are specific to the entity that receives them and do not allow the use of the equipment by other parties. Failure to receive such certification could result in the mandatory cessation of the use of such equipment.

Competition, Interconnection and Pricing

The Federal Law on Communications requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Federal Law on Communications provides that telecommunications tariffs may be regulated in cases provided for by legislation. Presidential Decree No. 221, enacted on February 28, 1995, as amended, on Measures for Streamlining State Regulation of Prices (Tariffs) allows for regulation of tariffs and other commercial activities of telecommunications companies that are “natural monopolies.” Government Decree No. 637, dated October 24, 2005, authorized the

Federal Tariff Service to set the following tariffs for the natural monopolies in the communications market:

- provision of access to a local telephone network;
- permanent use of a subscriber's line; and
- local, intra-zone and DLD calls.

In addition, the Federal Law on Natural Monopolies establishes the legal basis for federal regulation of natural monopolies, including those in the communications market, and provides for governmental control over tariffs and certain activities of the natural monopolies. The Federal Law on Natural Monopolies outlines the types of transactions for which a regulated entity must obtain prior FAS approval and establishes the general principle that regulated entities may not refuse to provide regulated services to certain types of consumers. Regulated entities are also subject to continuous reporting requirements, including submitting plans for capital investments.

The Federal Tariff Service maintains a Register of Natural Monopolies whose tariffs are controlled and regulated by the state. A telecommunications operator may be included in this register upon a decision by the Federal Tariff Service based on the Service's analysis of the operator's activities and the market conditions.

Our subsidiary, MGTS, was added to the Register of Natural Monopolies in 2000. As a result, MGTS is subject to the requirements of the Federal Law on Natural Monopolies including, *inter alia*, the following:

- the Federal Tariff Service regulates and controls tariffs for services provided by MGTS, including installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan), as well as interconnection and traffic transit tariffs;
- MGTS must obtain prior FAS approval for any transaction involving the acquisition, disposal or lease of assets not related to the regulated activity, if the value of such assets exceeds 10% of MGTS' share capital, additional capital, retained profits and reserves;
- MGTS is required to maintain separate accounting records for each type of activity it carries out; and
- MGTS is required to publicly disclose information on its tariffs, products, material conditions of its contracts with customers, capital expenditure programs and certain other information.

In addition, FAS is authorized by law to maintain a register of companies holding a market share in excess of 35%. Companies included in this register may become subject to certain restrictions in conducting their business, including in relation to pricing, acquisitions, geographical expansion, and associations and agreements with competitors. We are categorized by FAS as a company with a market share exceeding 35% in Moscow and the Moscow region, Ivanovo Region, Arkhangelsk region, Magadan region, Omsk region and Nenets Autonomous District. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If we are found to have a dominant position in the markets where we operate, the government may regulate our subscriber tariffs and restrict our operations."

The Federal Law on Communications also provides for the special regulation of telecommunications operators occupying a "substantial position," *i.e.*, operators which together with their affiliates have, in the Russian Federation generally or in a geographically defined specific numerical zone, 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic. Two of our subsidiaries, Comstar and MGTS, were added to the register of telecommunications operators occupying a substantial position in 2005 and 2006, respectively. As a

result, Comstar and MGTS are subject to the requirements of the Federal Law on Communications relating to operators occupying a substantial position in the public switched telephone networks including, *inter alia*, the following:

- MGTS and Comstar must develop interconnection rules and procedures in accordance with the requirements set forth by the federal government;
- MGTS and Comstar must ensure that interconnection agreements with operators who intend to interconnect to their networks are entered on the same terms and conditions as the agreements between MGTS, Comstar and their affiliates; MGTS and Comstar also cannot refuse to provide interconnection or discriminate against one operator over another; and
- the Federal Service for Supervision in the Area of Communications and Mass Media may monitor MGTS' and Comstar's interconnection terms and procedures and issue mandatory orders to the companies where non-compliance with the law is found.

The Federal Law on Communications and implementing rules adopted by Government Decrees No. 161, dated March 28, 2005, and No. 627, dated October 19, 2005, also provides for government regulation of interconnection tariffs established by operators occupying a substantial position. In addition, such operators, including Comstar and MGTS, are required to develop standard interconnection contracts and publish them as a public offer for all operators who intend to use such interconnection services.

Notwithstanding the above, fixed line operators not considered to occupy a substantial position and not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their own tariffs.

Calling Party Pays

In March 2006, the Federal Law on Communications was amended to incorporate a “calling party pays” scheme effective as of July 1, 2006. Prior to the implementation of the “calling party pays” principle, subscribers of fixed line operators could initiate calls to mobile phone users free of charge. Under the new system, fixed line operators began charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is regulated by the Federal Service for Supervision in the Area of Communications and Mass Media and is known as the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins.

Regulation in Ukraine

Regulatory Authorities

The State Communications Administration, or SCA (formerly, the State Department on Communications and Informatization, or the SDCI, from September 2004 to July 2008, and the State Committee on Communications and Informatization, or the SCCI, from June 1999 to September 2004), was the main regulatory body in the sphere of communications until the establishment of the NCRC in January 2005. At present, the SCA is responsible mainly for establishing and overseeing technical policies and standards.

The NCRC. Established by a Decree of the President of Ukraine in August 2004, the NCRC was vested with the powers of the central regulatory body in the sphere of communications on January 1, 2005 pursuant to the Telecommunications Law described below. It consists of seven members and a chairperson. The NCRC was considered formed and commenced its activity in April 2005 when the chairperson and its members were appointed as required by the Telecommunications Law. In 2007 and

2008, the authority to appoint the NCRC chairperson and its members became the subject of a dispute between the President of Ukraine and the Cabinet of Ministers of Ukraine and the respective appointments were challenged in Ukrainian courts because of conflicting orders and regulations issued by the President of Ukraine and the Cabinet of Ministers. On October 8, 2008, the Constitutional Court of Ukraine passed a resolution pursuant to which the right of the Cabinet of Ministers to appoint the NCRC members and adopt its regulations was confirmed. Thus, the members and the chairperson of the NCRC are appointed by the Cabinet of Ministers. The NCRC has been responsible for issuing licenses for telecommunications services and use of radio frequencies commencing January 1, 2005, as well as various other responsibilities of the SCA from that date.

The State Center for Radio Frequencies of Ukraine, or SCRF. While licenses for radio frequencies for wireless communications are issued by the NCRC, SCRF is the authority responsible for all technical issues related to the use of radio frequency resources and, in such capacity, is also involved in the issuance of radio frequency licenses. In particular, the SCRF determines frequency availability and the technical aspects of frequency allocation, as well as provides the NCRC with an expert opinion in relation to each application for radio frequency. The SCRF also monitors use of the frequencies and will continue monitoring compliance with the license terms and physically inspecting operators and providers of telecommunications services until the establishment of the State Inspection of Communications, as described below. The SCRF also independently issues individual permissions for the use of radio-electronic and radio-emitting equipment, its development, import, sale and purchase, and maintains a data base of IMEI codes of mobile terminals.

The State Inspection of Communications, or SIC, established by the new Telecommunications Law, is a division of the NCRC. The SIC is responsible for the general supervision of the telecommunications market and the use of radio frequency resources. The SIC also monitors compliance with license terms, physically inspects operators and providers of telecommunications services and, together with the SCRF, reviews cases relating to administrative violations in the areas of telecommunications and radio frequencies.

The Antimonopoly Committee of Ukraine, or the AMC, is charged with the administration of competition legislation and the protection and regulation of economic competition in Ukraine, including economic competition among industry participants in the telecommunications sector.

Legislation

The principal legislation regulating the telecommunications industry consists of the Law on Telecommunications dated November 18, 2003, or the Telecommunications Law, and the Radio Frequencies Law dated June 1, 2000, or the Radio Frequencies Law.

The Telecommunications Law provides for, among other things, equal rights for private entrepreneurs and legal entities to offer telecommunications services, fair competition and freedom of pricing. The Telecommunications Law also sets forth the legal, economic and organizational framework for the operation of companies, associations and government bodies forming part of the telecommunications networks. The licensing of telecommunications services, the requirements for equipment certification and liability for violations of Ukrainian legislation on telecommunications are also determined by this legislation. The Telecommunications Law also governs the relations between the state and local governmental bodies, telecommunications operators and users of telecommunications services and radio frequencies.

The Telecommunications Law addresses various areas of telecommunications services in Ukraine, including numbering requirements, tariff and settlement regulations, interconnection, public telecommunications services, market access rules and licensing issuance and renewal. The Telecommunications Law also significantly expands the definition of the telecommunications services

market, including in its scope Internet Protocol telecommunications, transmission of data and facsimile communications.

The Telecommunications Law also restructured the regulatory bodies governing the area of telecommunications. It provided for the creation of the NCRC, which, as of January 1, 2005, has been responsible for many of the functions formerly handled by the SCA. The NCRC is authorized, *inter alia*, to issue regulations for telecommunications services, issue telecommunications licenses to operators and providers, issue frequency licenses, request information from operators, providers and authorities, impose administrative penalties and maintain the register of the operators and providers. The NCRC is also authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks.

Foreign investments in Ukrainian telecommunications operators are not limited; however, in order to provide telecommunications services in Ukraine an entity must be located on the territory of Ukraine and registered in accordance with Ukrainian legislation.

The Radio Frequencies Law sets forth comprehensive rules regarding the allocation, assignment, interrelation and use of radio frequencies, the licensing of the users of radio frequencies and other relevant issues. The 2004 amendments to the Radio Frequencies Law introduced new procedures for the issuance, re-execution and termination of frequency licenses and operation permits.

Licensing of Telecommunications Services and Radio Frequency Allocation

Commencing January 1, 2005, the NCRC has assumed responsibility for issuing telecommunications licenses and frequency licenses pursuant to the Telecommunications Law and the 2004 amendments to the Radio Frequencies Law.

Telecommunications licenses are issued for the following specific types of telecommunications services:

- fixed telephone (local, intercity, international) communication services;
- mobile telecommunications services;
- technical maintenance and exploitation of telecommunications networks and the lease of electric communications channels; and
- provision of electric communications channels (local, intercity and international).

Other telecommunications services do not require licenses.

An operator that is granted a telecommunications license may not commence the provision of wireless telecommunications services until it receives a frequency license. The issuance of a frequency license is, in turn, subject to the availability of radio frequencies in the respective regions of Ukraine. Frequency licenses are issued for specific bandwidths within certain frequency spectrums in specific regions. The GSM and UMTS spectrum is presently considered to be the most commercially attractive for telecommunications operators. It is currently deemed to be virtually impossible to obtain a license for GSM frequencies in major Ukrainian cities because most of the GSM radio frequencies in such cities are already licensed to the existing GSM operators, including us. UMTS radio frequencies are currently allocated for special users, in particular, the Ministry of Defense. In September 2009, the NCRC announced plans to launch a tender for a single 3G/UMTS mobile services license in Ukraine. However, the NCRC canceled the planned tender in November 2009 following a decision by the President of Ukraine to put the tender and conversion of the radio frequencies on hold. Following the election of Viktor Yanukovich as Ukraine's new President in February 2010, further steps toward a tender for one or more 3G/UMTS licenses in Ukraine are expected, although the timing and terms are not yet clear. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Our inability to obtain a UMTS license in Ukraine on commercially reasonable terms or at all may hinder us from competing in Ukraine."

Under applicable legislation, licenses for telecommunications services may be issued and renewed for periods of not less than 5 years, with the actual period generally ranging from 10 to 15 years. Renewal of a license is made by an application submitted to the NCRC at least four months prior to the expiration of the license term. NCRC officials have broad discretion with respect to both the issuance and the renewal of licenses. The Telecommunications Law further provides that the NCRC must award licenses on a first come-first served basis within 30 days from submission of an application. If resources are limited or consumer interests so require, the NCRC may adopt a decision to limit the number of licenses. In this event, the law requires that such decision is made public along with the rationale and that the licenses be allocated through a tender.

In accordance with the Radio Frequencies Law, the NCRC issues a frequency license concurrently with the issuance of the license for the type of telecommunications services requiring use of radio frequency resources. A telecommunications operator that has a respective telecommunications license may apply for licenses for additional radio frequency bands. Frequency licenses may not be issued for a period shorter than the term of the relevant telecommunications license.

Under applicable legislation, a public tender or an auction for a radio frequency license must be held by the NCRC if demand for radio frequency resources exceeds available resources. Radio frequency licenses issued on the basis of a public tender or an auction for the same type of radio technology must include identical conditions regarding the radio frequency bands and development period.

Applicable legislation prohibits the transfer of a license by the licensee, including by means of assignment or pledge of a license as collateral, and agreements regarding the provision of telecommunications services must be executed and performed by the actual licensee.

Licenses generally contain a number of detailed conditions, including the date by which service must be commenced, terms of network deployment and the covering territory, the requirement to use only certified equipment, the technical standards which must be observed and the requirement to comply with all environmental regulations. Frequency licenses issued after January 1, 2005 will also contain the date by which the radio frequency resources must be fully utilized.

Telecommunications operators are subject to strict regulations, especially regarding electromagnetic compatibility; construction and technical maintenance of a telecommunications network must be carried out in accordance with specific regulations applicable in Ukraine. Telecommunications operators must submit periodic reports to the NCRC on the amount and quality of services provided under the telecommunications license. We believe that we are in material compliance with the applicable laws and regulations related to our Ukrainian licenses.

Some licenses also provide that services for persons entitled to certain social benefits must be provided at or below maximum tariffs established by Ukrainian legislation in effect at that time.

If the terms of a license are not fulfilled or the service provider violates legislation, the license may be suspended or terminated. Both telecommunications services licenses and radio frequency licenses may be terminated for various reasons, including:

- provision of inaccurate information in the application for a license;
- repeated refusal to allow the representatives of the NCRC or the SIC to make inspections;
- failure to remedy in a timely manner the circumstances which resulted in a violation of the license terms;
- repeated violation of the license terms;
- transfer or assignment of the license to a third party; and

- other grounds set forth by Ukrainian laws.

Radio frequency licenses may also be terminated for the following reasons:

- failure to commence using radio frequency resources within the time period specified in the license;
- termination of use of radio frequency resources specified in the license for more than one year;
- failure to use radio frequency resources to the full extent within the time period specified in the license; and
- failure to pay monthly fees for the use of allocated radio frequencies for six months or more.

Decisions of the NCRC on termination of licenses may be appealed in court.

Equipment Certification

The Telecommunications Law requires that all technical devices and equipment to be used in interconnected communications networks in Ukraine, including fixed line and wireless networks, be certified. The Ministry of Transport and Communications of Ukraine sets the technical standards for equipment to be used in telecommunications networks in Ukraine. Companies that are approved by the NCRC issue the equipment compliance certificates. If the equipment a prospective operator intends to use is certified in Ukraine by either the manufacturer or the vendor, there is no need for the operator to go through the equipment certification process. However, if the equipment is not certified in Ukraine or if it is certified by a third party that is unwilling or unable to give the operator its permission to utilize its certification, then the operator will need to apply for the certification of the equipment in its own name.

The Radio Frequencies Law provides that users of radio frequency resources must obtain permits for the operation of radio-electronic and radio-emitting equipment, except for equipment used on a permit-free basis in accordance with this law. In order to obtain such operation permit, a company is required to file an application with the SCRF. The Radio Frequencies Law also requires producers and importers of radio-electronic and radio-emitting equipment to be used on the territory of Ukraine to register such equipment with the NCRC.

Competition

The Telecommunications Law provides that one of the purposes of the licensing of telecommunications services is to encourage competition and de-monopolization in the telecommunications industry.

The AMC is the state administrative body charged with the administration of competition legislation and the protection and regulation of economic competition in Ukraine, including economic competition among industry participants in the telecommunications sector.

Ukrainian antimonopoly legislation prohibits a company operating in Ukraine from abusing its dominant position in its market to gain, *inter alia*, an unfair or anti-competitive advantage in the provision of its services or products. A legal entity is deemed to be in a dominant position if such entity has no competitor in the market or is not subject to substantial competition due to restricted access or entry barriers for other business entities. Further, Ukrainian antimonopoly legislation provides that a company shall be deemed dominant if its market share in the respective product market exceeds 35% unless such company proves that it faces significant competition on the respective product market.

A telecommunications operator which is found by the AMC to have a dominant position in the market, in particular, may specifically be required to:

- annually submit to the NCRC irrevocable public offers regarding interconnection with the other operators' telecommunications networks;
- comply with the regulations of the NCRC regarding the technical, organizational and commercial terms of interconnection with the other operators' telecommunications networks;
- comply with the calculation factors set by the NCRC for access to the operator's own network; and
- not discriminate against other players in the telecommunications market.

According to AC&M-Consulting, MTS-Ukraine had a 31.8% market share of the wireless communications market in Ukraine as of December 31, 2009. However, it has not been declared a dominant market force by the AMC.

In September 2003, the AMC began a review of the telecommunications services market for the purpose of determining the status of competition and the existence of dominant market forces. In August 2004, the AMC notified MTS-Ukraine and its largest competitor, Kyivstar, that the preliminary results of its review of the wireless telecommunications industry indicated that each of MTS-Ukraine and Kyivstar qualified as having a dominant position in the market. The AMC offered MTS-Ukraine and Kyivstar the opportunity to submit their objections to these preliminary findings and indicated that it would issue a decision following its review thereof. In December 2004, the AMC announced its issuance of a decision in which it confirmed that neither MTS-Ukraine nor Kyivstar qualified as having a dominant position in the wireless communications market.

In November 2005, the AMC recommended that MTS-Ukraine and Kyivstar abolish the connection fees both operators charge their subscribers. In April 2006, MTS-Ukraine responded by notifying the AMC that it had partially abolished the connection fees it charged to those subscribers participating in its monthly tariff plans, but would not alter the connection fees charged to subscribers of pre-paid tariff plans. The AMC has not taken any further actions relating to this matter.

Over the course of 2007-2009, the AMC conducted an investigation of the telecommunications interconnection market among mobile operators in Ukraine and issued a finding in May 2009 that eight mobile operators, including MTS-Ukraine and its closest competitors, are monopolists in relation to the market for interconnecting to each of their respective networks. MTS-Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. If the decision is ultimately upheld and we are declared a monopolist, the interconnection fees we charge for terminating calls connecting to our respective networks would be subject to regulation by the NCRC which, in turn, may cause a significant decrease in the interconnect revenues we receive and have a material adverse effect on our results of operations. If the other mobile operators are declared monopolists, the interconnect fees we pay to other mobile operators in Ukraine may decrease as well.

In February 2010, the NCRC approved interconnect rates for telecommunications operators found by the AMC to be monopolists. If the AMC's finding that MTS-Ukraine and its competitors are monopolists is upheld, our interconnect rates will be established in accordance these rates, which may be lower than the current interconnect rates we pay and receive. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations."

Tariffs

Telecommunications tariffs are regulated by the NCRC for:

- “public telecommunication” services; and
- provision of electric communications channels by operators with a dominant position on the market.

The Telecommunications Law withdrew the authority of the Cabinet of Ministers of Ukraine to regulate the prices for telecommunications services.

In February 2006, the NCRC established maximum tariffs for the provision of electric communications channels by operators having a dominant position in the market and, in April 2009, it established maximum tariffs for fixed line public telecommunications services.

Although there are no additional regulations limiting the rates at which tariffs may be set for wireless telecommunications services, the AMC, where competition laws are violated, can find tariffs unfair and injurious to competition. In such cases, the AMC may, *inter alia*, request the violating telecommunications operator to remedy the situation, in particular, by amending its tariff schedule, and impose fines on the company for an infringement.

Subject to the above, wireless operators are free to set tariffs at levels they consider appropriate.

Interconnection

Interconnection activity is regulated by the NCRC. Operators may provide offers for interconnection to the NCRC, and the NCRC is required to publish on an annual or regular basis a catalog of such offers. Operators with a dominant market position on the market are obligated to submit interconnection offers to the NCRC for each catalog.

Interconnection is made pursuant to interconnection agreements between network operators as prescribed by the regulatory authorities. Such agreements are required under the law to contain certain provisions. An operator with a dominant market position cannot refuse an offer to conclude an interconnection agreement with another operator, if the offeror has offered points of interconnection that were previously published by the NCRC in the catalog of interconnection proposals.

The NCRC is authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks. The decision of NCRC is binding upon the parties in the dispute but a party to the dispute may appeal such decision in court.

In May 2009, the AMC issued a finding in May 2009 that eight mobile operators, including MTS-Ukraine and its closest competitors, are monopolists in relation to the market for interconnecting to each of their respective networks. MTS-Ukraine appealed this decision in June 2009, and the AMC suspended the decision pending resolution of the appeal. See “—Competition.”

The NCRC established a level of regulated interconnection fees for terminating calls connecting to networks of operators-monopolists.

Licenses

Mobile Operations

The following table shows, as of May 1, 2010, information with respect to the license areas in which we and our subsidiaries and affiliates provide or expect to provide GSM services:

License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Moscow License Area				
Moscow	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Moscow region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
St. Petersburg License Area				
St. Petersburg	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Leningrad region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Russian Regional License Areas				
European Russia				
Adygeya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Arkhangelsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Astrakhan region	MTS OJSC	December 11, 2013	MTS OJSC	October 18, 2011
Bashkortostan Republic	MTS OJSC	August 22, 2012	MTS OJSC	August 22, 2012
Belgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Bryansk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chuvashia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Chechen Republic ⁽¹⁾	—	—	MTS OJSC	April 28, 2011
Dagestan Republic	Dagtelecom LLC	June 5, 2013	—	—
Dagestan Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Ivanovo region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ingushetia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Kabardino-Balkar Republic	—	—	MTS OJSC	December 30, 2013
Kaliningrad region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kalmykia Republic	MTS OJSC	January 25, 2011	MTS OJSC	December 30, 2013
Kaluga region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Karachaevo-Cherkesia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Karelia Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kirov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Komi Republic	MTS OJSC	August 22, 2012	MTS OJSC	August 22, 2012
Kostroma region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnodar Territory	MTS OJSC	May 30, 2012	MTS OJSC	May 30, 2012
Kursk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Lipetsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Mari-El Republic	MTS OJSC	January 15, 2012	MTS OJSC	January 15, 2012
Mordovia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Murmansk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Nenetsk Autonomous District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Nizhny Novgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Novgorod region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orel region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Orenburg region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Permsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Pskov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Rostov region	MTS OJSC	July 1, 2010	MTS OJSC	July 1, 2010
Ryazan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Samara region	MTS OJSC	December 30, 2012	MTS OJSC	December 30, 2012
Saratov region	MTS OJSC	July 11, 2012	MTS OJSC	July 11, 2012
Severnaya Osetia-Alania Republic	MTS OJSC	September 1, 2011	MTS OJSC	September 1, 2011
Smolensk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Stavropol Territory	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013

License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Tambov region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tatarstan Republic	MTS OJSC	June 26, 2012	MTS OJSC	June 26, 2012
Tula region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tver region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Udmurt Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ulyanovsk region	—	—	MTS OJSC	December 30, 2013
Vladimir region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Volgograd region	—	—	MTS OJSC	October 4, 2011
Vologda region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Voronezh region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Yaroslavl region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Asian Russia				
Altaisk Territory	MTS OJSC	September 8, 2010	MTS OJSC	September 8, 2010
Altai Republic	MTS OJSC	July 19, 2011	MTS OJSC	December 30, 2013
Amur region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Buryatiya Republic	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chelyabinsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Zabaykalsky Territory	Sibintelecom CJSC	June 5, 2014	Sibintelecom CJSC	June 5, 2014
Zabaykalsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Chukotsk Autonomous District . .	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Jewish Autonomous region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Irkutsk region	MTS OJSC	December 30, 2013	MTS OJSC	April 28, 2013
Kamchatka Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Kemerovo region	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Khabarovsk Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Khakassiya Republic	MTS OJSC	September 13, 2011	MTS OJSC	September 13, 2011
Khanty Mansiysk Autonomous District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Krasnoyarsk Territory	MTS OJSC	May 7, 2013	MTS OJSC	May 7, 2013
Kurgan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Magadan region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Novosibirsk region	MTS OJSC	February 21, 2012	MTS OJSC	February 21, 2012
Omsk region	MTS OJSC	December 20, 2011	MTS OJSC	December 20, 2011
Primorsky Territory	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sakha Republic (Yakutia)	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sakhalin region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Sverdlovsk region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tomsk region	MTS OJSC	June 5, 2013	MTS OJSC	June 5, 2013
Tyumen region	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Tyva Republic	MTS OJSC	July 19, 2011	MTS OJSC	December 30, 2013
Yamalo-Nenetsk Autonomous District	MTS OJSC	April 28, 2013	MTS OJSC	April 28, 2013
Ukraine				
Ukraine	UMC	December 3, 2013	UMC	December 3, 2013
Armenia				
Armenia	K-Telekom CJSC	November 4, 2019	K-Telekom CJSC	November 4, 2019
Uzbekistan				
Uzbekistan	Uzdunrobita FE LLS	June 30, 2016	Uzdunrobita FE LLS	June 30, 2016
Turkmenistan				
Turkmenistan	BCTI	February 1, 2012	BCTI	February 1, 2012
Belarus				
Belarus	Mobile Telesystems JLLC	April 30, 2012	Mobile Telesystems JLLC	April 30, 2012

IMT-2000/UMTS/CDMA

<u>License Region</u>	<u>Licensee</u>	<u>Expiry date</u>
Russian Federation	MTS OJSC	May 21, 2017
Uzbekistan	Uzdunrobita FE LLC	June 30, 2016
Armenia	K-Telekom CJSC	November 4, 2019
Ukraine	UMC	September 28, 2021

(1) Our regional license areas in which we have not commenced commercial operations as of the date of this document.

Each of our licenses requires service to be started by a specific date. We have met this target or received extensions to these dates in those regional license areas in which we have not commenced operations. Neither the government nor other parties have taken or attempted to take legal actions to suspend, terminate or challenge the legality of any of our licenses. We have not received any notice of violation of any of our licenses, and we believe that we are in compliance with all material terms of our licenses.

Fixed Line Operations

The following table shows, as of May 1, 2010, information with respect to our fixed line licenses:

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
International, national, intra-zonal and local communications services			
Golden Line	Moscow	No. 17895	April 19, 2011
MGTS	Moscow	No. 30000	December 11, 2013
Comstar UTS	Russian Federation	No. 39141	February 16, 2013
Comstar UTS	Moscow	No. 38981	February 16, 2011
Comstar UTS	Samara Region	No. 39577	March 15, 2011
Comstar UTS	Krasnodar Region	No. 42286	July 12, 2011
Comstar UTS	Tyumen Region	No. 54973	December 6, 2012
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 54974	December 6, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 54975	December 6, 2012
Comstar UTS	St. Petersburg	No. 57244	March 26, 2013
Comstar UTS	Saratov Region	No. 57245	March 26, 2013
Comstar UTS	Ryazan Region	No. 59716	June 2, 2013
Comstar UTS	Moscow Region	No. 36516	November 21, 2010
MGTS	Moscow	No. 33531	July 28, 2010
Comstar Regions	Ryazan Region	No. 70531	December 23, 2010
Comstar Regions	Tver Region	No. 71081	November 24, 2014
Comstar Regions	Voronezh Region	No. 71077	November 24, 2014
Comstar Regions	Kaluga Region	No. 71078	November 24, 2014
Comstar Regions	Ivanovo Region	No. 71079	November 24, 2014
Comstar Regions	Rostov Region	No. 70521	September 14, 2010
Comstar Regions	Krasnodar Region	No. 70485	August 31, 2012
Comstar Regions	Volgograd Region	No. 70457	August 31, 2012
Comstar Regions	Smolensk Region	No. 71080	November 24, 2014
Comstar Regions	Tambov Region	No. 71705	December 18, 2014
Comstar Regions	Astrakhan Region	No. 71712	December 18, 2014
Comstar Regions	Orel Region	No. 71715	December 18, 2014
Comstar Regions	Kursk Region	No. 71718	December 18, 2014
Comstar Regions	Samara Region	No. 72419	December 31, 2014

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar Regions	Vologda Region	No. 72744	January 28, 2015
Comstar Regions	Arkhangelsk Region	No. 72758	January 28, 2015
Comstar Regions	St. Petersburg	No. 72747	January 28, 2015
Comstar Regions	Novgorod Region	No. 72752	January 28, 2015
Comstar UTS	Krasnodar Region	No. 48196	March 5, 2012
Comstar Regions	Rostov Region	No. 70522	September 14, 2010
Comstar Regions	Krasnodar Region	No. 70486	August 31, 2012
Comstar Regions	Volgograd Region	No. 70458	August 31, 2012
Comstar Regions	Astrakhan Region	No. 71713	December 18, 2014
Comstar UTS	Krasnodar Region	No. 48025	March 30, 2012
Comstar UTS	Moscow	No. 48596	March 30, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 61773	September 4, 2013
MGTS	Moscow	No. 60094	July 10, 2013
MGTS	Moscow Region	No. 66707	April 17, 2014
Comstar UTS	Kaluga Region	No. 33792	July 3, 2010
Comstar UTS	St. Petersburg	No. 48022	March 30, 2012
Comstar UTS	Krasnodar Region	No. 48023	March 30, 2012
Comstar UTS	Samara Region	No. 48024	March 30, 2012
Comstar UTS	Moscow	No. 48595	March 30, 2012
Comstar UTS	Moscow Region	No. 48597	March 30, 2012
Comstar UTS	Stavropol Region	No. 48651	March 30, 2012
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 52429	August 31, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 52430	August 31, 2012
Comstar UTS	Tyumen Region	No. 52432	August 31, 2012
Comstar UTS	Saratov Region	No. 54294	November 9, 2012
Comstar UTS	Leningrad Region	No. 57246	March 26, 2013
Comstar UTS	Volgograd Region	No. 57247	March 26, 2013
Comstar UTS	Ryazan Region	No. 63256	October 28, 2013
Comstar UTS	Krasnodar Region	No. 66705	April 17, 2014
MGTS	Moscow Region	No. 66708	April 17, 2014
Comstar Regions	Ryazan Region	No. 70532	February 9, 2012
Comstar Regions	Nizhniy Novgorod Region	No. 70499	April 11, 2011
Comstar Regions	Tver Region	No. 71085	November 24, 2014
Comstar Regions	Voronezh Region	No. 71082	November 24, 2014
Comstar Regions	Kaluga Region	No. 71083	November 24, 2014
Comstar Regions	Ulyanovsk Region	No. 71089	November 24, 2014
Comstar Regions	Perm	No. 70518	February 27, 2013
Comstar Regions	Ivanovo	No. 70476	February 27, 2013
Comstar Regions	Velikiy Novgorod	No. 70508	February 27, 2013
Comstar Regions	Ekaterinburg	No. 70547	February 27, 2013
Comstar Regions	Saratov Region	No. 71087	November 24, 2014
Comstar Regions	The Udmurt Republic	No. 71090	November 24, 2014
Comstar Regions	Samara Region	No. 71088	November 24, 2014
Comstar Regions	Rostov Region	No. 70523	August 30, 2011
Comstar Regions	Krasnodar Region	No. 70487	August 31, 2012
Comstar Regions	Volgograd Region	No. 70459	August 31, 2012
Comstar Regions	Smolensk Region	No. 71084	November 24, 2014
Comstar Regions	Kursk Region	No. 71700	December 18, 2014
Comstar Regions	Tambov Region	No. 71706	December 18, 2014

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar Regions	Astrakhan Region	No. 71710	December 18, 2014
Comstar Regions	Orel Region	No. 71716	December 18, 2014
Comstar Regions	Omsk Region	No. 71725	December 18, 2014
Comstar Regions	Kemerovo Region	No. 71728	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71729	December 18, 2014
Comstar Regions	Krasnoyarsk Region	No. 71730	December 18, 2014
Comstar Regions	Vologda Region	No. 72745	January 28, 2015
Comstar Regions	Arkhangelsk Region	No. 72759	January 28, 2015
Comstar Regions	St. Petersburg	No. 72746	January 28, 2015
Comstar UTS	Ivanovo Region	No. 36016	October 31, 2010
Comstar Direct	Moscow, Moscow Region	No. 26501	June 5, 2013

Telematic Services

Comstar UTS	Ivanovo Region	No. 35609	September 17, 2010
Comstar UTS	Moscow Region	No. 37386	October 26, 2010
Comstar UTS	Kaluga Region	No. 37388	October 26, 2010
Comstar UTS	St. Petersburg	No. 40485	April 28, 2011
Comstar UTS	Vladimir Region	No. 46187	December 8, 2011
Comstar UTS	Yaroslavl Region	No. 48001	March 30, 2012
Comstar UTS	Samara Region	No. 48591	March 30, 2012
Comstar UTS	Krasnodar Region	No. 48592	March 30, 2012
Comstar UTS	Moscow	No. 48594	March 30, 2012
Comstar UTS	Tyumen Region	No. 52425	August 31, 2012
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 52426	August 31, 2012
Comstar UTS	Saratov Region	No. 52427	August 31, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 52428	August 31, 2012
Comstar UTS	Volgograd Region	No. 56544	February 27, 2013
Comstar UTS	Ryazan Region	No. 63259	October 28, 2013
Comstar UTS	The Udmurt Republic	No. 63261	October 28, 2013
Comstar UTS	Tula Region	No. 63262	October 28, 2013
Comstar UTS	Tambov Region	No. 63263	October 28, 2013
Comstar UTS	Smolensk Region	No. 63264	October 28, 2013
Comstar UTS	Orel Region	No. 63265	October 28, 2013
Comstar UTS	Altai Region	No. 63266	October 28, 2013
Comstar UTS	Belgorod Region	No. 63267	October 28, 2013
Comstar UTS	Bryansk Region	No. 63269	October 28, 2013
Comstar UTS	The Republic of Kabardino-Balkaria	No. 63271	October 28, 2013
Comstar UTS	Vologda Region	No. 63274	October 28, 2013
Comstar UTS	Lipetsk Region	No. 63276	October 28, 2013
Comstar UTS	Omsk Region	No. 63282	October 28, 2013
Comstar UTS	Kursk Region	No. 63284	October 28, 2013
Comstar UTS	Kostroma Region	No. 63285	October 28, 2013
Comstar UTS	Saratov Region	No. 63837	November 28, 2013
Comstar UTS	Rostov Region	No. 66702	April 17, 2014
Comstar UTS	Voronezh Region	No. 66703	April 17, 2014
MGTS	Moscow, Moscow Region	No. 44670	December 11, 2011
Comstar Regions	Ryazan Region	No. 70530	December 10, 2011
Comstar Regions	Kemerovo Region	No. 70480	November 9, 2012
Comstar Regions	The Udmurt Republic	No. 70554	November 9, 2012
Comstar Regions	Ulyanovsk Region	No. 70559	November 9, 2012

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar Regions	Tver Region	No. 70551	November 9, 2012
Comstar Regions	Smolensk Region	No. 70548	November 9, 2012
Comstar Regions	Sverdlovsk Region	No. 70544	November 9, 2012
Comstar Regions	Saratov Region	No. 70540	November 9, 2012
Comstar Regions	Perm Region	No. 70513	November 9, 2012
Comstar Regions	Novgorod Region	No. 70504	November 9, 2012
Comstar Regions	Nizhniy Novgorod Region	No. 70498	November 9, 2012
Comstar Regions	Moscow	No. 70469	November 9, 2012
Comstar Regions	Krasnoyarsk Region	No. 70494	November 9, 2012
Comstar Regions	Kaluga Region	No. 70477	November 9, 2012
Comstar Regions	Ivanovo Region	No. 70472	November 9, 2012
Comstar Regions	Vologda Region	No. 70463	November 9, 2012
Comstar Regions	Voronezh Region	No. 70466	November 9, 2012
Comstar Regions	Arkhangelsk Region	No. 70450	November 9, 2012
Comstar Regions	Omsk Region	No. 70509	June 2, 2013
Comstar Regions	Samara Region	No. 70538	August 1, 2013
Comstar Regions	Orenburg Region	No. 70511	August 1, 2013
Comstar Regions	Rostov Region	No. 70520	March 9, 2012
Comstar Regions	Krasnodar Region	No. 70484	August 31, 2012
Comstar Regions	Volgograd Region	No. 70456	August 31, 2012
Comstar Regions	Rostov Region	No. 70519	November 9, 2012
Comstar Regions	Astrakhan Region	No. 70453	November 9, 2012
Comstar Regions	Krasnodar Region	No. 70483	November 9, 2012
Comstar Regions	Kursk Region	No. 71702	December 18, 2014
Comstar Regions	Tambov Region	No. 71709	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71720	December 18, 2014
Comstar Regions	Orel Region	No. 72421	December 31, 2014
Comstar Direct	Moscow	No. 53196	August 1, 2012
Comstar Direct	Moscow Region	No. 71075	November 24, 2014
Leased Communications Circuits			
MGTS	Moscow	No. 29336	December 11, 2013
Comstar UTS	Ivanovo Region	No. 35610	September 17, 2010
Comstar UTS	Kaluga Region	No. 35110	July 3, 2010
Comstar UTS	Krasnodar Region	No. 48648	April 28, 2012
Comstar UTS	Samara Region	No. 48649	April 28, 2012
Comstar UTS	Moscow, Moscow Region	No. 48650	April 28, 2012
Comstar UTS	Stavropol Region	No. 52056	August 20, 2012
Comstar UTS	St. Petersburg	No. 52424	August 31, 2012
Comstar UTS	Saratov Region	No. 52431	August 31, 2012
Comstar UTS	Volgograd Region	No. 56545	February 27, 2013
Comstar UTS	Tyumen Region	No. 58053	April 18, 2013
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 61772	September 4, 2013
Comstar UTS	Khanty Mansiyskiy Autonomous Region	No. 61774	September 4, 2013
Comstar UTS	Ryazan Region	No. 63260	October 28, 2013
Comstar UTS	Lipetsk Region	No. 66699	April 17, 2014
Comstar UTS	Tula Region	No. 66700	April 17, 2014
Comstar UTS	Voronezh Region	No. 66701	April 17, 2014
Comstar UTS	Rostov Region	No. 66704	April 17, 2014

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar UTS	Krasnodar Region, Voronezh, Lipetsk, Rostov and Tula Regions	No. 69467	August 27, 2014
Comstar Regions	Arkhangelsk Region	No. 72757	January 28, 2015
Comstar Regions	St. Petersburg	No. 72750	January 28, 2015
Comstar Regions	Novgorod Region	No. 72751	January 28, 2015
Comstar Regions	Ryazan Region	No. 70535	December 10, 2011
Comstar Regions	Tver Region	No. 70597	October 26, 2014
Comstar Regions	Voronezh Region	No. 70594	October 26, 2014
Comstar Regions	Kaluga Region	No. 70595	October 26, 2014
Comstar Regions	Ulyanovsk Region	No. 71095	November 24, 2014
Comstar Regions	Novgorod Region	No. 70507	February 27, 2013
Comstar Regions	Saratov Region	No. 70543	February 27, 2013
Comstar Regions	Krasnoyarsk Region	No. 70497	February 27, 2013
Comstar Regions	Nizhniy Novgorod Region	No. 70503	February 27, 2013
Comstar Regions	Perm Region	No. 70517	February 27, 2013
Comstar Regions	The Udmurt Republic	No. 70558	February 27, 2013
Comstar Regions	Ivanovo Region	No. 70596	October 26, 2014
Comstar Regions	Samara Region	No. 71096	November 24, 2014
Comstar Regions	Orenburg Region	No. 71097	November 24, 2014
Comstar Regions	Orenburg Region	No. 71086	November 24, 2014
Comstar Regions	Rostov Region	No. 70529	August 25, 2010
Comstar Regions	Krasnodar Region	No. 70493	August 31, 2012
Comstar Regions	Volgograd Region	No. 70462	August 31, 2012
Comstar Regions	Smolensk Region	No. 70598	October 26, 2014
Comstar Regions	Kursk Region	No. 71699	December 18, 2014
Comstar Regions	Tambov Region	No. 71704	December 18, 2014
Comstar Regions	Astrakhan Region	No. 71711	December 18, 2014
Comstar Regions	Orel Region	No. 71714	December 18, 2014
Comstar Regions	Omsk Region	No. 71726	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71727	December 18, 2014
Comstar Regions	Vologda Region	No. 71743	January 28, 2015
Comstar Direct	Moscow, Moscow Region	No. 53197	August 29, 2012
Data Transmission Services			
Comstar UTS	Irkutsk Region	No. 47647	February 9, 2012
Comstar UTS	Volgograd Region	No. 47648	February 9, 2012
Comstar UTS	Krasnoyarsk Region	No. 47649	February 9, 2012
Comstar UTS	Khabarovsk Region	No. 48190	March 5, 2012
Comstar UTS	Ulyanovsk Region	No. 48191	March 5, 2012
Comstar UTS	Saratov Region	No. 48192	March 5, 2012
Comstar UTS	Tver Region	No. 48193	March 5, 2012
Comstar UTS	Vladimir Region	No. 48194	March 5, 2012
Comstar UTS	Leningrad Region	No. 48195	March 5, 2012
Comstar UTS	Moscow	No. 48598	March 30, 2012
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 51194	June 5, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 51195	June 5, 2012
Comstar UTS	Ryazan Region	No. 63258	October 28, 2013
Comstar UTS	The Udmurt Republic	No. 63268	October 28, 2013
Comstar UTS	Tula Region	No. 63270	October 28, 2013
Comstar UTS	Tambov Region	No. 63272	October 28, 2013

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar UTS	Smolensk Region	No. 63273	October 28, 2013
Comstar UTS	Altai Region	No. 63275	October 28, 2013
Comstar UTS	Belgorod Region	No. 63277	October 28, 2013
Comstar UTS	Bryansk Region	No. 63278	October 28, 2013
Comstar UTS	The Republic of Kabardino-Balkaria	No. 63279	October 28, 2013
Comstar UTS	Vologda Region	No. 63280	October 28, 2013
Comstar UTS	Lipetsk Region	No. 63281	October 28, 2013
Comstar UTS	Orel Region	No. 63283	October 28, 2013
Comstar UTS	Kursk Region	No. 63286	October 28, 2013
Comstar UTS	Kostroma Region	No. 63287	October 28, 2013
MGTS	Moscow Region	No. 66706	April 17, 2014
MGTS	Moscow	No. 61511	December 11, 2013
Comstar Regions	Ryazan Region	No. 70534	December 10, 2011
Comstar Regions	Moscow	No. 70471	November 9, 2012
Comstar Regions	The Udmurt Republic	No. 70557	November 9, 2012
Comstar Regions	Krasnoyarsk Region	No. 70496	November 9, 2012
Comstar Regions	Kaluga Region	No. 70479	November 9, 2012
Comstar Regions	Tver Region	No. 70553	November 9, 2012
Comstar Regions	Smolensk Region	No. 70550	November 9, 2012
Comstar Regions	Ulyanovsk Region	No. 70561	November 9, 2012
Comstar Regions	Voronezh Region	No. 70468	November 9, 2012
Comstar Regions	Novgorod Region	No. 70506	November 9, 2012
Comstar Regions	Vologda Region	No. 70465	November 9, 2012
Comstar Regions	Perm Region	No. 70516	November 9, 2012
Comstar Regions	Sverdlovsk Region	No. 70546	November 9, 2012
Comstar Regions	Saratov Region	No. 70542	November 9, 2012
Comstar Regions	Nizhniy Novgorod Region	No. 70502	November 9, 2012
Comstar Regions	Ivanovo Region	No. 70475	November 9, 2012
Comstar Regions	Kemerovo Region	No. 70482	November 9, 2012
Comstar Regions	Arkhangelsk Region	No. 70452	November 9, 2012
Comstar Regions	Omsk Region	No. 70510	June 2, 2013
Comstar Regions	Samara Region	No. 70539	August 1, 2013
Comstar Regions	Orenburg Region	No. 70512	August 1, 2013
Comstar Regions	Rostov Region	No. 70527	November 9, 2012
Comstar Regions	Astrakhan Region	No. 70455	November 9, 2012
Comstar Regions	Krasnodar Region	No. 70491	November 9, 2012
Comstar Regions	Rostov Region	No. 70528	March 9, 2012
Comstar Regions	Krasnodar Region	No. 70492	August 31, 2012
Comstar Regions	Volgograd Region	No. 70461	August 31, 2012
Comstar Regions	Tambov Region	No. 71707	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71719	December 18, 2014
Comstar Regions	Orel Region	No. 72420	December 31, 2014
Comstar Regions	St. Petersburg	No. 72756	January 28, 2015
Comstar Regions	Novgorod Region	No. 72754	January 28, 2015
Comstar Regions	Kursk Region	No. 71698	December 18, 2014
Comstar UTS	Kaluga Region	No. 37390	October 26, 2010
Comstar UTS	Ivanovo Region	No. 35608	September 17, 2010
Comstar UTS	Samara Region	No. 38988	February 16, 2011
Comstar UTS	Krasnodar Region	No. 38991	February 16, 2011

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar UTS	Perm Region	No. 38989	February 16, 2011
Comstar UTS	Rostov Region	No. 38990	February 16, 2011
Comstar UTS	Nizhniy Novgorod Region	No. 38993	February 16, 2011
Comstar UTS	The Republic of Bashkortastan	No. 38992	February 16, 2011
Comstar UTS	The Republic of Bashkortastan	No. 39586	March 15, 2011
Comstar UTS	St. Petersburg	No. 39596	March 15, 2011
Comstar UTS	Krasnoyarsk Region	No. 39590	March 15, 2011
Comstar UTS	The Republic of Tatarstan	No. 39589	March 15, 2011
Comstar UTS	The Republic of Mari El	No. 39582	March 15, 2011
Comstar UTS	Stavropol Region	No. 39587	March 15, 2011
Comstar UTS	Khabarovsk Region	No. 39584	March 15, 2011
Comstar UTS	Vladimir Region	No. 39591	March 15, 2011
Comstar UTS	Volgograd Region	No. 39594	March 15, 2011
Comstar UTS	Voronezh Region	No. 39592	March 15, 2011
Comstar UTS	Irkutsk Region	No. 39593	March 15, 2011
Comstar UTS	Sverdlovsk Region	No. 39588	March 15, 2011
Comstar UTS	Penza Region	No. 39579	March 15, 2011
Comstar UTS	Omsk Region	No. 39580	March 15, 2011
Comstar UTS	Novosibirsk Region	No. 39581	March 15, 2011
Comstar UTS	Chelyabinsk Region	No. 39578	March 15, 2011
Comstar UTS	Ulyanovsk Region	No. 39585	March 15, 2011
Comstar UTS	Yaroslavl Region	No. 39583	March 15, 2011
Comstar UTS	The Republic of Tatarstan	No. 47639	February 9, 2012
Comstar UTS	Primorsky Region	No. 47640	February 9, 2012
Comstar UTS	Stavropol Region	No. 47641	February 9, 2012
Comstar UTS	Tyumen Region	No. 47642	February 9, 2012
Comstar UTS	Kemerovo Region	No. 47643	February 9, 2012
Comstar UTS	Chelyabinsk Region	No. 47644	February 9, 2012
Comstar UTS	Novosibirsk Region	No. 47645	February 9, 2012
Comstar UTS	Sverdlovsk Region	No. 47646	February 9, 2012
Comstar Direct	Moscow, Moscow Region	No. 34119	August 25, 2010
Comstar Direct	St. Petersburg	No. 43498	August 30, 2011
Comstar Direct	Tver Region	No. 53373	August 31, 2012
Comstar Direct	Novgorod Region	No. 52372	August 31, 2012
Comstar UTS	Ivanovo Region	No. 36017	October 31, 2010
Comstar UTS	Moscow Region	No. 37391	October 26, 2010
Comstar UTS	Moscow Region	No. 37387	October 26, 2010
Comstar UTS	Kaluga Region	No. 37389	October 26, 2010
Comstar UTS	Samara Region	No. 38987	February 16, 2011
Comstar UTS	Krasnodar Region	No. 38985	February 16, 2011
Comstar UTS	Perm Region	No. 38982	February 16, 2011
Comstar UTS	Rostov Region	No. 38983	February 16, 2011
Comstar UTS	Nizhniy Novgorod Region	No. 38984	February 16, 2011
Comstar UTS	The Republic of Bashkortastan	No. 38986	February 16, 2011
Comstar UTS	St. Petersburg	No. 39595	March 15, 2011
Comstar UTS	The Republic of Tatarstan	No. 39601	March 15, 2011
Comstar UTS	The Republic of Mari El	No. 39606	March 15, 2011
Comstar UTS	Stavropol Region	No. 39598	March 15, 2011
Comstar UTS	Khabarovsk Region	No. 39608	March 15, 2011

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar UTS	Vladimir Region	No. 39599	March 15, 2011
Comstar UTS	Volgograd Region	No. 39610	March 15, 2011
Comstar UTS	Krasnoyarsk Region	No. 39600	March 15, 2011
Comstar UTS	Voronezh Region	No. 39611	March 15, 2011
Comstar UTS	Irkutsk Region	No. 39612	March 15, 2011
Comstar UTS	Sverdlovsk Region	No. 39602	March 15, 2011
Comstar UTS	Penza Region	No. 39597	March 15, 2011
Comstar UTS	Omsk Region	No. 39604	March 15, 2011
Comstar UTS	Novosibirsk Region	No. 39605	March 15, 2011
Comstar UTS	Chelyabinsk Region	No. 39613	March 15, 2011
Comstar UTS	Ulyanovsk Region	No. 39609	March 15, 2011
Comstar UTS	Yaroslavl Region	No. 39607	March 15, 2011
Comstar UTS	Kaliningrad Region	No. 39603	March 15, 2011
Comstar UTS	Vladimir Region	No. 45500	November 17, 2011
Comstar UTS	Chelyabinsk Region	No. 45501	November 17, 2011
Comstar UTS	Kemerovo Region	No. 45502	November 17, 2011
Comstar UTS	Krasnodar Region	No. 45503	November 17, 2011
Comstar UTS	Saratov Region	No. 45504	November 17, 2011
Comstar UTS	Tyumen Region	No. 45505	November 17, 2011
Comstar UTS	Nizhniy Novgorod Region	No. 45506	November 17, 2011
Comstar UTS	Sverdlovsk Region	No. 45507	November 17, 2011
Comstar UTS	Krasnoyarsk Region	No. 45508	November 17, 2011
Comstar UTS	Novosibirsk Region	No. 45509	November 17, 2011
Comstar UTS	Khabarovsk Region	No. 45510	November 17, 2011
Comstar UTS	The Republic of Tatarstan	No. 45511	November 17, 2011
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 45512	November 17, 2011
Comstar UTS	Primorsky Region	No. 45513	November 17, 2011
Comstar UTS	Stavropol Region	No. 45514	November 17, 2011
Comstar UTS	Irkutsk Region	No. 45515	November 17, 2011
Comstar UTS	Ulyanovsk Region	No. 45516	November 17, 2011
Comstar UTS	Volgograd Region	No. 45517	November 17, 2011
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 45518	November 17, 2011
Comstar UTS	Leningrad Region	No. 45519	November 17, 2011
Comstar UTS	Tver Region	No. 45520	November 17, 2011
Comstar UTS	Moscow	No. 48593	March 30, 2012
Comstar UTS	Ryazan Region	No. 63257	October 28, 2013
MGTS	Moscow	No. 38994	February 16, 2011
Comstar Regions	Ryazan Region	No. 70533	December 8, 2011
Comstar Regions	Tver Region	No. 71093	November 24, 2014
Comstar Regions	Voronezh Region	No. 71091	November 24, 2014
Comstar Regions	Kaluga Region	No. 71092	November 24, 2014
Comstar Regions	Ivanovo Region	No. 70474	February 27, 2013
Comstar Regions	Nizhniy Novgorod Region	No. 70501	February 27, 2013
Comstar Regions	Perm Region	No. 70515	February 27, 2013
Comstar Regions	The Udmurt Republic	No. 70556	February 27, 2013
Comstar Regions	Rostov Region	No. 70526	September 14, 2010
Comstar Regions	Krasnodar Region	No. 70490	August 31, 2012
Comstar Regions	Volgograd Region	No. 70460	August 31, 2012
Comstar Regions	Krasnodar Region	No. 70489	February 27, 2013

<u>Licensee</u>	<u>License Region(s)</u>	<u>License number</u>	<u>Expiry Date</u>
Comstar Regions	Smolensk Region	No. 71094	November 24, 2014
Comstar Regions	Kursk Region	No. 71701	December 18, 2014
Comstar Regions	Astrakhan Region	No. 71703	December 18, 2014
Comstar Regions	Tambov Region	No. 71708	December 18, 2014
Comstar Regions	Orel Region	No. 71717	December 18, 2014
Comstar Regions	Novosibirsk Region	No. 71721	December 18, 2014
Comstar Regions	Omsk Region	No. 71722	December 18, 2014
Comstar Regions	Krasnoyarsk Region	No. 71723	December 18, 2014
Comstar Regions	Kemerovo Region	No. 71724	December 18, 2014
Comstar Regions	Samara Region	No. 72422	December 31, 2014
Comstar Regions	Vologda Region	No. 72749	January 28, 2015
Comstar Regions	Novgorod Region	No. 72748	January 28, 2015
Comstar Regions	St. Petersburg	No. 72755	January 28, 2015
Comstar Regions	Arkhangelsk Region	No. 72753	January 28, 2015
Comstar Direct	Moscow	No. 71076	November 24, 2014

Mobile Radio Services

Comstar UTS	Tyumen Region	No. 53499	October 16, 2012
Comstar UTS	Khanty Mansiysky Autonomous Region	No. 53500	October 16, 2012
Comstar UTS	Yamalo Nenetskiy Autonomous Region	No. 53501	October 16, 2012
Comstar Regions	Rostov Region	No. 70524	August 31, 2012

Telecommunications Services for Cablecasting

Comstar UTS	Moscow, Moscow Region	No. 37279	December 12, 2010
Comstar UTS	St. Petersburg	No. 65304	December 26, 2013
Comstar UTS	Leningrad Region	No. 65305	December 26, 2013
Comstar Regions	Ryazan	No. 70537	June 30, 2011
Comstar Regions	Ryazan	No. 70536	June 30, 2011
Comstar Regions	Sverdlovsk Region	No. 70545	October 16, 2012
Comstar Regions	Saratov Region	No. 70541	October 16, 2012
Comstar Regions	Arkhangelsk Region	No. 70451	October 16, 2012
Comstar Regions	Nizhniy Novgorod Region	No. 70500	October 16, 2012
Comstar Regions	Ivanovo Region	No. 70473	October 16, 2012
Comstar Regions	Kemerovo Region	No. 70481	October 16, 2012
Comstar Regions	Moscow	No. 70470	November 9, 2012
Comstar Regions	Voronezh Region	No. 70467	November 9, 2012
Comstar Regions	The Udmurt Republic	No. 70555	November 9, 2012
Comstar Regions	Krasnoyarsk Region	No. 70495	November 9, 2012
Comstar Regions	Kaluga Region	No. 70478	November 9, 2012
Comstar Regions	Tver Region	No. 70552	November 9, 2012
Comstar Regions	Smolensk Region	No. 70549	November 9, 2012
Comstar Regions	Ulyanovsk Region	No. 70560	November 9, 2012
Comstar Regions	Novgorod Region	No. 70505	November 9, 2012
Comstar Regions	Vologda Region	No. 70464	November 9, 2012
Comstar Regions	Perm Region	No. 70514	October 16, 2012
Comstar Regions	Rostov Region	No. 70525	October 16, 2012
Comstar Regions	Astrakhan Region	No. 70454	October 16, 2012
Comstar Regions	Krasnodar Region	No. 70488	November 9, 2012
Comstar Direct	Moscow, Moscow Region	No. 44052	September 21, 2011

C. Organizational Structure

The table below presents our significant subsidiaries, the places of incorporation and our ownership interests therein as of December 31, 2009.

<u>Subsidiary</u>	<u>Accounting Method</u>	<u>Ownership Interest</u>	<u>Place of Incorporation/ Organization</u>
Sibintertelecom	Consolidated	100.0%	Russia
Dagtelecom	Consolidated	100.0%	Russia
RTC	Consolidated	100.0%	Russia
Evrotel	Consolidated	100.0%	Russia
Ukrainian Mobile Communications (MTS-Ukraine)	Consolidated	100.0%	Ukraine
MTS Finance ⁽¹⁾	Consolidated	100.0%	Luxembourg
Uzdunrobita	Consolidated	100.0%	Uzbekistan
BCTI	Consolidated	100.0%	USA
MTS Bermuda ⁽²⁾	Consolidated	100.0%	Bermuda
K-Telekom	Consolidated	80.0%	Armenia
Comstar	Consolidated	64.0%	Russia
MTS Belarus	Equity	49.0%	Belarus
TS-Retail	Equity	34.6%	Russia

(1) Represents beneficial ownership interest.

(2) A wholly owned subsidiary established to repurchase our ADSs.

See also Note 2 to our audited consolidated financial statements.

D. Property, Plant and Equipment

Property, Plant and Equipment

We own and occupy premises in Moscow at 4 Marksistskaya Street Bldgs. 1-4, 34 Marksistskaya Street Bldg. 10, 1/3 Vorontsovskaya Street Bldgs. 2 and 2a, 5 Vorontsovskaya Street Bldgs. 1 and 2, 13/14 Vorontsovskaya Street Bldg. 4, 8 Vorontsovskaya Street Bldg. 4, 12/12 Pankratievsky Pereulok, 2/10 Perviy Golutvinskiy Pereulok Bldg. 2, 4 Perviy Golutvinskiy Pereulok Bldg. 1, 9 Magnitogorskaya Street, 6 Vtoroy Vyazovskiy Proezd, 2A Konstantina Simonova Street, 19 Dmitrovskoye shosse Bldg. 2, 103 Prospect Mira, 42 Profsoyuznaya Street Bldg. 1, 24/2 Malaya Dmitrovka Street and Sheremetyevo Airport, which we use for administration, sales and other service centers as well as operation of mobile switching centers. We also lease buildings in Moscow for similar purposes, including marketing and sales and other service centers. We also own office buildings in some of our regional license areas and in Ukraine, and we lease office space on an as-needed basis. We believe that our properties are adequate for our current needs and additional space is available to us if and when it is needed.

Mobile Operations

The primary elements of our network are base stations, base station controllers, transcoders and mobile switching centers. GSM technology is based on an “open architecture,” which means that equipment from one supplier can be combined with that of another supplier to expand the network. Thus, there are no technical limitations to using equipment from other suppliers. Several major suppliers currently offer GSM 900/1800 mobile cellular equipment and the market for suppliers is competitive.

Of the 30,292 base stations comprising our mobile network in Russia as of December 31, 2009, 18,293 operated in the 900 MHz band and 11,999 operated in the 1800 MHz band. We also operated

716 base station controllers, 139 switches and approximately 23 media gateways in Russia as of December 31, 2009. Our 3G network in Russia as of December 31, 2009 was comprised of 2,747 base stations, or Node Bs, 42 softswitches, 47 media gateways and 49 radio network controllers.

Of the 13,666 base stations comprising our network in Ukraine as of December 31, 2009, 5,212 operated in the 900 MHz band and 8,454 operated in the 1800 MHz band and 623 operated in 450 MHz (CDMA). We also operated 398 base station controllers and 42 switches in Ukraine as of December 31, 2009.

Of the 2,319 base stations comprising our network in Uzbekistan as of December 31, 2009, 701 operated in the 900 MHz band and 1,618 operated in the 1800 MHz band. We also operated 58 base station controllers, 13 switches and 17 media gateways in Uzbekistan as of December 31, 2009. Our 3G network in Uzbekistan as of December 31, 2009 was comprised of 108 base stations, or Node Bs, 2 softswitches, 2 media gateways and 2 radio network controllers.

Of the 945 base stations comprising our network in Turkmenistan as of December 31, 2009, 527 operated in the 900 MHz band and 418 operated in the 1800 MHz band. We also operated 12 base station controllers, 2 switches and 6 media gateways in Turkmenistan as of December 31, 2009.

Of the 838 base stations comprising our network in Armenia as of December 31, 2009, 672 operated in the 900 MHz band and 166 operated in 1 800 MHz band. We also operated 32 base station controllers, 4 switches and 4 media gateways in Armenia as of December 31, 2009. Our 3G network in Armenia as of December 31, 2009 was comprised of 240 base stations, or Node Bs, 2 softswitches, 2 media gateways and 3 radio network controllers.

Fixed Line Operations

Comstar's headquarters, which are leased from MGTS, are located on 12/3 Petrovsky Blvd., Moscow. In addition, Comstar owns an office building on 27/2 Smolenskaya-Sennaya square, Moscow, where certain of its departments are located. MGTS' headquarters are located on 25/1 Bolshaya Ordynka, Moscow. As of December 31, 2009, MGTS owned approximately 238 buildings located throughout Moscow. These buildings serve as sales and customer service offices and house MGTS' telecommunications equipment.

In addition, Comstar either directly or indirectly owns and leases premises in each of the regions it has a presence (excluding the Moscow region), which it uses for administration, sales, marketing and other service centers, as well as operating switching centers. We believe that Comstar and MGTS' properties are adequate for their current needs and additional space is available to us if and when it is needed.

For a description of our fixed line network infrastructure, see “—B. Business Overview—Fixed Line Operations—Network Infrastructure.”

Item 4A. *Unresolved Staff Comments*

None.

Item 5. *Operating and Financial Review and Prospects*

The following discussion of our financial condition and results of operations is intended to help the reader understand our Company, our operations and our present business environment and should be read in conjunction with our consolidated financial statements, related notes and other information included elsewhere in this document. In particular, we refer you to the risks discussed in “Item 3. Key Information—D. Risk Factors” for information regarding governmental, economic, fiscal, monetary or political policies or factors that could materially adversely affect our operations or your investment in our shares and ADSs. In

addition, this section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under “Item 3. Key Information—D. Risk Factors” and “Cautionary Statement Regarding Forward-Looking Statements.” Our reporting currency is the U.S. dollar and our consolidated financial statements have been prepared in accordance with U.S. GAAP.

As we and Comstar were under the common control of Sistema, our acquisition of a majority stake in Comstar has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests, i.e., the assets and liabilities acquired were recorded at their historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if Comstar had been owned since the beginning of the earliest period presented. As a result, Comstar and its assets have been recorded at book value as if the businesses and assets of Comstar have been owned by us since the beginning of the periods presented. Accordingly, the financial data presented below for the years ended December 31, 2007 and 2008, the financial years preceding the acquisition, have been restated to include the financial position and results of operations of Comstar as if the acquisition had occurred as of January 1, 2007, and the financial data for the year ended December 31, 2009 includes the financial position and results of operations of Comstar for the full year. See Note 2 to our audited consolidated financial statements.

Overview

We are a leading telecommunications provider in Russia and the CIS, providing a wide range of mobile and fixed line voice and data telecommunications services, including transmission, broadband, pay-TV and various value-added services, as well as selling equipment and accessories. According to AC&M-Consulting, we are the largest mobile operator in Russia, Uzbekistan, Turkmenistan and Armenia and the second largest in Ukraine in terms of mobile subscribers and revenues. As of December 31, 2009, we had a mobile subscriber base of approximately 97.81 million (approximately 69.34 million in Russia, 17.56 million in Ukraine, 7.07 million in Uzbekistan, 1.76 million in Turkmenistan and 2.07 million in Armenia), an increase of 7.1% compared to December 31, 2008. Through Comstar, we are also the largest operator in the Moscow residential broadband market, with a 32% market share as of December 31, 2009, according to Direct INFO. Our revenues for the year ended December 31, 2009 were \$9,823.5 million, a decrease of 17.5% from the year ended December 31, 2008. Our net income for the year ended December 31, 2009 was \$1,004.5 million, a decrease of 49.8% from the year ended December 31, 2008.

Our revenues historically have increased through organic growth, as well as through acquisitions. In 2003, we acquired 100% of UMC, a mobile operator in Ukraine. For the years ended December 31, 2008 and 2009, MTS-Ukraine had total revenues of \$1,662.0 million and \$1,048.8 million, respectively. We acquired a 74% stake in Uzdurobita, a mobile operator in Uzbekistan, in August 2004 and the remaining 26% stake in June 2007. For the years ended December 31, 2008 and 2009, MTS-Uzbekistan had total revenues of \$391.4 million and \$404.9 million, respectively. In two separate purchases in June and November 2005, we acquired 100% of BCTI, a mobile operator in Turkmenistan. For the years ended December 31, 2008 and 2009, MTS-Turkmenistan had total revenues of \$131.4 million and \$160.8 million, respectively. In September 2007, we acquired 80% of K-Telekom, the largest mobile operator in Armenia. The results of operations of K-Telekom have been included in our consolidated financial statements since September 14, 2007 and it had total revenues of \$256.6 million and \$221.3 million for the period ending December 31, 2008 and for the year ended December 31, 2009, respectively. Each of UMC, Uzdurobita, and BCTI operate under the MTS brand, and K-Telekom operates under the VivaCell-MTS brand.

We also hold a 49% equity investment in a mobile operator in Belarus, MTS Belarus, which had approximately 4.6 million subscribers as of December 31, 2009 and total revenues of \$424.0 million for the year ended December 31, 2009. MTS Belarus is an equity investment, and its results are not consolidated in our financial statements, but instead are accounted for in our equity in net income of associates. The remaining stake in MTS Belarus is owned by a Belarus state-owned enterprise.

In 2009, we significantly expanded our operations with the acquisition of a majority stake in Comstar, a leading provider of fixed line communication services in Russia. Comstar also operates in Ukraine and Armenia, where it provides digital telephony communications services, data transmission, Internet access and the renting of channels. This acquisition has provided us access to important growth markets in corporate and residential broadband in furtherance of our strategy to develop convergent telecommunications services and evolve into an integrated telecommunications operator. For the years ended December 31, 2007, 2008 and 2009, Comstar had total revenues of \$1,562.3 million, \$1,765.2 million and \$1,485.6 million, respectively. See “—Acquisitions.”

We also aggressively expanded our proprietary retail and distribution network over the course of 2009, both organically and through the acquisition of several national and regional retail chains. See “Item 4. Information on Our Company—B. Business Overview—Mobile Operations—Sales and Marketing—Sales and Distribution” and “—Acquisitions.”

We require significant funds to support our subscriber growth, primarily for increasing network capacity, maintaining and modernizing our mobile and fixed line networks, developing our network in the regions and continuing the buildout of our 3G and broadband Internet networks. Our cash outlays for capital expenditures (consisting of purchases of property, plant and equipment and intangible assets) for the years ended December 31, 2007, 2008 and 2009 were \$1,899.0 million, \$2,612.8 million and \$2,328.3 million, respectively. We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities for the years ended December 31, 2007, 2008 and 2009 was \$3,851.4 million, \$5,030.0 million and \$3,596.1 million, respectively.

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of \$1.8 billion through six U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling 59 billion rubles (equivalent in aggregate to \$1.95 billion as of December 31, 2009). Our bank loans consist of U.S. dollar-, euro- and ruble-denominated borrowings totaling approximately \$5.7 billion as of December 31, 2009. We repaid approximately \$1,737.7 million of indebtedness in 2009.

As of December 31, 2009, the total amount available to us under our credit facilities amounted to \$1,665.8 million. We had total indebtedness of approximately \$8.3 billion as of December 31, 2009, including capital lease obligations, compared to approximately \$5.4 billion as of December 31, 2008. Our total interest expense for the years ended December 31, 2008 and 2009 was \$233.9 million and \$571.7 million, net of amounts capitalized, respectively. See Note 17 to our audited consolidated financial statements for a description of our indebtedness.

Our reporting currency is the U.S. dollar. Our and our subsidiaries’ functional currency is the ruble in Russia, the hryvnia in Ukraine, the U.S. dollar in Uzbekistan, the manat in Turkmenistan and the dram in Armenia. See “—Certain Factors Affecting our Financial Position and Results of Operations—Currency Fluctuation” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

Segments

We have three reportable segments and six operating segments.

Following our acquisition of Comstar in 2009, we have identified three reportable segments: Russia mobile, Russia fixed and Ukraine mobile. These segments have been determined based on the key

geographic areas and the nature of our operations. The mobile segments include activities relating to the provision of wireless telecommunication services to our mobile subscribers and distribution of handsets and accessories. The fixed line segment includes all activities relating to the provision of fixed line telecommunication services, including voice, data, Internet and pay-TV services for corporate and residential subscribers, as well as the provision of interconnection services to other communications operators and numbering capacity to their subscribers. Other business activities and operations that are not yet significant enough to reflect as separate reporting segments, including our operations outside of Russia and Ukraine, have been combined and disclosed under “Other.” See also Note 29 to our audited consolidated financial statements for segment information.

We manage our operations separately in each country where we operate due to the different economic and regulatory environments, which require us to separately and specifically tailor our marketing and investment strategies. Our management evaluates our performance based on the operating results in each country. Russia is divided into two operating segments, Russia mobile and Russia fixed, based on the nature of our business activities in Russia. Thus, we currently have six operating segments that correspond to our countries of operation and business activities: (1) Russia mobile, which includes our mobile communications operations in Russia, (2) Russia fixed, which includes our fixed line communications operations in Russia, (3) Ukraine, (4) Uzbekistan, (5) Turkmenistan and (6) Armenia, which include our mobile communications operations in Ukraine, Uzbekistan, Turkmenistan and Armenia, respectively.

The net operating revenues of our reportable segments for the years ended December 31, 2007, 2008 and 2009 were as follows:

	Year Ended December 31,		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(in thousands of U.S. dollars)		
Net operating revenues			
Russia mobile	\$6,181,023	\$ 7,840,225	\$6,636,568
Russia fixed	1,562,291	1,765,226	1,485,590
Ukraine mobile	1,608,021	1,661,951	1,048,751
Other	483,499	779,520	787,543
Eliminations ⁽¹⁾	(110,928)	(145,988)	(134,910)
Net operating revenues as reported	<u>\$9,723,906</u>	<u>\$11,900,934</u>	<u>\$9,823,542</u>

(1) Represents the eliminations of intercompany transactions and results, which are primarily related to interconnect and roaming arrangements.

Certain Operating Data

Below we provide certain operating data not included in our financial statements that we believe is useful for evaluating our business and results. The data focuses primarily on our mobile operations, particularly in Russia and Ukraine, which comprise the most significant share of our revenue in the periods presented, and is among the information routinely reviewed by our management as part of their regular evaluation of our performance.

Mobile Subscriber Data

The following table shows our mobile subscribers by country as of the dates indicated:

	At December 31,		
	2007	2008	2009
	(in thousands)		
Subscribers⁽¹⁾			
Russia	57,426	64,628	69,341
Ukraine	20,004	18,115	17,564
Uzbekistan	2,802	5,647	7,074
Turkmenistan	356	927	1,758
Armenia	1,382	2,017	2,073
Total consolidated	<u>81,970</u>	<u>91,334</u>	<u>97,810</u>
MTS Belarus (unconsolidated)	3,800	4,322	4,564

(1) We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of our pre-paid tariffs) or whose account does not have a negative balance for more than this period.

We had approximately 69.34 million subscribers in Russia as of December 31, 2009 and a leading 33.4% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 143.2%, according to AC&M-Consulting. We had approximately 17.56 million subscribers in Ukraine as of December 31, 2009, and, according to AC&M-Consulting, a 31.8% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2009, we had approximately 7.07 million subscribers in Uzbekistan, 1.76 million subscribers in Turkmenistan and 2.07 million subscribers in Armenia, representing a 44.3%, 85.0% and 75.4% market share, respectively, according to AC&M-Consulting and our estimates.

For a description of our fixed line subscriber base, see “Item 4. Information on Our Company—B. Business Overview—Fixed Line Operations.”

Mobile churn rate

We define mobile churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber’s request), expressed as a percentage of the average number of our subscribers during that period. We view the subscriber churn as a measure of market competition and customer dynamics. The following table shows our Russian and Ukrainian subscriber churn for the periods indicated.

	Year Ended December 31,		
	2007	2008	2009
Subscriber Churn			
Russia	23.1%	27.0%	38.3%
Ukraine	49.0%	47.3%	40.0%

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia increased to 38.3% during the year ended December 31, 2009 as compared to 27.0% for the year ended December 31, 2008, as our mobile subscribers became more price sensitive and more likely to switch tariffs and switch to operators with lower-priced tariff plans and offers due to the economic downturn. In addition, due to the financial distress experienced by several mobile retailers in Russia, many increased their sales efforts in 2009 to stimulate revenue earned from subscription fees, which we believe led to a decline in the quality of new subscribers.

Although the churn rate in Ukraine decreased to 40.0% in the year ended December 31, 2009 from 47.3% for the year ended December 31, 2008, it remains high due to the competitive environment among mobile operators in Ukraine, which has significantly intensified in recent years. We were able to decrease the churn rate in 2009 by adjusting and changing our tariffs in response to changes in the market and economic environment and focusing on subscriber base management with an emphasis on improving the quality of subscriber acquisitions.

Mobile ARPU

We calculate mobile average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period. Prior to April 1, 2008, we excluded connection fees from service revenues. The following table shows our average monthly service revenue per Russian and Ukrainian subscriber based on our current calculation methodology and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

	Year Ended December 31,		
	2007	2008	2009
Average monthly service revenue per subscriber			
Russia	\$9.3	\$10.5	\$7.8
Ukraine	\$6.6	\$ 7.2	\$4.7
Average monthly minutes of use per subscriber			
Russia	157	208	213
Ukraine	154	279	462

Average monthly service revenue per subscriber in Russia fell slightly to RUR 247.5 (\$7.8) for the year ended December 31, 2009, from RUR 260.8 (\$10.5) for the year ended December 31, 2008. This decline is in line with the addition of 6.5 million net subscribers in 2009, who, given the maturation of the market, are largely lower-value subscribers, which is dilutive to operating indicators like ARPU. Average monthly minutes of use per subscriber in Russia increased from 208 minutes in 2008 to 213 minutes in 2009 mainly due to marketing campaigns and tariff promotions aimed at increasing voice traffic.

In Ukraine, average monthly service revenue per subscriber decreased by 34.7% to \$4.7 for the year ended December 31, 2009 from \$7.2 for the year ended December 31, 2008. The decrease in the year ended December 31, 2009 compared to the year ended December 31, 2008 was solely due to the depreciation of the hryvnia, our functional currency in Ukraine. In hryvnia terms, ARPU in Ukraine remained stable in 2009 as compared to 2008. The average monthly minutes of use per subscriber increased from 154 minutes in 2007 to 279 minutes in 2008 and to 462 minutes in 2009 due to the introduction of a wide range of attractive tariffs aimed at stimulating traffic, such as inexpensive intra-network rates, as well as the increased use by subscribers of tariffs that include a flat amount of minutes per month.

Revenues

Our principal sources of revenue are:

- mobile service revenues, which include usage and interconnect fees, value-added services fees, monthly subscription fees, roaming fees and connection fees;
- fixed service revenues from individual and corporate subscribers, which include monthly subscription fees, traffic charges, connection fees, revenues from broadband Internet connection

and data transmission services, revenues from pay-TV and from sales of end-user telecommunications equipment. Fixed service revenues also include revenues from operators, which are comprised of revenues from the renting out of channels and traffic charges and revenues from the renting out of telecommunications infrastructure; and

- revenues from sales of handsets and accessories.

Our mobile service subscriber tariffs in Russia and Ukraine are not currently regulated by any organization or governmental authority. The interconnection fees we charge to other operators for terminating calls interconnecting to our mobile network are not regulated in Russia, but will likely be regulated in Ukraine in the near future. See also “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Governmental regulation of our interconnect rates in Ukraine could adversely affect our results of operations,” “—If we are found to have a dominant position in the markets where we operate, the government may regulate our tariffs and restrict our operations” and “—If we or any of our subsidiaries operating in Russia are identified as an operator occupying a “substantial position,” the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.”

Certain of our fixed service tariffs are regulated, including tariffs charged by Moscow incumbent operator MGTS for installation fees, monthly subscription fees (for subscribers to the unlimited tariff plan) and local call charges (for subscribers who do not use the unlimited tariff plan), as well as interconnection and traffic transit tariffs. The interconnect tariffs charged by Comstar are also regulated by the Federal Tariff Service.

Mobile service revenues

Usage fees include amounts charged directly to our subscribers, both for their usage of our network and for their usage of other operators’ GSM networks when roaming outside of our service area. We generally bill our subscribers for all outgoing calls. Since July 2006, pursuant to an amendment to the Federal Law on Communications, mobile operators in Russia have been prohibited from charging their subscribers for incoming calls.

The prices for outgoing calls to other cellular operators and to the public service telephone network are usually higher than charges for outgoing calls within our network. The usage fees charged for a call originating on our network depend on a number of factors, including the subscriber’s tariff plan, call duration, the time of day when the call was placed and the call destination. Usage fees as a percentage of total revenues were 42.4% in 2007, 41.0% in 2008 and 37.4% in 2009, respectively. Usage fees as a percentage of total revenues have been decreasing largely due to the increase in revenues from value-added services as a percentage of total revenues. We expect usage fees to grow slightly both in absolute terms and as a percentage of total revenues.

Interconnect fees, which are fees for connecting users of other operators’ fixed line and wireless networks to our network, comprised 10.6%, 11.5% and 10.7% of total revenues in 2007, 2008 and 2009, respectively.

Value-added services as a percentage of our total revenues comprised 10.6% in 2007, 11.6% in 2008 and 14.2% in 2009. We offer our subscribers an array of value-added services. The increase in 2009 in revenue from value-added services was due to the introduction of new value-added services and a general increase in the usage of value-added services by our subscribers resulting from active marketing initiatives promoting these services.

Monthly subscription fees consist of fixed monthly charges for network access and access to additional services. Monthly subscription fees as a percentage of our total revenues represented 9.2% in 2007, 9.9% in 2008 and 9.2% in 2009, respectively. The fluctuations of the monthly subscription fees as a percentage of total revenues corresponds to the change in the share of subscribers with monthly

subscription fees in the subscriber mix from year to year and the subscription-based services we offer. Many of our monthly subscription fee-based tariff plans also include a usage fee-based component for minutes used over a certain number of pre-paid minutes. The percentage of total revenues represented by usage fees as compared to monthly subscription fees will continue to be affected by changes in our tariff plans, as well as the relative product mix between usage fee-based tariff plans versus monthly subscription fee-based tariff plans.

Roaming fees for guest subscribers include amounts charged to other cellular operators for their subscribers, *i.e.*, guest roamers, utilizing our network while traveling in our service area. We bill other cellular operators for calls of guest roamers carried on our network. Roaming fees for guest subscribers as a percentage of our total revenues represented 1.1% in 2007, 1.0% in 2008 and 1.2% in 2009, respectively. We generally expect that roaming fees will continue to decline as a percentage of total revenues as we expect that an increase in our subscriber base, which will generally lead to the growth of usage fees, will continue to outpace the increase in guest roamers, causing a decrease in the proportion of roaming fees. In addition, roaming tariffs between mobile operators have a tendency to decrease relative to the increase in the total number of mobile users. We may also be pressured or required to lower our roaming tariffs by FAS. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation.”

Roaming fees for our own subscribers include amounts charged to our subscribers utilizing our roaming partners’ network while traveling out of our service area. Roaming fees for own subscribers as a percentage of our total revenues represented 8.3% in 2007, 8.9% in 2008 and 8.1% in 2009, respectively.

Connection fees consist of charges incurred by subscribers for the initial connection to our network and sign-up for value-added services. We defer connection fees and recognize them as revenues over the estimated average subscriber life in our network as described in Note 2 to our audited consolidated financial statements. Connection fees represented 0.8% of our total revenues in 2007, 0.5% in 2008 and 0.5% in 2009, respectively. We expect connection fee revenues to remain at a low level as a percentage of total revenues.

Fixed service revenues

Fixed line telephony services. We offer corporate and residential subscribers various tariff plans, including (i) a per-minute plan, under which the subscriber is charged a monthly fee and per-minute charges for outgoing local calls; (ii) a combined plan, under which the subscriber is charged a monthly fee that covers a certain number of prepaid minutes of outgoing local calls and per-minute charges for each additional minute; and (iii) an unlimited plan, under which the subscriber is charged a monthly fee that covers all local calls. In addition, we charge our subscribers on a per-minute basis for long-distance calls and calls to mobile networks.

We are considered a monopoly in a number of regions, including Moscow, where we are designated as an operator having a dominating market share. As a result, our fixed line telephony tariffs in such regions are regulated by the Federal Tariff Service. See “Item 4. Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in the Russian Federation—Competition, Interconnection and Pricing.”

Broadband Internet services. Our broadband Internet subscribers are charged either a fixed monthly fee for unlimited Internet access or on a per-megabyte or per day of actual usage basis, depending on the tariff plan chosen. In addition, subscribers are charged for value-added services, including, among others, virtual private networks and “turbo-button” access, allowing the subscribers to increase their connection speed for a certain period of time.

Pay-TV. We charge our pay-TV subscribers, which are primarily residential subscribers, fixed monthly fees based on the number of TV programs included in the package, and pay-per-view fees for the video-on-demand services. Tariffs for pay-TV services are not regulated except for the prices for the minimal, or “social,” channel package.

Revenues from individual subscribers as a percentage of our total revenues represented 7.5%, 6.6% and 7.2% in 2007, 2008 and 2009, respectively. Revenues from individual subscribers as a percentage of fixed line revenues were 47.2%, 44.8%, and 47.4% in 2007, 2008 and 2009, respectively. The decrease in 2008 was caused primarily by a \$36.6 million reimbursement from the government in the year ended December 31, 2007 for government-mandated discounts provided by MGTS to certain subscribers (including pensioners, veterans) in prior years. These discounts were discontinued in 2005, and the final reimbursement payment was made in 2007. The increase in 2009 was mainly due to the signing up of our residential subscribers to our long-distance network, up-selling of our existing pay-TV subscribers in the regions to broadband Internet services, as well as the connection of new subscribers. We expect revenues from individual subscribers to increase in the future, as regional pay-TV and Internet markets remain far from saturation, and we expect further increases in our regulated fixed line tariffs in Moscow in the future due to inflation.

Revenues from corporate subscribers as a percentage of our total revenues represented 4.8%, 4.9% and 5.1% in 2007, 2008 and 2009, respectively. Revenues from corporate subscribers as a percentage of total fixed line revenues were 30.3%, 33.5%, and 33.9% in 2007, 2008 and 2009, respectively. The growth in 2008 and 2009 was caused by a decrease in revenues from operators due to the economic downturn, as well as by increases in regulated and non-regulated tariffs in Moscow and the signing up of existing corporate subscribers in Moscow and the regions to our proprietary long-distance network. These factors were, to a certain extent, offset by a decrease in consumption of telecommunications services by corporate subscribers due to the economic downturn. We expect revenues from corporate subscribers to increase in the future in line with expected increases in the consumption of telecommunications services following the stabilization of the global and national economic environment.

Operators. We charge operators for traffic transit through our network and incoming calls to our subscribers, for rent of channels and telecommunications infrastructure and commissions for handling long-distance calls of our subscribers when our subscribers chose another licensed operator as a provider of long-distance services. Revenues from operators as a percentage of our total revenues represented 3.6%, 3.2% and 2.8% in 2007, 2008 and 2009, respectively. Revenues from operators as a percentage of total fixed line revenues were 22.6%, 21.7% and 18.7% in 2007, 2008 and 2009, respectively. The decrease in revenues from operators in 2008 and 2009, both in absolute amount as expressed in ruble terms and as percentage of total fixed line revenues, was caused by the decline in overall economic activity in those periods, which led to lower volumes of traffic from interconnected operators. The decline was also due to the gradual re-connection of our subscribers to our own long-distance network, which caused commissions for long-distance call handling to decline. We expect revenues from operators to increase as percentage of total fixed line revenues as the economic environment improves, and remain relatively stable thereafter.

Sales of Handsets and Accessories

In 2007, we decreased our selling activities in our sales centers in relation to dual-band and tri-band handsets and accessories and shifted our sales focus to a more limited line of equipment, including 3G compatible equipment, Blackberry and equipment designed for MTS-Connect services. In 2008, we reduced our purchases of handsets and accessories for resale and focused instead on commission sales whereby we receive handsets and accessories on consignment from third-party equipment suppliers and sell them at our sales offices for a commission. During 2009, we significantly expanded our retail network through acquisitions of national and regional dealer chains. As a result of

these acquisitions and overall expansion of retail activities in 2009, revenue from the sale of handsets and accessories as a percentage of total revenue increased to 3.2% in 2009 compared to 0.7% in 2008 and 0.9% in 2007.

Moreover, in August 2008, we signed an agreement with Apple Sales International and launched iPhone 3G™ sales in October 2008. Under the agreement, we have committed to purchasing a certain quantity of iPhone 3G™ headsets over 2009, 2010 and 2011. See “—Tabular Disclosure of Contractual Obligations” and Note 30 to our audited consolidated financial statements.

Following our launch of iPhone 3G™ sales and in line with our strategy to expand our proprietary distribution network, we expect that sales of handsets and accessories will continue to increase as we expand our proprietary retail network and, consequently, will continue to increase as a percentage of total revenue. We do not subsidize handset sales in Russia. In Ukraine, we subsidize handsets for some of our contract subscribers as well as modems for GSM and CDMA users. See “—Expenses—Cost of Handsets and Accessories” below.

Expenses

Our principal expenses are:

- cost of services, including interconnect, line rental and roaming expenses;
- cost of handsets and accessories;
- sales and marketing expenses;
- general and administrative expenses, such as salaries, rent, repair and maintenance and other general and administrative expenses;
- provision for doubtful accounts;
- depreciation of property, network equipment and amortization of telephone numbering capacity, license costs and other intangible assets;
- interest expenses; and
- provisions for income taxes.

Cost of Services

Interconnect and Line Rental. Interconnect and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of providing service to our subscribers. Interconnect charges as a percentage of our total revenues represented 11.6% in 2007, 12.6% in 2008 and 11.5% in 2009, respectively. Line rental charges as a percentage of our total revenues represented 1.3% in 2007, 1.5% in 2008 and 1.7% in 2009, respectively.

We expect that interconnect expenses payable by us to other operators for termination of traffic generated by our subscribers will continue to increase due to growth in our subscriber base and our continued efforts, though the introduction of new tariff plans, services and marketing campaigns, to encourage greater voice usage among our subscribers, which we believe will lead to continued growth in traffic volumes.

We expect line rental costs to increase based on the number of base stations, base station controllers, the number and capacity of rented lines and competition among providers of rented lines, as well as availability and usability of substitutes such as microwave links owned by us.

Roaming Expenses. Roaming expenses consist of amounts charged by other cellular operators under agreements for roaming services provided to our subscribers while outside our service area.

Roaming expenses as a percentage of our total revenues represented 2.5% in 2007, 2.1% in 2008 and 1.9% in 2009, respectively.

Cost of Handsets and Accessories

This type of expense includes primarily the cost of handsets and accessories sold to subscribers, and the cost of SIM cards provided to our customers. Cost of handsets, accessories sold and SIM-cards provided to customers as a percentage of our total revenues represented 1.6% in 2007, 1.4% in 2008 and 3.6% in 2009, respectively. The increase in 2009 is primarily attributable to the expansion of our proprietary retail network.

We do not subsidize handset sales other than in Ukraine, where we subsidize handsets on a limited basis to contract subscribers as well as modems for GSM and CDMA users. In the years ended December 31, 2007, 2008 and 2009, we provided net handset subsidies in Ukraine totaling \$21.0 million, \$20.4 million and \$15.6 million, respectively, which are reported as a loss on sales of handsets.

Generally, we provide SIM cards to our customers free of charge. The cost of SIM cards amounted to \$75.2 million in 2007, \$82.4 million in 2008 and \$77.3 million in 2009.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of:

- expenses for advertising and promotion; and
- dealer commissions on new connections and cash collected from subscribers.

Sales and marketing expenses reflect, among other things, advertising, promotions and other costs associated with the expansion of services in our license areas. These expenses have generally increased in prior years as subscriber numbers, market saturation and market competition have increased, as well as in connection with the further development of our brand and introduction of new value-added services. Although we generally expect that our sales and marketing expenses will continue to increase, we retain some degree of flexibility to increase or decrease these expenses in any given period based on our requirements, strategy and the general economic environment. We also expect to experience certain efficiencies and savings in these costs as we further develop our retail network operations.

Mobile dealer commissions and mobile SAC in Russia and Ukraine

We link commissions in Russia for newly acquired mobile subscribers payable to a dealer on a monthly basis to the amount of revenues we receive during the six-month period from the date a subscriber is activated by such dealer. In addition, we have established caps or a maximum commission amount payable to our dealers. We believe that this method for paying commissions to dealers provides dealers with greater incentives to renew subscriptions, reduces the risk of dealer fraud and improves our cash-flow management.

In Ukraine, we link dealer commissions to the tariff package sold, category of subscriber, subscriber revenue, the duration of a subscriber's activation, city of subscription, and status of the dealer itself. We have different commission structures based on whether the subscriber is prepaid, postpaid or a CDMA-only subscriber (*i.e.*, subscribers using only mobile Internet services). For each new subscriber, a dealer typically receives a one-time commission payment at the time the contract is signed or monthly payments based on the revenue generated from the subscriber. See "Item 4. Information on Our Company—B. Business Overview—Mobile Operations—Sales and Marketing—Sales and Distribution."

We measure subscriber acquisition costs, or SAC, to monitor the cost-effectiveness of our sales and marketing expenses. We define SAC as total sales and marketing expenses and handset subsidies for a given period. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added by us during the period. The following table shows SAC in Russia and Ukraine for the periods indicated:

	Year Ended December 31,		
	2007	2008	2009
Subscriber Acquisition Costs (SAC) per Gross New Subscriber			
Russia	\$26	\$27	\$19
Ukraine	\$12	\$11	\$ 7

SAC in Russia decreased in U.S. dollar terms due to the depreciation of the ruble against the U.S. dollar in 2009. If expressed in rubles, our functional currency in Russia, SAC remained relatively stable in 2007 and 2008 at RUR 670 and RUR 680, and decreased to RUR 612 in 2009 due to the decrease in advertising costs achieved by effective use of marketing resources.

SAC in Ukraine decreased in U.S. dollar terms due to the depreciation of the hryvnia against the U.S. dollar in 2009. If expressed in hryvnias, our functional currency in Ukraine, SAC decreased from 61.0 hryvnia in 2007 to 58.3 hryvnia in 2008, and to 54.0 hryvnia in 2009 primarily due to our effective use of marketing resources.

Sundry Operating Expenses

Our sundry operating expenses consist primarily of:

- employee salaries and bonuses;
- social contributions payable to state funds;
- general and administrative expenses;
- taxes other than income taxes, e.g., property taxes;
- office maintenance expenses;
- network repair and maintenance;
- rental of premises;
- provision for doubtful accounts;
- long-lived assets and goodwill impairment loss;
- and other operating expenses.

Sundry operating expenses as a percentage of our total revenues represented 21.2% in 2007, 21.5% in 2008 and 23.7% in 2009, respectively. Sundry operating expenses are expected to increase over time to reflect the increasing costs and staff required to service our growing subscriber base, but we expect they will decline on a per subscriber basis.

Provision for Doubtful Accounts

Our expense for provision for doubtful accounts for the year ended December 31, 2009 decreased to \$109.6 million, or 1.1% of total revenues, as compared to \$154.8 million, or 1.3% of total revenues, for the year ended December 31, 2008. This decrease was mainly attributable to the one-time write off taken in 2008 for a \$28.2 million loan given by us to Beta Link, which filed for bankruptcy in March 2009.

Depreciation of Property, Network Equipment and Amortization of Intangible Assets

Our expense for depreciation of property, network equipment and amortization of intangible assets as a percentage of total revenues increased to 18.7% for the year ended December 31, 2009 as compared to 18.1% of total revenues for the year ended December 31, 2008. This increase was in line with our expectations, and we expect further increases in connection with our ongoing network development and modernization program and the buildout associated with our regional networks.

Interest Expense

We expect interest expense to continue to increase, which is principally associated with external debt incurred by us to finance our network development and modernization programs, as well as increased borrowing costs due to the current global market and economic conditions.

Provision for Income Taxes

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions.

The income tax base for Russian companies is defined as income received from sales of goods, works and services and property rights and income from non-sale operations, reduced by the amount of certain business expenses incurred in such operations. Certain expenses are deductible while others have limitations on their deductibility.

Effective January 1, 2009, the statutory income tax rate in Russia was reduced from 24% to 20%. From January 1, 2004, the Ukrainian statutory income tax rate was established at 25%. The effective tax rate applicable to our consolidated group in the year ended December 31, 2009 was 33.7%. The effective tax rate differs from the statutory rate as a result of adjustments to the reserve for uncertain tax positions, adjustments to the deferred tax asset valuation allowance and other nondeductible items.

Generally, tax declarations remain open and subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. We believe that we have adequately provided for tax liabilities in our consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Certain Factors Affecting our Financial Position and Results of Operations

Currency Fluctuation

A majority of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, depreciation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with our financial ratios or timely fund cash payments on our indebtedness.

In addition, a decline in the value of our functional currencies against the U.S. dollar will result in a translation loss when we translate the functional currency revenues into U.S. dollars, our reporting currency, for inclusion in our audited consolidated financial statements. Our and our subsidiaries' functional currency is the ruble in Russia, the hryvnia in Ukraine, the U.S. dollar in Uzbekistan, the manat in Turkmenistan and the dram in Armenia. The depreciation of the U.S. dollar against the ruble in 2007 resulted in an increase in our revenues and operating costs in our audited consolidated financial statements. Conversely, the U.S. dollar significantly appreciated against the ruble in the fourth quarter of 2008, which negatively affected our results of operations for the year ended December 31, 2008. Although the average exchange rate of the U.S. dollar for the year ended December 31, 2008

decreased by 2.8% against the ruble as compared to the year ended December 31, 2007, the period closing exchange rate of the U.S. dollar at December 31, 2008 increased by 19.7% as compared to December 31, 2007. During the year ended December 31, 2009, the U.S. dollar continued to fluctuate significantly against the ruble. As a result, the average exchange rate of the U.S. dollar against the ruble for the year ended December 31, 2009 increased by 27.6% as compared to the year ended December 31, 2008, which resulted in an overall decrease in our revenues and operating costs in our audited consolidated financial statements for the year ended December 31, 2009. The period closing exchange rate of the U.S. dollar against the ruble at December 31, 2009 increased by 2.9% as compared to December 31, 2008. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Ruble depreciation could increase our costs, decrease our cash reserves, or make it more difficult for us to comply with financial ratios and to repay our debts and will affect the value of dividends received by holders of ADSs” and “—Changes in the exchange rate of local currencies in the countries where we operate against the U.S. dollar and/or euro could adversely impact our revenues reported in U.S. dollars and costs in terms of local currencies,” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

Inflation

Our financial position and results of operations as reflected in our audited consolidated financial statements included elsewhere in this document have been influenced by inflation.

The Russian economy has been characterized by high rates of inflation:

<u>Year</u>	<u>Inflation rate</u>
2004	11.7%
2005	10.9%
2006	9.0%
2007	11.9%
2008	13.3%
2009	8.8%

Source: Federal Statistics Service

The Ukrainian economy has also been characterized by high rates of inflation:

<u>Year</u>	<u>Inflation rate</u>
2004	12.3%
2005	10.3%
2006	9.1%
2007	12.8%
2008	25.2%
2009	15.9%

Source: State Statistics Committee of Ukraine

In addition, for the year ended December 31, 2009, inflation rates in Uzbekistan, Turkmenistan and Armenia were estimated at 7.4%, 15.0% and 6.5% respectively.

We expect inflation-driven increases in costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Inflation could increase our costs and adversely affect our results of operations.”

Acquisitions

Our results of operations for the periods presented are significantly affected by acquisitions. Except with respect to Comstar, as further described below, results of operations of acquired businesses are included in our audited consolidated financial statements for the periods after their respective dates of acquisition

In October 2009, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema. Under the terms of the agreement, a wholly owned subsidiary of MTS purchased Sistema's 50.91% stake in Comstar for 39.15 billion rubles (\$1.32 billion as of October 12, 2009, the date of the acquisition). We thereafter increased our ownership stake in Comstar in December 2009 through a series of transactions with a group of investment funds that exchanged their joint 14.20% stake in MGTS for 1.6% of our outstanding share capital and \$7.3 million in cash. The MGTS stake was transferred to a wholly owned subsidiary of Comstar, and we received an 11.06% stake of Comstar that was held by MGTS Finance S.A., a wholly owned subsidiary of MGTS. In connection with these transactions, we paid Comstar cash consideration of \$8.3 million. As a result of these transactions, our effective ownership stake in Comstar is 61.97% (or 64.03% excluding treasury shares) as of December 31, 2009. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Difficulties integrating the operations of Comstar with our existing operations may prevent us from achieving the expected benefits from the acquisition."

Comstar currently owns a 25% + 1 share of Svyazinvest, the state-controlled telecommunications holding company. Svyazinvest, in turn, owns a 23.33% stake in MGTS. Comstar accounts for this investment under the cost method as this stake does not allow Comstar to exercise significant influence over the entity due to the legal structure of Svyazinvest and certain limitations imposed by Svyazinvest charter documents.

In November 2009, Comstar, Sistema and Svyazinvest entered into a non-binding memorandum of understanding (MOU) to begin negotiations over the reorganization of certain assets that, if realized, could ultimately lead to the disposal of Comstar's stake in Svyazinvest and the increase in its ownership stake in MGTS. Among other things, the MOU contemplates a potential sale by Comstar of its interest in Svyazinvest, Comstar's acquisition of Svyazinvest's stake in MGTS and the restructuring of certain indebtedness in connection with the transaction. The precise terms and consummation of the transactions remain subject to the negotiation and execution of definitive binding documentation by these and potentially other parties as well as satisfaction of any applicable conditions (including receipt of any required regulatory approvals and valuations). No assurance can be given that any of the parties will execute definitive documentation or that any of the contemplated transactions will occur. See Note 14 to our audited consolidated financial statements.

As contemplated under the non-binding MOU, on May 20, 2010, Comstar, MGTS Finance S.A. (a company controlled by Comstar) and Rostelecom entered into agreements involving the sale of the 25% + 1 share of Svyazinvest to Rostelecom for RUR 26 billion. If consummated, the proceeds of the sale will be used by Comstar to pay down its outstanding debt to Sberbank in the amount of RUR 26 billion. The closing of the transactions is subject to a number of conditions. No assurance can be given that any of the parties will execute definitive documentation, the conditions will be satisfied or that any of the contemplated transactions will occur. See "Item 8. Financial Information—B. Significant Changes."

As we and Comstar were under the common control of Sistema, our acquisition of a majority stake in Comstar has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests, *i.e.*, the assets and liabilities acquired were recorded at their historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if Comstar had been owned since the beginning of the earliest period presented. See "Item 3. Key Information—A. Selected Financial Data."

Below is a list of our major acquisitions during 2007, 2008 and 2009.

Company	Type	Date of acquisition	Stake acquired	Purchase price (in millions of U.S. dollars) ⁽¹⁾
2007				
Golden Line ⁽²⁾	Line leasing company	April 2007	100.0%	2.8
Comstar Ukraine ⁽²⁾	Regional fixed line operator	May 2007	25.0%	1.0
Uzdunrobita	Uzbekistan mobile operator	June 2007	26.0%	250.0
Sochitelecomservice ⁽²⁾	Regional fixed line operator	August 2007	100.0%	0.8
K-Telekom	Armenia mobile operator	September 2007	80.0%	402.6
Digital Telephone Network ⁽²⁾	Regional fixed line operator	November 2007	100.0%	167.2
Regional Technical Centre ⁽²⁾	Regional fixed line operator	December 2007	87.7%	26.1
Bashcell	Bashkortostan mobile operator	December 2007	100.0%	6.7
				\$ 857.2
2008				
MSS	Omsk region mobile operator	February 2008	9.0%	16.0
Interlink Group ⁽²⁾	Telephony services provider	June 2008	100.0%	8.4
Ural Telephone Company ⁽²⁾	Alternative telecommunication operator	July 2008	100.0%	43.5
				\$ 67.9
2009				
Dagtelecom	Dagestan region mobile operator	January 2009	25.01%	38.8
Telefon.ru	Mobile phone retail chain	February 2009	100.0%	60.0
Eldorado	Mobile phone retail chain	March 2009	100.0%	17.9
Stream-TV ⁽²⁾	Digital television company	March 2009	100.0%	117.2
Kolorit	Outdoor advertising services	September 2009	100.0%	39.7
Comstar	Fixed line operator	October 2009	50.91%	1,322.3 ⁽³⁾
Teleforum	Mobile phone retail chain	October 2009	100.0%	2.2
Evrotel	Fixed line operator	December 2009	100.0%	90.0
				\$1,688.1

(1) Excluding debt assumed.

(2) Acquisition made by Comstar.

(3) In December 2009, in a series of transactions, we acquired an additional 14.2% stake in MGTS in exchange for 31,816,462 ordinary MTS shares and \$7.3 million in cash. The MGTS stake is held by a wholly owned subsidiary of Comstar. Simultaneously, we received shares representing 11.06% of the total shares outstanding Comstar from MGTS Finance S.A., a wholly owned subsidiary of MGTS. We paid Comstar cash consideration of \$8.3 million. As a result of these transactions, our ownership stake in Comstar increased to 61.97% (or 64.03% excluding treasury shares). See Note 3 to our audited consolidated financial statements.

Results of Operations

Historically, we reflected our reportable segments on a geographical basis. Management has taken this approach as this is effectively how the business is managed.

In 2009, starting from the date of acquisition of Comstar, our Board and management determined a new operating segment and identified three reportable segments: Russia mobile, Russia fixed and Ukraine mobile. See “—Segments.”

Historically, we included all headquarters expenses within the “Russia” reportable segment. Starting from 2009, headquarters expenses are no longer allocated to any reportable segments. The financial statements reflect these changes for the year 2009 and for comparative periods. See Note 29 to our audited consolidated financial statements for additional information.

Intercompany eliminations presented below consist primarily of sales transactions between segments conducted in the normal course of operations.

Financial information by reportable segments is presented below:

	Year Ended December 31,		
	2007	2008	2009
(in thousands of U.S. dollars)			
Net operating revenues			
Russia mobile	\$6,181,023	\$ 7,840,225	\$6,636,568
Russia fixed	1,562,291	1,765,226	1,485,590
Ukraine mobile	1,608,021	1,661,951	1,048,751
Other	483,499	779,520	787,543
Eliminations ⁽¹⁾	(110,928)	(145,988)	(134,910)
Net operating revenues as reported	<u>\$9,723,906</u>	<u>\$11,900,934</u>	<u>\$9,823,542</u>
Costs of services, excluding depreciation and amortization shown separately below, and cost of handsets and accessories			
Russia mobile	\$1,407,011	\$ 1,810,969	\$1,708,481
Russia fixed	222,663	305,088	276,855
Ukraine mobile	433,175	511,502	332,807
Other	65,926	131,497	155,930
Eliminations ⁽¹⁾	(106,130)	(141,921)	(120,079)
Cost of services and cost of handsets and accessories as reported	<u>\$2,022,645</u>	<u>\$ 2,617,135</u>	<u>\$2,353,994</u>
Sundry operating expenses⁽²⁾			
Russia mobile	\$ 955,957	\$ 1,252,126	\$1,309,212
Russia fixed	652,233	756,645	567,816
Ukraine mobile	182,752	200,908	151,061
Other	280,215	351,859	304,267
Eliminations	(4,949)	(7,445)	(5,845)
Sundry operating expenses as reported	<u>\$2,066,208</u>	<u>\$ 2,554,093</u>	<u>\$2,326,511</u>
Sales and marketing expenses			
Russia mobile	\$ 490,210	\$ 628,064	\$ 570,107
Russia fixed	51,151	48,764	40,568
Ukraine mobile	210,340	190,225	92,598
Other	23,564	64,218	58,508
Eliminations	(25)	(26)	(5,879)
Sales and marketing expenses as reported	<u>\$ 775,240</u>	<u>\$ 931,245</u>	<u>\$ 755,902</u>

	Year Ended December 31,		
	2007	2008	2009
	(in thousands of U.S. dollars)		
Depreciation and amortization expenses			
Russia mobile	\$1,076,586	\$ 1,312,406	\$1,107,593
Russia fixed	185,337	214,288	193,357
Ukraine mobile	324,976	437,988	352,037
Other	87,986	186,443	186,581
Depreciation and amortization as reported . .	<u>\$1,674,885</u>	<u>\$ 2,151,125</u>	<u>1,839,568</u>
Operating Income			
Russia mobile	\$2,251,259	\$ 2,836,660	\$1,941,174
Russia fixed	450,907	440,441	406,995
Ukraine	456,778	321,328	120,248
Other	25,808	45,503	82,257
Eliminations	176	3,404	(3,107)
Operating income as reported	<u>\$3,184,928</u>	<u>\$ 3,647,336</u>	<u>2,547,567</u>

- (1) Represents the elimination of inter-company transaction results, primarily interconnect and roaming arrangements.
- (2) For the purposes of this analysis “Sundry operating expenses” consist of general and administrative expenses, provision for doubtful accounts, impairment of long-lived assets and goodwill and other operating expenses.

Year Ended December 31, 2009 compared to Year Ended December 31, 2008

Revenues and cost of services and cost of handsets and accessories

Consolidated revenues for the year ended December 31, 2009 decreased by \$2,077.4 million, or 17.5%, to \$9,823.5 million from \$11,900.9 million for the year ended December 31, 2008. Our consolidated revenues decreased in 2009 primarily as a result of the depreciation of the functional currencies in our countries of operation against the U.S. dollar. In functional currency terms, our consolidated revenues increased in all countries in which we operate, other than in Ukraine, in 2009 compared to 2008 mainly due to increased usage of value-added services, increased traffic on our mobile networks and as a result of the expansion of our retail business in Russia. Our consolidated mobile subscriber base grew by 7.1% to approximately 97.8 million as of December 31, 2009 from approximately 91.33 million as of December 31, 2008. The growth in our subscriber base was mainly attributable to our sales and marketing efforts and the expansion of our network. In Ukraine, our consolidated revenues decreased in functional currency terms mainly due to the highly competitive environment in Ukraine and decreased consumer spending caused by the economic downturn.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2009 decreased by 10.1% to \$2,354.0 million from \$2,617.1 million for the year ended December 31, 2008. The decrease in costs in U.S. dollar terms was primarily attributable to the depreciation of the functional currencies in our countries of operation. In functional currency terms, our consolidated cost of services and cost of handsets and accessories increased in all countries in which we operate, other than in Ukraine, largely due to the same factors described above that caused our consolidated revenues to increase in functional currency terms. Our consolidated cost of services and cost of handsets and accessories as a percentage of total revenues in the year ended December 31, 2009 increased to 24.0% as compared to 22.0% in the year ended December 31, 2008 mainly due to the expansion of our retail operations, which generally have lower margins than our communications service operations.

Russia mobile revenues for the year ended December 31, 2009 decreased by 15.3% to \$6,636.6 million from \$7,840.2 million for the year ended December 31, 2008. The decrease in Russia revenues was primarily due to the depreciation of the ruble, which is our functional currency in Russia.

In ruble terms, our mobile revenues in Russia increased by approximately 8% in 2009 compared to 2008. Despite the growth of our subscriber base in Russia, which increased by 7.3% to 69.3 million as of December 31, 2009 from 64.6 million as of December 31, 2008, we experienced a decrease in airtime revenue to 41.3%, if expressed as a percentage of total segment revenues, in the year ended December 31, 2009 compared to 46.2% in the year ended December 31, 2008 mainly due to a decrease in the usage of higher-value services by corporate subscribers caused by the economic downturn. Conversely, revenues from value-added services as a percentage of total segment revenues in the year ended December 31, 2009 grew to 16.4% as compared to 13.7% in the year ended December 31, 2008 due to the introduction of new marketing initiatives aimed at stimulating greater usage of value-added services among our subscribers. Interconnect revenues as a percentage of total segment revenues in the year ended December 31, 2009 decreased to 12.3% as compared to 12.8% in the year ended December 31, 2008 mainly due to the increased proportion of sales of handsets and accessories revenues as a percentage of total revenues as described below. In absolute terms, if expressed in functional currency, interconnect revenues increased slightly for the year ended December 31, 2009. Our acquisition of retail chains in 2009 caused sales of handsets and accessories to increase as a percentage of total segment revenues to 4.7% in the year ended December 31, 2009 from 0.8% in the year ended December 31, 2008.

Russia mobile cost of services and cost of handsets and accessories for the year ended December 31, 2009 decreased by 5.7% to \$1,708.5 million from \$1,811.0 million for the year ended December 31, 2008. The decrease was primarily caused by the significant depreciation of the ruble. In ruble terms, Russia mobile cost of services and cost of handsets and accessories increased mainly due to an increase in the provision of value-added services, cost of handsets, accessories and SIM-cards. The increase in ruble terms was slightly offset by a decrease in interconnect and roaming expenses. The cost of value-added services increased to 3.5% as a percentage of segment total revenues for the year ended December 31, 2009 as compared to 2.5% in the year ended December 31, 2008 mainly due to the increased usage of value-added services by subscribers, which resulted from our marketing efforts and the rising awareness and popularity of certain value-added services. Interconnect expenses decreased to 11.9% of segment total revenues, in the year ended December 31, 2009 from 13.3% of segment total revenues, in the year ended December 31, 2008 mainly due to the increased share of cost of handsets and accessories in the total cost of services and products and savings gained from the construction of our own DLD/ILD network. Roaming expenses decreased to 2.5% of segment total revenues, in the year ended December 31, 2009 from 2.8% of segment total revenues in the year ended December 31, 2008 mainly due to the lower usage of roaming services caused by the economic downturn. Cost of handsets, accessories sold and SIM-cards provided to customers as a percentage of total segment revenues in the year ended December 31, 2009 increased to 4.4% as compared to 1.3% in the year ended December 31, 2008 mainly due to the expansion of our retail business in 2009.

Russia fixed revenues decreased by 15.8% to \$1,485.6 million in the year ended December 31, 2009 from \$1,765.2 million in the year ended December 31, 2008. The decrease was primarily caused by the significant depreciation of the ruble and a decrease in the consumption of fixed telecommunications services by corporate subscribers and operators due to the economic downturn. This decline was partially offset by the increase in regional broadband Internet revenue due to our efforts to up-sell our existing pay-TV subscribers to Internet services, an increase in regulated tariffs in Moscow and an increase in revenue from long-distance services following the launch of our proprietary long-distance network.

Russia fixed cost of services and cost of handsets and accessories decreased by 9.2% to \$276.9 million in the year ended December 31, 2009 from \$305.1 million in the year ended December 31, 2008. The decrease was primarily caused by the significant depreciation of the ruble, which was offset by an increase in interconnect expenses due to the increase in the volume of long-distance traffic.

Ukraine mobile revenues decreased by 36.9% to \$1,048.8 million in the year ended December 31, 2009 from \$1,662.0 million in the year ended December 31, 2008 primarily due to depreciation of the

hryvnia, our functional currency in Ukraine, against the U.S. dollar. In hryvnia terms, Ukraine mobile revenues decreased by approximately 5% due to a decrease in usage and subscription fees, which was partially offset by an increase in the usage of value-added services and roaming from guest subscribers. The overall decrease in Ukraine mobile revenues was caused by the highly competitive environment in Ukraine, which has put significant pressure on tariff levels and led to a decline in our subscriber base in Ukraine during 2007, 2008 and 2009.

Ukraine mobile cost of services and cost of handsets and accessories decreased by 34.9% to \$332.8 million in the year ended December 31, 2009 from \$511.5 million in the year ended December 31, 2008. The decline occurred primarily due to the depreciation of the hryvnia. However, Ukraine mobile cost of services and cost of handsets and accessories as a percentage of segment total revenues increased to 31.7% in the year ended December 31, 2009 compared to 30.8% in the year ended December 31, 2008 due to an increase in roaming expenses from 2.9% to 3.5% and other direct costs from 2.8% to 3.8% for the years ended December 31, 2008 and 2009, respectively due to an increase in roaming usage and higher costs for electricity and frequencies. Interconnect expenses decreased to 18.4% of segment total revenues, in the year ended December 31, 2009 from 19.7% of segment total revenues, in the year ended December 31, 2008 mainly due to the decline in outgoing network traffic. Cost of handsets, accessories and SIM-cards remained relatively stable at 3.1% of segment total revenues in the year ended December 31, 2009 compared to 3.0% of segment total revenues in the year ended December 31, 2008.

Other countries revenues for the year ended December 31, 2009 increased by 1.0% to \$787.5 million from \$779.5 million for the year ended December 31, 2008. In functional currency terms, the increase in revenues in 2009 as compared to 2008 was approximately 2% in Armenia, 3% in Uzbekistan and 60% in Turkmenistan. Our subscriber base in Turkmenistan increased by 89.5% during the year ended December 31, 2009, which led to increased traffic volume. Our subscriber base grew by 25.3% in Uzbekistan, which was diluted by decreased tariffs and an increase in the usage of lower-value tariffs and services in Uzbekistan. Our subscriber base in Armenia grew by 2.8% during 2009 as compared to 2008, and its revenues generally increased in line with this growth.

Other countries cost of services and cost of handsets and accessories for the year ended December 31, 2009 increased by 18.6% to \$155.9 million from \$131.5 million for the year ended December 31, 2008. As a percentage of segment total revenues, these costs increased to 19.8% for the year ended December 31, 2009 from 16.9% for the year ended December 31, 2008 primarily due to an increase in interconnect expenses, particularly in Uzbekistan.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2009 decreased by 8.9% to \$2,326.5 million from \$2,554.1 million for the year ended December 31, 2008. The decrease of \$227.6 million in sundry operating expenses was primarily attributable to the depreciation of the functional currencies in our countries of operation against the U.S. dollar. However, we experienced an increase in sundry operating expenses both as expressed in functional currencies and as a percentage of total revenues. Sundry operating expenses as a percentage of total revenues increased to 23.7% in the year ended December 31, 2009 from 21.5% in the year ended December 31, 2008. This increase was mainly attributable to growth in salary expenses and related social contributions due to the expansion of our retail network and resultant increase in employees. Salary expense and related social contributions as a percentage of total revenues grew to 10.1% for the year ended December 31, 2009 from 9.2% for the year ended December 31, 2008. Similarly, our rent expenses increased due to our retail network expansion. Rent expenses as a percentage of total revenues grew to 2.8% for the year ended December 31, 2009 from 2.0% for the year ended December 31, 2008. The increase was also attributable to the increase in loss from impairment as a percentage of total revenues to 0.9% for the year ended December 31, 2009 from 0.4% for the year ended December 31, 2008 due to the impairment of long-lived assets and write-off of certain costs related to our acquisition of Comstar.

Russia mobile sundry operating expenses for the year ended December 31, 2009 increased by 4.6% to \$1,309.2 million from \$1,252.1 million for the year ended December 31, 2008. Russia sundry operating expenses as a percentage of segment total revenues increased to 19.7% for the year ended December 31, 2009 from 16.0% for the year ended December 31, 2008. The increase of Russia mobile sundry operating expenses as a percentage of segment total revenues was attributable to an increase in employee compensation and related social contributions due to the expansion of our retail network, which caused an increase in rent costs. The increase was also attributable to the impairment of long-lived assets. The overall increase was slightly offset by a decrease in the provision for bad debt due to the one-time write off taken in 2008 of a loan extended to Beta Link.

Russia fixed sundry operating expenses for the year ended December 31, 2009 decreased by 25.0% to \$567.8 million from \$756.6 million for the year ended December 31, 2008. Russia fixed sundry operating expenses as a percentage of segment total revenues decreased to 38.2% for the year ended December 31, 2009 from 42.9% for the year ended December 31, 2008. The decrease of \$188.8 million in absolute terms was mainly attributable to the depreciation of the ruble against the U.S. dollar in 2009. The decrease of sundry operating expenses as a percentage of total revenues was primarily caused by a reduction in the number of employees at MGTS and in the regions, cost-reduction programs across the entire Russia fixed segment, and improvement in efficiencies of operations in the regions of Russia due to the integration of the regional pay-TV operations.

Ukraine mobile sundry operating expenses for the year ended December 31, 2009 decreased by 24.8% to \$151.1 million from \$200.9 million for the year ended December 31, 2008. Ukraine sundry operating expenses as a percentage of segment total revenues increased to 14.4% for the year ended December 31, 2009 from 12.1% for the year ended December 31, 2008. These expenses increased in functional currency terms in the year ended December 31, 2009 primarily due to inflation-driven increases in rent, repair and maintenance and consulting expenses. Additionally, bad debt provision and billing and data processing expenses increased due to write-offs of certain outstanding dealer receivables and certain expenses incurred in connection with the implementation of a new billing system, respectively.

Other countries sundry operating expenses for the year ended December 31, 2009 decreased by 13.5% to \$304.3 million from \$351.9 million for the year ended December 31, 2008. Other countries sundry operating expenses as a percentage of other countries total revenues decreased to 38.6% for the year ended December 31, 2009 from 45.1% for the year ended December 31, 2008. The decrease in sundry operating expenses as a percentage of other countries total revenues was primarily attributable to the decrease in salaries and social contributions and general and administrative costs achieved by effective optimization of these costs.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2009 decreased by 18.8%, or \$175.3 million, to \$755.9 million from \$931.2 million for the year ended December 31, 2008. This decline was mainly due to the depreciation of the functional currencies in our countries of operation against the U.S. dollar, as well a decline in sales and marketing expenses in functional currency terms in all of our countries of operation other than Russia. In general, commissions payable to dealers increased in line with our increased efforts aimed at stimulating the performance and sales of dealers. Advertising and promotion expenses decreased, which was primarily attributable to our cost optimization efforts. Sales and marketing expenses as a percentage of total revenues remained relatively stable at 7.7% for the year ended December 31, 2009 as compared to 7.8% for the year ended December 31, 2008.

Russia mobile sales and marketing expenses for the year ended December 31, 2009 decreased by 9.2% to \$570.1 million from \$628.1 million for the year ended December 31, 2008 due to depreciation

of the ruble. However, in ruble terms, both dealer commission payments and advertising and promotion expenses increased. Sales and marketing expenses as a percentage of segment total revenues increased to 8.6% for the year ended December 31, 2009 from 8.0% for the year ended December 31, 2008. Dealer commissions as a percentage of segment total revenues increased to 5.0% for the year ended December 31, 2009 from 4.3% for the year ended December 31, 2008 mainly due to our increased efforts aimed at stimulating the performance and sales of dealers. Advertising and marketing expenses as a percentage of segment total revenues remained stable at 3.6% for the year ended December 31, 2009 as compared to 3.7% for the year ended December 31, 2008.

Russia fixed sales and marketing expenses for the year ended December 31, 2009 decreased to \$40.6 million, or 2.7% of segment total revenues, from \$48.8 million, or 2.8% of segment total revenues, for the year ended December 31, 2008. The decrease in sales and marketing expenses in absolute terms was primarily caused by ruble depreciation, while the decrease in sales in marketing expenses as a percentage of segment total revenues was primarily the result of improvement in our selling strategies, including wider usage of cross-selling opportunities, as well as cost optimization efforts in advertising and marketing.

Ukraine mobile sales and marketing expenses for the year ended December 31, 2009 decreased to \$92.6 million, or 8.8% of segment total revenues, from \$190.2 million, or 11.4% of segment total revenues, for the year ended December 31, 2008. The decrease in sales and marketing expenses in absolute terms and as a percentage of segment total revenues was primarily the result of our effective use of marketing resources and the depreciation of the hryvnia.

Other countries sales and marketing expenses for the year ended December 31, 2009 decreased by 8.9% to \$58.5 million from \$64.2 million for the year ended December 31, 2008. As a percentage of segment total revenues, other countries sales and marketing expenses decreased to 7.4% for the year ended December 31, 2009 from 8.2% for the year ended December 31, 2008. We experienced a decrease in both reporting and functional currency terms mainly due to effective use of our marketing resources.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2009 decreased by 14.5% to \$1,839.6 million from \$2,151.1 million for the year ended December 31, 2008. The decrease in U.S. dollar terms was mainly attributable to the depreciation of our functional currencies; however, these expenses increased in functional currency terms due to our increased asset base resulting from the continued expansion of our network through buildouts, as well as due to accelerated depreciation of certain equipment. Depreciation and amortization expenses as a percentage of total revenues increased to 18.7% for the year ended December 31, 2009 from 18.1% for the year ended December 31, 2008 due to reasons described below.

Russia mobile depreciation and amortization for the year ended December 31, 2009 decreased by 15.6% to \$1,107.6 million from \$1,312.4 million for the year ended December 31, 2008. Depreciation and amortization expenses as a percentage of segment total revenues remained stable at 16.7% and 16.7% for the years ended December 31, 2009 and 2008, respectively, and increased by approximately 8% in ruble terms in 2009 compared to 2008.

Russia fixed depreciation and amortization for the year ended December 31, 2009 was \$193.4 million, or 13.0% of segment total revenues, and \$214.3 million, or 12.1% of segment total revenues, for the year ended December 31, 2008. The decrease in depreciation and amortization expense was primarily caused by depreciation of the ruble. The growth in depreciation and amortization expense as a percentage of segment total revenues was mainly due to the continued

buildout and selective modernization of our network in Moscow, as well as the completion of the build-out of our proprietary long-distance network.

Ukraine mobile depreciation and amortization for the year ended December 31, 2009 was \$352.0 million, or 33.6% of segment total revenues, and \$438.0 million, or 26.4% of segment total revenues, for the year ended December 31, 2008. The decrease in depreciation and amortization expense was due to the depreciation of the hryvnia. In hryvnia terms, depreciation and amortization expense increased by approximately 19%. As a percentage of segment total revenues, depreciation and amortization expense increased from 26.4% to 33.6%, mainly due to the accelerated depreciation of certain billing equipment, which was withdrawn from operation and replaced by a new billing system.

Other countries depreciation and amortization for the year ended December 31, 2009 increased by 0.1% to \$186.6 million from \$186.4 million for the year ended December 31, 2008, and increased as a percentage of segment total revenues to 23.7% from 23.9%. Growth in depreciation and amortization expense as a percentage of segment total revenues was primarily attributable to the decrease in revenue growth rates caused by adverse macroeconomic conditions.

Operating Income

Consolidated operating income decreased by 30.2% to \$2,547.6 million for the year ended December 31, 2009 from \$3,647.3 million for the year ended December 31, 2008. Operating income as a percentage of total revenues decreased to 25.9% for the year ended December 31, 2009 compared to 30.6% for the year ended December 31, 2008. The decrease of operating income in absolute terms was mainly driven by the depreciation of the functional currencies in our countries of operation against the U.S. dollar combined with the other factors described above. The decrease in the operating income margin was primarily due to an increase in depreciation and amortization, salaries and social contributions and rent expenses as a percentage of total revenues.

Russia mobile operating income for the year ended December 31, 2009 decreased by 31.6% to \$1,941.2 million from \$2,836.7 million for the year ended December 31, 2008. Russia operating income decreased as a percentage of segment revenues to 29.2% for the year ended December 31, 2009 from 36.2% for the year ended December 31, 2008, mainly due to the expansion of our retail network, which resulted in an increase in salaries and social contributions and rent, accelerated by historically lower margins on sales of handsets and accessories. The decrease in Russia mobile operating income margin was also attributable to higher sales and marketing costs as well the loss from the impairment of long-lived assets.

Russia fixed operating income for the year ended December 31, 2009 decreased by 7.6% to \$407.0 million from \$440.4 million for the year ended December 31, 2008 mainly as a result of ruble depreciation. The increase in Russia fixed operating income as a percentage of segment revenues to 27.4% for the year ended December 31, 2009 from 24.9% for the year ended December 31, 2008 was mainly due to the integration of our regional pay-TV operations and on-going implementation of cost reduction and cost control programs.

Ukraine mobile operating income for the year ended December 31, 2009 decreased by 62.6% to \$120.2 million from \$321.3 million for the year ended December 31, 2008. Ukraine operating income decreased as a percentage of segment revenues to 11.5% for the year ended December 31, 2009 from 19.3% for the year ended December 31, 2008. These decreases were largely due to the increase in depreciation and amortization expenses and in rent, repair and maintenance costs, as well as by the overall decrease in revenues due to the highly competitive environment in Ukraine.

Other countries operating income for the year ended December 31, 2009 increased by 80.9% to \$82.3 million from \$45.5 million for the year ended December 31, 2008. Other countries operating income increased as a percentage of segment revenues to 10.5% for the year ended December 31, 2009

from 5.8% for the year ended December 31, 2008 mainly due to the optimization of our salary and social contribution costs, as discussed above.

Currency exchange and transaction losses

Consolidated currency exchange and transaction losses for the year ended December 31, 2009 were \$252.9 million, compared to \$565.7 million loss for the year ended December 31, 2008. We conduct our operations primarily within the Russian Federation, Ukraine, Uzbekistan, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. The local currencies of these countries fluctuated significantly against the U.S. dollar and euro during the years ended December 31, 2009 and 2008, and the currency exchange and transaction losses we incurred were primarily due to the translation effect of our U.S. dollar-denominated debt as of December 31, 2009 and 2008. The losses decreased in 2009 as compared to 2008 due to the lower depreciation of local currencies against the U.S. dollar during the year ended December 31, 2009 as compared to 2008.

Interest expense

Consolidated interest expense for the year ended December 31, 2009 increased by \$337.8 million, or 144.4% to \$571.7 million from \$233.9 million for the year ended December 31, 2008, primarily as a result of the increase in our total indebtedness during the year 2009.

Impairment of investments

Consolidated impairment of investments loss for the year ended December 31, 2009 comprised \$368.4 million compared to \$nil for the year ended December 31, 2008. The loss in 2009 included write-offs of investments in Svyazinvest and Tammaron Ltd., as described in Notes 14 and 15 to our consolidated financial statements, respectively.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2009 decreased by \$15.4 million, or 20.3% to a gain of \$60.3 million, compared to a gain of \$75.7 million for the year ended December 31, 2008 primarily due to the depreciation of the functional currency in Belarus during the year ended December 31, 2009 and the write-off of our investment in Coral/Sistema Strategic Fund as described in Note 13 to our consolidated financial statements.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2009 increased insignificantly to \$23.3 million, as compared to \$22.7 million for the year ended December 31, 2008.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2009 decreased by 32.2% to \$504.0 million from \$742.9 million for the year ended December 31, 2008. The effective tax rate increased to 33.7% in the year ended December 31, 2009 from 25.4% in the year ended December 31, 2008 mainly due to the effect of settlements with tax authorities related to financial years 2006-2008, changes in valuation allowance against tax loss carry-forwards of MGTS Finance S.A. and valuation of investment in Svyazinvest, recognition of deferred tax liability related to potential earnings distributions from/to our subsidiaries, effect of treasury stock disposal by Comstar and other nondeductible items. Consolidated provision for income taxes decreased in absolute terms mainly due to the currency translation effect and lower net income.

Net income attributable to the non-controlling interest

Net income/(loss) attributable to the non-controlling interest for the year ended December 31, 2009 decreased by \$200.8 million, or 107.3%, to a \$13.7 million loss from \$187.1 million in income for the year ended December 31, 2008 as a result of a decrease in the net income of MGTS due to the impairment of its investment in Svyazinvest, as well as the foreign exchange and transactions losses incurred on the note payable to Access. See “—Off-balance Sheet Arrangements—Obligations under derivative contracts—Cash flow hedging.”

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2009 decreased by \$995.6 million, or 49.8%, to \$1,004.5 million, compared to \$2,000.1 million for the year ended December 31, 2008. Net income as a percentage of revenues was 10.2% in the year ended December 31, 2009 and 16.8% in the year ended December 31, 2008. Net income attributable to the Group for the year ended December 31, 2009 as compared to the year ended December 31, 2008 decreased mainly due to an increase in interest expense, write-off of investments, and significant depreciation of our functional currencies against the U.S. dollar during 2009 in all of the countries where we operate.

Year Ended December 31, 2008 compared to Year Ended December 31, 2007

Revenues and cost of services and cost of handsets and accessories

Consolidated revenues for the year ended December 31, 2008 increased by \$2,177.0 million, or 22.4%, to \$11,900.9 million from \$9,723.9 million for the year ended December 31, 2007. This increase was primarily due to growth in revenue from our mobile operations, where our subscriber base increased by 11.4% to 91.33 million as of December 31, 2008 from 81.97 million as of December 31, 2007. The growth in our mobile subscriber base was mainly attributable to our sales and marketing efforts and the expansion of our network. A portion of the revenue growth was also due to the significant increase in the interconnect fees we received for the termination of incoming traffic from other operators, which increased to \$1,374.0 million for the year ended December 31, 2008 from \$1,034.1 million for the year ended December 31, 2007, mainly due to the increased usage of mobile services. In addition, revenue from value-added services increased to \$1,379.0 million for the year ended December 31, 2008 from \$1,026.3 million for the year ended December 31, 2007, or 34.4%, mainly due to our marketing efforts aimed at stimulating usage of value-added services and our increased value-added service offerings. Growth in subscription fees to \$1,175.3 million for the year ended December 31, 2008 from \$890.5 million for the year ended December 31, 2007 also impacted the total revenue growth and was mainly due to the expansion of mobile services with subscription fees offered by us to subscribers. Revenue growth was also attributable to an increase in roaming revenues from our subscribers to \$1,059.0 million for the year ended December 31, 2008 from \$808.5 million for the year ended December 31, 2007, which was in line with the increase in both our subscriber base and overall usage. Our acquisition of K-Telekom, Armenian mobile operator, in September 2007 contributed an additional \$190.1 million to our total revenues for the year ended December 31, 2008 as compared to the year ended December 31, 2007. In addition to increases in our mobile revenues, our fixed line revenues increased by 13% from \$1,562.3 million in the year ended December 31, 2007 to \$1,765.2 million in the year ended December 31, 2008, mainly due to an increase in the number of broadband subscribers and growth in our regional fixed line business, which expanded both organically and through the acquisition of regional operators. The depreciation of the average U.S. dollar versus ruble exchange rate for the year ended December 31, 2008 as compared to the year ended December 31, 2007 also contributed to the growth in our revenues.

For the year ended December 31, 2008, service revenues and connection fees increased by \$2,187.3 million, or 22.7%, to \$11,822.0 million compared to \$9,634.7 million for the year ended December 31, 2007 mainly due to the growth in the number of our subscribers and the increases in subscription and interconnect fees, as described above. Revenues from the sales of handsets and accessories decreased by \$10.3 million, or 11.5%, to \$78.9 million for the year ended December 31, 2008 compared to \$89.2 million for the year ended December 31, 2007, mainly due to a change in our strategy for sales of handsets and accessories in the year ended December 31, 2008, as described above.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2008 increased by 29.4% to \$2,617.1 million from \$2,022.6 million for the year ended December 31, 2007. The increase in costs was primarily attributable to growth of our subscriber base and the consequent growth in traffic-related expenses, in particular interconnect costs and line rental expenses. For the year ended December 31, 2008, interconnect expenses grew to \$1,500.8 million from \$1,129.2 million for the year ended December 31, 2007 due to increased traffic volume. Line rental expenses grew to \$175.8 million for the year ended December 31, 2008 from \$129.1 million for the year ended December 31, 2007. Cost of value-added services also grew to \$241.0 million for the year ended December 31, 2008 from \$160.5 million for the year ended December 31, 2007 due to the increased usage of value-added services by our subscribers. The increase in cost of services for the year ended December 31, 2008 was also due to a growth in other direct costs to \$279.5 million for the year ended December 31, 2008 from \$204.1 million for the year ended December 31, 2007 due to higher fees payable for our use of radio frequencies and higher electricity costs as well as an increase in the volumes of fixed line subscriber and operator traffic.

For the year ended December 31, 2008, the cost of handsets and accessories sold, including SIM cards provided to customers, slightly increased to \$169.9 million from \$158.9 million for the year ended December 31, 2007 mainly due to the launch of iPhone 3G™ sales in October 2008, which was partially offset by the decreased selling activity for handsets and accessories in the year ended December 31, 2008 as compared to 2007.

Russia mobile revenues for the year ended December 31, 2008 increased by 26.8% to \$7,840.2 million from \$6,181.0 million for the year ended December 31, 2007. The increase in Russia revenues was primarily due to the growth of our subscriber base in Russia, which increased by 12.5% to 64.6 million as of December 31, 2008 from 57.4 million as of December 31, 2007, as well as growth in interconnect revenues and the adoption of new marketing initiatives aimed at stimulating higher usage of mobile and value-added services among our subscribers.

Russia mobile cost of services and cost of handsets and accessories for the year ended December 31, 2008 increased by 28.7% to \$1,811.0 million from \$1,407.0 million for the year ended December 31, 2007. The increased costs were mainly the result of a \$275.9 million increase in interconnect costs and \$27.8 million increase in line rental costs due to increased traffic volume, and a \$9.0 million increase in roaming expenses mainly due to an increase in both the number of subscribers and volume of network traffic. Interconnect expenses increased to \$1,042.9 million, or 13.3% of segment total revenues, in the year ended December 31, 2008 from \$767.0 million, or 12.4% of segment total revenues, in the year ended December 31, 2007 mainly due to the growth in outgoing network traffic. The cost of value-added services for the year ended December 31, 2008 increased by \$58.3 million to \$199.9 million, or 2.5% of segment total revenues, from \$141.6 million, or 2.3% of segment total revenues, in the year ended December 31, 2007 mainly due to the increased usage of value-added services by subscribers, which resulted from our marketing efforts and the rising awareness and popularity of certain value-added services. Cost of handsets, accessories and SIM-cards increased slightly by \$3.6 million to \$105.6 million, or 1.3% of segment total revenues, for the year ended December 31, 2008 from \$102.0 million, or 1.7% of segment total revenues, for the year ended December 31, 2007 due to the launch of iPhone 3G™ sales in October 2008.

Russia fixed revenues increased by 13.0% to \$1,765.2 million in the year ended December 31, 2008 from \$1,562.3 million in the year ended December 31, 2007. The increase was primarily due to an increase in the number of broadband subscribers and growth in our regional fixed line business, which expanded both organically and through the acquisition of regional operators.

Russia fixed cost of services and cost of handsets and accessories increased by 37.0% to \$305.1 million in the year ended December 31, 2008 from \$222.7 million in the year ended December 31, 2007. The increase was primarily caused by the acquisition of regional subsidiaries and the related expansion of our fixed line operations at the end of 2007, as well as by an increase in the volumes of subscriber and operator traffic.

Ukraine mobile revenues increased by 3.4% to \$1,662.0 million in the year ended December 31, 2008 from \$1,608.0 million in the year ended December 31, 2007 primarily due to an increase in the usage of value-added services and interconnect revenues, partially offset by a decrease in usage fees due to lower tariffs caused by the highly competitive environment in Ukraine.

Ukraine mobile cost of services and cost of handsets and accessories increased by 18.1% to \$511.5 million in the year ended December 31, 2008 from \$433.2 million in the year ended December 31, 2007. The growth occurred primarily due to a \$43.3 million increase in interconnect expenses, \$4.6 million increase in roaming expenses and \$20.0 million increase in the cost of value-added services. Interconnect expenses increased to \$327.2 million, or 19.7% of segment total revenues, in the year ended December 31, 2008 from \$283.9 million, or 17.7% of segment total revenues, in the year ended December 31, 2007 mainly due to the growth in outgoing network traffic. Cost of value-added services increased to \$37.5 million, or 2.3% of segment total revenues, in the year ended December 31, 2008 from \$17.5 million, or 1.1% of segment total revenues, in the year ended December 31, 2007 mainly due to the growth in value-added services usage. Cost of handsets, accessories and SIM-cards remained stable at \$49.6 million, or 3.0% of segment total revenues, in the year ended December 31, 2008 compared to \$48.9 million, or 3.1% of segment total revenues, in the year ended December 31, 2007.

Other countries revenues for the year ended December 31, 2008 increased by 61.2% to \$779.5 million from \$483.5 million for the year ended December 31, 2007. This increase was due primarily to our acquisition of K-Telecom in September 2007, which contributed an additional \$190.1 million of growth to other country revenues for the year ended December 31, 2008 as compared to the year ended December 31, 2007. The remaining portion of growth was primarily due to the growth in our subscriber base in Uzbekistan. The growth of revenues in Uzbekistan and Armenia was partially offset by the revenues of MTS-Turkmenistan, which declined significantly due to the change in the official exchange rate of the Turkmenistan manat to the U.S. dollar. On January 1, 2008, the Central Bank of Turkmenistan changed the official exchange rate of the Turkmenistan manat to the U.S. dollar from 5,200 to 6,250. On May 1, 2008, another decree was passed by the President of Turkmenistan establishing the official rate at 14,250 manat per one U.S. dollar. As a result, we experienced a significant currency exchange loss when translating the manat revenue of MTS-Turkmenistan to U.S. dollars, our reporting currency.

Other countries cost of services and cost of handsets and accessories for the year ended December 31, 2008 increased by 99.5% to \$131.5 million from \$65.9 million for the year ended December 31, 2007. The increase occurred primarily due to the acquisition of K-Telecom, which contributed \$44.0 million of the increase, as well as a \$21.7 million increase in other cost of services and cost of handsets and accessories in Uzbekistan partially offset by the decrease in Turkmenistan due to the reasons described above. The increase in cost of services and cost of handsets and accessories was mainly due to an increase in the number of subscribers and overall traffic growth in those countries' networks.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2008 increased by 23.6% to \$2,554.1 million from \$2,066.2 million for the year ended December 31, 2007. The increase of \$487.9 million in sundry operating expenses was primarily attributable to a general increase in expenses caused by the growth in our operations. In addition, the consolidation of K-Telekom's financial results in 2008 contributed an additional \$31.5 million to the growth of consolidated sundry operating expenses for the year ended December 31, 2008. Salary expenses and related social contributions increased by \$171.4 million to \$1,094.1 million for the year ended December 31, 2008 from \$922.7 million for the year ended December 31, 2007 due to an increase in personnel compensation levels and the number of employees. Rent expenses increased by \$53.1 million to \$243.8 million for the year ended December 31, 2008 from \$190.7 million for the year ended December 31, 2007 due to the increased rent expenses for base station sites and the overall number of sites used. Provision for bad debt also increased by \$87.1 million to \$154.8 million for the year ended December 31, 2008 from \$67.7 million for the year ended December 31, 2007 due to the write-off of a \$28.2 million loan given by us to Beta Link, which filed for bankruptcy in March 2009, as well as write-off of certain advances given to dealers. Sundry operating expenses as a percentage of total revenues increased slightly to 21.5% for the year ended December 31, 2008 from 21.2% in the year ended December 31, 2007.

Russia mobile sundry operating expenses for the year ended December 31, 2008 increased by 31.0% to \$1,252.1 million from \$956.0 million for the year ended December 31, 2007. Russia sundry operating expenses as a percentage of segment total revenues increased to 16.0% for the year ended December 31, 2008 from 15.5% for the year ended December 31, 2007. The increase of \$296.1 million in absolute terms was mainly attributable to an increase in employee compensation and related social contributions of \$88.9 million, an increase of provision for bad debt of \$87.4 million due to the reasons described above, as well as a \$30.2 million increase in rent expenses and a \$49.3 million increase in taxes other than income tax mainly due to the write-off of non-recoverable VAT receivables. The growth in Russia sundry operating expenses was also attributable to a \$48.6 million growth in other operating expenses mainly due to an increase in obligatory revenue-based Unified Services Fund contributions, as well as an increase in outsourcing expenses.

Russia fixed sundry operating expenses for the year ended December 31, 2008 increased by 16.0% to \$756.6 million from \$652.2 million for the year ended December 31, 2007. Russia fixed sundry operating expenses as a percentage of segment total revenues increased to 42.9% for the year ended December 31, 2008 from 41.7% for the year ended December 31, 2007. The increase of \$104.4 million in absolute terms was mainly attributable to the acquisition of regional operators at the end of 2007 which affected substantially all components of sundry operating expenses. The increase of sundry operating expenses as a percentage of total revenues was caused by the relatively lower margins of the acquired businesses.

Ukraine mobile sundry operating expenses for the year ended December 31, 2008 increased by 9.9% to \$200.9 million from \$182.8 million for the year ended December 31, 2007. Ukraine sundry operating expenses as a percentage of segment total revenues increased to 12.1% for the year ended December 31, 2008 from 11.4% for the year ended December 31, 2007. The increase in these expenses in absolute terms in the year ended December 31, 2008 was primarily due to a \$14.6 million increase in rent expenses and a \$15.9 million increase in other operating expenses, partially offset by a decrease of \$12.8 million in repair and maintenance costs.

Other countries sundry operating expenses for the year ended December 31, 2008 increased by 25.6% to \$351.9 million from \$280.2 million for the year ended December 31, 2007. Other countries sundry operating expenses as a percentage of other countries total revenues decreased to 45.1% for the year ended December 31, 2008 from 58.0% for the year ended December 31, 2007. The increase in these expenses in absolute terms in the year ended December 31, 2008 was primarily due to the consolidation

of K-Telekom's financial results starting from September 14, 2007, which contributed an additional \$31.5 million to the growth of sundry operating expenses for the year ended December 31, 2008, partially offset by generally lower sundry operating costs in Turkmenistan in 2008. However, the decrease in sundry operating expenses as a percentage of other countries total revenues to 45.1% for the year ended December 31, 2008 as compared to 58.0% for the same period in 2007 was primarily attributable to the relatively low level of taxes other than income tax and state fees contributed by K-Telekom to total sundry operating expenses due to favorable business development conditions in Armenia.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2008 increased by 20.1%, or \$156.0 million, to \$931.2 million from \$775.2 million for the year ended December 31, 2007. This growth was due to an increase in commissions payable to dealers and advertising and promotion expenses by \$103.4 million and \$52.6 million, respectively. The increase in dealer commissions was generally in line with the growth of our subscriber base. The increase in advertising and promotion expenses was primarily attributable to our increased marketing efforts, as well as growth in the cost of advertising on television. Sales and marketing expenses as a percentage of total revenues remained relatively stable at 7.8% for the year ended December 31, 2008 as compared to 8.0% for the year ended December 31, 2007.

Russia mobile sales and marketing expenses for the year ended December 31, 2008 increased by 28.1% to \$628.1 million from \$490.2 million for the year ended December 31, 2007 due to increases in dealer commission payments and advertising and promotion expenses, as described above. Sales and marketing expenses as a percentage of segment total revenues increased to 8.0% for the year ended December 31, 2008 from 7.9% for the year ended December 31, 2007. Dealer commissions as a percentage of segment total revenues increased to 4.3% for the year ended December 31, 2008 from 3.8% for the year ended December 31, 2007 mainly due to our increased efforts aimed at stimulating the performance and sales of regional dealers. However, advertising and marketing expenses as a percentage of segment total revenues decreased to 3.7% for the year ended December 31, 2008 from 4.1% for the year ended December 31, 2007 due to effective marketing management.

Russia fixed sales and marketing expenses for the year ended December 31, 2008 decreased to \$48.8 million, or 2.8% of segment total revenues, from \$51.2 million, or 3.3% of segment total revenues, for the year ended December 31, 2007. The decrease in sales and marketing expenses in absolute terms and as a percentage of segment total revenues was primarily the result of our effective use of marketing resources.

Ukraine mobile sales and marketing expenses for the year ended December 31, 2008 decreased to \$190.2 million, or 11.4% of segment total revenues, from \$210.3 million, or 13.1% of segment total revenues, for the year ended December 31, 2007. The decrease in sales and marketing expenses in absolute terms and as a percentage of segment total revenues was primarily the result of our effective use of marketing resources.

Other countries sales and marketing expenses for the year ended December 31, 2008 increased by 172.0% to \$64.2 million from \$23.6 million for the year ended December 31, 2007 due to the expansion of our operations in Uzbekistan and Turkmenistan. A portion of the growth was also attributable to the acquisition of K-Telekom in Armenia, which contributed \$16.1 million to the abovementioned growth. In particular, we increased our advertising campaigns in these countries in order to promote our services and, consequently, incurred increased advertising expenses. Dealer commissions also increased due to the growth in our subscriber base in each of these countries. Sales and marketing expenses as a percentage of segment total revenues increased to 8.2% for the year ended December 31, 2008 from 4.9% for the year ended December 31, 2007 due to the foregoing reasons.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2008 increased by 28.4% to \$2,151.1 million from \$1,674.9 million for the year ended December 31, 2007. The increase was mainly attributable to our increased asset base resulting from the continued expansion of our networks through buildouts and acquisitions. Depreciation and amortization expenses as a percentage of total revenues increased to 18.1% for the year ended December 31, 2008 from 17.2% for the year ended December 31, 2007 due to reasons described below.

Russia mobile depreciation and amortization for the year ended December 31, 2008 increased by 21.9% to \$1,312.4 million from \$1,076.6 million for the year ended December 31, 2007 mainly due to significant investments in our fixed and intangible assets related mainly to new telecommunication equipment. Depreciation and amortization expenses as a percentage of segment total revenues decreased to 16.7% for the year ended December 31, 2008 from 17.4% for the year ended December 31, 2007 mainly due to the decrease in license amortization expenses, which are now fully amortized.

Russia fixed depreciation and amortization for the year ended December 31, 2008 was \$214.3 million, or 12.1% of segment total revenues, and \$185.3 million, or 11.9% of segment total revenues, for the year ended December 31, 2007. Growth in depreciation and amortization expense in absolute terms and as a percentage of segment total revenues was mainly due to the continued buildout and selective modernization of our network in the Moscow metropolitan area and in the regions, as well as acquisition of regional operators at the end of 2007, which resulted in the expansion of our network.

Ukraine mobile depreciation and amortization for the year ended December 31, 2008 was \$438.0 million, or 26.4% of segment total revenues, and \$325.0 million, or 20.2% of segment total revenues, for the year ended December 31, 2007. Growth in depreciation and amortization expense in absolute terms and as a percentage of segment total revenues was mainly due to the accelerated depreciation of certain equipment intended to be withdrawn from operations, as well as the continued buildout of our network in Ukraine.

Other countries depreciation and amortization for the year ended December 31, 2008 increased by 111.8% to \$186.4 million from \$88.0 million for the year ended December 31, 2007 and increased as a percentage of segment total revenues to 23.9% from 18.2%. Growth in depreciation and amortization expense as a percentage of segment total revenues was primarily attributable to the acquisition of K-Telekom, which contributed \$82.9 million to growth in depreciation and amortization expense in 2008 mainly due to the accelerated depreciation of equipment intended to be withdrawn from operations.

Operating Income

Consolidated operating income increased by 14.5% to \$3,647.3 million for the year ended December 31, 2008 from \$3,184.9 million for the year ended December 31, 2007. Operating income as a percentage of total revenues decreased to 30.6% for the year ended December 31, 2008 compared to 32.8% for the year ended December 31, 2007. The growth of operating income in absolute terms was mainly driven by growth in revenues. The decrease in the operating income margin was primarily due to an increase in depreciation and amortization, provision for bad debt and interconnect expenses as a percentage of total revenues.

Russia mobile operating income for the year ended December 31, 2008 increased by 26.0% to \$2,836.7 million from \$2,251.3 million for the year ended December 31, 2007. Russia mobile operating income decreased slightly as a percentage of segment revenues to 36.2% for the year ended December 31, 2008 from 36.4% for the year ended December 31, 2007, mainly due to an increase in

interconnect and provision for bad debt expenses as a percentage of total revenues, which was partially offset by a decrease in depreciation and amortization expense as a percentage of total revenues.

Russia fixed operating income for the year ended December 31, 2008 decreased by 2.3% to \$440.4 million from \$450.9 million for the year ended December 31, 2007 mainly as a result of increased depreciation and amortization expenses in 2008. The decrease in Russia fixed operating income as a percentage of segment revenues to 24.9% for the year ended December 31, 2008 from 28.9% for the year ended December 31, 2007 was additionally affected by acquisition of regional operators at the end of 2007 which had relatively lower operating margins, as well as rapid regional development, which caused a temporary imbalance in segment revenue and operating expense growth rates.

Ukraine mobile operating income for the year ended December 31, 2008 decreased by 29.7% to \$321.3 million from \$456.8 million for the year ended December 31, 2007. Ukraine operating income decreased as a percentage of segment revenues to 19.3% for the year ended December 31, 2008 from 28.4% for the year ended December 31, 2007. These decreases were largely due to the increase in depreciation and amortization expenses, the increase in interconnect expenses and cost of value-added services, as well as lower subscriber tariffs driven by the highly competitive environment in Ukraine.

Other countries operating income for the year ended December 31, 2008 increased by 76.4% to \$45.5 million from \$25.8 million for the year ended December 31, 2007. The increase in operating income in absolute terms was primarily due to an increase in the number of subscribers in Uzbekistan and Turkmenistan, as well as to our entry into the Armenian market with the acquisition of K-Telecom. Other countries operating income increased as a percentage of segment revenues to 5.8% for the year ended December 31, 2008 from 5.3% for the year ended December 31, 2007 mainly due to generally lower sundry operating expenses as a percentage of segment total revenues.

Currency exchange and transaction losses

Consolidated currency exchange and transaction losses for the year ended December 31, 2008 were \$565.7 million, compared to \$161.9 million in gains for the year ended December 31, 2007. We conduct our operations primarily within the Russian Federation, Ukraine, Uzbekistan, Turkmenistan and Armenia, and we are therefore subject to currency fluctuations. Change in currency exchange and transaction losses was mainly attributable to the significant fluctuations of the U.S. dollar and euro versus ruble/hryvnia/som/manat/dram in year ending December 31, 2008 compared to the year 2007. The major portion of the loss was due to the translation effect of our U.S. dollar-denominated debt as of December 31, 2008 due to the significant depreciation of local currencies against the U.S. dollar during the fourth quarter of 2008.

Interest expense

Consolidated interest expense for the year ended December 31, 2008 increased by \$41.7 million, or 21.7% to \$233.9 million from \$192.2 million for the year ended December 31, 2007, primarily as a result of the increase in our total indebtedness during the year 2008.

Equity in net income of associates

Consolidated equity in net income of associates for the year ended December 31, 2008 increased by \$4.6 million, or 6.5% to a gain of \$75.7 million, compared to a gain of \$71.1 million for the year ended December 31, 2007 primarily due to the increase in profit of MTS Belarus for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Change in fair value of derivatives

Consolidated change in fair value of derivatives for the year ended December 31, 2008 decreased by \$104.3 million, or 71.5%, to \$41.6 million, compared to \$145.9 million for the year ended December 31, 2007. The \$145.9 million change in the year ended December 31, 2007 related to a write-off of a call option exercised by Access Telecommunications Cooperatief to purchase Comstar shares, while the \$41.6 million change in the year ended December 31, 2008 reflected a change in a fair value of a put option exercised by Access Telecommunications Cooperatief as well as a change in a fair value of a call option between Comstar and an investment bank that gave Comstar a call option over its phantom GDRs. See “—Off-balance Sheet Arrangements—Obligations under derivative contracts—Derivative instruments not designated as hedges” and Note 21 to our consolidated financial statements.

Other expenses (income), net

Consolidated other expenses for the year ended December 31, 2008 decreased to \$22.7 million, as compared to \$38.8 million for the year ended December 31, 2007. The decrease was mainly due to a decrease in the conversion of Turkmenistan manats, as there was a significant difference between the official and commercial exchange rate of the U.S. dollar to the Turkmenistan manat.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2008 decreased by 12.8% to \$742.9 million from \$852.0 million for the year ended December 31, 2007. The effective tax rate decreased to 25.4% in the year ended December 31, 2008 from 27.7% in the year ended December 31, 2007 mainly due to the revaluation of Ukraine tax base and due to the different tax rates in our foreign subsidiaries.

Net income attributable to the noncontrolling interest

Net income attributable to the noncontrolling interest for the year ended December 31, 2008 increased by \$54.7 million, or 41.3%, to \$187.1 million from \$132.4 million for the year ended December 31, 2007 as a result of the increase in net income of MGTS.

Net income attributable to the Group

Net income attributable to the Group for the year ended December 31, 2008 decreased by \$87.3 million, or 4.2%, to \$2,000.1 million, compared to \$2,087.4 million for the year ended December 31, 2007. Net income as a percentage of revenues was 16.8% in the year ended December 31, 2008 and 21.5% in the year ended December 31, 2007. The main reason for the decrease in net income attributable to the Group was the effect of foreign currency fluctuations, particularly the significant appreciation of the U.S. dollar against the ruble in the fourth quarter of 2008.

Liquidity and Capital Resources

Our borrowings consist of notes and bank loans. Since 2001, we have raised a total of \$1.8 billion through six U.S. dollar-denominated unsecured bond offerings in the international capital markets, as well as ruble-denominated bonds totaling 59 billion rubles (equivalent in aggregate to \$1.95 billion as of December 31, 2009). Our bank loans consist of U.S. dollar-, euro- and ruble-denominated borrowings totaling approximately \$5.7 billion as of December 31, 2009. Among these is a \$1.33 billion syndicated loan facility we entered into in 2006 with several international financial institutions, including The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Bank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Limited. We partially refinanced this syndicated loan through a facility agreement in 2009.

We repaid approximately \$1,737.7 million of indebtedness in 2009. As of December 31, 2009, the total amount available to us under our credit facilities amounted to \$1,665.8 million. We had total indebtedness of approximately \$8.3 billion as of December 31, 2009, including capital lease obligations, compared to approximately \$5.4 billion as of December 31, 2008. Our total interest expense for the years ended December 31, 2008 and 2009, was \$233.9 million and \$571.7 million, net of amounts capitalized, respectively. See Note 17 to our audited consolidated financial statements for a description of our indebtedness.

Global Economic Conditions

Global market and economic conditions in 2008 and 2009 were unprecedented and challenging, with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike. Continued turbulence in the Russian, U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs. See also “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—We may be adversely affected by the current economic environment” and “—Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.”

Capital Requirements

We need capital to finance the following:

- capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;
- acquisitions;
- repayment of debt and related interest payments;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions, repayment of long-term debt and dividends will represent the most significant uses of funds for several years to come.

Our cash outlays for capital expenditures in 2007, 2008 and 2009 were \$1,899.0 million, \$2,612.8 million and \$2,328.3 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and buildout of our network and expansion into new license areas. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and buildout of our network. We expect our total capital expenditures in 2010 to be approximately \$2,598.0 million. These investments are required to support the growth in our subscriber base (*i.e.*, to improve network capacity), to maintain and modernize our mobile and fixed line networks, to develop our network in the regions and to continue the buildout of our 3G and broadband Internet networks. We expect that the development of our 3G network and modernization of our fixed line networks will be among our most significant

capital expenditures and require considerable management resources. See “Item 4. Information on Our Company—B. Business Overview—Mobile Operations—Services Offered—3G Technology” for additional information. Our actual capital expenditures may vary significantly from our estimates.

In addition to capital expenditures, we spent \$1,087.0 million, \$196.4 million and \$1,604.0 million (net of cash acquired) in 2007, 2008 and 2009, respectively, to acquire businesses. In addition, part of the consideration paid in connection with our acquisition of an 11.06% stake in Comstar in December 2009 was comprised of MTS common shares. See—Acquisitions” and Note 3 to our audited consolidated financial statements. We used cash provided by operating activities as well as external credit facilities to finance our capital expenditures and acquisitions. We plan to finance future acquisitions through operating cash flows and additional borrowings. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

We expect to refinance our existing debt when it becomes due. Of our notes outstanding as of December 31, 2009, \$1,218.1 million are due in 2010, \$496.0 million are due in 2011 and \$895.6 million are due in 2012. Of our bank loans outstanding as of December 31, 2009, \$780.5 million is due in 2010, \$1,872.5 million is due in 2011 and \$1,834.1 million is due in 2012. We generally use the proceeds from our financing activity for our corporate purposes and refinancing existing indebtedness.

Sistema, which currently controls 52.7% of our total charter capital (54.8% excluding treasury shares) and consolidates our results in its financial statements, has a significant amount of outstanding debt and requires funds for debt service. These funds may come, in part, from dividends paid by its subsidiaries, including us. Our shareholders approved cash dividends in the amount of \$747.2 million (including dividends on treasury shares of \$6.0 million) for the year 2006, \$1,257.5 million (including dividends on treasury shares of \$36.5 million) for the year 2007, and \$1,265.5 million (including dividends on treasury shares of \$45.6 million) for the year 2008, of which \$1.1 million remained payable as of December 31, 2009.

We generally intend to finance our dividend requirements through operating cash flows, and accordingly, our payment of dividends may make us more reliant on external sources of capital to finance our capital expenditures and acquisitions.

Capital Resources

We plan to finance our capital requirements through a mix of operating cash flows and financing activities, as described above. Our major sources of cash have been cash provided by operations and the proceeds of our U.S. dollar-denominated and ruble-denominated note issuances and loans. We expect that these sources will continue to be our principal sources of cash in the future.

The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain large amounts of financing in the future through debt or equity offerings, bank financings or otherwise.

As of December 31, 2009, our outstanding indebtedness consisted of the following notes and bank loans:

Notes

As of December 31, 2009, our notes consisted of the following:

	Currency	Annual interest rate (actual rate at December 31, 2009)	Amount (in thousands of U.S. dollars)
MTS Finance Notes due 2010	USD	8.38%	400,000
MTS Finance Notes due 2012	USD	8.00%	400,000
MTS OJSC Notes due 2013 ⁽¹⁾	RUR	14.01%	247,981
MTS OJSC Notes due 2014 ⁽¹⁾	RUR	16.75%	495,963
MTS OJSC Notes due 2015 ⁽¹⁾	RUR	14.01%	248,213
MTS OJSC Notes due 2016 ⁽¹⁾	RUR	14.25%	495,963
MTS OJSC Notes due 2018 ⁽¹⁾	RUR	8.70%	323,698
MGTS Notes due 2010	RUR	16.00%	402
Less: unamortized discount			(2,587)
Total notes			2,609,633
Less: current portion			(1,218,084)
Total notes, long-term			<u>1,391,549</u>

(1) We are unconditionally obligated to repurchase these notes at par value plus accrued interest at the option of the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are listed below. For additional information, see Note 17 to our audited consolidated financial statements and “Item 8. Financial Information—B. Significant Changes.”

The dates on which the new coupon will be announced for each note issue are as follows:

MTS OJSC Notes due 2013	April 2010
MTS OJSC Notes due 2014	May 2011
MTS OJSC Notes due 2015	April 2010
MTS OJSC Notes due 2016	June 2012
MTS OJSC Notes due 2018	June 2010

Subject to certain exceptions and qualifications, the indentures governing our U.S. dollar-denominated notes due 2010 and 2012 contain covenants limiting our ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if we experience a change in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody’s or Standard & Poor’s. If we fail to comply with these and the other covenants contained in the indentures, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Our ruble-denominated notes contain certain covenants limiting our ability to delist the notes from the quotation lists and delay coupon payments.

We may from time to time seek to repurchase or redeem our outstanding notes through cash purchases and/or exchanges for new debt securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on market conditions, our liquidity requirements, contractual restrictions and other factors.

We believe that we are in compliance with all our note covenants as of December 31, 2009.

Bank loans

As of December 31, 2009, our loans from banks and other financial institutions consisted of the following:

	Maturity	Interest rate (actual at December 31, 2009)	Amount outstanding at December 31, 2009 (in thousands of U.S. dollars)
USD-denominated			
Syndicated Loan Facility granted to MTS OJSC in 2006 . . .	2010-2011	LIBOR+1.15% (1.58%)	\$ 323,077
Syndicated Loan Facility granted to MTS OJSC in 2009 . . .	2011-2012	LIBOR+6.5% (6.93%)	360,000
Skandinaviska Enskilda Banken AB	2010-2017	LIBOR+0.23%-1.8% (0.66%-2.23%)	279,519
EBRD	2010-2014	LIBOR+1.51%-3.1% (1.94%-3.53%)	150,000
HSBC Bank plc and ING BHF Bank AG	2010-2014	LIBOR+0.3% (0.73%)	90,985
Citibank International plc and ING Bank N.V.	2010-2013	LIBOR+0.43% (0.86%)	84,560
HSBC Bank plc, ING Bank and Bayerische Landesbank . .	2010-2015	LIBOR+0.3% (0.73%)	76,180
Commerzbank AG, ING Bank AG and HSBC Bank plc . .	2010-2014	LIBOR+0.3% (0.73%)	66,557
Barclays	2010-2014	LIBOR+0.13%-0.15% (0.56%-0.58%)	59,203
ABN AMRO Bank N.V.	2010-2013	LIBOR+0.35% (0.78%)	25,149
Other	2010-2013	various	21,694
			<u>\$1,536,924</u>
EUR-denominated			
Syndicated Loan Facility granted to MTS OJSC in 2009 . .	2011-2012	EURIBOR+6.5% (7.49%)	341,580
EBRD	2010-2016	EURIBOR+6.5%-6.9% (7.49%-7.89%)	312,743
European Investment Bank	2010-2016	EURIBOR+6.4% (7.39%)	164,979
Gazprombank	2012	8.0%	143,460
Nordic Investment Bank	2010-2016	EURIBOR+6.5%-6.9% (7.49%-7.89%)	114,768
ABN AMRO Bank N.V.	2010-2013	EURIBOR+0.35% (1.34%)	19,859
Other	2010-2012	various	5,972
			<u>\$1,103,361</u>
RUR-denominated			
Sberbank ⁽¹⁾⁽²⁾	2012	13.35%	859,669
Sberbank ⁽¹⁾⁽³⁾	2013	11.75%	1,554,017
Sberbank ⁽¹⁾	2011	Refinancing rate of the CBR+2.25% (11.0%)	396,770
Gazprombank	2012	13.0%	213,600
Other ⁽⁴⁾	2010-2012	various	25,241
			<u>\$3,049,297</u>
Other			
Debt—Related Parties ⁽⁵⁾	2010-2056	various	26,207
			<u>\$ 26,207</u>
Total bank loans			\$5,715,789
Less: current portion			(780,514)
Total bank loans, long-term			<u>\$4,935,275</u>

(1) Each of our RUR-denominated Sberbank loan facilities provides that Sberbank may unilaterally change the interest rate including, without limitation, in the event of an increase in the CBR refinance rate. An increase in the interest rate is subject to a minimum 60-day prior notice from Sberbank, and a decrease in the interest rate is subject to a 30-day notice.

(2) Secured by a pledge of a 25.0% + 1 share stake in Svyazinvest and two ruble-denominated promissory notes of Sberbank purchased by Comstar in the total amount of RUR 4,334 million (\$143.3 million as of December 31, 2009).

- (3) A portion of the loan amount in the amount of \$826.6 million is secured by a pledge of a 50.17% stake in Comstar as well as equipment with a net book value of RUR 30 billion as of December 31, 2009 (\$991.9 million as of December 31, 2009), with assigned pledge value of RUR 21 billion (\$694.3 million as of December 31, 2009).
- (4) Equipment with the fair value of approximately RUR 421.8 million (\$13.9 million as of December 31, 2009) acquired by Comstar under the vendor financing agreement with Cisco Capital is pledged as collateral against the outstanding liability of RUR 408.8 million (\$13.5 million as of December 31, 2009).
- (5) Amount includes various loans received from related parties. A vendor financing agreement between K-Telecom and Intracom, a related party, with a total outstanding amount as of December 31, 2009 of \$23.2 million is secured by the telecommunication equipment and other assets supplied under the agreement with the carrying value of \$17.1 million.

See also Note 17 to our audited consolidated financial statements.

Our loans are subject to certain restrictive covenants, including, but not limited to, negative pledges, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries, maintain certain contracts or licenses, maintain assets of certain value and to maintain a certain level of deposits in accounts at our creditor banks. In addition, there are restrictions on the granting of loans and guarantees and the incurrence of debt the purpose of which is to facilitate us paying or making any dividend or other payment or distribution of any kind on or in respect of any of our shares or undertake any form of capital reduction. We believe that we are in compliance with our loan covenants as of December 31, 2009.

The following table presents the aggregate scheduled maturities of debt principal outstanding as of December 31, 2009:

<u>Payments due in the year ended December 31,</u>	<u>Notes</u>	<u>Bank Loans</u>
	<u>(in thousands of U.S. dollars)</u>	
2010	\$1,218,084	\$ 780,514
2011	495,963	1,872,512
2012	895,586	1,834,103
2013	—	893,030
2014	—	149,222
Thereafter	—	186,408
Total	<u>\$2,609,633</u>	<u>\$5,715,789</u>

In addition, we had capital lease obligations in the amount of \$12.3 million and \$4.1 million as of December 31, 2008 and 2009, respectively. The terms of our material debt obligations are described in Note 17 to our audited consolidated financial statements.

Subsequent to December 31, 2009, we repaid approximately \$1,961.8 million (based on the ruble and Euro exchange rates as of June 15, 2010) in short-term and long-term indebtedness. See “Item 8. Financial Information—B. Significant Changes.”

In addition, Sistema, which currently controls 52.7% of our total charter capital (54.8% excluding treasury shares) and consolidates our results in its financial statements, is subject to various covenants in certain of its credit facilities which impose restrictions on Sistema and its restricted subsidiaries, including us, with respect to, among others, incurrence of indebtedness and liens. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Indentures relating to our notes and our controlling shareholder Sistema’s notes contain, and some of our loan agreements and Sistema’s loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.”

Consolidated Cash Flow Summary

A summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries follows:

	Years Ended December 31,		
	2007 (restated) ⁽¹⁾	2008 (restated) ⁽¹⁾	2009
	(in thousands of U.S. dollars)		
Cash flows:			
Net cash provided by operating activities . .	\$ 3,851,372	\$ 5,029,954	\$ 3,596,108
Net cash used in investing activities	(3,247,320)	(2,707,989)	(2,384,686)
Net cash (used in)/provided by financing activities	(258,069)	(1,678,542)	147,725
Effect of exchange rate changes on cash and cash equivalents	112,717	(342,338)	42,015
Net increase in cash	<u>\$ 458,700</u>	<u>\$ 301,085</u>	<u>\$ 1,401,162</u>
Cash outlays for:			
Capital expenditures ⁽²⁾	\$(1,898,972)	\$(2,612,825)	\$(2,328,309)
Acquisition of subsidiaries, net of cash acquired	\$(1,087,031)	\$ (86,951)	\$ (270,540)
Cash payments for the acquisition of Comstar, Stream-TV and non-controlling interests	\$ nil	\$ (109,442)	\$(1,333,418)

(1) See Note 2 to our consolidated financial statements.

(2) Includes acquisitions of property, plant and equipment and intangible assets.

For the year ended December 31, 2009, net cash provided by operating activities was \$3,596.1 million, a decrease of 28.5% from the year ended December 31, 2008. This decrease was primarily attributable to a decline in total revenues which, in turn, was mainly due to the depreciation of the ruble and other local currencies, which more than offset the growth of our subscriber base and the resulting increased usage of mobile services by our subscribers. During the year ended December 31, 2009, we recorded a positive free cash flow of \$1,071.2 million, which is calculated by us as net cash provided by operating activities less capital expenditures, investments, other than short-term investments, and acquisition of subsidiaries.

Net cash used in investing activities in the year ended December 31, 2009 was \$2,384.7 million, a decrease of 11.9% from the year ended December 31, 2008. The decrease was mainly due to a decrease in cash spent on the acquisitions of property, plant and equipment and intangible assets, which was due to the depreciation of the ruble and other local currencies.

Net cash provided by financing activities in the year ended December 31, 2009 was \$147.7 million, compared to \$1,678.5 million used in the year ended December 31, 2008. The change was due to a significant increase in proceeds from loans, offset by loan principal paid during the year and cash payments made for the acquisition of a majority stake in Comstar.

For the year ended December 31, 2008, net cash provided by operating activities was \$5,030.0 million, an increase of 30.6% from the year ended December 31, 2007. This increase was primarily attributable to a growth in total revenues due to an increase in the volume of our operations, which was primarily the result of growth in our subscriber base and increased usage of mobile services by our subscribers. During the year ended December 31, 2008, we recorded a positive free cash flow of

\$2,312.6 million, which is calculated by us as net cash provided by operating activities less capital expenditures, investments and acquisition of subsidiaries.

Net cash used in investing activities in the year ended December 31, 2008 was \$2,708.0 million, a decrease of 16.6% from the year ended December 31, 2007. The decrease was mainly due to a decrease in our acquisition activity, offset by an increase in cash spent on the acquisitions of property, plant and equipment and intangible assets due to the continued development of our networks.

Net cash used in financing activities in the year ended December 31, 2008 was \$1,678.5 million, compared to \$258.1 million used in the year ended December 31, 2007, an increase of 550.4%. The increase was mainly due to the repayment of notes and loan principal, repurchase of our common stock and payment of dividends, as well as the acquisition of Stream-TV and other of non-controlling interests in subsidiaries, which was partially offset by proceeds from loans and the issuance of notes.

Liquidity

As of December 31, 2009, we had total cash and cash equivalents of \$2,522.8 million (\$1,630.5 million in rubles, \$229.6 million in U.S. dollars, \$607.0 million in euro, \$4.0 million in Ukrainian hryvnias, \$27.6 million in Uzbek soms, \$21.0 million in Turkmenistan manat, \$2.7 million in Armenian dramas and \$0.4 million in other foreign currencies). In addition, as of December 31, 2009, we had short-term investments of \$217.2 million, mostly in promissory notes and deposits in various banks. We also had \$1,665.8 million available under existing credit facilities as of December 31, 2009. For a description of our outstanding external financing, see Note 17 to our audited consolidated financial statements.

As of December 31, 2009, we had a working capital surplus of \$137.0 million compared to a deficit of \$1,100.6 million as of December 31, 2008. The increase in working capital was mainly attributable to an increase in our total cash and cash equivalents, trade receivables and inventory.

We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital, together with our plans for external financing, will provide us with sufficient funds for our present requirements.

As most of our operating subsidiaries are incorporated in Russia, their ability to pay dividends to us is limited by provisions of Russian law. For example, Russian law requires that, among other things, dividends can only be paid in an amount not exceeding net profits as determined under Russian accounting standards, denominated in rubles, after certain deductions. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards. Our net income under Russian accounting standards for the years ended December 31, 2007, 2008 and 2009 that was distributable under Russian legislation amounted to \$1,473.8 million, \$1,631.6 million and \$1,055.4 million, respectively.

Credit Rating Discussion

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing, and credit rating downgrades may require us to prepay certain loans. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry and the strategy, activity and/or credit rating of Sistema. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently. See "Item 3. Key Information—D. Risk Factors—Risks

Relating to Our Business—Our controlling shareholder has the ability to take actions that may conflict with the interests of our securities.”

Our credit ratings as of the date of this document are as follows:

<u>Rating Agency</u>	<u>Long-Term Debt Rating</u>	<u>Outlook/Watch</u>
Fitch ⁽¹⁾	BB+	Stable
Moody’s ⁽²⁾	Ba2	Stable
Standard & Poor’s ⁽³⁾	BB	Stable

(1) Rated on October 9, 2009.

(2) Rated on April 2, 2009.

(3) Rated on November 5, 2009.

As of December 31, 2009, our loan agreements with Nordic Investment Bank and European Investment Bank and our 2009 Syndicated Loan Facilities contain provisions entitling the lenders to accelerate our debt on the occurrence of a ratings downgrade, as defined in the agreements.

Critical Accounting Policies and Estimates

Our significant accounting policies are disclosed in Note 2 to our audited consolidated financial statements. Critical accounting policies are those policies that require the application of management’s most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe our most critical accounting policies and estimated are those discussed below.

Management estimates

The preparation of our audited consolidated financial statements in accordance 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 for the reporting period. Actual results could differ from those estimates. Our significant estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, valuation of assets acquired and liabilities assumed in business combinations, income tax benefits, the recoverability of goodwill, intangible assets and other long-lived assets, certain accrued liabilities and valuation of financial instruments.

Useful Lives of Property Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property, plant and equipment at least on an annual basis. With regard to certain equipment, we cannot predict with certainty the how and when developing technology will require us to replace such equipment.

Impairment of Long-lived Assets

We periodically evaluate the recoverability of the carrying amount of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, we compare 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, we record 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. Impairment of property, plant and equipment and intangible assets amounted to \$75.0 million, \$1.3 million and \$10.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. See also Note 2 to our audited consolidated financial statements.

Impairment of Assets Held for Sale

We account for our existing assets held for sale in accordance with the authoritative guidance on property, plant and equipment and report the assets at the lower of its carrying amount or fair value less costs to sell. If the initial plan for sale of assets is reconsidered, we determine the fair value of assets held for sale using the discounted cash flow based on the expected timing of the sale. As a result of such reconsideration, the impairment loss on assets held for sale for the year ended December 31, 2007 was recognized in the amount of \$6.8 million. No impairment loss was recorded during the years ended December 31, 2008 and 2009. See also Note 2 to our audited consolidated financial statements.

Investments impairment

Management periodically assesses the recoverability of the carrying values of investments and, if necessary, records impairment losses to write the investments down to fair value. In 2009, we recorded an impairment loss of \$349.4 million relating to Comstar's investment in Svyazinvest and a \$21.2 million loss relating to our investment in Tammaron Ltd. See Notes 14 and 15 to our audited consolidated financial statements.

Impairment of Goodwill

Goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in a purchase business combination and is not amortized. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangibles, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, we recognize a loss for the difference between the carrying amount and the implied fair value of goodwill. As of December 31, 2009 the fair value was significantly in excess of the carrying value for all reporting units with the exception of Uzbekistan, and the carrying value of goodwill attributable to Uzbekistan reporting unit is less than 1% of our total assets. See Note 11 to our audited consolidated financial statements.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of our tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 30 to our audited consolidated financial statements.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these

differences are realized. We record valuation allowances for deferred tax assets when it is likely that these assets will not be realized.

Recently Adopted Accounting Pronouncements

On January 1, 2008, we 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, we 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 our consolidated financial position, results of operations or cash flows at the date of adoption.

On January 1, 2009, we 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, we were 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 our consolidated financial statements is largely dependent on the size and nature of future business combinations. In 2009, we recognized acquisition-related costs in the amount of \$11.3 million in our consolidated statement of operations and recorded a liability for contingent consideration in amount of \$30.8 million in our consolidated statement of financial position as of December 31, 2009.

On January 1, 2009, we 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 our 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 our subsidiaries.

In connection with the issuance of the guidance on non-controlling interests, EITF Topic D-98, Classification and Measurement of Redeemable Securities, (“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 non-controlling 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 implementation of the provisions of Topic D-98 as of January 1, 2009 resulted in reduction of our retained earnings by \$122.2 million (of which \$78.8 million related to the redeemable non-controlling interest in K-Telecom and \$43.5 million related to the redeemable non-controlling interest in Dagtelecom).

On January 1, 2009, we adopted the authoritative guidance issued by the FASB relating to disclosures about derivative instruments and hedging activities. This authoritative guidance 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 on our financial position, results of operations and cash flows.

On January 1, 2009, we 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 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 on our financial position, results of operations and cash flows for the year ended December 31, 2009. We expect that the new guidance will have an impact on its accounting for future acquisitions of intangible assets, but the effect is dependent upon the acquisitions that are made in the future.

On January 1, 2009, we 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 on our financial position, results of operations and cash flows for the year ended December 31, 2009. We expect that the new guidance will have an impact on our accounting for future acquisitions of intangible assets, but the effect is dependent upon the acquisitions that are made in the future.

On January 1, 2009, we 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 non-controlling 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 on our financial position, results of operations and cash flows.

On January 1, 2009, we 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 our financial statements.

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

On July 1, 2009, we adopted the FASB Accounting Standards Codification (“the Codification”) and the revised guidance on 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 non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. With the adoption of this codification we have accordingly updated the financial statements disclosures.

On October 1, 2009, we 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 our financial statements.

New Accounting Pronouncements

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. We do not maintain any variable interest entities and, as such, the adoption of this guidance, effective January 1, 2010, is not expected to have an impact on our 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 our 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 and will not have an impact on our 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 correction of an error or retrospective application of U.S. GAAP. The updated guidance removes potential conflicts with the SEC’s literature. We adopted the revised guidance in February 2010.

Trend Information—Mobile Operations

Sales

In 2009, our mobile revenues in Russia and Ukraine decreased by 15.4% and 36.9%, respectively, as the ruble and hryvnia, the two most dominant currencies of our business operations, declined 27.6% and 47.8%, respectively, against the U.S. dollar in 2009 compared to 2008. Our mobile revenues in Russia increased by approximately 8% in ruble terms in 2009, while our mobile revenues in Ukraine decreased by approximately 5% in hryvnia terms. Our subscriber base increased to approximately 97.8 million subscribers as of December 31, 2009 from approximately 91.3 million as of December 31, 2008, or by 7.1%. We expect our consolidated subscriber base to continue growing in 2010 as a result of continued marketing and advertising activity, which may be partially offset by the continued stagnation in economic activity in Russia due to the current macroeconomic environment. We anticipate our consolidated revenues will increase in 2010 based on rising sales of handsets and a slight growth in voice and data usage. However, the risk of currency volatility may greatly influence our consolidated revenues in U.S. dollar terms, and consistent with 2009, may have a negative effect.

Average monthly service revenue per subscriber in Russia fell slightly to RUR 247.5 (\$7.8) for the year ended December 31, 2009, from RUR 260.8 (\$10.5) for the year ended December 31, 2008. This decline is in line with the addition of approximately 6.5 million net subscribers in 2009, who, given the maturation of the market, are largely lower-value subscribers, which is dilutive to operating indicators like ARPU. Average monthly minutes of use per subscriber in Russia increased from 208 minutes in 2008 to 213 minutes in 2009 mainly due to marketing campaigns and tariff promotions aimed at increasing voice traffic. We expect average monthly service revenue per subscriber in Russia to remain stable in 2010 in ruble terms as subscribers adapt to the new conditions following the impact of the economic slowdown during which they migrated to cheaper tariffs and decreased their usage of premium services. We also believe that the growth rate of average monthly minutes of use per subscriber could remain stable mainly due to continued lower consumption, in particular, of higher-value products like roaming and long distance calling, by corporate, high-end and mass-market users.

In Ukraine, our subscriber base decreased to approximately 17.6 million subscribers as of December 31, 2009, from 18.1 million subscribers as of December 31, 2008, as the overall market contracted due to the macroeconomic volatility in the region. In Ukraine, average monthly service revenue per subscriber remained stable at UAH 37 (\$4.7 in 2009; \$7.2 in 2008). The average monthly minutes of use per subscriber increased from 279 minutes in 2008 to 462 minutes in 2009 due to the introduction and promotion of a wide range of attractive tariffs aimed at stimulating traffic, such as inexpensive on-net calling rates and tariffs providing for a flat amount of monthly minutes. In 2010, we expect stabilization in hryvnia terms of average monthly service revenue per subscriber in Ukraine as a result of our activities focused on customer development and potential tariff increases, though a revision in interconnect terms with Ukrtelekom may have a marginal negative effect on revenues. We expect the average monthly minutes of use per subscriber to increase as a result of new tariffs stimulating on-net traffic. We also expect MTS Ukraine's subscriber base to increase in 2010, reflecting its attractive price-valuation program within the context of the highly competitive market.

Our subscriber base in Uzbekistan, Turkmenistan and Armenia grew by 2.3 million to 10.9 million subscribers in 2009, compared to approximately 8.6 million subscribers in 2008. Of these countries, Uzbekistan had the largest subscriber base, with approximately 7.1 million subscribers as of December 31, 2009, as well as the most significant growth, with a 1.4 million increase in its subscriber base in 2009 compared to 2008. We expect that our subscriber base will continue to grow in these countries, which have low penetration rates relative to Russia and Ukraine. However, the rate of growth may be impacted by continued macroeconomic volatility and increasingly competitive operating environments. The average monthly service revenue per subscriber in these countries decreased from \$7.7 in 2008 to \$5.3 in 2009 for Uzbekistan from 39.6 manats (\$17.1) to 28.4 manats (\$10.0) in

Turkmenistan and from 3,845.9 drams (\$12.6) to 3,266.7 drams (\$9.0) in Armenia as rising penetration often leads to the addition of lower-value subscribers to the network. The decrease was mainly attributable to a decline in tariffs as well as the continued depreciation of local currencies. We expect the average monthly service revenue per subscriber in these countries to continue declining mainly as a result of depreciation of local currencies, mainly in Uzbekistan and Armenia, and as a result of volatile macroeconomic conditions, which may lead to lower consumption, decreasing tariffs, the addition of lower-value mass market subscribers, as well as increasing market penetration and multiple SIM-card usage per person.

Russia and Ukraine are the two largest markets for us, both in terms of subscribers and revenue. In 2009, the underlying developments within these markets remained generally positive and included high mobile penetration, strong demand for mobile services, generally positive usage trends and increased consumption of data services and value-added services. However, these growth factors were tempered by macroeconomic developments, which began to influence the mobile markets in both of these countries in 2008 and continued in 2009. These trends included exchange rate volatility in our functional currencies, flat or negative GDP growth trends, higher unemployment and lower consumer spending. The Ukrainian wireless telecommunications market, which has grown rapidly in recent years and has been characterized by intense competition among four national mobile operators, was significantly affected by the economic downturn.

We expect a challenging operating environment in 2010 due to continued macroeconomic and market volatility in all of our countries of operation, increasing competition, significant changes in the mobile retail market in Russia and our entrance to the fixed voice and broadband segment of the telecommunication market. We also experienced significant exchange rate volatility and depreciation of local currencies in the countries where we operate against the U.S. dollar. This volatility continued during the first quarter of 2010. The volatility and devaluation of local currencies against the U.S. dollar and/or euro may adversely affect our revenues reported in U.S. dollars and increase our costs, including our non-cash foreign exchange loss due to the translation of our U.S. dollar- and euro-denominated debt. For further information on these risks, see “—Certain Factors Affecting our Financial Position and Results of Operations—Currency Fluctuation,” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Inflation could increase our costs and adversely affect our results of operations.”

However, as the macroeconomic situation stabilizes, our management believes that we will experience medium- and long-term growth and efficiency. Due to the fact that the Russian and the Ukrainian markets are highly penetrated, we believe the next wave of revenue growth for the overall market is likely to come from customers’ increasing use of data, content and other value-added services.

Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period.

A vast majority of our subscribers are pre-paid subscribers with no contractual commitment to us. As a result, these subscribers have unfettered freedom to migrate between operators at their convenience. This freedom, combined with the relative ease with which subscribers can obtain SIM-cards, contributes to churn and increasing penetration levels in the markets where we operate.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia increased to 38.3% during the year ended December 31, 2009 as compared to 27.0% for the year ended December 31, 2008 as consumers became more price sensitive and more likely to switch tariffs and operators for lower-priced tariff plans

and offers due to the economic downturn. In addition, due to the financial distress experienced by several mobile retailers in Russia, many increased their sales efforts in 2009 to stimulate revenue earned from subscription fees, which we believe led to a decline in the quality of new subscribers. We expect that the development and expansion of our proprietary monobrand retail network in Russia will enable us to reduce our churn rate in 2010, stimulate value-added services usage and promote subscriber loyalty through superior customer service.

The churn rate in Ukraine decreased to 40.0% for the year ended December 31, 2009 from 47.3% for the year ended December 31, 2008. This decrease was achieved by adjusting and changing our tariffs in response to changes in the market and economic environment and focusing on subscriber base management.

Trend Information—Fixed line Operations

Sales

In 2009, our fixed line revenues decreased by 15.8% from \$1,765.2 million to \$1,485.6 million. Our residential subscriber base increased to approximately 6.8 million subscribers as of December 31, 2009 from approximately 4.8 million as of December 31, 2008, or by 42%. Our corporate subscriber base decreased to approximately 149,000 subscribers as of December 31, 2009 from approximately 170,000 as of December 31, 2008, or by 13%. The number of interconnected operators increased to 810 as of December 31, 2009 from 756 as of December 31, 2008, or by 7%. We expect our consolidated subscriber base to grow in 2010 as a result of attractive market offers and continued marketing and advertising campaigns, which may be partially offset by the continued slowdown in economic activity in Russia due to the economic downturn. We expect modest ruble revenue growth in 2010 driven by the increase in regulated tariffs for MGTS voice services that took effect from February 2010, as well as the growth in long-distance traffic volumes and the development of our broadband business in the regions.

The majority of our fixed line tariffs are in rubles, which is our functional currency in Russia. As a result, a decline in the value of the ruble against the U.S. dollar results in a translation loss when we translate our ruble revenues into U.S. dollars, our reporting currency. It can also cause trends in our sales to differ in ruble and U.S. dollar terms. For example:

- The average monthly revenue per MGTS residential subscriber in Moscow increased to RUR 324 for the year ended December 31, 2009 from RUR 294 for the year ended December 31, 2008, but decreased in U.S. dollar terms to \$10.3 for the year ended December 31, 2009 from \$11.8 for the year ended December 31, 2008.
- The average monthly revenue per MGTS corporate subscriber in Moscow (excluding revenue from interconnect services) increased to RUR 5,591 for the year ended December 31, 2009 from RUR 4,594 for the year ended December 31, 2008, but decreased in U.S. dollar terms to \$176.9 for the year ended December 31, 2009 from \$180.0 for the year ended December 31, 2008.
- The average monthly revenue per residential subscriber in the alternative segment in Moscow increased in both ruble and U.S. dollar terms to RUR 442 and \$14.0 for the year ended December 31, 2009 from RUR 337 and \$13.6 for the year ended December 31, 2008, respectively.
- The average monthly revenue per corporate subscriber in the alternative segment in Moscow increased to RUR 13,676 for the year ended December 31, 2009 from RUR 10,844 for the year ended December 31, 2008, but decreased in U.S. dollar terms to \$432.8 for the year ended December 31, 2009 from \$436.8 for the year ended December 31, 2008.

- The average monthly revenue per residential subscriber in the alternative segment in the regions and CIS decreased in both ruble and U.S. dollar terms to RUR 155 and \$4.9 for the year ended December 31, 2009 from RUR 236 and \$9.5 for the year ended December 31, 2008, respectively.
- The average monthly revenue per corporate subscriber in the alternative segment in the regions and CIS decreased in both ruble and U.S. dollar terms to RUR 3,573 and \$113.1 for the year ended December 31, 2009 from RUR 4,002 and \$161.6 for the year ended December 31, 2008, respectively.

The average monthly revenue per corporate and residential subscriber in the alternative segment for the year ended December 31, 2008 excludes revenues from Stream-TV, which we acquired in 2009.

We believe our growth in ruble terms in 2009 was generally in line with our sales and marketing efforts aimed at maintaining subscriber loyalty and stimulating usage, including the introduction of various new tariff plans, and an increase in the use of value-added services. However, we expect that average monthly revenue per subscriber in Russia will continue to be impacted by the economic downturn, which may result in subscribers' continued migration to cheaper tariffs and a decrease in usage of premium services. We also expect the average monthly revenue per subscriber, as presented in U.S. dollar terms, will continue to be affected by fluctuations in currency exchange rates. See also "—Certain Factors Affecting our Financial Position and Results of Operations—Currency Fluctuations."

Russia

Russia is the largest market for us, both in terms of subscribers and revenue. In 2009, the underlying development within this market remained generally stable and included high broadband and fixed voice penetration in Moscow, strong demand for broadband services in the regions, generally positive usage trends and increased consumption of data services and value-added services by the end of 2009. However, these growth factors and the fixed market in general were tempered by macroeconomic developments in 2009, which may continue into 2010. These trends included exchange rate volatility in our functional currencies, flat or negative GDP growth, higher unemployment and lower consumer spending.

Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under guarantee contracts

In 2006, MGTS became a guarantor under a credit facility provided to InvestSvyazHolding, a subsidiary of Sistema, by Komerční banka, a.s., Prague. The credit line for the total amount of €10.4 million matures in April 2011. MGTS' guarantee amounted to \$6.7 million as of December 31, 2009.

In 2006, MGTS became a guarantor under a credit facility provided to MBRD, a subsidiary of Sistema, by Bankgesellschaft Berlin AG, Berlin. The credit line for the total amount of €2.1 million matures in June 2011. MGTS' guarantee amounted to \$0.9 million as of December 31, 2009.

Under these guarantees, we could be potentially liable for a maximum amount of \$7.6 million in the event of the borrowers' default under the obligations. As of December 31, 2009, no event of default has occurred under any of the guarantees issued by us. We do not recognize a liability at inception for

the fair value of the guarantor's obligation, as provisions of ASC 460 "Guarantees" do not apply to the guarantees issued between corporations under common control.

Obligations under derivative contracts

Cash flow hedging

In 2009, 2008 and 2007 we entered into variable-to-fixed interest rate swap agreements with various banks to manage our exposure to changes in variable interest rates related to our 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. Our interest rate swap contracts outstanding as of December 31, 2009 mature in 2012-2015.

In 2009, we entered into several cross-currency interest rate swap agreements with various banks. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- 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 U.S. dollar- and euro-denominated interest rate to a fixed ruble-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. Our cross-currency interest rate swap contracts outstanding as of December 31, 2009 mature in 2010-2011.

Derivative instruments not designated as hedges

Foreign currency contracts

In 2009, we entered into foreign currency option agreements with HSBC and BNP Paribas to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. According to the agreements, we have put and call option rights to acquire \$80.0 million in U.S. dollars 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 and 2011.

In December 2008, to mitigate the foreign currency exchange rate risks related to the U.S. dollar-denominated notes payable to Access, we entered into forward contracts with MBRD to acquire \$32.0 million and \$68.0 million in U.S. dollars in January and February 2009, respectively, at a rate of RUR 27.85 per one U.S. dollar. We measured fair value of these forward contracts using inputs other than quoted prices ("Level 2" Inputs of the hierarchy established by the U.S. GAAP guidance). In the year ended December 31, 2009, the instruments were redeemed. Net cash proceeds from the redemption of the instruments in the amount of \$20.2 million was included in operating activities in our consolidated statement of cash flows. See Note 21 to our audited consolidated financial statements.

Option agreements

In the third quarter of 2008, to mitigate our exposure under Comstar's employee phantom option program introduced in April 2008, we acquired a phantom call option on the GDRs of Comstar for \$19.4 million from an investment bank. The amount of cash paid was included in investing activity in our consolidated statement of cash flows for the year ended December 31, 2008. The agreement entitles us 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's GDR on the London Stock Exchange for the period between February 1 and March 31, 2010 and the phantom option exercise

price of \$10.2368, if positive, multiplied by 9,000,000. We estimated the fair value of the instrument using an option pricing model (“Level 3” Inputs of the hierarchy established by the U.S. GAAP guidance) and re-measured it as of each balance sheet date. The call option expired unexercised in April 2010. See Note 21 to our audited consolidated financial statements.

In 2006, simultaneous with the acquisition of the 25% stake + 1 share in Svyazinvest, MGTS Finance S.A. and “2711 Centerville Cooperatief U.A.,” or 2711 UA, an affiliate of Mustcom Limited, signed a call and put option agreement giving 2711 UA the right to purchase 46,232,000 shares of Comstar, representing 11.06% of total issued shares, from MGTS Finance S.A. and sell them back to MGTS Finance S.A. The call option was exercisable by 2711 UA at a strike price of \$6.97 per share at any time following the signing of the agreement with respect to 10.5% of Comstar’s shares. The call option for the remaining 0.56% stake was exercisable at any time beginning from April 1, 2007. The put option was exercisable by 2711 UA at any time within two years from the date of exercising the call option at a strike price calculated based on the weighted average price of Comstar’s GDRs during the 90 trading day period preceding the exercise of the put option.

The 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 the cost of the investment in Svyazinvest. We estimated the fair value of the respective liability using an option pricing model (“Level 3” Inputs of the hierarchy established by the U.S. GAAP guidance) and remeasured it as of each balance sheet date.

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

On November 26, 2008, Access exercised its put option and sold MGTS Finance S.A. 46,232,000 shares of Comstar for the total of \$463.6 million. Of this amount, \$100.0 million was paid on November 26, 2008 in cash, and the remaining portion was restructured in the form of an interest-bearing promissory note repayable in four monthly installments. The cash payment of \$100.0 million was included in financing activities in our consolidated statement of cash flows for the year ended December 31, 2008.

See also Note 21 to our audited consolidated financial statements.

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telecom CJSC, a wireless telecommunication operator in Armenia. In connection with this acquisition, we also entered into a call and put option agreement for the remaining 20% stake to be exercised not earlier than July 2010. The exercise price will be determined by an independent investment bank at the date the option is exercised. The option is valid until July 2012. See Note 3 to our audited consolidated financial statements for details.

In December 2005, our wholly owned subsidiary MTS Finance S.A. 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, 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. The put and call options were recorded at fair value, which approximated \$nil at December 31, 2005 in the consolidated balance sheet. At December 31, 2008 and December 31, 2009 a liability of \$170.0 million was recorded in our audited consolidated financial statements in connection with this option. See Note 30 to our audited consolidated financial statements.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, capital lease obligations (including interest) and certain committed obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2009:

	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	(amounts in thousands of U.S. dollars)				
Contractual Obligations: ⁽¹⁾					
Long-Term Principal Debt Obligations	1,998,598	5,098,164	1,042,252	186,408	8,325,422
Interest Payments ⁽²⁾	814,370	1,024,685	113,011	8,315	1,960,381
Capital Lease Obligations	3,173	870	41	10	4,094
Operating Lease Obligations	196,858	59,509	20,020	93,609	369,996
Purchase Obligations ⁽³⁾	278,030	10,337	743	—	289,110
Uncertain Income Tax Position	10,634	—	—	—	10,634
Total	<u>3,301,663</u>	<u>6,193,565</u>	<u>1,176,067</u>	<u>288,342</u>	<u>10,959,637</u>

(1) Debt payments could be accelerated upon violation of covenants in our debt agreements.

(2) Interest payments are calculated based on indebtedness as of December 31, 2009, scheduled maturities for the debt and interest rates effective as of December 31, 2009. We calculate interest payments on ruble-denominated bonds until the dates of their respective put options, as described in Note 17 to our audited consolidated financial statements. Payments under interest rate swap agreements are excluded from the table as their amount and timing cannot be reasonably estimated.

(3) Includes future payments under purchase agreements to acquire property, plant and equipment, intangible assets, costs related thereto, inventory and services. In August 2008, we entered into an agreement with Apple Sales International, or Apple, to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. In 2009 and 2008, we made 0.4% and 7.2% of our total purchase installment contemplated by the agreement, respectively. The amounts in the table do not include our obligation, if any, to purchase iPhones under our agreement with Apple as we are unable to reasonably estimate the amount and timing of such obligation. We plan to finance our capital commitments through operating cash flow and additional borrowings.

Item 6. *Directors, Senior Management and Employees*

A. **Directors and Senior Management Key Biographies**

Key Biographies

Our directors and executive officers, their dates of birth and positions as of the date of this document were as follows:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Ron Sommer	1949	Chairman of the Board, Non-Executive Director
Alexei N. Buyanov	1969	Vice Chairman of the Board, Non-Executive Director
Anton V. Abugov	1976	Non-Executive Director
Sergei A. Drozdov	1970	Non-Executive Director
Charles W. Dunstone ⁽¹⁾	1964	Non-Executive Independent Director
Stanley P. Miller ⁽¹⁾⁽²⁾	1958	Non-Executive Independent Director
Paul J. Ostling ⁽¹⁾⁽²⁾	1948	Non-Executive Independent Director
Tatiana V. Yevtoushenkova	1976	Non-Executive Director
Mikhail V. Shamolin ⁽³⁾	1970	Executive Director, President and Chief Executive Officer
Alexey V. Kornya ⁽³⁾⁽⁴⁾	1975	Vice President—Chief Financial Officer
Andrei E. Ushatsky ⁽³⁾	1974	Vice President—Chief Technology Officer
Frederic Vanoosthuyze	1973	Vice President—Information Technology
Andrei B. Terebenin ⁽³⁾⁽⁴⁾	1962	Vice President—Corporate Communications
Pavel D. Belik ⁽³⁾	1966	Vice President—Corporate Security
Mikhail Y. Gerchuk ⁽³⁾	1972	Vice President—Chief Commercial Officer
Alexander V. Popovskiy ⁽³⁾	1977	General Director—MTS-Russia
Andrey A. Dubovskov ⁽³⁾	1966	General Director—MTS-Ukraine
Sergey B. Nikonov ⁽³⁾	1960	Vice President—Human Resources and Administration
Oleg Y. Raspopov ⁽³⁾	1966	Vice President—Director of MTS Foreign Subsidiaries Business Unit
Dr. Michael Hecker ⁽³⁾	1970	Vice President—Strategy and Corporate Development
Ruslan S. Ibragimov ⁽³⁾⁽⁴⁾	1963	Vice President—Chief Legal Officer, Corporate and Legal
Valery V. Shorzhin ⁽³⁾	1963	Director—Information Technology

(1) Member of the Remuneration and Appointments Committee.

(2) Member of Audit Committee.

(3) Member of Management Board.

(4) Member of Disclosure Committee.

Ron Sommer has served as Chairman of our Board of Directors since June 2009. Mr. Sommer has served as First Vice President—Head of Telecommunications Assets Operating Unit of Sistema since May 2009. He is currently a member of the Board of Directors and a member of the Management Board of Sistema and serves as Chairman of the Board of Directors of various Sistema-affiliated companies, including Sistema Mass Media, Sistema Shyam Teleservices Ltd. and Sky Link. He is also a member of the Board of Directors of Tata Consultancy Services, a member of Supervisory Board of Munich Reinsurance, and a member of the International Advisory Board of The Blackstone Group. In 2009, he served as Chairman of the Board of Directors of Comstar. Between May 1995 and July 2002, he was CEO of Deutsche Telekom AG. From 1980 to 1995, he held a number of positions with Sony Corporation, including as CEO of Sony Deutschland, COO of Sony Corporation of America and COO of Sony Europe.

Alexei N. Buyanov has served as one of our Directors since June 2003 and as Vice Chairman of the Board since June 2009. He served as Chairman of our Board of Directors from June 2007 until

February 2008. Mr. Buyanov has served as Senior Vice President of Sistema and Chief of the Finance and Investments Department since April 2005. From 2002 to 2005, he served as First Vice President of Sistema. From 1998 to 2002, he served as our Vice President for Investments and Securities. He also serves on the Board of Directors of various other companies affiliated with Sistema, including Bashkirenergo, MFB, ANK Bashneft, Sitronics, Intourist, East-West United Bank S.A., Ecu Gest Holding S.A. and MBRR.

Anton V. Abugov has served as one of our Directors since June 2008. In addition, Mr. Abugov serves as Chairman of the Boards of Directors of Detsky Mir-Center and RWS and on the boards of directors of other Sistema affiliated companies, including, among others, Sky Link, Intourist, Binnofarm, Sistema Mass Media and Sistema-Hals. Since 2006, Mr. Abugov has served as First Vice President and Head of Strategy and Development at Sistema. He is also a member of the Strategy Committee and the Investor Relations Committee at Sistema and is a member of our Strategy Committee. Between 2003 and 2006, he was Managing Director of AKB Rosbank and head of its Corporate Finance Department. Between 1997 and 2006, he was a Strategy Consultant at the TAIF Group of Companies. From 1995 to 2002, he worked for the United Financial Group (UFG) in different positions, including head of corporate finance from 1999 to 2002.

Sergey A. Drozdov has served as one of our Directors since June 2007. Mr. Drozdov serves on the Board of Directors of certain Sistema-affiliated companies, including, among others, Reestr, Sistema Mass Media and Sistema Hals. Between 2003 and 2008, Mr. Drozdov served on the Board of Directors of Sistema. Since April 2005, Mr. Drozdov has served as Senior Vice President and Chief of the Property Department at Sistema. From 2002 to 2005, Mr. Drozdov was a Director and First Vice President of Sistema and, from 1998 to 2002, he served as Vice President, Acting President and First Vice President of Sistema-Invest. He also managed the Department of Development and Investments at Sistema from 1995 to 1998.

Charles W. Dunstone has served as one of our Directors since June 24, 2010. Mr. Dunstone is the founder of Carphone Warehouse, one of the largest mobile phone retailers in Europe, where he served as Chief Executive Officer from 1989 to 2010. He was also the founder of Talk & Talk (a company formerly part of Carphone Warehouse until the two companies split in March 2010), a provider of residential fixed line telephone and broadband services, where he served as Chief Executive Officer from 2003 to 2010. Mr. Dunstone currently serves as Director General at Royal Parks Foundation and the Fulwood Academy; Chairman of the Board of Directors of Prince's Trust Trading Board, Talk & Talk, Carphone Warehouse; member of the Board of Directors of TalkTalk Telecom Holdings Limited, Daily Mail and General Trust, Independent Media Distribution PLC, Allied Developments LTD., Clareville Capital Partners LLP, Best Buy Europe Distributions Limited, TalkTalk Group Limited, Carphone Warehouse Group PLC and TalkTalk TelecomGroup PLC.

Stanley P. Miller has served as one of our Directors since June 24, 2010. From 1998 to 2010, Mr. Miller served as Chief Executive Officer at KPN, Netherlands (since 2005, KPN Mobile International). From 2005 to 2010, he served as Chief Executive Officer and Chairman of the Supervisory Board at E-Plus, a subsidiary of KPN and the third largest provider of mobile telephony services in Germany. From 2001 to 2010, Mr. Miller was Chief Executive Officer and Chairman of the Board at BASE, Belgium, a subsidiary of KPN and the third largest provider of mobile telephony services in Belgium operating under the Simyo and Ortel Mobile brands. From 1998 to 2010, he served as a member of the Board of Directors of Royal KPN, Hutchison 3G UK Ltd, IP Global Net NV and VESTA Technologies.

Paul J. Ostling has served as one of our Directors since June 2007. Prior to joining us, Mr. Ostling served as the Global Chief Operating Officer at Ernst & Young from 2003 to 2007. From 1977 to 2007, he held a number of positions at Ernst & Young, including Global Executive Partner from 1994 to 2003; Vice Chairman and National Director of Human Resources from 1985 to 1994; and Associate

and Assistant General Counsel from 1977 to 1985. Between 2007 and 2009, Mr. Ostling was the Chief Executive Officer of KUNGUR Oilfield Equipment & Services. At present, Mr. Ostling serves as the General Director of Phoenix Neftegaz Service. In addition, he serves as a member of the Boards of Directors of Uralchem and PromSvyazBank, the Chairman of the Business Council for International Understanding, Chairman of the Board of Directors of Imagine Entertainment Music and the Deputy Chairman of the Board of Directors of Cool NRG.

Tatiana V. Yevtoushenkova has served as one of our Directors since June 2007. Ms. Yevtoushenkova currently serves as an Advisor to the President of Sberbank. From September 2007 to September 2008, she served as an Advisor to our President, and from October 2002 to September 2007, she served as our Vice President—Strategy and Corporate Development. From December 1999 to September 2002, Ms. Yevtoushenkova served as the Head of the Investment Department at Sistema Telecom, a subsidiary of Sistema. Between 1998 and 1999, she served as an Advisor to the President of Sistema. Prior to joining Sistema, she worked in the investment banking division of Salomon Smith Barney and at the Internal Audit Department of Moscow Bank of Reconstruction and Development. Ms. Yevtoushenkova is the daughter of Vladimir P. Yevtoushenkov, the controlling shareholder and Chairman of the Board of Sistema.

Mikhail V. Shamolin has served as our President and Chief Executive Officer since May 30, 2008 and as one of our Directors since October 2008. From August 2006 to May 2008, Mr. Shamolin served as our Vice President—Director of MTS Russia Business Unit. From July 2005 to August 2006, Mr. Shamolin served as our Vice President—Sales and Customer Service. From 2004 to 2005, Mr. Shamolin worked at Interpipe Corp. (Ukraine) as Managing Director of the Ferroalloys Division. From 1998 to 2004, he held various consulting positions at McKinsey & Co. Mr. Shamolin has served on the board of the GSM Association since July 2008.

Alexey V. Kornya has served as our Vice President—Finance and Investments since June 4, 2010. Prior to that, he served as our Acting Vice President—Finance and Investments from August 21, 2008. Mr. Kornya serves as our Chief Financial Officer. He is a member of our Management Board and a member of the Management Board of RTC and a member of the Management Board and Board of Directors of SOOO CJSC. He is also a member of the Supervisory Board at UMC (MTS-Ukraine). From March 2007 to December 2009 he served as our Chief Financial Controller. He served as our Financial Planning and Analysis Director from November 2004 to March 2007 and as Chief Financial Officer of our Urals Macro-Region branch from July 2004 to November 2004.

Andrei E. Ushatsky has served as our Vice President—Chief Technology Officer since April 2009. Mr. Ushatsky joined us in 1996 and has served in various technology-related positions, most recently as the Deputy Head of MTS Russia for Technology.

Frederic Vanoosthuyze has served as our Vice President—Information Technology since February 1, 2010. Prior to joining us, Mr. Vanoosthuyze served as Group Chief Information Officer at Millicom International Cellular S.A. (Luxembourg) from 2006 to 2009. From 1995 to 2006, he held various positions at Siemens Atea, Alcatel Bell and KPN Group Belgium.

Andrei B. Terebenin has served as our Vice President—Corporate Communications since January 2006. Prior to joining us, Mr. Terebenin served as the General Director of Dun & Bradstreet CIS, a leading public relations network agency from 1999 to 2006. From 1991 to 1999, he held various management positions at AIG Russia, Dun & Bradstreet CIS and the financial magazine “Economica & Zhizn.”

Pavel D. Belik has served as our Vice President—Corporate Security since October 2005. From February 2005 to October 2005, Mr. Belik served as our Director of Security in the Moscow macro-region. Prior to joining us, Mr. Belik served in the Federal Security Service of the Russian Federation.

Mikhail Y. Gerchuk has served as our Vice President—Chief Commercial Officer since December 2008. Prior to joining us, Mr. Gerchuk was Chief Commercial Officer at Vodafone Malta from 2006 to 2007. He held senior marketing positions at Vodafone Group, UK between 2002 and 2007, including Head of Voice Propositions between 2004 and 2006 and Senior Global Marketing Manager between 2002 and 2004. Mr. Gerchuk also worked as an Associate at Booz Allen Hamilton in London from 1999 to 2001 and, prior to that, as Category Marketing Manager—Russia and the CIS at Pepsi-Cola and Brand Manager—Russia and the CIS at Mars Inc.

Aleksander V. Popovskiy has served as the General Director of MTS Russia Business Unit since August 2008. From June 2007 to August 2008, Mr. Popovskiy served as the head of the South macro-region, and from July 2004 to June 2007, he served as the head of the Povolzhye North-West macro-region. He joined us in April 2001 as director of operations in the town of Kirov.

Andrey A. Dubovskov has served as the General Director of MTS-Ukraine since April 2008. From March 2006 to December 2007, Mr. Dubovskov served as Director of Ural macro-region. From January 2005 to March 2006, he served as the Director of one of our subsidiaries in Nizhniy Novgorod. Prior to joining us, Mr. Dubovskov served as the General Director of various telecommunications companies from 1998 to 2005.

Sergey B. Nikonov has served as our Vice President—Human Resources and Administration since August 2006. From October 2005 to July 2006, Mr. Nikonov served as Deputy General Director and Administrative Director at Silovye Mashiny OJSC. From October 2003 to September 2005, he served as Deputy General Director at ROSNO. Mr. Nikonov served as Deputy Manager of Staff Administration at GazpromBank CJSC from March 2003 to September 2003.

Oleg Y. Raspopov has served as our Vice President—Director of MTS Foreign Subsidiaries Business Unit since June 2006. In 2005, he founded and managed the insurance brokerage house Energoprotection. From 2002 to 2005, Mr. Raspopov served as an Advisor to the Chief Financial Officer of RAO UES of Russia and as member of the board of directors of several companies affiliated with RAO UES, such as Ren-TV and LEADER Insurance Co. From 2001 to 2002, he worked as a lawyer at Gazpromenergосervice.

Dr. Michael Hecker has served as our Vice President—Strategy and Corporate Development since April 2008. From May 2006 to April 2008, he served as the Head of our Strategy Department and the Director for Strategic Projects. Prior to joining us, Dr. Hecker worked at A.T. Kearney Europe from 2000 to 2006 where he held several consulting positions.

Ruslan S. Ibragimov has served as our Vice President—Chief Legal Counsel since January 2008. From February 2007 to January 2008, Mr. Ibragimov served as our Director—Chief Legal Counsel. He joined us in June 2006 and initially served as the Director for legal matters, as well as headed our Legal Department. Prior to joining us, Mr. Ibragimov was a member of the law firm Ibragimov, Kagan and Partners from July 2002 to June 2006. From 1997 to 2002, he served as Deputy General Director and Senior Partner at RSM Top-Audit, a tax and legal consulting firm. From 1992 to 1996, Mr. Ibragimov headed legal departments at various commercial banks.

Valery V. Shorzhin has served as our Director—Information Technology since July 2008. Prior to joining us, Mr. Shorzhin held the positions of Technical Director and Director for IT and Information Management of Farlep-Invest in Ukraine from December 2006. From 2003 to 2006, he held various information technology management positions at Sovintel.

Our directors were elected at the annual general shareholders' meeting on June 24, 2010 and will serve until their terms expire at the next annual shareholders' meeting, which will take place before June 30, 2011. The business address of each of our directors is 4 Marksistkaya Street, Moscow 109147, Russian Federation.

B. Compensation of Directors and Senior Management

Our officers and directors were paid during 2009 an aggregate amount of approximately \$13.1 million for services in all capacities provided to us; this amount was comprised of \$10.7 million in base salary and a \$2.4 million bonus paid pursuant to a bonus plan for the management and directors whereby bonuses are awarded annually based on our financial performance.

In 2009, we amended our Regulation on Remuneration and Compensation of the Members of the Board of Directors to provide that only independent non-executive directors receive compensation. Members of the Board of Directors who are independent non-executive directors receive annual base compensation of \$250,000 (or \$275,000 in the case of an independent non-executive director who serves as Chairman of the Board of Directors).

Independent non-executive directors who serve on Board committees receive additional compensation as follows. Members of the Strategy Committee, Remuneration and Appointments Committee, Audit Committee and Committee for Corporate Conduct and Ethics receive additional annual compensation of \$15,000, and a director serving as Chairman of the foregoing committees receives additional annual compensation of \$25,000. Members of special committees of the Board of Directors, which are committees established for undertaking preliminary consideration and making recommendations to the full Board in relation to certain assigned matters, receive additional annual compensation of \$20,000, and a director serving as Chairman of a special committee receives additional annual compensation of \$25,000. Members of all other Board committees receive additional annual compensation of \$5,000 and a director serving as Chairman of any other Board committee receives additional annual compensation of \$10,000.

Independent non-executive members of the Board of Directors are also eligible for an annual bonus of up to a maximum of \$200,000 based on our performance and average ADR price over a specified period.

The aggregate amount of compensation received by an independent non-executive director (including annual base compensation, bonus and additional compensation for serving as a Board committee member) should not exceed \$500,000. In the event of early termination of a director, such director receives a pro rata share of the base, committee and bonus compensation based on the amount of time the director served on our Board.

We provide all of our directors with professional liability insurance and reimburse them for all documented expenses incurred in connection with their attendance at Board meetings and other expenses of up to \$200,000.

Stock Bonus Plan and Stock Option Plan Established in 2000

On April 27, 2000, contingent on the closing of our initial public offering, we established a stock bonus plan and stock option plan for selected officers, key employees and key advisors. Under the plans, directors, key employees and key advisors received 3,587,987 shares of our common stock and participate in a stock option plan under which they may receive options to purchase up to an additional 9,966,631 shares of our common stock. At the time of the initial public offering, we issued 13,554,618 shares of common stock to our subsidiary Rosico pursuant to these plans at a price of \$1.024 per share for the total amount of \$13.9 million. Following the merger of Rosico into us in June 2003, these shares were transferred to our wholly owned subsidiary, MTS LLC.

Under the stock option plan, Board members and key employees, upon being granted stock options, will have the right to purchase up to 9,966,631 shares of our common stock.

In August 2005, pursuant to option agreements, we granted options in respect of 699,705 shares of our common stock to our Board members and 1,078,989 shares of our common stock to our key

employees. These options had an exercise price of \$6.89 per share, which represented the 100-day average market price of the shares at the date of grant, and vested 23 months from the date of the grant. The stock option agreement for a Board member would have terminated if the Board member was terminated as a Board member before our 2006 annual shareholders' meeting. The stock option agreement for a key employee terminated for those employees who left us before July 15, 2007.

In July 2007, Board members and key employees purchased a total of 848,126 shares pursuant to the August 2005 option agreements and 968,313 shares were cancelled pursuant to the termination provisions described above.

In June 2007, pursuant to option agreements, we granted options in respect of 700,000 shares of our common stock to our Board members and 1,078,694 shares of our common stock to our key employees. These options had an exercise price of \$6.31 per share, which represented the 100-day average market price of the shares at the date of grant, and vested in 12 months from the date of the grant. The stock option agreement for a Board member would have terminated if the Board member was terminated as a Board member before our 2008 annual shareholders' meeting. The stock option agreement for a key employee terminated if the employee left us before July 15, 2008.

In July 2008, Board members and key employees purchased a total of 1,397,256 shares pursuant to the June 2007 option agreements.

Compensation costs under the above stock option plan of \$3.1 million and \$2.8 million were recognized in our consolidated statements of operations during the years ended December 31, 2008 and 2007, respectively.

Employee Motivation and Retention Program Established in 2007

In June 2007, our Board of Directors approved an employee motivation and retention program to provide deferred compensation to certain employees. The original program contemplated the award of phantom shares representing up to 3,600,000 ADSs for the program. The program was amended in April 2008 to increase the number of phantom shares available under the program from the initial 3,600,000 to 9,556,716 ADSs as well as to add a stock option component for up to 651,035 of our actual ADSs.

As amended, the program provides that up to 420 top- and mid-level managers will be eligible to participate in the phantom share program. The phantom shares are expected to be awarded through 2011. Under the amended program, the phantom shares granted in 2008 and thereafter will vest only if, at the end of the vesting period we are among the top 20 mobile operators in the world and the top mobile operator in Russia and CIS, in each case in terms of revenue, and the cumulative percentage of our market capitalization growth since the grant date exceeds the pre-determined threshold of 15%. At the end of the vesting period, participants in the phantom share program will be entitled to a cash payment equal to the difference between the initial grant price and the price of phantom shares determined based on the average market share price during the hundred day period preceding the vesting date, multiplied by the number of phantom shares granted and adjusted by the ratio that reflects the actual market capitalization growth rate. The initial grant price is determined based on the average market ADS price during the hundred day period preceding the grant date.

The amended program also contains a CEO stock option plan providing for the award to our chief executive officer of stock options for up to 651,035 of our ADSs. The award vesting period is up to two years from the grant date, contingent upon the continued employment of the chief executive officer with us. The award will vest only if, at the end of the vesting period, we are among the top 20 mobile operators in the world and the top mobile operator in Russia and CIS, in each case in terms of revenue, and the cumulative percentage of our market capitalization growth since the grant date exceeds the pre-determined threshold of 15%. The first tranche of 390,621 ADSs was granted in May 1,

2008 and then forfeited due to the resignation of the chief executive officer in May 29, 2008. The second tranche of 260,414 ADSs was granted in July 1, 2008 to our current chief executive officer. Stock options have an exercise price of \$79.63 per ADS.

Compensation costs under the CEO stock option plan of \$0.4 million and \$1.2 million were recognized in our consolidated statements of operations during the years ended December 31, 2008 and 2009.

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 CEO stock option plan. This amount is expected to be recognized over a weighted-average period of 0.5 years.

In 2007, we granted phantom shares to key employees representing 720,000 ADSs. These phantom shares had an exercise price of \$56.79 per ADS, which represented the 100-day average market price of the ADS at the date of grant and vested 24 months from the date of the grant, on July 1, 2009. None of the phantom shares were exercised, as the exercise price was higher than the actual ADS price.

The reversal of compensation cost accrued in 2007 under the 2007 phantom share program in the amount of \$0.5 million was recognized in the consolidated statements of operations for the year ended December 31, 2009. Related deferred tax expense amounted to \$0.1 million.

The reversal of compensation cost accrued in 2007 under the 2007 phantom share program in the amount of \$8.9 million was recognized in the consolidated statements of operations for the year ended December 31, 2008. Related deferred tax expense amounted to \$1.8 million.

The compensation cost under the 2007 phantom share program recognized in the consolidated statement of operations for the year ended December 31, 2007 amounted to \$7.6 million and the related deferred tax benefit amounted to \$1.8 million.

In May and July 2008, we granted phantom shares to key employees representing 4,562,830 ADSs and 2,113,886 ADSs, respectively. The awards will vest in 14 and 24 months after the grant date contingent upon continuing employment with us and have the exercise price of \$75.25 and \$79.63 per ADS, respectively.

The reversal of compensation cost accrued in 2008 under the 2008 phantom share program in the amount of \$0.9 million was recognized in the consolidated statements of operations for the year ended December 31, 2009. Related deferred tax expense amounted to \$0.2 million.

The compensation cost under the 2008 phantom share program recognized in the consolidated statements 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.

The liability of \$0.9 million under the 2007 and 2008 phantom share program and \$0.1 million under the 2008 phantom share program was included in other long-term liabilities in the consolidated balance sheet as of December 31, 2008 and 2009, respectively.

As of December 31, 2008 and 2009 there was \$3.1 million and \$0.02 million, respectively of total unrecognized compensation cost related to non-vested phantom shares. This amount is expected to be recognized over a weighted average period of 0.5 years.

Comstar Option and Phantom Share Programs

On September 15, 2006, the Extraordinary General Meeting of shareholders of Comstar approved a stock option and stock bonus program, the 2006 Program, for the Board of Directors and senior management of Comstar and was implemented based on separate decisions of the Comstar Board of Directors.

In November 2006, Comstar's Board approved the grant of stock options to certain members of the Board and senior management of Comstar. The exercise price for these options is RUR 122.3 per one GDR (approximately \$4.6 as of the grant date). These stock options were to cliff-vest 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 option of Comstar to repurchase the GDRs issued under the 2006 Program from the participants, subject to a separate decision of the Comstar Board. Management believed that possibility of such repurchase was remote; accordingly, the 2006 Program originally was classified as equity. In March 2008, the Comstar Board approved the repurchase of the GDRs purchased by the participants upon the exercise of the options 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 GDRs on the London Stock Exchange. Accordingly, as of December 31, 2007, we changed our 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, the General Shareholder Meeting of Comstar approved a decision to denominate the exercise price for the GDRs in U.S. dollars at \$4.6 per share. This change did not have a significant impact on compensation expense recognized by us.

In November 2008, the participants of the 2006 Program fully exercised their vested options, acquired 2,403,159 GDRs from the Comstar for \$4.60 per one GDR. The GDRs were then repurchased by the Group at \$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. A reversal of compensation cost accrued under the 2006 Program in the amount of \$9.2 million was recognized in the consolidated statements of operations for the year ended December 31, 2008.

In March 2008, the Board of Directors of Comstar approved a new employee phantom option program. Each phantom option is subject our achieving certain market and performance benchmarks, including in relation to shareholder return, market position and revenue growth. The compensation expense for these awards may be adjusted for subsequent changes in the our estimated or actual outcome of the performance indicators. The phantom options granted during 2008 vested on March 31, 2010. Upon vesting, the participants will be entitled to cash compensation equal to the difference between weighted average price of one Comstar GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, if positive, multiplied by the number of phantom options granted.

The costs recognized in accordance with Comstar 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.

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at the annual shareholders' meeting using a cumulative voting system. Directors are typically elected by the annual meeting of shareholders for one year until the next annual meeting of shareholders and may be re-elected an unlimited number of times. The Joint Stock Companies Law requires that companies with more than 10,000 holders of voting shares have a board of directors consisting of not less than nine members. Our Board currently consists of nine members. The Board has the authority to make overall management decisions for us, except those matters reserved to the shareholders. It must meet at least once a month, though it may meet more often at its election. The members of our Board have entered

into service contracts with us. Other than their entitlement to a pro rata share of their annual compensation and, in the case of independent directors, a pro rata share of their bonus, these contracts do not provide for benefits upon termination of their employment. See “—B. Compensation of Directors and Senior Management” for a description of the pro rata payments.

Audit Committee

Our Audit Committee consists of two members appointed by the Board of Directors. The current members are Stanley Miller and Paul Ostling, both of whom are independent members of the Board of Directors. Mr. Ostling serves as Chairman of the Audit Committee. The Audit Committee is primarily responsible for the integrity of our financial statements; overseeing our internal control system; overseeing our accounting and financial reporting processes and the internal and external audits of our financial statements; recommending the appointment and compensation of the independent auditors to the Board of Directors; overseeing the performance of the auditors; reviewing issues raised by the auditors, management and/or Board of Directors and, as required, making recommendations to the Board of Directors; and resolving matters arising during the course of audits.

According to the bylaws, the Audit Committee shall convene with our external auditors at least four times a year, but may convene more frequently if the Audit Committee chooses to do so.

Remuneration and Appointments Committee

Our Remuneration and Appointments Committee consists of three members appointed by the Board of Directors. The current members are Charles Dunstone, Stanley Miller and Paul Ostling, who serves as Chairman of the Remuneration and Appointments Committee. The Remuneration and Appointments Committee is primarily responsible for developing a remuneration structure and compensation levels for management executives.

According to the bylaws, the Remuneration and Appointments Committee shall be convened by the Chairman of the Remuneration and Appointments Committee, at his sole discretion, or at the suggestion of any member of this committee, a member of the Board of Directors or our President.

President

Our President is elected by the Board of Directors for a term of three years and can be reelected for an unlimited number of terms. The rights, obligations and the times and amounts of payment for the President’s services are determined by a contract between him and us, as represented by our Chairman or by a person authorized by our Board of Directors. The President is responsible for day-to-day management of our activities, except for matters reserved to our shareholders or the Board of Directors and the Management Board. The President reports to the shareholders’ meeting and to the Board of Directors and is responsible for carrying out decisions made by the shareholders and by the Board of Directors and the Management Board. Mikhail V. Shamolin was elected as our President and CEO on May 29, 2008 by the Board of Directors for a term of three years.

Management Board

In October 2006, we revised our charter to establish a new governing body called the Management Board. The Management Board is an executive body which oversees certain aspects of our ongoing activities. The Management Board can consist of up to 15 members with each member being nominated by the President and approved by the Board of Directors. The Management Board is formed for a period of time determined by the Board of Directors, but the duration of the Management Board’s term cannot exceed that of the President, who is elected by the Board of Directors for a term of up to three years. The Chairman of the Management Board is the President. Currently, our Management Board consists of 13 members.

Disclosure Committee

In April 2007, we established a new advisory body called the Disclosure Committee. The Disclosure Committee supervises our compliance with disclosure standards in connection with all public information regarding us. These disclosure standards are based on principles of timeliness, accuracy and completeness. The Disclosure Committee can consist of up to nine members with each member being nominated by the President on an annual basis. The Chairman of the Disclosure Committee is the Vice President—Chief Legal Officer. Currently, our Disclosure Committee consists of seven members, three of whom are officers of the company.

Review Commission

Our Review Commission supervises our financial and operational activities. Members of the Review Commission are nominated and elected by our shareholders at annual meetings of shareholders. A director may not simultaneously be a member of the Review Commission. As of the date of this document, our Review Commission has three members:

- Vassily V. Platoshin, who holds the position of Chief Accountant and Director of the Financial Accounting & Reporting Department, the Financial and Investment Complex at Sistema;
- Artem E. Popov, who holds the position of Project Head Manager of the Financial Planning and Budgeting Directorate, the Finance and Investment complex at Sistema; and
- Dmitry E. Frolov, who holds the position of Head of the Internal Control and Audit Department of Sistema.

The members of our Review Commission serve until their terms expire at the next annual shareholders' meeting, which will take place in June 2010.

Corporate Governance

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (http://www.mts GSM.com/information/corporate_governance/). See also “Item 16G. Corporate Governance.”

D. Employees

Mobile Operations

At December 31, 2009, we had 36,136 mobile operations employees. Of our 29,910 employees in Russia, we estimate that 514 were executives; 4,299 were technical and maintenance employees; 19,650 were sales, marketing and customer service staff; and 5,447 were administration and finance staff. In addition, of the 29,910 employees in Russia, we estimate that 19,967 employees were involved in our mobile services operations and 9,943 were employed in our retail unit.

As of December 31, 2009, 2,937 of our employees worked in Ukraine. Of these employees, we estimate that 16 were executives; 1,048 were technical and maintenance employees; 1,186 were sales, marketing and customer service staff; and 687 were administration and finance staff.

As of December 31, 2009, 1,324 of our employees worked in Uzbekistan. Of these employees, we estimate that 48 were executives; 342 were technical and maintenance employees; 509 were sales, marketing and customer service staff; and 425 were administration and finance staff.

As of December 31, 2009, 760 of our employees worked in Turkmenistan. Of these employees, we estimate that 15 were executives; 90 were technical and maintenance employees; 459 were sales, marketing and customer service staff; and 196 were administration and finance staff.

As of December 31, 2009, 1,203 of our employees worked in Armenia. Of these employees, we estimate that 9 were executives; 156 were technical and maintenance employees; 660 were sales, marketing and customer service staff; and 378 were administration and finance staff.

The following chart sets forth the number of our employees at December 31, 2007, 2008 and 2009:

	<u>At December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Russia	19,369	20,470	29,910
Ukraine	3,066	2,941	2,937
Uzbekistan	1,071	1,283	1,324
Turkmenistan	297	489	760
Armenia	890	1,160	1,203
Total	<u>24,693</u>	<u>26,343</u>	<u>36,136</u>

Our mobile operations employees are not unionized. We have not experienced any work stoppages and we consider our relations with employees to be strong.

Fixed Line Operations

We acquired a majority stake in Comstar, our fixed line business, in October 2009. At December 31, 2009, Comstar had 17,649 employees. Of these, we estimate that 288 were executives; 11,297 were technical and maintenance employees; 3,637 were sales, marketing and customer service staff; and 2,427 were administration and finance staff.

As of December 31, 2009, 10,013 of our employees worked in the traditional segment of fixed line operations. Of these employees, we estimate that 35 were executives; 7,954 were technical and maintenance employees; 1,228 were sales, marketing and customer service staff; and 796 were administration and finance staff.

As of December 31, 2009, 2,041 of our employees worked in the alternative segment of fixed line operations in Moscow. Of these employees, we estimate that 77 were executives; 457 were technical and maintenance employees; 985 were sales, marketing and customer service staff; and 522 were administration and finance staff.

As of December 31, 2009, 5,595 of our employees worked in the alternative segment of fixed line operations in the regions of Russia outside of Moscow and the Moscow region and in other CIS countries. Of these employees, we estimate that 176 were executives; 2,886 were technical and maintenance employees; 1,424 were sales, marketing and customer service staff; and 1,109 were administration and finance staff.

As of December 31, 2009, approximately 7,047 of our fixed line employees are members of trade unions, including 6,887 traditional fixed line employees, 92 Moscow alternative fixed line employees and 68 regional alternative fixed line employees. We believe relations between management and the trade unions to be strong.

E. Share Ownership

We believe that our directors, senior management and employees as of May 1, 2010 owned less than 1% of our outstanding common stock.

The following table sets forth information with respect to the beneficial ownership of our common stock as of May 1, 2010 by our current directors and executive officers. All shares of common stock have the same voting rights.

<u>Directors and Executive officers</u>	<u>Beneficial ownership as of May 1, 2010</u>	
	<u>Number</u>	<u>%⁽¹⁾</u>
Mikhail V. Shamolin, Executive Director, President and Chief Executive Officer	174,890	0.00912%
Tatiana V. Yevtoushenkova, Non-Executive Director	136,968	0.00715%
Andrei B. Terebenin, Vice President—Corporate Communications	29,735	0.00155%
Alexander V. Popovskiy, General Director—MTS-Russia	20,717	0.00108%
Sergey B. Nikonov, Vice President—Human Resources and Administration	19,982	0.00104%
Ruslan S. Ibragimov, Vice President—Chief Legal Officer, Corporate and Legal	19,824	0.00103%
Pavel D. Belik, Vice President—Corporate Security	13,916	0.00073%
Andrey A. Dubovskov, General Director—MTS-Ukraine	11,650	0.00061%
All Directors and Executive Officers as a Group	427,682	0.02231%

(1) Percentage of beneficial ownership of each named director and executive officer is based on 1,916,869,262 ordinary shares outstanding as of May 1, 2010.

See also “—B. Compensation of Directors and Senior Management” for a description of our stock bonus, stock option and phantom share programs.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth, as of May 11, 2010, certain information regarding the beneficial ownership of our outstanding common stock. All shares of common stock have the same voting rights.

<u>Name</u>	<u>Beneficial ownership as of May 11, 2010</u>	
	<u>Number</u>	<u>Percentage</u>
Sistema ⁽¹⁾	636,224,752	33.2%
Sistema Holding Limited	193,580,980	10.1%
Invest-Svyaz ⁽²⁾	160,247,802	8.4%
VAST ⁽³⁾	60,219,432	3.1%
ADR holders ⁽⁴⁾	709,401,171	37.0%
Other Public Float (including our directors and executive officers) ⁽⁵⁾	157,195,125	8.2%
Total ⁽⁶⁾	<u>1,916,869,262</u>	<u>100.0%</u>

(1) Vladimir P. Yevtoushenkov has a controlling interest in Sistema, and would be considered under U.S. securities laws as the beneficial owner of our shares held by Sistema, Sistema Holding Limited, Invest-Svyaz and VAST. Mr. Yevtoushenkov is also the chairman of the board of directors of Sistema.

(2) Invest-Svyaz is a Russian closed joint stock company wholly owned by Sistema.

(3) VAST is a limited partnership formed under the laws of Russia. Sistema owns 100% of VAST. An extract from our shareholders register dated June 14, 2006 contains an entry prohibiting any transfer of these shares.

- (4) Excludes treasury shares held in the form of ADSs, as described below. As of May 11, 2010, the total number of ADSs outstanding (including 33,997,667 ADSs held by our wholly owned subsidiary, MTS-Bermuda Ltd., which are excluded from the table above) was 388,698,252, representing underlying ownership of 777,396,505 shares, or approximately 40.6% of our outstanding common stock. Of these ADSs, approximately 47.3% were held by U.S. investors as of May 11, 2010. The shares underlying the ADSs are deposited with JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York and the local custodian is ING Eurasia.
- (5) We believe that our directors and executive officers as a group own less than 1% of our shares.
- (6) Excludes treasury shares, as described below.

Our wholly owned subsidiary, Mobile TeleSystems LLC, owns 2,515,747 of our shares in connection with our Management Stock Bonus and Stock Option Plan as of May 11, 2010.

During the years ended December 31, 2006, 2007 and 2008, we repurchased 11,161,000, 17,402,835 and 39,431,500 of our shares in the form of ADSs through MTS-Bermuda, our wholly owned subsidiary, for total consideration of \$110.0 million, \$254.4 million and \$1,059.8 million, respectively, which resulted in a reduction of shareholders' equity in the annual consolidated financial statements. We did not undertake any repurchases of shares or ADSs in the year ended December 31, 2009.

In addition, following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased 37,762,257 of our ordinary shares from investors who voted against or abstained from voting on the merger for a total amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase).

Furthermore, consideration for our acquisition of an additional stake in Comstar in December 2009 was comprised of cash and 31,816,462 MTS shares.

As of May 11, 2010, we held a total of 76,456,876 shares, of which approximately 88.9% were held in form of ADSs. These shares are excluded from the total number of shares presented in the table above.

The increase in our treasury shares increased Sistema's effective ownership in us from 52.8% at December 31, 2005 to 53.1% at December 31, 2006, 53.6% at December 31, 2007 and 55.7% at December 31, 2008. As of December 31, 2009, Sistema's effective ownership in us was 54.8%.

B. Related Party Transactions

Transactions with Sistema and its Affiliates

Sistema

In November 2009, Sistema issued a promissory note to us as repayment of accrued interest and principal under a loan we had provided to Sistema-Hals, an affiliate of Sistema. The promissory note has an interest rate of 0% and is repayable in 2017. As of December 31, 2009 the amount receivable from Sistema under the promissory note was \$20.4 million, and such amount was included under the line item "other investments" in our audited consolidated financial statements.

In the year ended December 31, 2000, we issued to Sistema long-term ruble-denominated promissory notes with an interest rate of 0% and various maturity dates between 2049 and 2056 in connection with the repayment by Sistema of certain amounts then outstanding and payable by us to Ericsson Project Finance. As of December 31, 2009 and 2008, the carrying value of these promissory notes was \$1.8 million and \$nil, respectively.

Svyazinvest

We hold 25% +1 share in the share capital of Svyazinvest, which in turn holds approximately 28% of the voting shares of MGTS, a subsidiary of Comstar. During the years ended December 31, 2009,

2008 and 2007, we received dividends from Svyazinvest amounting to \$nil, \$2.4 million and \$1.9 million, respectively. In addition, in 2009 and 2008, we paid dividends amounting to \$nil and \$3.6 million, respectively, to Svyazinvest.

We have entered into various agreements with Svyazinvest and its subsidiaries relating to the provision of interconnect and other services. In connection therewith, during the years ended December 31, 2009, 2008 and 2007, we incurred expenses of \$29.0 million, \$41.5 million and \$36.6 million, respectively, payable to Svyazinvest, and accrued revenues of \$43.2 million, \$63.1 million and \$69.1 million, respectively, from Svyazinvest.

Moscow Bank of Reconstruction and Development (MBRD)

We maintain certain bank and deposit accounts, and have entered into a number of loan agreements, with MBRD, a subsidiary of Sistema. As of December 31, 2009 and 2008, we had cash positions at MBRD in the amount of \$963.6 million and \$242.4 million in current accounts, respectively. Deposit accounts at MBRD amounted to \$1.0 million and \$195.7 million as of December 31, 2009 and 2008, respectively. Deposit accounts at MBRD included deposit accounts with original maturities in excess of three months but less than twelve months totaling \$1.0 million and \$90.9 million as of December 31, 2009 and 2008, respectively, which are classified as short-term investments in our audited consolidated financial statements. The interest accrued on the deposits for the years ended December 31, 2009, 2008 and 2007, amounted to \$25.1 million, \$43.2 million and \$22.8 million, respectively, and was included as a component of the line item “interest income” in our audited consolidated financial statements.

Loans payable by us to MBRD amounted to \$1.2 million and \$8.6 million as of December 31, 2009 and 2008, respectively. The interest expense on these loans for the years ended December 31, 2009, 2008 and 2007 amounted to \$0.8 million, \$1.3 million and \$1.0 million, respectively.

Maxima Advertising Agency (Maxima)

We have contracts for advertising services with Maxima, a subsidiary of Sistema, pursuant to which we incurred expenses of \$102.0 million, \$138.8 million and \$134.9 million for services provided in the years ended December 31, 2009, 2008 and 2007, respectively.

Mediaplanning

We have contracts for advertising services with Mediaplanning, a subsidiary of Sistema, pursuant to which we incurred expenses of \$23.8 million, \$82.0 million and \$48.8 million for services provided in the years ended December 31, 2009, 2008 and 2007, respectively.

Mezhregion Tranzit Telecom (MTT)

During the years ended December 31, 2009, 2008 and 2007, we had interconnect and line rental agreements with MTT, an affiliate of Sistema. Revenues accrued thereunder from MTT for the years ended December 31, 2009, 2008 and 2007 amounted to \$11.5 million, \$128.6 million and \$93.2 million, respectively, and expenses incurred to MTT for the years ended December 31, 2009, 2008 and 2007, amounted to \$18.1 million, \$191.2 million and \$121.4 million, respectively.

Sitronics

During the years ended December 31, 2009, 2008 and 2007, we purchased telecommunication equipment, software and billing systems (FORIS) from Sitronics, a subsidiary of Sistema, and its subsidiaries, for approximately \$190.1 million, \$357.6 million and \$222.1 million, respectively. In addition, during the years ended December 31, 2009, 2008 and 2007, we purchased SIM cards and

prepaid phone cards from Sitronics Smart Technologies, a subsidiary of Sitronics, for approximately \$32.4 million, \$39.6 million and \$19.2 million, respectively, and we incurred expenses of \$52.2 million, \$39.6 million and \$ 35.9 million, respectively, to Sitronics under an IT consulting agreement. As of December 31, 2009 and 2008, advances made by us to Sitronics and its subsidiaries amounted to \$23.7 million and \$1.7 million, respectively.

Sistema Telecom

In May 2006, Sistema introduced a universal brand featuring a new egg-shaped logo for each of the telecommunication companies operating within the Sistema group, including us. The brand is owned by Sistema Telecom, a subsidiary of Sistema. The expenses related to the use of the brand name incurred by us and paid in the years ended December 31, 2009, 2008 and 2007, amounted to \$11.7 million, \$14.7 million and \$14.6 million, respectively.

In June 2009, we transferred certain ruble-denominated promissory notes issued to us by Sistema Telecom to SMM, a subsidiary of Sistema, for a total amount of \$8.7 million, thereby partially extinguishing our debt then payable to SMM. In December 2009, the remaining promissory notes were partly offset against our debt then payable to Sistema Telecom and partly paid in cash by Sistema Telecom, with the effect that the promissory notes were paid in full and cancelled. As a result of these transactions, the amount recorded in our audited consolidated financial statements under the line item “other investments” in respect of the promissory notes was reduced from \$52.0 million as of December 31, 2008 to \$nil as of December 31, 2009.

Sistema Mass Media (SMM)

During the years ended December 31, 2009, 2008 and 2007, we had various loans and promissory notes payable to SMM, a subsidiary of Sistema. As of December 31, 2009, these loans and promissory notes were repaid in full. Interest expense on the loans and promissory notes for the years ended December 31, 2009, 2008 and 2007, amounted to \$1.4 million, \$8.1 million and \$1.5 million, respectively.

In the year ended December 31, 2007, SMM purchased substantially all of the TV content and certain property, plant and equipment of Comstar Direct, a subsidiary of Comstar. Gains made by Comstar totaling \$2.7 million were included under the line item “other income” in our audited consolidated financial statements. In the year ended December 31, 2009, the respective receivables were transferred to SMM in connection with the reorganization of Comstar Direct.

Intellect Telecom

During the years ended December 31, 2009 and 2008, we and MGTS provided loans with interest rates of 11.0% and 7.0%, respectively, and maturity dates in 2012, to Intellect Telecom, a subsidiary of Sistema. As of December 31, 2009 and 2008, the amounts outstanding under the loans were \$12.8 million and \$11.7 million, respectively.

City Hals

During the years ended December 31, 2009, 2008 and 2007, City Hals, a subsidiary of Sistema, provided rent, repair, maintenance and cleaning services to us, for which we incurred expenses to City Hals of approximately \$10.0 million, \$13.8 million and \$9.5 million, respectively.

TS-Retail

In November 2006, we established a wholly owned subsidiary, TS-Retail, with a registered capital of \$1.1 million for further expansion of our retail operations. In December 2007, our stake in this

company decreased from 100% to 25% following an increase in the share capital of TS-Retail by \$14.0 million, which was subscribed for by us and certain other Sistema subsidiaries. As a result, we deconsolidated TS-Retail in December 2007 and thereafter accounted for this investment under the equity method. During the years ended December 31, 2009 and 2008, we provided certain loans to TS-Retail with annual interest rates ranging from 11.0% to 15.0% and maturity dates in 2010-2011. As of December 31, 2009 and 2008, the amounts outstanding under these loans totaled \$42.6 million and \$11.2 million, respectively.

During the years ended December 31, 2009, 2008 and 2007, we entered into a number of agreements for the provision of dealer services and sale of handsets with TS-Retail. For the years ended December 31, 2009, 2008 and 2007, we incurred expenses of \$17.9 million, \$4.4 million and \$0.1 million, respectively, to TS-Retail in connection with dealer commissions and we accrued revenues of \$20.7 million, \$1.5 million and \$nil, respectively, from the sale of handsets.

Invest-Svyaz-Holding

We and MGTS entered into several agreements with Invest-Svyaz-Holding, a subsidiary of Sistema, for the leasing of network equipment and billing system. The leases were recorded as capital leases in compliance with authoritative guidance on the treatment of leases and are disclosed in Note 2 to our audited consolidated financial statements.

Alt, Delfa and Finexcort

In December 2008, we purchased promissory notes issued by Alt and Delfa, both related parties of Sistema, and Finexcort, a subsidiary of Sistema. As of December 31, 2008, the total amount of \$221.2 million was included under the line item “short-term investments” in our audited consolidated financial statements in respect of these promissory notes. These promissory notes, together with interest accrued, were redeemed and paid in full in the first quarter of 2009.

AB Safety

During the year ended December 31, 2009, we paid \$5.6 million to AB Safety, an affiliate of Sistema, for the provision of security services.

Sky Link and subsidiaries

During the years ended December 31, 2009, 2008 and 2007, we accrued revenues from interconnect agreements with Sky Link, an affiliate of Sistema, and its subsidiaries, amounting to \$9.9 million, \$8.0 million and \$9.9 million, respectively.

During the years ended December 31, 2009 and 2008, Sky Link paid \$14.3 million and \$3.4 million, respectively, to us in respect of outstanding indebtedness which resulted in the partial reversal of a provision for uncollectable loan recorded in 2007 and the recognition of a gain of \$4.3 million in our audited consolidated financial statements for the year ended December 31, 2009. As a result of such payments, the amount recorded in our audited consolidated financial statements under the line item “short-term investments” reflecting outstanding loan amount payable by Sky Link was reduced from \$10.5 million as of December 31, 2008 to \$nil as of December 31, 2009.

Sistema-Hals

In October 2008, we entered into an agreement for the construction of an aerial system in the Moscow metro with Sistema-Hals, an affiliate of Sistema. As of December 31, 2009 and 2008, advances given to Sistema-Hals under this agreement amounted to \$6.7 million and \$11.7 million, respectively,

which was included under the line item “property, plant and equipment” in our audited consolidated financial statements.

MGTS entered into a series of agreements with Sistema-Hals in connection with the reconstruction and development of buildings housing MGTS’s automatic telephone exchanges. As of December 31, 2009 and 2008, as a result of work performed under such agreements, MGTS recorded a liability of \$38.3 million and \$36.8 million, respectively, payable to Sistema-Hals.

The amount of \$16.7 million was recorded in our audited consolidated financial statements for the year ended December 31, 2008, under the line item “short-term investments” reflecting an outstanding loan between us and Sistema-Hals with an interest rate of 11.0% and maturing in December 2009. In November 2009, the outstanding principal amount and all accrued interest under such loan were deemed satisfied in full by the issuance to us by Sistema of \$20.4 million of promissory notes maturing in 2017 with an interest rate of 0%, and the amount recorded in our audited consolidated financial statements for the year ended December 31, 2009, under the line item “short-term investment” in respect of Sistema-Hals was reduced to \$nil.

Coral/Sistema Strategic Fund

In the years ended December 31, 2007 and 2008, we purchased an equity interest in a strategic fund organized by Sistema, as General Partner, in order to invest in various projects in the telecommunications and high-technology area. The fund is organized in the form of a limited partnership. We exercised significant influence over Coral and therefore the investment was accounted for using equity method.

As of December 31, 2009, we determined that the investment was fully impaired. Consequently, the carrying value of the investment was written off in the amount of \$7.4 million and recorded in “equity in net income/loss of associates” in our audited consolidated statement of operations for the year ended December 31, 2009. As of December 31, 2009, we did not have any further commitment to invest in Coral.

Investments in certain subsidiaries and affiliates of Sistema

As of December 31, 2009 and 2008, we held investments in the share capital of certain subsidiaries and affiliates of Sistema amounting to \$10.5 million and \$10.9 million, respectively, which, individually, were and are immaterial. Our main investments are in MBRD, in which we hold 4.56%, and SMM, in which we hold 3.14%, and the value of such investments as of December 31, 2009 and 2008, amounted to \$5.2 million and \$5.4 million for MBRD, and \$3.9 million and \$4.0 million for SMM.

Accounts receivable and accounts payable

We had total accounts receivable of \$20.0 million and \$70.6 million from, and total accounts payable of \$87.4 million and \$226.5 million to, related parties as of December 31, 2009 and 2008, respectively. We do not have the intent or ability to offset the outstanding accounts payable and/or accounts receivable with related parties under the term of existing agreements with them. See Note 25 to our audited consolidated financial statements for details of our accounts payable and accounts receivable.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

8.A.1-3. See Item 18.

8.A.4-5. Not applicable.

8.A.7. Litigation

UMC

On June 7, 2004, the Deputy General Prosecutor of Ukraine filed a claim against us and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to us. The complaint also sought an order prohibiting us from alienating 51% of our stake in UMC until the claim was resolved on the merits. The claim was based on a provision of the Ukrainian privatization law that included Ukrtelecom among a list of “strategic” state holdings prohibited from alienating or encumbering its assets during the course of its privatization. While the Cabinet of Ministers of Ukraine in May 2001 issued a decree specifically authorizing the sale by Ukrtelecom of its entire stake in UMC, the Deputy General Prosecutor asserted that the decree contradicted the privatization law and that the sale by Ukrtelecom was therefore illegal and should be unwound. On August 12, 2004, the Kiev Commercial Court rejected the Deputy General Prosecutor’s claim.

On August 26, 2004, the General Prosecutor’s Office requested the Constitutional Court of Ukraine to review whether certain provisions of the Ukrainian privatization law limiting the alienation of assets by privatized companies were applicable to the sale by Ukrtelecom of UMC shares to us. On January 13, 2005, the Constitutional Court of Ukraine refused to initiate the constitutional proceedings arising from the request of the General Prosecutor’s Office on the grounds that the request was incompatible with the requirements of the Ukrainian constitutional law, and that the issue as it was raised in the request did not fall within the jurisdiction of the Constitutional Court of Ukraine. This, however, does not prevent other persons having the right to apply to the Constitutional Court of Ukraine from challenging the constitutionality of provisions of the Ukrainian privatization law applicable to the sale by Ukrtelecom of the UMC shares.

Bitel

In December 2005, our wholly owned subsidiary MTS Finance S.A., or MTS Finance, acquired a 51.0% stake in Tarino Limited, or Tarino, from Nomihold Securities Inc., or 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, or 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 we did not regain operational control over Bitel’s operations in 2005, we accounted for our 51.0% investment in Bitel at cost as at December 31, 2005. We appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. We 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 us that there were no grounds for involvement by the Prosecutor General’s office in the dispute and that no legal basis

existed for us to appeal the decision of the Kyrgyz Supreme Court. Consequently, we decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in our audited annual consolidated financial statements for the year ended December 31, 2006.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell 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 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.

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

In addition, three Isle of Man companies affiliated with us, or 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, we 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, or Altimo, and Altimo Holdings & Investments Limited, or Altimo Holding, for the wrongful appropriation and control of Bitel. In November 2007, the Isle of Man court set aside orders it had previously issued granting leave to serve the non-Manx 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 in November 2008, the appellate court ruled in our favor, holding that the case should be proceed under its jurisdiction. The defendants against whom the KFG Companies have brought the action sought leave to appeal from the Judicial Committee of the Privy Council of the House of Lords of the United Kingdom. The appeal hearing before the Privy Council is scheduled to commence on November 29, 2010. 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, or 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, or the Transfer Agreement, concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited, or 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 tribunal has scheduled a directions (or status) hearing for September 10, 2010. We are not able at this time to predict the ultimate outcome or resolution of these claims and the amount of damages that may be awarded.

For additional information, see Note 30 to our audited consolidated financial statements.

Euroset

On April 20, 2009, we filed a lawsuit against Euroset Retail seeking RUR 272.3 million (\$8.2 million as of April 30, 2009) for breach of contract in relation to iPhone shipments. We entered into a settlement agreement with Euroset Retail, which was approved by the court on November 25, 2009, thus dismissing the case. Under this settlement agreement, Euroset Retail undertook to repay the principal amount of RUR 269.1 million (\$9.0 million as of November 30, 2009) in equal installments over a 24 month period. On April 24, 2009, we filed a lawsuit against Torgoviy Dom Euroset, or TD Euroset, seeking recovery of RUR 322.6 million (\$9.7 million as of April 30, 2009) for collected subscriber payments not transferred to us in accordance with an agency contract. We entered into a settlement agreement with TD Euroset, which was approved by the court on December 21, 2009, thus dismissing the case. Under this settlement agreement, TD Euroset undertook to repay the principal amount, excluding the offset payments, in equal installments over a 24 month period.

On April 21, 2009, TD Euroset filed two claims against us, seeking (i) payment of RUR 354.6 million (\$10.7 million as of April 30, 2009) in dealer commission bonuses and (ii) payment of RUR 144.5 million (\$4.3 million as of April 30, 2009) in general dealer commissions. We entered into a settlement agreement with TD Euroset relating to the claim (i) described above, which was approved by the court on December 30, 2009, thus dismissing the case. Under this settlement agreement, all relevant obligations of the parties were extinguished through offset. On July 13, 2009, the court dismissed the case relating to claim (ii) described above, and on November 24, 2009, we entered into a settlement agreement with TD Euroset, whereby the parties confirmed that all the disputed obligations would be extinguished through offset.

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—The reduction, consolidation or acquisition of independent dealers and our failure to further develop our distribution network may lead to a decrease in our subscriber growth rate, market share and revenues.”

Beta Link

On February 25, 2009, we filed a lawsuit against Beta Link seeking recovery of RUR 840.7 million (\$25.3 million as of April 30, 2009) for breach of a loan agreement. On July 30, 2009, the court ruled in our favor, ordering Beta Link to pay to us RUR 836.7 million (\$26.3 million as of July 31, 2009).

In March and April 2009, we filed three additional lawsuits against Beta Link seeking damages amounting in aggregate to RUR 95.7 million (\$2.9 million as of April 30, 2009) for breach of three contracts in relation to iPhone shipments. In June and July 2009, the court ruled in our favor in all three cases, ordering Beta Link to pay the aggregate amount of RUR 99.7 million (\$3.1 million as of July 31, 2009) to us.

All of the abovementioned claims were brought in the Moscow Arbitrazh Court.

On August 12, 2009, Beta Link filed a claim against us, seeking payment of (i) RUR 238.5 million (\$7.9 million as of December 31, 2009) in dealer commission, (ii) \$10.0 million in penalties for breach of a dealer agreement and (iii) \$2.7 million of unrealized potential benefits. On December 11, 2009, the Moscow Arbitrazh Court ruled in favor of Beta Link and ordered us to pay RUR 118.6 million (\$3.9 million as of December 31, 2009) and \$10.0 million in penalties. We appealed this ruling, and the appellate court ruled in our favor on March 23, 2010, denying Beta Link’s claim in full. Beta Link has further appealed this decision. We are unable to predict the outcome of this claim at this time. As of December 31, 2009, the provision for the entire amount, totaling \$13.9 million, was recorded in the consolidated financial statements in respect of this claim.

Beta Link is currently bankrupt and we are a party to the bankruptcy proceedings as its creditor. In November and December 2009, the Moscow Arbitrazh Court ordered that our claims, in the aggregate amount of RUR 986.5 million (\$32.6 million as of December 31, 2009), be included into

Beta Link's register of creditors' claims. On February 18, 2010, the Moscow Arbitrazh Court found Beta Link bankrupt and initiated liquidation proceedings. The next hearing on Beta Link's bankruptcy is scheduled for August 19, 2010.

Tax Audits and Claims

In the ordinary course of business, we may be party to various tax proceedings, and subject to tax claims, some of which relate to the developing markets and evolving fiscal and regulatory environments in which we operate. In the opinion of management, our liability, if any, in all pending tax proceedings or tax claims will not have a material effect on our financial condition, results of operations or liquidity. We believe that we have adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See also Note 30 to our audited consolidated financial statements.

In October 2009, the Russian tax authorities completed a tax audit of our subsidiary, Sibintertelecom, for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed 174.5 million rubles (approximately \$5.8 million as of December 31, 2009) of additional taxes, penalties and fines against Sibintertelecom. We have appealed this assessment to the Federal Tax Service, and the appeal is currently pending. As of December 31, 2009, no provision was recorded in the consolidated financial statements in respect of this matter.

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, our and our Russian subsidiaries' tax declarations for the preceding three fiscal years were open for further review.

Antimonopoly Proceedings

In March 2010, FAS commenced proceedings against us, Vimpelcom and Megafon alleging violations of antimonopoly laws on competition relating to our pricing for roaming services. Although we believe that we have not violated the law, we could be liable for fines of up to 15% of the revenues we derived from roaming services in 2009, or RUR 1.48 billion (approximately \$50.4 million as of March 31, 2010) if a violation is found. Management believes that there was no violation of the antimonopoly legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this claim.

In December 2009, Rostelecom petitioned FAS to investigate the concerted actions of MGTS and Comstar in relation to the intercity and international communications services markets. According to Rostelecom, MGTS and Comstar activities resulted in the restriction of competition and impeding access to the intercity and international communications services markets for other operators, including Rostelecom. On June 3, 2010, FAS dismissed the petition, finding Rostelecom's claim to be without merit.

8.A.8. Dividend Distribution Policy

On May 15, 2007, the Board of Directors approved a dividend policy, whereby we will aim to make dividend payments to our shareholders in the amount of at least 50% of our annual net income under U.S. GAAP. The dividend amount could vary depending on a number of factors, including the outlook for earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, availability of external financing or refinancing as well as our debt position.

Annual dividend payments, if any, must be recommended by our Board of Directors and approved by the annual general meeting of shareholders. We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and

will be converted into U.S. dollars by the depository and distributed to holders of ADSs, net of the depository's fees and expenses. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the dollar.

B. Significant Changes

Increase in MGTS Tariffs

In January 2010, the Federal Tariff Service approved new tariffs for MGTS residential and corporate subscribers effective February 1, 2010. The tariffs for subscribers increased at an average rate of 10.3% in ruble terms.

Syndicated Loan Prepayment

In February 2010, we prepaid the principal and loan interest amounts on facility A of \$373.8 million and on facility B of €247.6 million of the syndicated loan agreement originally signed in May 2009 and amended in June 2009. The original syndicated loan for \$360.0 million and €238.1 million carried a three-year maturity and an interest rate of LIBOR + 6.5%.

Non-controlling interest in EuroTel and Cascade-TV

In February 2010, we completed the cash acquisitions of the outstanding 20% minority stake in Yekaterinburg-based cable-TV and communications operator EuroTel LLC and a 25% minority stake in Management and Leasing LLC, which owns communication infrastructure in Yekaterinburg. We now own 100% of the issued share capital in both companies. The total cash consideration paid for the two related acquisitions was RUR 100 million (\$3.3 million at the date of acquisition).

In February 2010, we acquired the remaining 28% stake in Cascade-TV for RUR 75.0 million (\$2.5 million as of the acquisition date), bringing our ownership in Cascade-TV to 100%.

Acquisition of Tenzor Telecom

In February 2010, we acquired 100% in Tenzor Telecom, an alternative telecommunications operator based in Yaroslavl in Central Russia, for RUR 220 million (\$7.3 million as of the date of acquisition), including debt assumed. The acquisition was made in furtherance of our regional expansion program.

Gazprombank Agreements

In February 2010, we reached an agreement with Gazprombank to reduce the interest rates on our outstanding loans. The interest rate on our €100.0 million credit facility with original maturity in September 2012 was reduced from an annual rate of 8% to 7%. The interest rate on our RUR 6.5 billion facility maturing in September 2012 was reduced from an annual rate of 13% to 10.95% for the period starting from November 2, 2009 until April 27, 2010. Starting from April 28, 2010, the interest rate was set at 10.5%. We also reduced the interest rate on our €100.0 million revolving facility with original maturity in June 2011 from 8% to 7%. In April 2010, we also agreed with Gazprombank to extend the maturity date of the outstanding loans until February 2015.

Raising of financing from Credit Agricole Corporate and Investment Bank and BNP Paribas

On February 18, 2010, we entered into a credit facility agreement in the amount of up to \$97.0 million with Credit Agricole Corporate and Investment Bank and BNP Paribas, backed by Hermes. Of this amount, \$55.1 million of the facility is available for drawdown until April 15, 2010, and the remaining \$41.9 million is available until March 30, 2011. The funds are to be used for the purchase of telecommunication software and equipment from Alcatel Lucent Deutschland. The facility

matures in 2017 and bears interest at EURIBOR + 1.65%. The related commitment fee is set at 0.825% on the undrawn balance of the facility.

Legal proceedings by antimonopoly authorities

In addition, in March 2010, FAS commenced proceedings against us, Vimpelcom and MegaFon alleging violations of antimonopoly laws on competition relating to our pricing for roaming services. Although we believe that we have not violated the law, we could be liable for fines of up to 15% of the revenues we derived from roaming services if a violation is found. See also “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation.” Management believes that there was no violation of the antimonopoly legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this claim.

Amendment to Sberbank Credit Line Facility

In March 2010, Comstar agreed to amend the repayment schedule of a Sberbank credit facility. Under the new schedule, the loan principal is repayable in eight quarterly installments of RUR 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 to September 27, 2010 and to 11.75% per annum thereafter. See Note 17 to our audited consolidated financial statements.

Approval of new credit facility from Sberbank

In March 2010, Sberbank approved a new credit facility for Comstar in the amount of RUR 5.8 billion (\$191.8 million as of December 31, 2009) at an interest rate of 10.5% per annum, effective until September 2010, after which a floating interest rate will apply. This facility, which can be drawn through the end of 2010 and is repayable quarterly starting in March 2012, is expected to be signed in May 2010.

MGTS dividend

In March 2010, the extraordinary general shareholders’ meeting of MGTS approved a dividend on preferred shares of MGTS in the total amount of RUR 321.9 million (\$10.7 million as of December 31, 2009). The dividends were paid in May 2010. Upon payment, the preferred shares of MGTS became non-voting.

Voluntary partial repayment of RUR 12 billion Sberbank facility

On April 5, 2010, we voluntarily repaid RUR 6.0 billion (\$205.3 million as of the date of repayment) of a RUR 12 billion Sberbank loan facility.

Raising of financing from the Bank of Moscow

On April 6, 2010, we signed a credit agreement with the Bank of Moscow in the amount of RUR 22 billion. The terms of the agreement stipulate a three-year maturity with a one-year extension option subject to bank approval. The credit line can be drawn down until October 1, 2010. The facility carries no commitment fees or any other upfront fees payable at signing. However, we are to pay fee of 0.2% from each amount drawn under the agreement. In June 2010, we decreased the annual interest rate on this credit line from 10.25% to 8.99%.

Decrease in interest rates Sberbank

On March 26, 2010, we lowered interest rates on three of our Sberbank facilities. The interest rate for our two facilities due 2013 was set at 10.65%, and the interest rate for our facility due 2011 (partially repaid in April 2010) was set at 9.75%.

Repurchase of MTS OJSC Notes due 2013

In April 2010, we set a new 7.0% coupon rate for the coupon payments to be made on our ruble notes due 2013. On April 26, 2010, upon demand of certain noteholders, we repurchased 7.1 million of these at a nominal value of RUR 7.1 billion (\$242.5 million as of the date of the transaction).

Repurchase of MTS OJSC Notes due 2015

In April 2010, we set a new 7.75% coupon rate for the coupon payments to be made on our ruble notes due 2015. On April 29, 2010, upon demand of certain noteholders, we repurchased 6.3 million of these notes at a nominal value of RUR 6.3 billion (\$214.5 million as of the date of the transaction).

ADR Ratio Change

Effective May 3, 2010, the ratio of our ADRs changed from 1 ADR per 5 common shares to 1 ADR per 2 common shares.

Agreement to Sell Svyazinvest Stake to Rostelecom

On May 20, 2010, Comstar, MGTS Finance S.A. (a company controlled by Comstar) and Rostelecom entered into agreements involving the sale of a 25% + 1 share of Svyazinvest to Rostelecom for RUR 26 billion. If consummated, the proceeds of the sale will be used by Comstar to pay down its outstanding debt to Sberbank in the amount of RUR 26 billion.

The closing of the transactions is subject to a number of conditions including, *inter alia*, obtaining the necessary corporate approvals by the parties involved, regulatory clearances, including those from FAS, and the entry by Sistema and Svyazinvest into an exchange transaction, upon completion of which, Svyazinvest will control 100% of the share capital in Sky Link and Sistema will acquire the 23.33% stake in MGTS controlled by Svyazinvest. The precise terms and consummation of this and certain additional related transactions remain subject to the negotiation and execution of definitive binding documentation by these and other parties. No assurance can be given that any of the parties will execute definitive documentation, the foregoing conditions will be satisfied or that any of the contemplated transactions will occur.

The agreements signed on May 20, 2010 are in line with the previously announced non-binding memorandum of understanding (MOU) concluded by Comstar with Sistema and Svyazinvest on November 23, 2009.

Repayment of EBRD, the Nordic Investment Bank (NIB) and European Investment Bank (EIB) Loans

On May 26, 2010, we repaid loans from EBRD, NIB and EIB totalling EUR 413 million and accrued interest totalling EUR 13.9 million. The agreements were initially signed in June 2009 and the loan proceeds were used to finance the development of our 2G and 3G mobile networks. The EBRD loan was in the amount of EUR 218 million and had two tranches; the first tranche of EUR 115 million had a 7-year maturity, while the second tranche of EUR 103 million had a 3-year maturity. The NIB loan was in the amount of EUR 80 million with two tranches of EUR 40 million each and maturities of 7- and 3-years. The EIB loan was in the amount of EUR 115 million and had a 7-year maturity.

Appointment of CFO

On June 4, 2010, Alexey Kornya was appointed as our Vice President and Chief Financial Officer. He had been serving as our Acting Vice President and Chief Financial Officer since August 2008.

Loan Participation Notes

On June 22, 2010, we issued US dollar-denominated Loan Participation Notes in the amount of \$750 million with an annual interest rate of 8.625% and a maturity in June 2020. The proceeds will be used to refinance certain existing debt obligations. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange.

Dividend Recommendation

On June 24, 2010, our annual general meeting of shareholders approved annual dividends of RUR 15.40 per ordinary MTS share (approximately \$1.00 per ADR) for the 2009 fiscal year, amounting to a total of RUR 30.70 billion (approximately \$999.3 million as of May 11, 2010, the date on which our board of directors recommended the dividend to shareholders).

Merger of MTS and Comstar

On June 25, 2010, we announced that our and Comstar's Boards of Directors approved the merger ("prisoedinenie" under Russian law) of MTS and Comstar. The merger is conditional on the approval of 75% of the shareholders present at each company's EGM, the receipt of regulatory clearance and other closing conditions. We and Comstar expect to convene EGMs on December 23, 2010, at which our and their respective shareholders will vote on the merger. If approved, the companies expect to complete the merger transaction in the second quarter of 2011. MTS and Comstar shareholders who vote against or do not vote on the merger will have the right to sell their shares back to MTS or Comstar, respectively, for cash at a price set by the respective companies' Boards of Directors, subject to the statutory limit of 10% of each company's Net Asset Value under Russian Accounting Standards.

We also announced contemporaneously with the merger our intent to launch a voluntary tender offer for up to 9.0% of Comstar's issued share capital at RUR 220.0 per Comstar ordinary share. The tender offer has been submitted to the FSFM for review and will be delivered to Comstar shareholders following this review.

Item 9. Offer and Listing Details

(Only Items 9.A.4 and 9.C are applicable.)

A.4. Market Price Information

Our ADS, each representing two ordinary shares, have been listed on the NYSE since July 6, 2000 under the symbol "MBT." Our ordinary shares have been listed on the Moscow Interbank Currency Exchange, or MICEX, since December 2003. Set forth below, for the periods indicated, are the high

and low closing prices per ADS as reported by the NYSE and the high and low closing prices per ordinary share as reported by the MICEX.

	<u>ADS High</u>	<u>ADS Low</u>	<u>Ordinary Share High</u>	<u>Ordinary Share Low</u>
Monthly High and Low				
May 2010	\$22.62	\$18.43	265.0 RUR	217.6 RUR
April 2010	\$23.55	\$22.10	273.5 RUR	255.6 RUR
March 2010	\$23.23	\$21.31	255.6 RUR	234.9 RUR
February 2010	\$20.94	\$17.84	239.0 RUR	226.0 RUR
January 2010	\$20.94	\$19.11	240.0 RUR	225.6 RUR
December 2009	\$20.42	\$18.44	229.7 RUR	219.4 RUR
Quarterly High and Low				
First Quarter 2010	\$23.23	\$17.84	255.6 RUR	225.6 RUR
Fourth Quarter 2009	\$21.82	\$17.24	231.6 RUR	197.0 RUR
Third Quarter 2009	\$19.70	\$13.35	211.0 RUR	148.5 RUR
Second Quarter 2009	\$17.72	\$12.68	189.9 RUR	148.2 RUR
First Quarter 2009	\$13.02	\$ 7.44	150.6 RUR	104.8 RUR
Fourth Quarter 2008	\$21.58	\$ 8.67	234.5 RUR	92.9 RUR
Third Quarter 2008	\$30.46	\$21.10	286.7 RUR	180.1 RUR
Second Quarter 2008	\$35.63	\$28.21	308.0 RUR	273.2 RUR
First Quarter 2008	\$40.76	\$29.90	379.8 RUR	297.5 RUR
Annual High and Low				
2009	\$21.82	\$ 7.44	231.6 RUR	104.8 RUR
2008	\$40.76	\$ 8.67	379.8 RUR	92.9 RUR
2007	\$40.85	\$18.32	378.0 RUR	217.7 RUR
2006	\$20.19	\$10.49	227.7 RUR	139.2 RUR
2005 ⁽¹⁾	\$16.48	\$12.46	228.7 RUR	179.0 RUR

(1) Effective May 3, 2010, the ratio of our ADRs changed from 1 ADR per 5 common shares to 1 ADR per 2 common shares. The ADS prices set forth in the table above reflect the new share:ADR ratio for all periods.

C. Markets

Our common stock has been listed on the Moscow Interbank Currency Exchange since December 2003. ADSs, each representing two shares of our common stock, have been listed on the New York Stock Exchange under the symbol “MBT” since June 30, 2000. Our ADSs are also traded on the London Stock Exchange under the symbol “MBLD,” and on the Frankfurt Stock Exchange under the symbol “MKY.” Our U.S. dollar-denominated notes are listed on the Luxembourg Stock Exchange. Our ruble-denominated notes are listed on Moscow Interbank Currency Exchange.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

Our Purpose

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing and operation of a radiotelephone mobile cellular network on our license territories.

We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027700149124.

General Matters

Pursuant to our charter, we have the right to issue registered common stock, preferred stock and other securities provided for by legal acts of the Russian Federation with respect to securities. Our capital stock currently consists of 1,993,326,138 common shares, each with a nominal value of 0.10 rubles, all of which are issued and fully paid. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. We are also authorized to issue an additional 103,649,654 common shares with a nominal value of 0.10 rubles each. No preferred shares are authorized or outstanding. Preferred stock may only be issued if corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders. We have issued only common stock. The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares. As of December 31, 2009, we did not have any treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e.*, they are considered outstanding shares), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. As of May 11, 2010, our wholly owned subsidiaries held a total of 76,456,876 shares, of which approximately 88.9% were held in form of ADSs. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders.” In our consolidated financial statements prepared under U.S. GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding).

As of the date of this document, we had more than ten thousand shareholders for purposes of the Joint Stock Companies Law.

Rights Attaching to Shares

Holders of our common stock have the right to vote at all shareholders’ meetings. As required by the Joint Stock Companies Law and our charter, all shares of our common stock have the same nominal value and grant identical rights to their holders. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;
- participate in shareholders’ meetings and vote on all matters within shareholders’ competence;
- transfer voting rights to a representative on the basis of a power of attorney;
- participate in the election and dismissal of members of the board of directors and review commission;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;
- if holding, alone or with other holders, 1% or more of the voting shares, file a lawsuit against a member of the Board of Directors or member of any executive body of the company (including

the company's chief executive officer and/or the company's managing organization) to reimburse damages suffered by the company as the result of their fault;

- if holding, alone or with other holders, more than 1% of the voting shares, demand from the holder of register of shareholders to provide information on shareholders of the company and shares held by such shareholders;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, the counting commission, the review commission and for company president and management board;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or an independent auditor, and file a lawsuit against the company to convene an extraordinary shareholders' meeting if the board of directors fails to take a decision to convene an extraordinary shareholders' meeting or decides against convening such meeting;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
 - any reorganization;
 - the conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under Russian Accounting Standards, or RAS); and
 - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have free access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meeting approved in accordance with its competence.

Preemptive Rights

The Joint Stock Companies Law and our charter provide existing shareholders with a preemptive right to purchase shares or securities convertible into shares during an open subscription in the amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a preemptive right to purchase shares or securities convertible into shares, in an amount proportionate to their existing shareholdings, during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The preemptive right does not apply to a closed subscription to the existing shareholders provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights. Such period may not be less than 20 or, under certain circumstances, 45 days. We cannot sell the shares or securities convertible into shares which are subject to the pre-emptive rights during this period.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors and approved by the shareholders by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at the extraordinary shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends shall be paid up until the end of the year in which the decision to make the payment has been adopted, unless the shareholders' decision provides for a lesser term. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See “—General Shareholders' Meetings—Notice and Participation” below.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under RAS as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets on the date of the adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allows us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the event of an involuntary liquidation, the court may assign the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries, deaths or moral damages;
- employees and authors of intellectual property;
- federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and

- other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property prior to claims of any other creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- payments to holders of common and preferred shares.

Liability of Shareholders

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is called an "effective parent." The company whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, a shareholder will not be personally liable for our debts or those of our effective subsidiaries unless such shareholder controls our business and the conditions set forth above are met.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or omission of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Charter Capital Increase

We may increase our charter capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting 25% or more of the number of issued common shares, requires a three-quarters majority vote of a shareholders' meeting. Otherwise, a decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In certain circumstances provided in our charter, a decision to increase the charter capital may be taken by our board of directors. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value. The price of newly issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries may not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- prior registration of a share issuance with the Federal Service for Financial Markets, or the FSFM;
- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Charter Capital Decrease; Share Buy-Backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. The Joint Stock Companies Law and our charter require that any decision to reduce our charter capital through the repurchase and cancellation of shares, be made by a majority vote of a shareholders' meeting and through reduction of the nominal value of shares, by a three-quarter majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue a written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of such notice or publication or receipt of our notice, early termination or settlement of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law and our charter allow our shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares pursuant to a board decision must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

Shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law (*i.e.*, involving assets having value of more than 50% of the balance sheet value of the assets calculated under RAS); or
- amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholders' rights.

We may spend up to 10% of our net assets calculated under RAS on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis. Repurchase of the shares is at a price agreed on by the board of directors, but shall not be less than the market price.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintains a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Since May 10, 2000, Registrar NIKoil OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, except in certain instances provided for by Russian legislation, and may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

Disclosure of Information

Russian securities regulations require us to make the following periodic public disclosures and filings:

- filing with the FSFM and posting on our website quarterly reports, containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business;
- filing with the FSFM and publishing any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding as well as shareholder and certain board of directors' resolutions;
- disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;
- disclosing our charter and internal corporate governance documents on our website;
- disclosing our annual report and annual financial statements prepared in accordance with RAS;
- filing with the FSFM and posting on our website on a quarterly basis a list of our affiliated companies and individuals; and
- other information as required by applicable Russian securities legislation.

General Shareholders' Meetings

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

- charter amendments;
- reorganization or liquidation;
- election and removal of members of the board of directors;
- determination of the amount of compensation for members of the board of directors;
- determination of the number, nominal value, class/type of authorized shares and the rights granted by such shares;
- changes in our charter capital;
- appointment and removal of our external auditor and of the members of our review commission and counting commission;

- approval of certain interested party transactions and major transactions;
- decision on our participation in holding companies, commercial or industrial groups, or other associations of commercial entities;
- approval of certain internal documents and corporate records;
- distribution of profits and losses, including approval of dividends;
- redemption by the company of issued shares in cases provided by the Joint Stock Companies Law; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the company's assets;
- determination of the number, nominal value, and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares of common stock by closed subscription;
- issuance by open subscription of shares of common stock or securities convertible into common stock, in each case, constituting 25% or more of the number of issued and outstanding shares of common stock; or
- reduction of the charter capital through reduction of the nominal value of shares.

The quorum requirement for our shareholders' meetings is met if holders of shares (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting must) be scheduled and the quorum requirement is satisfied if holders of shares (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- election of the members of the board of directors;
- election of the counting commission;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of dividends, and losses, if any;
- appointment of an independent auditor; and

- appointment of the members of the review commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders' meeting and may nominate candidates for the board of directors, counting commission and review commission. Any agenda proposals or nominations must be provided to the company no later than 100 calendar days after the preceding financial year end.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request. The decision by the board of directors to call or reject the call for an extraordinary shareholders' meeting shall be sent to the party that requested the meeting within three days after such a decision was made.

A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;
- election of the review commission;
- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends and losses, if any.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

If a nominal holder of the shares registers in the register of shareholders, then a notification of the shareholders' meeting shall be sent to the nominal holder. The nominal holder must notify its clients in accordance with Russian legislation or an agreement with the client.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholders register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not later than 85 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by submitting a written ballot reflecting the shareholders' voting on the agenda items; or
- by delegating the right to submit such written ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting. Our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the shareholders' meeting. Our charter provides that our board of directors consists of at least seven members, which number may be increased pursuant to a decision of the general meeting of shareholders. Currently, our board of directors consists of nine members.

The Joint Stock Companies Law prohibits a board of directors from acting on issues that fall within the competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determination of our business priorities;
- approval of our annual plans, including financial plans;
- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda for the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities in cases specified in the Joint Stock Companies Law;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- appointment and removal of our President and the members of our management board;
- recommendations on the amount of the dividend and the payment procedure thereof;

- recommendations on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- approval of our internal documents, except for those documents whose approval falls within the competence of our shareholders or the president;
- the creation and liquidation of branches and representative offices;
- approval of major and interested party transactions in certain cases provided for by the Joint Stock Companies Law;
- increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstances specified in our charter;
- approval of our share registrar and the terms of the agreement with it; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described therein. A board meeting is considered duly assembled and legally competent to act when a majority of elected directors is present.

Our internal regulation “On the Board of Directors of OJSC Mobile TeleSystems,” or the Regulation, was approved by the annual shareholders’ meeting on June 25, 2009. In accordance with clause 2.2 of the Regulation, the members of the board of directors have the right to:

- receive information regarding our operations;
- propose issues to be discussed by the board of directors;
- review the minutes of the board of directors meetings;
- request to include in the minutes of the meetings their personal opinion concerning issues on the agenda and decisions made with respect thereto; and
- receive a remuneration and/or compensation of expenses related to the execution of their duties as members of the board of directors in accordance with decisions of the general shareholders’ meeting.

In accordance with clause 2.3 of the Regulation, the members of the board of directors must:

- act in our interests;
- execute their duties in a confident and scrupulous manner;
- act within their rights and in accordance with the purposes of the board of directors;
- not distribute confidential information concerning us and protect such information from unlawful and improper use and publishing, and not use such confidential information in their own or third parties’ commercial purposes;
- participate in the work of the board of directors;
- participate in the voting process during the board of directors meetings;
- complete the tasks assigned by the board of directors;
- evaluate the risks and consequences of the decisions made;

- inform us on a timely basis about their participation in the management of other companies and changes in such participation;
- refrain from voting on issues of personal interest;
- inform the board of directors about future deals in which they may have a personal interest;
- disclose information about the holding, disposal or acquisition of our shares and other securities;
- refrain from actions, which could lead to a conflict between their personal and our interests; and
- perform other responsibilities as provided by our charter and the Regulation.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as “interested party transactions” require approval by disinterested directors or shareholders of the company. “Interested party transactions” include transactions involving a member of the board of directors or member of any executive body of the company (including the company’s chief executive office and/or the company’s managing organization), any person that owns, together with any affiliates, at least 20% of a company’s issued voting shares or any person who is able to direct the actions of the company, if that person and/or that person’s spouse, parents, children, adoptive parents or children, brothers or sisters and/or their affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders (holders of voting shares) be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an “independent director” is a person who is not, and within the year preceding the decision to approve the transaction was not, a general director/president, a member of any executive body or an affiliate of the company, or a member of the board of directors or any management body of the company’s management organization. Additionally, such person’s spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the date of the decision to approve the transaction did not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company’s management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be adopted by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company’s assets determined under RAS;

- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or a secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders' meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- merger transactions; or
- the transactions that are mandatory for the company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly) of property having a value of 25% or more of the balance sheet value of the assets of a company determined under RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of common stock, or securities convertible into common stock. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company determined under RAS require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company determined under RAS require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

- A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.

- A person that has acquired more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on a weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on a price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and 75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.
- A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.
- An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offer must be filed with the FSFM; otherwise, notice must be filed with the FSFM no later than the date of the offer. The FSFM may order amendments to the terms of the offer (including price) in order to bring them into compliance with the rules.
- Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of such an offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders' meeting will have the sole power to make decisions on charter capital increase, issuance of securities, approval of certain major transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules by the government and judicial authorities, as well as by market participants.

Approval of FAS

Pursuant to the Federal Law on Competition, FAS must approve in advance acquisitions of voting capital stock of a joint stock company involving (1) companies with a combined value of assets or combined annual revenues under RAS exceeding a certain threshold, or (2) companies registered as having more than a 35% share of a certain commodity market or otherwise occupying a dominant position on the market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount.

Strategic Industries Law

Pursuant to the Strategic Foreign Investment Law, investments resulting in a foreign entity or a group of entities receiving control over a company with strategic importance for the national defense and security of the Russian Federation, or a Strategic Company, require prior approval from the state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments, or the Governmental Commission, which was established by the Resolution of the Government of Russia dated July 6, 2008 as the body responsible for granting such consents, and FAS, which is authorized to process applications for consent from foreign investors. “Control” means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders’ (participants’) meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company, or otherwise. As a result, “control” will generally be deemed to exist if an entity or a group of entities acquires more than 50% of the shares (or participation interest in share capital) of a Strategic Company, or if through contract or securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company.

Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company or other entity that exercises control over this company becomes a direct or indirect holder of voting shares in an amount that is considered to give it direct or indirect control over this company in accordance with the Strategic Foreign Investment Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (*e.g.*, as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval of its control within three months after it received such control.

In addition, foreign investors are required to notify this authorized governmental agency about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies.

On April 8, 2009, MTS OJSC and two of our subsidiaries, Dagtelecom LLC and Sibintertelecom CJSC, were added to the register of companies occupying a dominant position on the market with a market share exceeding 25% for the purpose of the Strategic Foreign Investment Law.

See also “Item 3. Key Information—D. Risk Factors—Legal Risks and Uncertainties—It is not yet clear how the new Strategic Foreign Investment Law will affect us and our foreign shareholders.”

Disclosure of Ownership

Under Russian law, a holder of our common shares is required to publicly disclose an acquisition of 5% or more of the outstanding common shares of the company, as well any change in the amount of common shares held by such holder, if as a result of such change the percentage of common shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the outstanding common shares of the company.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. However, the procedure for notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisition remains unclear.

C. Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business:

Eurobonds

On June 22, 2010, we issued US dollar-denominated Loan Participation Notes in the amount of \$750 million with an annual interest rate of 8.625% and a maturity in June 2020. The proceeds will be used to refinance certain existing debt obligations. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange. Proceeds were on-lent to us pursuant to a loan agreement between us and MTS International Funding Limited.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on October 14, 2003. The 8.375% notes were issued under an indenture dated October 14, 2003. Interest on the notes is payable in arrears on April 14 and October 14 of each year, commencing on April 14, 2003. These notes are guaranteed by us and mature on October 14, 2010. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$395.4 million were used for general corporate purposes, including dividend payments, capital expenditures and repayment of existing indebtedness incurred in connection with our acquisitions of mobile operators in Russia and Ukraine.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on January 28, 2005. The 8.00% notes were issued under an indenture dated January 28, 2005. Interest on the notes is payable in arrears on January 28 and July 28 of each year, commencing on July 28, 2005. These notes are guaranteed by us and mature on January 28, 2012. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$398.9 million were used to repay a \$140 million loan we received from Credit Suisse First Boston International in October 2004 for general corporate purposes. We used the remaining net proceeds from the offering for general corporate purposes, including acquisitions and increasing our interests in certain of our subsidiaries.

Each of the loan agreement relating to our notes due 2020 and indentures relating to our notes due 2010 and 2012 sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the lender (in the case of our notes due 2020), the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding notes may, under circumstances set forth in the indentures with respect to our notes due 2010 and 2012, rescind the acceleration if all events of default, other than the nonpayment of principal of the notes which have become due solely because of the acceleration, have been cured or waived as provided in the indenture. If an event of default arising from events of our bankruptcy, insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes will automatically become immediately due and payable without any declaration or other act on the part of the lender (in the case of our notes due 2020), holders of notes or the trustee.

Covenants in the loan agreement relating to our notes due 2020 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, the indentures relating to our outstanding notes due in 2010 and 2012 contain covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

In addition, if we experience certain types of mergers, consolidations or other changes in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's.

If we fail to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable. Pursuant to the guarantees contained in each indenture with respect to our notes due 2010 and 2012, we fully and unconditionally guaranteed all payments of principal and interest on the notes. These guarantees are our general unsecured obligation, senior to all our existing and future subordinated obligations, equal to all our existing and future unsecured obligations, and effectively junior to all our existing and future secured obligations and all existing and future obligations of our subsidiaries.

Syndicated Loans

In 2006 we entered into a syndicated U.S. Dollar denominated bank loan facility agreement with a number of international financial institutions (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 Limited). This facility allowed us to borrow up to \$1,330.0 million which was available in two tranches of \$630.0 million and \$700.0 million. The proceeds were used by OJSC MTS for general corporate purposes, including acquisitions and refinancing of existing indebtedness. The first tranche bears interest of LIBOR+0.80% per annum and matures in 2009. The second tranche bears interest of LIBOR+1.00% per annum within the first three years and LIBOR + 1.15% per annum thereafter, matures in April 2011 and is repayable in 13 equal quarterly installments, commencing in April, 2008. An arrangement fee of 0.10% of the original facility amount and agency fee of \$0.05 million per annum should be paid in accordance with the agreement. The commitment fee is 0.40% per annum on the undrawn facility in respect of second tranche. The debt issuance costs in respect of this loan of \$13.4 million were capitalized. The first tranche was fully repaid by us on May 20, 2009. As of December 31, 2009 and December 30, 2008, the balances outstanding under the facility totaled \$323.1 million and \$1,168.5 million, respectively.

On May 18, 2009 we signed a new syndicated loan facility agreement to refinance the first tranche of the above mentioned syndicated loan facility in the amount of \$630 million with a number of financial institutions (ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (ELUOSI), Bank of China (UK) Limited, Joint-Stock company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank plc, ING Bank N.V., J.P. Morgan plc, Societe Generale Corporate and Investment Banking Paris, UniCredit Bank Austria AG, WestLB AG, London Branch, ZAO UniCredit Bank). Funds borrowed are to be used for our general corporate purposes. The facility is available in two tranches of \$360.0 million and €238.1 million bearing interest of LIBOR+6.5% per annum and EURIBOR+6.5% per annum, respectively. Both tranches mature on May 18, 2012 and are repayable in three equal installments on May 18, 2011, November 18, 2011 and May 18, 2012. We paid and capitalized arrangement and management fees in the total amount of \$14.6 million and €7.3 million under the agreement. Additionally, we were required to pay an agency fee at times set forth in a separate fee letter and in an amount equal to the greater of \$1,500 per lender based on the number of lenders as at the relevant payment date and \$25,000. As of December 31, 2009, the balance outstanding under the facility amounted to \$701.6 million. On February 24, 2010, we voluntarily repaid the full amount outstanding under the facility.

Sberbank Loan Agreements

In September 2009, we entered into two loan agreements with Sberbank in the amount of RUR 22 billion (\$731.1 million as of September 30, 2009) and RUR 25 billion (\$830.8 million as of

September 30, 2009), respectively. The funds were used for our investment programs, including for financing our acquisition of a 50.91% stake in Comstar. Both loans bear interest of 16% and are repayable in 7 equal semiannual installments, commencing March 27, 2012. The interest rate is fixed until March 27, 2010; for the subsequent periods (quarters), the rate will be determined as a total of the base rate (16%) plus rate A or rate B. Rate A depends on the average daily bank account balance we maintain with Sberbank for the interest period. If the average daily bank account balance falls below RUR 1.0 billion, rate A will be set at 0.5%. However, rate A will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUR 1.0 billion. Rate B depends on the average daily bank account balance maintained by our subsidiary, CJSC Russian Telephone Company, with Sberbank for the interest period. If the average daily bank account balance falls below RUR 0.5 billion, rate B will be set at 0.5%. However, rate B will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUR 1.0 billion. Additionally, we have to pay a commission of 0.25% on the outstanding amounts under the agreements for services related to maintenance of the loan accounts. The agreement for RUR 25 billion is secured by pledge of equipment with a net book value of RUR 30 billion as of September 30, 2009 (assigned pledge value of RUR 21 billion) as well as 50.18% stake in Comstar. Related debt issuance cost capitalized by us totaled RUR 1,034.6 million (\$33.6 million at the date of capitalization). In December 2009, we reached an agreement with Sberbank to lower the interest rates for the agreements. The interest rate was reduced by 4.25% percentage points to 11.25%. The changes to the terms of the financing came into effect on December 28, 2009. As of December 31, 2009, the balance outstanding under the agreements amounted to \$1,554.0 million.

Comstar entered into a non-revolving credit line facility with Sberbank in the amount of RUR 26.0 billion in 2007. In June 2007, Comstar drew down approximately RUR17.4 billion (equivalent of \$675.0 million as of the date of transaction) under this facility and used the proceeds to repay a \$675.0 million loan from ABN Amro and Morgan Stanley. In November 2007, Comstar drew down an additional RUR4.1 billion (equivalent of \$167.4 million as of the date of transaction) under the facility to finance the acquisition of a 100% stake in DTN. In December 2008, Comstar drew the remaining RUR4.5 billion to finance the acquisition of Stream TV. Accordingly, as of December 31, 2008 the facility was fully drawn. The facility originally bore interest at 7.6% per annum, which can be increased by Sberbank in conjunction with, but not exclusively, increases in CBR refinancing rate. The interest rate was increased to 9.5% per annum effective June 28, 2008 and further to 13.35% effective January 1, 2009. Interest is paid monthly. The facility is repayable in equal quarterly installments from September 2009 until June 2012 and is secured by pledge of a 25% plus one share stake in Svyazinvest. As of December 31, 2009, the balance payable under this facility amounted to \$859.7 million.

Comstar Acquisition Agreement

Pursuant to an Agreement dated October 12, 2009 between Sistema, ECU GEST HOLDING S.A., Sistema Telecom LLC and Telekoms Operator LLC, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema. Under the terms of the agreement, our wholly owned subsidiary, Telekoms Operator LLC, purchased Sistema's 50.91% stake in Comstar for 39.15 billion rubles (\$1.32 billion as of October 12, 2009, the date of the acquisition).

D. Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004 sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing).

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999 specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

E. Taxation

Certain Russian Tax Consequences

The following discussion describes the material Russian corporate income tax and personal income tax consequences to you if you are a U.S. holder of ADSs and a resident of the United States for purposes of the United States—Russia income tax treaty and are fully eligible for benefits under the United States—Russia income tax treaty. Subject to certain provisions of the United States—Russia income tax treaty relating to limitations on benefits, a U.S. resident under the treaty is generally defined as a person liable, under the laws of the United States, to U.S. tax (other than taxes with respect to only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income). The treaty provides for a procedure to resolve matters where a resident of the United States qualifies as a Russian tax resident under Russian domestic rules. The treaty also provides for the non-application of treaty benefits to certain types of entities.

Additionally, the benefits under the United States—Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States—Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

Treaty benefits may be potentially available to U.S. tax residents that are not subject to limitations on treaty benefits under the treaty, do not operate through a permanent establishment in Russia and are foreign legal entities (*i.e.*, a legal entity or organization in each case not organized under Russian law) or individuals not considered Russian tax residents under Russian law. Under current Russian law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12-month period. While the current version of the law specifies that an individual present in Russia for an aggregate period of 183 days in any consecutive 12-month period will be considered as a tax resident, exactly how to apply the 12-month rule is the subject of debate and is not

entirely clear. The Ministry of Finance of the Russian Federation has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year. Accordingly, the approach used, in practice, to determine the tax residence of an individual for a given tax year (calendar year) remains the same as under the previous legislation *i.e.*, to be considered a Russian tax resident, the taxpayer should spend at least 183 days in Russia in a calendar year.

The following discussion is based on:

- Russian tax legislation; and
- the United States—Russia income tax treaty (and judicial and administrative interpretations thereof by the Russian authorities);

all as in effect on the date of this document. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depository, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian corporate income and personal income tax consequences to you of ownership of ADSs. We urge you to consult your own tax adviser regarding the specific Russian tax consequences of the ownership and disposition of ADSs under your own particular factual circumstances.

Specific uncertainties associated with the tax treatment of ADS holders

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Russian tax authorities have provided limited guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In a number of clarifications, the Russian Ministry of Finance stated that ADS holders must be treated as the beneficial owners of income from the underlying shares for purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares. However, double tax treaty relief is available only if the tax treaty residence of the holder is duly confirmed. It is currently unclear whether depositories will be willing or able to provide residency certificates for ADS holders or implement procedures for holders to benefit from applicable tax treaties. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States—Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of income from the underlying shares, then the benefits discussed below regarding the United States—Russia income tax treaty would not be available to U.S. holders. Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate. The tax burden may be reduced to 5% or 10% under the United States—Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning

10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. See also “—United States—Russia Income Tax Treaty Procedures.”

Notwithstanding the foregoing, treaty relief may not be available to U.S. holders of ADSs. In a number of clarifications, the Ministry of Finance expressed an opinion that ADS holders (rather than the depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the ADS holders are duly confirmed and information on the number of shares and data on the beneficiaries is available in the appropriate form. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of tax treaty beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts would ultimately treat the ADS holders in this regard. Moreover, from a practical perspective, it may not be possible for the depositary to collect residence confirmations from all ADS holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

Therefore, with respect to legal entities or organizations who are U.S. holders, we may be obligated to withhold income tax at a rate of 15% from dividend payments made to the depositary, unless prior to making such dividend payments to the depositary, we are provided with confirmation that U.S. holders are beneficial owners of dividends within the meaning of the United States—Russia income tax treaty and all administrative requirements for claiming treaty benefits are met. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant a refund. See “—United States—Russia Income Tax Treaty Procedures.”

With respect to individuals who are U.S. holders of ADSs and who are Russian tax non-residents, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the depositary. Where withholding of personal income tax is not performed, individuals who are U.S. holders of ADSs will then be required to submit an annual personal tax return to the Russian tax authorities and pay Russian income tax at a rate of 15% as under Russian law an individual should report on his or her tax liabilities in case the relevant tax was due but not withheld by a tax agent from the relevant payment. When submitting the tax return, individuals who are U.S. holders may claim an application of the reduced rates of withholding tax established by the relevant treaty, provided that the procedures described in “—United States—Russia Income Tax Treaty Procedures” are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome.

If the appropriate documentation has not been provided to us before the start of the payment of dividends by us (*i.e.*, before the second half of August) date, we will withhold tax at the full rate, and U.S. holders that are legal entities qualifying for a reduced rate under the United States—Russia income tax treaty then may file claims for refund within three years with the Russian tax authorities.

For individuals claiming treaty relief, the documents substantiating the right for treaty benefits should be submitted to the Russian tax authorities within one year after the end of the year to which these benefits relate. In practice, where withholding is performed, the tax authorities may refuse to refund or credit the 15% tax withheld from payment of dividends to the depositary and, therefore, it is possible that individuals who are U.S. holders may be subject to up to a 30% effective tax rate (general tax rate for Russian tax non-residents) on their share of dividends.

Taxation of Capital Gains

Legal entities and Organizations

Generally, capital gains arising from the sale, exchange or other disposition of securities by legal entities or organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, legal entities or organizations that are non-resident holders of the securities should be subject to a 20% withholding tax on the gross proceeds from the sale, exchange or other disposition of securities, the difference between the sales, exchange or other disposition price and the acquisition costs of the ADSs, determined in accordance with Russian tax deductibility rules. The corporate income tax decreased from 24% to 20% starting from January 1, 2009.

However, an exemption applies if immovable property located in Russia constitutes more than 50% of our assets and the securities are traded on a foreign stock exchange. In that case, the proceeds from the sale of securities on that foreign stock exchange shall not be deemed to be income from sources in Russia, and accordingly, will not be subject to taxation in Russia. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States—Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term “fixed assets” is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

Individuals

The taxation of the income of tax non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of securities outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident individual holders in Russia will be considered Russian source income and will be subject to tax at a rate of 30% on the difference between the sales price and the acquisition costs of such securities, as well as other documented expenses, such as depositary expenses and broker fees, among others, defined by the tax rules.

Under Russian law, the acquisition costs and related expenses can be deducted at the source of payment if the sale was made by a non-resident holder through a licensed Russian broker, trust manager or other person that carries out operations under agency or commission agreements, or other agreements in favor of a taxpayer. Such party (as defined above) should also act as a tax agent and withhold the applicable tax. Such tax agent will be required to report to the Russian tax authorities the

amount of income realized by the non-resident individual and tax withheld upon the sale of the securities.

Otherwise, if the sale is made to individuals but not through a tax agent, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes tax agent responsibility only on professional trustees, brokers or dealers, in practice, the tax authorities may require Russian legal entities and organizations or foreign companies with any registered presence in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Under the United States—Russia income tax treaty, capital gains from the sale of the ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term “fixed assets” is used in the Russian version of the United States—Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States—Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See “—United States—Russia Income Tax Treaty Procedures “below.

United States—Russia Income Tax Treaty Procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity or organization seeking to obtain relief from or reduction of Russian withholding tax under a tax treaty must provide to a Russian company or foreign company or organization acting through its Russian registered presence, which is a tax agent (*i.e.*, the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements and a notarized Russian translation attached to it in advance of receiving the relevant income. The tax residency confirmation needs to be renewed on an annual basis and provided to the payer of income before the first payment of income in each calendar year.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder’s name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the United States Internal Revenue Service. The procedures for obtaining certification are described in greater detail in the instructions to Internal Revenue Service Form 8802. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

In accordance with the Russian Tax Code, to rely on tax treaty benefits, a non-resident holder who is an individual must present to the tax authorities an official document confirming his residency in the home country issued by the competent authorities in his/her country of residence and also other supporting documentation including a statement confirming the income received and the tax paid in the home country, also confirmed by the relevant foreign tax authorities, duly translated and apostilled. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore, advance relief from or reduction of withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual

may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received and the tax was withheld.

If a non-resident holder which is a legal entity or organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) apostilled or legalized confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income, as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to ADSs and no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders or that ADS holders would be successful in receiving relevant tax refunds.

Neither the depository nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

Stamp Duties

No Russian stamp duty will be payable by the holders of ADSs upon carrying out of transactions with the securities as discussed above (*i.e.*, on a purchase of the securities, sale of the securities, etc.).

Certain United States Federal Income Tax Consequences

The following is a general description of certain material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs that is an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person (in each case, a “U.S. Holder”). This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service, or the IRS, all as publicly available and in effect as of the date of this document. These authorities are subject to differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of ADSs, or that any such contrary position would not be sustained by a court. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of ADSs, the United States federal income tax treatment of a partner in the partnership will generally

depend on the status of the partner and the activities of the partnership. Accordingly, partnerships that hold ADSs and partners in such partnerships are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them. The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- an insurance company;
- a tax-exempt organization;
- a financial institution;
- a person subject to the alternative minimum tax;
- a person who is a broker-dealer in securities or a trader subject to a mark-to-market election;
- an S corporation;
- a person holding ADSs through a partnership or other pass-through entity;
- an expatriate subject to section 877 of the Code;
- an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of our common stock; or
- an owner holding ADSs as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is limited to U.S. Holders holding ADSs as “capital assets” within the meaning of Section 1221 of the Code and whose functional currency is the U.S. dollar. The discussion below does not address the effect of any United States state or local tax law or foreign tax law. This discussion also does not address any tax consequences relating to the direct ownership of ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. For purposes of applying United States federal income tax law, we believe, and the following discussion assumes, that a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS, although this matter is not free from doubt.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the shares underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares. Accordingly, the analysis of the creditability of Russian withholding taxes described below and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares and future actions that may be taken by the U.S. Treasury. The remainder of this discussion assumes that a holder of an ADS will be treated as the beneficial owner of the underlying shares of common stock represented by such ADS for United States federal income tax purposes.

Taxation of Distributions on ADSs

For United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, paid by us with respect to ADSs will be treated as a taxable foreign source dividend on the date of actual or constructive receipt by the depositary to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. For taxable years beginning before January 1, 2011, if you are a non-corporate U.S. Holder

such dividends may be “qualified dividend income” that is taxed at the lower applicable capital gains rate provided that certain conditions are satisfied, including (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States—Russia income tax treaty, and (3) we are not, for the taxable year in which the dividend was paid, or in the preceding taxable year, a “passive foreign investment company” (as discussed below). Distributions with respect to ADSs in excess of our current and accumulated earnings and profits will be applied against and will reduce your tax basis in such ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to ADSs generally will be treated as a dividend, even if such distributions would otherwise be treated as a return of capital or as capital gain pursuant to the rules described above. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on ADSs, which is generally available for dividends paid by U.S. corporations. U.S. Holders are strongly urged to consult their tax advisors as to the U.S. federal income tax treatment of any distribution received with respect to ADSs.

The amount of any distribution paid in rubles will equal the U.S. dollar value of such rubles, calculated using the exchange rate in effect on the date of receipt by the depository, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date of receipt by the depository to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. Additionally, you may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States—Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying distribution.

Russian withholding tax at the rate applicable to you under the United States—Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States—Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For United States foreign tax credit purposes, a dividend distribution with respect to the ADSs will be treated as foreign source “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.” The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

Taxation on Sale or Other Taxable Disposition of ADSs

The sale or other taxable disposition of ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted basis in such ADSs. That gain or loss will be capital gain or loss and will

be long-term capital gain or loss if the ADSs have been held for more than one year. If you are a non-corporate U.S. Holder, such recognized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain or loss recognized on the sale of ADSs will generally be treated as U.S. source income or loss for foreign tax credit purposes. The use of any foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of ADSs.

Passive Foreign Investment Company Considerations

A foreign corporation generally will be a passive foreign investment company, or a PFIC, in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable “look-through” rules, either (i) at least 75% of its gross income is “passive income” or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income.

We do not believe that we were a PFIC for the year ended December 31, 2009. However, our possible status as a PFIC must be determined annually and therefore may be subject to change. Thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or in the future. If we were to be treated as a PFIC, U.S. Holders generally would be required to pay additional taxes on certain distributions and gains on sales or other dispositions (including pledges) of the ADSs, at tax rates that may be higher than those otherwise applicable. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the ADSs.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs and proceeds from the sale or exchange of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

New Legislation

Newly enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, capital gains from the sale or other disposition of ADSs for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to an interest in the ADSs, subject to certain exceptions (including an exception for ADSs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the ADSs.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at www.sec.gov. Information about Mobile TeleSystems OJSC is also available on the Internet at www.mtsgsm.com. Information included in our website does not form part of this document.

I. Subsidiary Information

Not applicable.

Item 11. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Foreign exchange risks exist to the extent our revenues, costs and debt obligations are denominated in currencies other than the functional currency in the countries of our operations.

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2009, \$2,909.0 million, or 34.9% of our total indebtedness, including capital leases, was variable interest rate debt, while \$5,420.5 million, or 65.1% of our total indebtedness, including capital leases, was fixed interest rate debt.

The table below presents principal cash flows and related weighted average interest rates for indebtedness by contractual maturity dates as of December 31, 2009.

Contractual Maturity Date as of December 31, 2009

Indebtedness	Currency	2010	2011	2012	2013	2014	Thereafter	Total	Annual interest rate (Actual interest rate at December 31, 2009)
(amounts in thousands of U.S. dollars)									
Variable debt									
ING Bank N.V., The Bank of Tokyo-Mitsubishi, Bayerische Landesbank, HSBC, Raiffeisen, Sumitomo	USD	215,385	107,692	—	—	—	—	323,077	1.58%
Citibank International plc and ING Bank N.V.	USD	19,741	19,741	19,741	19,741	12,021	—	90,985	0.73%
HSBC Bank plc and ING BHF—BANK AG	USD	21,799	21,799	21,799	19,163	—	—	84,560	0.86%
EBRD	USD	18,462	18,462	18,462	18,462	9,229	—	83,077	3.53%
Commerzbank AG, ING Bank AG and HSBC Bank plc	USD	14,790	14,790	14,790	14,792	7,395	—	66,557	0.73%
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	USD	16,609	16,609	16,609	16,609	8,730	1,014	76,180	0.73%
EBRD	USD	14,872	14,872	14,872	14,872	7,435	—	66,923	1.94%
Barclays bank plc	USD	2,850	2,850	2,850	2,851	1,425	—	12,826	0.56%
ABN AMRO N.V.	USD	6,287	6,287	6,287	6,288	—	—	25,149	0.78%
ABN AMRO N.V.	EUR	4,965	4,965	4,965	4,964	—	—	19,859	1.34%
Barclays bank plc	USD	10,306	10,306	10,306	10,306	5,153	—	46,377	0.58%
Commerzbank	USD	3,508	—	—	—	—	—	3,508	0.83%
Syndicated loan 2009 ⁽¹⁾	USD	—	240,000	120,000	—	—	—	360,000	6.93%
Syndicated loan 2009 ⁽¹⁾	EUR	—	227,720	113,860	—	—	—	341,580	7.49%
EBRD	EUR	25,381	25,381	25,381	25,381	25,382	38,073	164,979	7.89%
EBRD	EUR	59,105	59,105	29,554	—	—	—	147,764	7.49%
Nordic Investment Bank	EUR	8,828	8,828	8,828	8,828	8,828	13,244	57,384	7.89%
Nordic Investment Bank	EUR	22,954	22,954	11,476	—	—	—	57,384	7.49%
European Investment Bank	EUR	25,381	25,381	25,381	25,381	25,381	38,074	164,979	7.39%
Sberbank	RUR	—	396,770	—	—	—	—	396,770	11.00%
ING Bank	USD	1,879	1,881	1,878	1,878	—	—	7,516	4.20%
Raiffeisen Bank	RUR	3,307	—	—	—	—	—	3,307	13.30%
VTB	EUR	2,212	2,212	1,106	—	—	—	5,530	4.75%
Intracom	EUR/AMD	9,409	6,917	6,917	—	—	—	23,243	3.45%
Skandinaviska Enskilda Banken AB	USD	31,656	31,656	31,656	31,656	31,655	74,434	232,713	0.65%
Skandinaviska Enskilda Banken AB	USD	5,851	5,851	5,851	5,851	5,851	17,551	46,806	2.23%
Total variable debt		545,537	1,293,029	512,569	227,023	148,485	182,390	2,909,033	
Weighted average interest rate		5.37%	5.89%	4.39%	3.59%	4.04%	4.25%	4.59%	

Indebtedness	Currency	2010	2011	2012	2013	2014	Thereafter	Total	Annual interest rate
									(Actual interest rate at December 31, 2009)
(amounts in thousands of U.S. dollars)									
Fixed-rate notes									
8.38% notes due 2010	USD	400,000	—	—	—	—	—	400,000	8.38%
8.00% notes due 2012	USD	—	—	399,623	—	—	—	399,623	8.00%
8.70% notes due 2010	RUR	321,488	—	—	—	—	—	321,488	8.70%
14.01% notes due 2010	RUR	247,981	—	—	—	—	—	247,981	14.01%
14.01% notes due 2010	RUR	248,213	—	—	—	—	—	248,213	14.01%
16.75% notes due 2011	RUR	—	495,963	—	—	—	—	495,963	16.75%
14.25% notes due 2012	RUR	—	—	495,963	—	—	—	495,963	14.25%
16.00% notes due 2010	RUR	402	—	—	—	—	—	402	16.00%
Fixed-rate bank loans									
Gazprombank	EUR	—	143,460	—	—	—	—	143,460	8.00%
Gazprombank	RUR	—	—	213,600	—	—	—	213,600	13.00%
Sberbank	RUR	—	—	888,010	666,007	—	—	1,554,017	11.75%
Sberbank	RUR	214,917	429,835	214,917	—	—	—	859,669	13.35%
CISCO	RUR	4,534	4,859	4,124	—	—	—	13,517	11.25%
Other	Various	15,526	1,329	883	—	737	4,018	22,493	various
Total fixed debt		1,453,061	1,075,446	2,217,120	666,007	737	4,018	5,416,389	
Weighted average interest rate		12.15%	12.51%	11.88%	11.85%	—	—	8.07%	

(1) Syndicated loan agreement was signed with the following financial institutions: ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (ELUOSI), Bank of China (UK) Limited, Joint-Stock company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank plc, ING Bank N.V., J.P. Morgan plc, Societe Generale Corporate and Investment Banking Paris, UniCredit Bank Austria AG, WestLB AG, London Branch, ZAO UniCredit Bank.

We would have experienced an additional interest expense of approximately \$26.5 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR/CBR Refinancing Rate by 1% over the current rate as of December 31, 2009. We would have experienced an additional interest expense of approximately \$15.4 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current rate as of December 31, 2008. The increase by 72.0% in an additional interest expense is primarily attributable to the LIBOR/EURIBOR/CBR Refinancing Rate fluctuations and change in our debt structure during the year ended December 31, 2009. In addition, the 11.75% interest rate set for our Sberbank facilities due 2014 totaling RUR 47.0 billion (equivalent of \$1,554.0 million as of December 31, 2009) is dependent on the average daily bank account balance maintained by us and RTC, our wholly owned subsidiary, with Sberbank. In case we fail to maintain an average daily bank account balance in any three month period at the minimum levels established, the rate will be increased by 1%. Such rate increase would cause our interest expense to increase by approximately \$15.5 million on an annual basis. The fair value of our publicly traded fixed-rate notes as of December 31, 2009, ranged from 98.4% to 108.3% of the notional amount. As of December 31, 2009, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed-rate debt, refer to Note 17 to our audited consolidated financial statements. The fair value of variable rate debt approximates its carrying value.

We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates. We primarily focus on reducing risk caused by the fluctuations in interest rates for our variable-rate long-term debt. According to our policy, we have entered into various variable-to-fixed

interest rate swap agreements. The table below presents a summary of our variable-to-fixed interest rate swap agreements.

<u>Type of derivative</u>	<u>Maturity</u>	<u>Notional amount (at inception)</u>	<u>Mark to Market Value as of December 31, 2009</u>
		(amounts in millions of U.S. dollars)	
Variable-to-fixed Interest Rate Swap Agreements			
Swap agreements with ING Bank N.V. to pay a fixed rates of 2.09% to 4.41% and receive a variable interest rate of 6m LIBOR	November 2013– February 2015	222.2	(7.3)
Swap agreements with HSBC bank Plc to pay a fixed rates of 2.18% to 4.14% and receive a variable interest rate of 6m LIBOR	October 2013– September 2014	285.5	(4.0)
Swap agreement with HSBC bank Plc to pay a fixed rate of 3.29% and receive a variable interest rate of 6m EURIBOR	October 2013	37.2	(0.6)
Swap agreement with Rabobank to pay a fixed rate of 4.16% and receive a variable interest rate of 6m LIBOR	April 2014	86.1	(3.6)
Swap agreement with Citibank N.A. to pay fixed rate of 4.29% and receive a variable interest rate of 6m LIBOR	September 2013	53.5	(2.0)
Swap agreement with ABN AMRO N.V. to pay fixed rate of 2.08% and receive a variable interest rate of 6m LIBOR	April 2013	21.1	(0.2)
Swap agreement with Calyon to pay fixed rate of 2.07% and receive a variable interest rate of 6m LIBOR	October 2013	28.3	(0.2)
Swap agreement with Calyon to pay fixed rate of 2.40% and receive a variable interest rate of 3m LIBOR	May 2012	295.0	(6.8)
Swap agreement with Calyon to pay fixed rate of 2.12% and receive a variable interest rate of 3m EURIBOR	May 2012	307.7	(3.6)
Swap agreement with Societe General Vostok to pay fixed rate of 2.40% and receive a variable interest rate of 6m LIBOR	June 2014	166.7	(1.0)

We have also entered into several cross-currency interest rate swap agreements. These contracts, which hedge the risk of both interest rate and currency fluctuations, assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts, to be exchanged at specified rates. The rates were determined with reference to the market spot rates upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate.

The table below presents a summary of our cross-currency interest rate swap agreements:

<u>Type of derivative</u>	<u>Maturity</u>	<u>Notional amount (at inception)</u>	<u>Mark to Market Value as of December 31, 2009</u>
		(amounts in millions of U.S. dollars)	
Cross-Currency Interest Rate Swap Agreements			
Cross-currency swap agreement with ING Bank N.V to pay fixed rate of 10.83% and to receive variable of 3m LIBOR + 115 bp	April 2011	43.1	(2.9)
Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.73% and to receive variable of 3m LIBOR + 115 bp	April 2011	43.1	(2.9)
Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.65% and to receive variable of 3m LIBOR + 115 bp	April 2011	43.1	(3.0)
Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.96% and to receive variable of 3m LIBOR + 115 bp	April 2011	53.9	(4.6)
Cross-currency swap agreement with Goldman Sachs to pay fixed rate of 7.2% and to receive fixed of 3.91%	December 2010	166.7	(4.5)
Cross-currency swap agreement with J.P. Morgan to pay fixed rate of 11.95% and to receive variable of 3m LIBOR + 115 bp	April 2011	86.2	(3.9)
Cross-currency swap agreement with J.P. Morgan to pay fixed rate of 14.8% and to receive fixed rate of 8.375%	October 2010	75.0	(4.6)
Cross-currency swap agreement with Barclays Bank to pay fixed rate of 14.75% and to receive fixed rate of 8.375%	October 2010	25.0	(0.1)

As of December 31, 2009, approximately 65% of our variable interest rate debt was hedged against interest rate risks. We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations. We do not enter into derivative financial instruments for trading purposes.

Foreign Currency Risk

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may

differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

<u>Years ended December 31,</u>	<u>Rubles per U.S. dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
2005	29.00	27.46	28.31	28.78
2006	28.48	26.18	27.09	26.33
2007	26.58	24.27	25.49	24.55
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	<u>Rubles per U.S. dollar</u>	
	<u>High</u>	<u>Low</u>
September 2009	31.97	30.00
October 2009	30.12	28.94
November 2009	29.82	28.67
December 2009	30.76	29.06
January 2010	30.43	29.38
February 2010	30.52	29.88
March 2010	29.98	29.19
April 2010	29.50	28.93
May 2010	31.43	29.15

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for June 24, 2010 was 30.97 rubles per U.S. dollar.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

<u>Years ended December 31,</u>	<u>Hryvnias per U.S. dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
2005	5.31	5.05	5.12	5.05
2006	5.05	5.05	5.05	5.05
2007	5.05	5.05	5.05	5.05
2008	7.88	4.84	5.27	7.70
2009	8.01	7.61	7.81	7.99

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Hryvnias per U.S. dollar	
	High	Low
September 2009	8.01	7.98
October 2009	8.01	7.97
November 2009	8.01	7.98
December 2009	7.99	7.97
January 2010	8.01	7.99
February 2010	8.01	7.99
March 2010	7.99	7.93
April 2010	7.93	7.92
May 2010	7.93	7.93

Source: National Bank of Ukraine.

The exchange rate between the hryvnia and the U.S. dollar quoted by the National Bank of Ukraine for June 24, 2010 was 7.91 hryvnias per U.S. dollar.

We have exposure to fluctuations in the value of the U.S. dollar, which is our reporting currency, relative to the Russian ruble, Ukrainian hryvnia, Turkmenistan manat and Armenian dram, which are the functional currencies in our countries of operation. As a result, we may face translation losses, increased debt service payments and increased capital expenditures and operating costs should these currencies depreciate against the U.S. dollar.

In 2009, we entered into foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. Under the agreements, we have a combination of put and call option rights to acquire \$80.0 million of U.S. dollars at rates within a range specified in the contracts. These contracts expire between 2010-2011 and were not designated for hedge accounting purposes.

The translation risk arises when we translate the functional currencies in our countries of operation into U.S. dollars for inclusion in our audited consolidated financial statements. A depreciation in the value these functional currencies against the U.S. dollar will result in a translation loss.

A significant part of our capital expenditures, borrowings and certain operating costs (roaming expenses, cost of customer equipment and other) are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate, and our U.S. dollar-denominated debt represents our primary future risk of exchange loss in U.S. dollar terms. A decline in the value of the ruble, hryvnia, som, manat or dram versus the U.S. dollar would result in currency remeasurement losses as the amount of these currencies required to repay U.S. dollar-denominated debt increases. In addition, if any of the ruble, hryvnia, som, manat or dram declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our revenues and operating margins could be materially adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness and financing our capital expenditures and operating costs.

A portion of our capital expenditures, borrowings and certain operating costs (roaming expenses, costs of customer equipment and other) are also denominated in euros. We currently do not hedge against the risk of decline in the ruble, hryvnia, som, manat or dram against the euro because settlements denominated in euros are not significant.

We would experience a currency exchange loss of \$392.7 million on our U.S. dollar-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to U.S. dollar exchange rate at December 31, 2009. We would experience a currency exchange loss of \$80.8 million in the fair value of our euro-denominated net monetary liabilities as a result of a

hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to euro exchange rate at December 31, 2009. We are unable to estimate future loss of earnings as a result of such changes.

Item 12. Description of Securities Other Than Equity Securities

(Only Item 12.D.3-4 are applicable.)

D. American Depositary Shares

3. Fees and charges that a holder of American Depositary Receipts may have to pay, either directly or indirectly.

<u>Category</u>	<u>Depositary Actions</u>	<u>Associated Fee</u>
(a) Depositing or substituting the underlying shares	Each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities	\$5.00 for each 100 ADSs (or portion thereof)
(b) Receiving or distributing dividends	Distribution of stock dividends	\$5.00 for each 100 ADSs (or portion thereof)
	Distribution of cash	\$0.02 or less per ADS (or portion thereof)
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	\$5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities or cancellation or reduction of ADSs for any other reason	\$5.00 for each 100 ADSs (or portion thereof)
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	\$1.50 per ADS
(f) General depositary services, particularly those charged on an annual basis	Other services performed by the depositary in administering the ADRs	\$0.02 per ADS (or portion thereof) per calendar year which may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depositary during each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions

<u>Category</u>	<u>Depository Actions</u>	<u>Associated Fee</u>
	Custodian and share register related issues, including, without limitation, any inspections of the share register maintained by the Russian share registrar or other confirmation of holdings of deposited securities	\$0.01 or less per ADS (or portion thereof) per year which fee shall be assessed against holders of record as of the date set by the depository not more often than once each calendar year
(g) Expenses of the depository	<p>Certain fees and expenses incurred by the depository bank and certain taxes and governmental charges in connection with:</p> <p>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</p> <p>depository or its custodian's compliance with applicable law, rule or regulation;</p> <p>stock transfer or other taxes and other governmental charges;</p> <p>cable, telex, facsimile transmission or delivery charges;</p> <p>if applicable, transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities (which are payable by persons depositing shares or holders withdrawing deposited securities);</p> <p>expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency);</p> <p>any other charge payable by depository or its agents including, without limitation, the custodian, or the agents of the depository's agents in connection with the servicing of the shares or other deposited securities</p>	Charges to be assessed against holders as of the record date or dates set by the depository and payable at the sole discretion of the depository by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions

4. All fees and other direct and indirect payments made by the depository to the foreign issuer of the deposited securities.

The Depository has agreed to reimburse to us or pay on our behalf certain reasonable expenses related to our ADS program and incurred by us in connection with the program (such as NYSE listing fees, legal and accounting fees incurred with preparation of Form 20-F and on going SEC compliance and listing requirements, investor relations expenses, among others). The Depository has covered all such expenses incurred by us during 2009 in the amount of \$3.2 million. The amounts the Depository reimbursed or paid are not perforce related to the fees collected by the depository from ADS holders.

As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice estimated to total \$0.2 million.

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

None.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

None.

Item 15. *Controls and Procedures*

(a) *Disclosure Controls and Procedures.*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of December 31, 2009, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b) *Management's annual report on internal control over financial reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control—Integrated Framework. As a result of management's evaluation of our internal control over financial reporting, management concluded that our internal control over financial reporting as of December 31, 2009 was effective.

Management excluded from its assessment the internal control over financial reporting at Comstar and its subsidiaries, which we acquired on October 12, 2009 and whose financial statements constitute \$568.8 million and \$2,204.8 million of net assets and total assets, respectively, \$1,484.8 million of revenues and \$146.1 million of net loss attributable to the Group of the consolidated financial statements as of and for year ended December 31, 2009. Such exclusion was in accordance with SEC's guidance that an assessment of a recently acquired business may be omitted in management's report on internal controls over financial reporting in the year of acquisition.

There were no changes in our internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of December 31, 2009, has been audited and assessed as effective by independent registered public accounting firm ZAO Deloitte & Touche CIS who has also audited and reported on our consolidated financial statements.

(c) *Attestation Report of Independent Registered Public Accounting Firm.*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Open Joint-Stock Company “Mobile TeleSystems”:

We have audited the internal control over financial reporting of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (the “Group”) as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Open Joint-Stock Company “Comstar—United TeleSystems” and its subsidiaries, which were acquired on October 12, 2009 and whose financial statements constitute \$568.8 million and \$2,204.8 million of net assets and total assets, respectively, \$1,484.8 million of revenues and \$146.1 million of net loss attributable to the Group of the consolidated financial statements as of and for the year ended December 31, 2009. Accordingly, our audit did not include the internal control over financial reporting at Open Joint-Stock Company “Comstar—United TeleSystems” and its subsidiaries. The Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the

risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Group and our report dated April 29, 2010 expressed an unqualified opinion on those financial statements.

/s/ ZAO Deloitte & Touche CIS
Moscow, Russia

April 29, 2010

(d) *Changes in internal control over financial reporting.*

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

Item 16A. *Audit Committee Financial Expert*

Our Board of Directors has determined that Paul J. Ostling is an “audit committee financial expert” as defined in Item 16A of Form 20-F. Mr. Ostling is “independent” as defined in Rule 10A-3 under the Exchange Act and current New York Stock Exchange listing rules applicable to us. For a description of Mr. Ostling’s experience, please see “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Key Biographies.”

Item 16B. *Code of Ethics*

We have adopted a Code of Ethics that applies to our senior officers, including our principal executive officer, principal financial officer and principal accounting officer.

The current version of our Code of Ethics was adopted on October 28, 2009. Whereas we formerly had two codes of ethics—one applicable to senior officers (including our principal executive officer, principal financial officer and principal accounting officer) and one more generally applicable to all employees—the new Code of Ethics applies to all of our officers, directors and employees. The new Code of Ethics did not substantively alter any element enumerated in Item 16B(b) of the Form 20-F as compared with the code of ethics that was in effect prior to the approval of the new Code of Ethics.

A copy of our Code of Ethics is available on our website at www.mtsgsm.com.

Item 16C. *Principal Accountant Fees and Services*

ZAO Deloitte & Touche CIS has served as our Independent Registered Public Accounting Firm for each of the fiscal years in the three-year period ended December 31, 2009, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the

aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS in 2008 and 2009.

	Year ended December 31,	
	2008	2009
	(in thousands)	
Audit Fees	\$2,933.2	\$3,012.9
Audit-Related Fees	19.0	30.5
Tax Fees	—	49.7
All Other Fees	—	—
Total	<u>\$2,952.2</u>	<u>\$3,093.1</u>

Audit Fees

The Audit Fees for the years ended December 31, 2008 and 2009 were for the reviews and integrated audits of our consolidated financial statements prepared in accordance with U.S. GAAP, statutory audits and services associated with the documents issued in connection with securities offerings. Integrated audits include all services necessary to form an opinion on our consolidated financial statements and to report on our internal controls over financial reporting.

Audit-Related Fees

The Audit-Related Fees for the years ended December 31, 2008 and 2009 mainly included fees for agreed-upon procedures related to audited financial statements.

Tax Fees

The Tax Fees for the year ended December 31, 2009 include the fees principally related to tax compliance and advice.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS for all services performed for the fiscal year ended December 31, 2009.

Comstar Accountant Fees and Services

ZAO Deloitte & Touche CIS has also served as the Independent Registered Public Accounting Firm of Comstar for each of the fiscal years in the three-year period ended December 31, 2009. As we acquired a controlling stake in Comstar in October 2009, our Audit Committee did not pre-approve the engagement terms and fees of ZAO Deloitte & Touche CIS for services performed for Comstar and its subsidiaries for the fiscal year ended December 31, 2009 and previous years, and the fees paid by Comstar to ZAO Deloitte & Touche CIS are not included in the table above.

Our Audit Committee is expected to pre-approve the engagement terms and fees of ZAO Deloitte & Touche CIS for all services to be provided to the Company and its subsidiaries, including Comstar, for the fiscal year ended December 31, 2010.

The following table presents the aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS in 2008 and 2009.

	Year ended December 31,	
	2008	2009
	(in thousands)	
Audit Fees	\$1,459.3	\$1,507.8
Audit-Related Fees	—	100.0
Tax Fees	—	—
All Other Fees	—	—
Total	<u>\$1,459.3</u>	<u>\$1,607.8</u>

Audit Fees

The Audit Fees for the years ended December 31, 2008 and 2009 were for the audits and reviews of the consolidated financial statements of Comstar and MGTs prepared in accordance with U.S. GAAP and statutory audits.

Audit-Related Fees

Audit-Related Fees for the year ended December 31, 2009 were for due diligence related to acquisitions.

Item 16D. Exemption from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On September 5, 2006, our Board of Directors authorized a share repurchase program, allowing our wholly-owned subsidiary MTS-Bermuda to repurchase ADSs representing up to 10% of our total outstanding shares over a period of twelve months ending August 31, 2007. On September 4, 2007, the Board of Directors extended the program through August 31, 2008, and on July 31, 2008, the Board of Directors further extended the program through September 1, 2009. The purchases may be made through the open market and private block transactions pursuant to Rule 10b5-1 plans, privately negotiated transactions or other means in accordance with the requirements of the Securities and Exchange Commission as well as other applicable legal requirements and factors. The share repurchase program does not obligate us to acquire a particular number of ADSs, and the program may be suspended or discontinued at our sole discretion. The repurchases could be funded through our own cash flows, commercial paper program or potentially through existing credit facilities. The execution of the program will depend on an on-going assessment of market conditions, and the program may be extended at any time. During the years ended December 31, 2008, 2007 and 2006, we repurchased through MTS-Bermuda 39,431,500, 17,402,835 and 11,161,000 of our shares in the form of ADSs at an average prices of \$78.5, \$73.1 and \$49.2 per ADS for a total amounts of \$619.1 million, \$254.4 million and \$110.0 million, respectively.

The following table sets forth, for each month in 2008 and for the year as a whole, the total number of our ADSs repurchased by MTS-Bermuda pursuant to the share repurchase plan described above, the average price paid per ADS, the number of ADSs that were purchased as part of the

publicly announced share repurchase plan and the maximum number of ADSs that, at that date, remained eligible for purchases under such plan.

<u>Period</u>	<u>Total Number of ADSs Purchased⁽¹⁾</u>	<u>Average Price Paid per ADS</u>	<u>Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of shares that May Yet Be Purchased Under the Plan</u>
2008				
January 1-31	2,706,400	85.9	8,419,167	194,731,730
February 1-28	1,975,500	80.2	10,394,667	193,743,980
March 1-31	404,400	79.2	10,799,067	193,541,780
April 1-30	—	—	10,799,067	193,541,780
May 1-31	—	—	10,799,067	193,541,780
June 1-30	—	—	10,799,067	193,541,780
July 1-31	2,068,300	70.2	12,867,367	192,647,356
August 1-31	731,700	69.7	13,599,067	192,281,506
September 1-30	—	—	13,599,067	189,114,417
October 1-31	—	—	13,599,067	188,505,280
November 1-30	—	—	13,599,067	188,505,280
December 1-31	—	—	13,599,067	188,505,280
Total	7,886,300	78.5	13,599,067	188,505,280

(1) All purchases were made pursuant to the publicly announced share repurchase plan described above in the open market and privately negotiated transactions effected on the New York Stock Exchange.

In addition, following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased 37,762,257 of our ordinary shares from investors who voted against or abstained from voting on the merger for a total amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase), or 10% of our net assets as of March 31, 2008 calculated according to Russian accounting standards. See “Item 3. Key Information—D. Risk Factors—Legal Risks and Uncertainties—Shareholder rights provisions under Russian law could impose additional obligations and costs on us.”

We did not repurchase any shares or ADSs in the year ended December 31, 2009.

See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders.”

Item 16F. *Change in Registrant’s Certifying Accountant*

Not applicable.

Item 16G. *Corporate Governance*

We are a company organized under the laws of the Russian Federation and qualify as a foreign private issuer as such term is defined in Rule 3b-4 of the Exchange Act. In accordance with the NYSE corporate governance rules, listed companies that are foreign private issuers are permitted in some circumstances to follow home country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. In addition, foreign private issuers listed on the NYSE must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the

NYSE. With regard to our corporate governance practices, these differences can be summarized as follows:

- For U.S. companies, the NYSE standards require that a majority of directors be independent, as determined by the board. Russian law does not require that a majority of our directors be independent. Of our nine directors, three have been determined by the board to be independent in accordance with the independence standards set forth in SEC Rule 10A-3 and Section 303A.02 of the NYSE Listed Company Manual.
- For U.S. companies, the NYSE standards require that the audit committee have a minimum of three members. Russian law does not contain such a requirement. Our audit committee is comprised of two members.
- For U.S. companies, the NYSE standards require that non-management directors meet at regularly scheduled executive sessions without management. Russian law does not contain such a requirement. However, our audit committee and remuneration and appointments committee are comprised of independent directors, who meet on a regular basis in connection with their work on these committees.
- For U.S. companies, the NYSE standards require that listed companies have a nominating/corporate governance committee and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as well as annual performance evaluations of the committee.

We do not currently have a nominating/corporate governance committee. We have a corporate conduct and ethics committee comprised of directors and members of management that is responsible for developing and implementing standards for corporate governance and ethics and making recommendations to the Board of Directors on developing our strategy in the area of corporate governance and ethics. This committee is also responsible for conducting annual performance evaluations of the Board of Directors.

We have a remuneration and appointments committee comprised of three independent directors. This committee functions pursuant to bylaws approved by the Board of Directors specifying the committee's purpose, duties and responsibilities. The committee is primarily responsible for recommending appointments to key managerial posts, developing a set of requirements and criteria for directors and management executives and developing a remuneration structure and compensation levels for the Board of Directors, the audit committee and management executives (including the CEO).

- For U.S. companies, the NYSE standards require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions. Under Russian law, such approval from shareholders is not required, and our equity compensation plans and material revisions thereto are currently approved by the Board of Directors.
- For U.S. companies, the NYSE standards require the adoption and disclosure of corporate governance guidelines addressing certain subjects. Our corporate governance guidelines are consistent with what is required under Russian law and are set forth in our Charter, in the bylaw on our Board of Directors and in the bylaws of our various committees.

In accordance with the corporate governance rules of the NYSE applicable to foreign private issuers, we also disclose these differences between our corporate governance practices and those required by the NYSE of listed U.S. companies on our internet website at www.mtsgsm.com.

PART III

Item 17. Financial Statements

See instead Item 18.

Item 18. Financial Statements

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

	<u>Page</u>
REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008 AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007:	
Consolidated statements of financial position as of December 31, 2009 and 2008	F-3
Consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007	F-5
Consolidated statements of changes in shareholders' equity for the years ended December 31, 2009, 2008 and 2007	F-6
Consolidated statements of cash flows for the years ended December 31, 2009, 2008 and 2007	F-8
Notes to the consolidated financial statements	F-10

Item 19.

Exhibits No.	Description
1.1	Charter of Mobile TeleSystems OJSC, restated version no. 8, as approved by the General Meeting of Shareholders of Mobile TeleSystems OJSC held on June 24, 2010 (English Translation).*
2.1	Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
2.2	Amendment No. 1 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(2) to Form F-6 (Registration No 333-12008).
2.3	Amendment No. 2 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(3) to Form F-6 (Registration No. 333-121240).
2.4	Amendment No. 3 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(4) to Form F-6 (Registration No. 333-145190).
2.5	Amendment No. 4 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(5) to Form F-6 (Registration No. 333-166178).
4.1	Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, on Form 20-F.

Exhibits No.	Description
4.2	Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
4.3	Loan Agreement between Mobile Telesystems Open Joint-Stock Company and MTS International Funding Limited dated 21 June 2010.
4.4	Non-Revolving Credit Facility Agreement No. 9656 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation).
4.5	Non-Revolving Credit Facility Agreement No. 9657 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation).
4.6	Non-Revolving Credit Facility Agreement No. 9463 between Joint Stock Commercial Savings Bank of the Russian Federation and OAO “COMSTAR—Integrated TeleSystems” dated June 8, 2007 (English Translation).
4.7	Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Bank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Limited as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated April 21, 2006 is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005, on Form 20-F.
4.8	Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (Eluosi), Bank of China (UK) Limited, Joint-Stock Company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank PLC, ING Bank N.V., J.P. Morgan PLC, Societe Generale Corporate and Investment Banking Paris, Unicredit Bank Austria AG, WestLB AG London Branch and ZAO Unicredit Bank as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated May 18, 2009 is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.
4.9	Agreement for the acquisition of 155,310,126 shares of Joint Stock Company COMSTAR—United TeleSystems and 6,715,140,080 shares of Closed Joint Stock Company United—TeleSystems dated October 12, 2009.
4.10	MTS License No. 61443 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the Republic of Buryatiya, Sakha (Yakutia), Khabarovsk, Primorsky, Kamchatka, Zabaykalsky, Chukotsk, Jewish Autonomous Region, Amur, Irkutsk, Magadan, Sakhalin (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.
4.11	MTS License No. 33911 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Rostov Region (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.

Exhibits No.	Description
4.12	MTS License No. 58749 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.
4.13	MTS License No. 50789 for provision of mobile radiotelephone communication services using IMT-2000/UMTS mobile radiotelephone networks in the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.53 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.
4.14	UMC License No. 720189 for provision of communication services using the NMT-450, GSM-900, PSN and DCS-1800 networks (English translation) is incorporated herein by reference to Exhibit 4.54 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.
4.15	UMC License No. 120375 for provision of communication services using the CDMA-450 network (English translation) is incorporated herein by reference to Exhibit 4.55 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.
4.16	MTS License No. 46008 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.42 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.17	MTS License No. 49808 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.43 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.18	MTS License No. 49809 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Bashkortostan Republic (English translation) is incorporated herein by reference to Exhibit 4.44 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.19	MTS License No. 49810 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.45 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.20	MTS License No. 56081 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territories of the Karelia Republic, the Nenets Autonomous District; the Arkhangelsk, Vologodsk, Kaliningrad, Leningrad, Murmansk, Novgorod, and Pskov regions and city of St. Petersburg (English translation) is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.

Exhibits No.	Description
4.21	MTS License No. 56082 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the city of Moscow and the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.47 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.22	MTS License No. 56112 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Belgorod, Bryansk, Vladimir, Voronezh, Ivanov, Kaluga, Kostroma, Kursk, Liptsk, Nizhny Novgorod, Orel, Ryazan, Smolensk, Tambov, Tver, Tula, and Yaroslavl regions (English translation) is incorporated herein by reference to Exhibit 4.48 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.23	MTS License No. 56113 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Udmurt Republic, Perm Territory; Khanty-Mansyisk-Ugra and Yamalo-Nenets Autonomous Districts, the Sverdlovsk, Kirov, Chelyabinsk, Kurgan, Orenburg, and Tyumen regions (English translation) is incorporated herein by reference to Exhibit 4.49 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
4.24	MTS License No. 765 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Armenia Republic (English translation) is incorporated herein by reference to Exhibit 4.50 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.
8.1	List of Subsidiaries of Mobile TeleSystems OJSC.
12.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Annual Report on Form 20-F of Mobile TeleSystems OJSC for the year ended December 31, 2009, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial position, (ii) consolidated statements of operations, (iii) consolidated statements of changes in shareholders' equity, (iv) consolidated statements of cash flows and (v) notes to the consolidated financial statements.**

* Approved at Annual Meeting of Shareholders on June 24, 2010 and will become effective upon registration with the Federal Tax Service.

** Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 28, 2010

MOBILE TELESYSTEMS OJSC

By: /s/ MIKHAIL V. SHAMOLIN
Name: Mikhail V. Shamolin
Title: President and Chief Executive Officer

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008 AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007:	
Consolidated statements of financial position as of December 31, 2009 and 2008	F-3
Consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007	F-5
Consolidated statements of changes in shareholders' equity for the years ended December 31, 2009, 2008 and 2007	F-6
Consolidated statements of cash flows for the years ended December 31, 2009, 2008 and 2007	F-8
Notes to the consolidated financial statements	F-10

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Open Joint-Stock Company “Mobile TeleSystems”

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (the “Group”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial position of the Group as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, 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 noncontrolling interests.

As discussed in Note 2 to the consolidated financial statements, on October 12, 2009, the Group acquired 50.91% of Open Joint-Stock Company “Comstar—United TeleSystems” from Joint Stock Financial Corporation “Sistema”, the majority shareholder of the Group, resulting in a change in reporting entity. The transaction was accounted for as a transaction under common control. Assets and liabilities were transferred at historical cost. The change in reporting entity was accounted for in a manner similar to a pooling of interests which has been reflected retrospectively from the first period presented herein.

Further, as discussed in Note 14 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 14. 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2009 based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2010 expressed an unqualified opinion on the Group’s internal control over financial reporting.

Moscow, Russia
April 29, 2010, except for Note 31,
as to which the date is June 25, 2010

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009 AND 2008

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

	December 31,	
	2009	2008 (restated— see Note 2)
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	\$ 2,522,831	\$ 1,121,669
Short-term investments, including related party amounts of \$13,413 and \$339,396 (Note 5)	217,210	360,117
Trade receivables, net (Note 6)	593,102	443,184
Accounts receivable, related parties (Note 25)	19,973	70,620
Inventory and spare parts (Note 7)	238,693	141,113
Prepaid expenses, including related party amounts of \$1,146 and \$12,883	356,530	346,399
Deferred tax assets (Note 23)	212,687	213,091
VAT receivable	109,928	129,598
Other current assets, including assets held for sale of \$18,519 and \$46,426 (Note 2)	124,002	196,632
Total current assets	4,394,956	3,022,423
PROPERTY, PLANT AND EQUIPMENT , net of accumulated depreciation of \$5,095,168 and \$4,038,053 (Note 8), including advances given to related parties of \$30,667 and \$22,485	7,745,331	7,758,220
LICENSES , net of accumulated amortization of \$341,421 and \$295,056 (Notes 3 and 10)	364,722	488,381
GOODWILL (Notes 3 and 11)	803,773	469,471
OTHER INTANGIBLE ASSETS , net of accumulated amortization of \$1,277,417 and \$971,106 (Notes 3 and 12)	1,067,336	1,230,643
DEBT ISSUANCE COSTS , net of accumulated amortization of \$114,251 and \$83,360	127,069	37,737
INVESTMENTS IN AND ADVANCES TO ASSOCIATES (Note 13)	220,450	249,887
INVESTMENTS IN SHARES OF SVYAZINVEST (Note 14)	859,669	1,240,977
OTHER INVESTMENTS , including related party amounts of \$73,987 and \$85,720 (Note 15)	78,893	111,559
OTHER NON-CURRENT ASSETS , including restricted cash of \$6,389 and \$23,572 (Note 16), deferred tax assets of \$97,355 and \$63,507 (Note 23) and related party amounts of \$1,615 and \$1,006	118,546	107,881
Total assets	\$15,780,745	\$14,717,179

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
AS OF DECEMBER 31, 2009 AND 2008
(Amounts in thousands of U.S. Dollars, except share and per share amounts)

	December 31,	
	2009	2008 (restated— see Note 2)
CURRENT LIABILITIES:		
Accounts payable, related parties (Note 25)	\$ 87,403	\$ 226,482
Trade accounts payable	504,967	875,428
Deferred connection fees, current portion (Note 19)	46,930	55,012
Subscriber prepayments and deposits	501,351	438,723
Debt, current portion (Note 17), including related party amounts of \$10,278 and \$76,710 (Note 25)	780,514	1,677,529
Notes payable, current portion (Note 17)	1,218,084	10,435
Capital lease obligation, current portion, including related party amounts of \$1,344 and \$5,693 (Note 9)	3,173	8,253
Income tax payable	16,136	23,102
Accrued liabilities (Note 22)	825,413	563,317
Bitel liability (Note 30)	170,000	170,000
Other payables	103,962	74,760
Total current liabilities	4,257,933	4,123,041
LONG-TERM LIABILITIES:		
Notes payable, net of current portion (Note 17)	1,391,549	1,578,540
Debt, net of current portion (Note 17), including related party amounts of \$15,929 and \$18,066 (Note 25)	4,935,275	2,089,488
Capital lease obligation, net of current portion, including related party amounts of \$146 and \$1,352 (Note 25)	921	4,030
Deferred connection fees, net of current portion (Note 19)	116,168	119,213
Deferred taxes (Note 23)	298,453	190,712
Retirement and post-retirement obligations (Note 27)	25,537	29,250
Property, plant and equipment contributions (Note 20)	90,349	93,197
Long term accounts payable, related parties (Note 25)	38,273	36,807
Other long-term liabilities	140,957	87,246
Total long-term liabilities	7,037,482	4,228,483
Total liabilities	11,295,415	8,351,524
COMMITMENTS AND CONTINGENCIES (Note 30)	—	—
Redeemable noncontrolling interests	82,261	145,748
SHAREHOLDERS' EQUITY:		
Common stock (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of December 31, 2009 and 2008, 777,396,505 of which are in the form of ADS as of December 31, 2009 and 2008) (Note 26)	50,558	50,558
Treasury stock (76,456,876 and 108,273,338 common shares at cost as of December 31, 2009 and 2008)	(1,054,926)	(1,426,753)
Additional paid-in capital	—	1,090,521
Accumulated other comprehensive loss	(754,524)	(451,264)
Retained earnings	5,135,842	5,642,856
Nonredeemable noncontrolling interest	1,026,119	1,313,989
Total shareholders' equity	4,403,069	6,219,907
Total liabilities and shareholders' equity	\$15,780,745	\$14,717,179

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, except share and per share amounts)

	Years ended December 31,		
	2009	2008 (restated— see Note 2)	2007 (restated— see Note 2)
NET OPERATING REVENUE			
Services revenue and connection fees (including related party amounts of \$72,149, \$209,990 and \$178,312, respectively)	\$ 9,505,837	\$ 11,822,006	\$ 9,634,698
Sales of handsets and accessories(including related party amounts of \$20,689, \$1,500 and \$nil, respectively)	317,705	78,928	89,208
	9,823,542	11,900,934	9,723,906
Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of \$50,389, \$232,689 and \$161,500, respectively)	2,004,690	2,447,210	1,863,797
Cost of handsets and accessories	349,304	169,925	158,848
General and administrative expenses (including related party amounts of \$68,903, \$53,870 and \$43,416, respectively) (Note 28)	1,968,193	2,159,777	1,853,624
Provision for doubtful accounts	109,632	154,782	67,720
Impairment of long-lived assets	75,064	1,333	18,556
Impairment of goodwill	—	49,891	—
Other operating expenses (including related party amounts of \$12,207, \$12,008 and \$8,349, respectively)	173,622	188,310	126,308
Sales and marketing expenses (including related party amounts of \$156,733, \$241,814 and \$200,600, respectively)	755,902	931,245	775,240
Depreciation and amortization expenses	1,839,568	2,151,125	1,674,885
Net operating income	2,547,567	3,647,336	3,184,928
CURRENCY EXCHANGE AND TRANSACTION LOSS/(GAIN)	252,945	565,663	(161,856)
OTHER EXPENSES/(INCOME)			
Interest income (including related party amounts of \$53,940, \$55,018 and \$26,377)	(108,543)	(70,860)	(53,507)
Interest expense, net of capitalized interest (including related party amounts of \$3,613, \$9,400 and \$4,270)	571,719	233,863	192,237
Equity in net income of associates (Note 13)	(60,313)	(75,688)	(71,116)
Change in fair value of derivatives (Note 21)	5,420	41,554	145,860
Impairment of investments (including related party amounts of \$349,370, \$nil and \$21,814) (Notes 14,15)	368,355	—	22,691
Other expenses, net (including related party amounts of \$nil, \$2,967 gain and \$5,919 loss)	23,254	22,745	38,781
Total other expenses, net	799,892	151,614	274,946
Income before provision for income taxes and noncontrolling interests	1,494,730	2,930,059	3,071,838
PROVISION FOR INCOME TAXES (Note 23)	503,955	742,881	852,015
NET INCOME	990,775	2,187,178	2,219,823
NET (LOSS)/INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST	(13,704)	187,059	132,408
NET INCOME ATTRIBUTABLE TO THE GROUP	1,004,479	2,000,119	2,087,415
Weighted average number of common shares outstanding—basic (Note 2)	1,885,750,147	1,921,934,091	1,973,354,348
Weighted average number of common shares outstanding—diluted (Note 2)	1,885,750,147	1,921,934,091	1,974,074,908
Earnings per share, basic and diluted (Note 2)	\$ 0.53	\$ 1.04	\$ 1.06

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total equity attributable to the Group	Non-redeemable noncontrolling interest	Total equity	Redeemable noncontrolling interest
	Shares	Amount	Shares	Amount							
Balances at January 1, 2007	1,993,326,138	\$50,558	(15,922,128)	\$ (114,778)	\$ 1,148,074	\$ 76,515	\$ 3,578,787	\$ 4,739,156	\$1,231,058	\$ 5,970,214	\$ —
Comprehensive income:											
Net income	—	—	—	—	—	—	2,087,416	2,087,416	127,869	2,215,285	4,539
Currency translation adjustment, net of tax of \$14,513	—	—	—	—	(214)	360,263	—	360,049	90,621	450,670	—
Effect of change in functional currency	—	—	—	—	—	358,997	—	358,997	—	358,997	—
Change in fair value of interest rate swaps, net of tax of \$352 (Note 21)	—	—	—	—	—	(1,114)	—	(1,114)	—	(1,114)	—
Unrecognized actuarial gains, net of tax of \$nil (Note 27)	—	—	—	—	—	(4,781)	—	(4,781)	(4,308)	(9,089)	—
Total comprehensive income								2,800,567	214,182	3,014,749	
Dividends declared	—	—	—	—	—	—	(742,475)	(742,475)	(35,993)	(778,468)	—
Stock options of MTS exercised (Note 24)	—	—	848,126	869	5,188	—	—	6,057	—	6,057	—
Call option of Comstar-UTS exercised (Note 21)	—	—	—	—	(1,756)	(4,169)	72,833	66,908	478,774	545,682	—
Acquisition of K-Telecom, net of tax (Note 3)	—	—	—	—	—	—	(76,069)	(76,069)	—	(76,069)	85,232
Accrued compensation costs (Note 24)	—	—	—	—	2,486	—	—	2,486	(309)	2,177	—
Repurchase of common stock of MTS (Note 26)	—	—	(17,402,835)	(254,443)	—	—	—	(254,443)	—	(254,443)	—
Increase in ownership in subsidiaries (Note 3)	—	—	—	—	1,450	—	—	1,450	(63,071)	(61,621)	—
Distribution to the controlling shareholder of Stream-TV	—	—	—	—	(8,473)	—	—	(8,473)	(7,635)	(16,108)	—
Effect of FIN No. 48 implementation	—	—	—	—	—	—	(9,683)	(9,683)	(2,929)	(12,612)	—
Balances at December 31, 2007	1,993,326,138	\$50,558	(32,476,837)	\$ (368,352)	\$ 1,146,755	\$ 785,711	\$ 4,910,809	\$ 6,525,481	\$1,814,077	\$ 8,339,558	\$ 89,771
Comprehensive income/(loss):											
Net income	—	—	—	—	—	—	2,000,119	2,000,119	177,261	2,177,380	9,798
Currency translation adjustment, net of tax of \$nil	—	—	—	—	—	(1,233,846)	—	(1,233,846)	(303,866)	(1,537,712)	—
Change in fair value of interest rate swaps, net of tax of \$3,826 (Note 21)	—	—	—	—	—	(16,359)	—	(16,359)	—	(16,359)	—
Unrecognized actuarial gains, net of tax of \$nil (Note 27)	—	—	—	—	—	536	—	536	1,085	1,621	—
Total comprehensive income/(loss)								750,450	(125,520)	624,930	
Dividends declared	—	—	—	—	—	—	(1,221,893)	(1,221,893)	(38,196)	(1,260,089)	—
Stock options of MTS exercised (Note 24)	—	—	1,397,256	1,432	7,751	—	—	9,183	—	9,183	—
Put option of Comstar-UTS exercised (Note 21)	—	—	—	—	(9,358)	12,694	—	3,336	(274,472)	(271,136)	—
Accrued compensation costs (Note 24)	—	—	—	—	3,489	—	—	3,489	—	3,489	—
Repurchase of common stock of MTS (Note 26)	—	—	(77,193,757)	(1,059,833)	—	—	—	(1,059,833)	—	(1,059,833)	—
Reorganization of Comstar Direct (Note 3)	—	—	—	—	(6,539)	—	—	(6,539)	(20,283)	(26,822)	—
Change in fair value of noncontrolling interest of K-Telecom	—	—	—	—	—	—	(2,730)	(2,730)	—	(2,730)	2,730
Change in fair value of noncontrolling interest of Dagtelecom	—	—	—	—	—	—	(43,449)	(43,449)	—	(43,449)	43,449
Increase in ownership in subsidiaries (Note 3)	—	—	—	—	—	—	—	—	(6,352)	(6,352)	—
Cash paid by Comstar-UTS for the acquisition of Stream TV	—	—	—	—	(51,577)	—	—	(51,577)	(35,265)	(86,842)	—
Balances at December 31, 2008	1,993,326,138	\$50,558	(108,273,338)	\$ (1,426,753)	\$ 1,090,521	\$ (451,264)	\$ 5,642,856	\$ 4,905,918	\$1,313,989	\$ 6,219,907	\$145,748

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, except share amounts)

	Common stock		Treasury stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total equity attributable to the Group	Non- redeemable noncontrolling interest	Total equity	Redeemable noncontrolling interest
	Shares	Amount	Shares	Amount							
Balances at December 31, 2008	1,993,326,138	\$50,558	(108,273,338)	\$(1,426,753)	\$ 1,090,521	\$ (451,264)	\$ 5,642,856	\$ 4,905,918	\$1,313,989	\$ 6,219,907	\$145,748
Comprehensive income/(loss):											
Net income/(loss)	—	—	—	—	—	—	1,004,479	1,004,479	(18,063)	986,416	4,359
Currency translation adjustment, net of tax of \$7,910	—	—	—	—	—	(197,429)	—	(197,429)	(30,240)	(227,669)	(4,399)
Change in fair value of derivatives, net of tax of \$5,895 (Note 21)	—	—	—	—	—	(23,579)	—	(23,579)	—	(23,579)	—
Unrecognized actuarial losses, net of tax of \$nil (Note 27)	—	—	—	—	—	1,003	—	1,003	1,808	2,811	—
Total comprehensive income/(loss)								784,474	(46,495)	737,979	
Dividends declared	—	—	—	—	—	—	(1,221,381)	(1,221,381)	(1,005)	(1,222,386)	—
Accrued compensation costs (Note 24)	—	—	—	—	1,173	—	—	1,173	—	1,173	—
Acquisition of Comstar-UTS	—	—	—	—	(1,079,559)	—	(242,699)	(1,322,258)	—	(1,322,258)	—
Legal acquisition of Stream-TV (Note 3)	—	—	—	—	(1,616)	43	—	(1,573)	(1,470)	(3,043)	—
Change in fair value of noncontrolling interest of K-Telecom	—	—	—	—	—	—	7,495	7,495	—	7,495	(7,495)
Dividends paid to noncontrolling interest of K-Telecom	—	—	—	—	—	—	—	—	—	—	(12,503)
Increase in ownership in subsidiaries (Note 3)	—	—	31,816,462	371,827	(10,519)	(83,298)	(54,908)	223,102	(238,900)	(15,798)	(43,449)
Balances at December 31, 2009	1,993,326,138	\$50,558	(76,456,876)	\$(1,054,926)	\$ —	\$ (754,524)	\$ 5,135,842	\$ 3,376,950	\$1,026,119	\$ 4,403,069	\$ 82,261

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars)

	Years ended December 31,		
	2009	2008 (restated— see Note 2)	2007 (restated— see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 990,775	\$ 2,187,178	\$ 2,219,823
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,839,568	2,151,125	1,674,885
Currency exchange and transaction loss/(gain)	212,761	578,643	(168,083)
Impairment of investments	368,355	—	22,691
Impairment of long-lived assets	75,064	1,333	18,556
Impairment of goodwill	—	49,891	—
Debt issuance cost amortization	36,892	22,087	26,425
Amortization of deferred connection fees	(67,057)	(95,080)	(122,707)
Equity in net income of associates	(60,313)	(75,688)	(71,116)
Provision for doubtful accounts	109,632	154,782	67,720
Inventory obsolescence expense and other provisions	12,225	3,599	4,932
Deferred taxes	101,444	(206,102)	(85,021)
Gain from deconsolidation of a subsidiary	—	—	(8,874)
Write-off of not recoverable VAT receivable	9,652	48,374	17,516
Change in fair value of derivatives	5,420	41,554	145,860
Other non-cash items	6,153	(10,367)	16,787
Changes in operating assets and liabilities:			
Increase in accounts receivable	(216,654)	(162,908)	(173,621)
(Increase) / decrease in inventory	(111,998)	7,273	67,262
Decrease / (increase) in prepaid expenses and other current assets	14,676	(257,682)	49,840
Decrease in VAT receivable	8,914	128,335	12,567
Increase in trade accounts payable, accrued liabilities and other current liabilities	235,244	436,915	131,030
Dividends received	25,355	26,692	4,900
Net cash provided by operating activities	<u>3,596,108</u>	<u>5,029,954</u>	<u>3,851,372</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired	(270,540)	(86,951)	(1,087,031)
Purchases of property, plant and equipment	(1,942,402)	(2,207,861)	(1,633,942)
Purchases of intangible assets	(385,907)	(404,964)	(265,030)
Proceeds from sale of property, plant and equipment and assets held for sale	28,606	35,636	26,710
Purchases of short-term investments	(519,129)	(569,377)	(670,360)
Proceeds from sale of short-term investments	642,164	590,579	364,440
Purchase of a derivative financial instrument	—	(19,422)	—
Purchase of other investments	(613)	(49,922)	(18,574)
Proceeds from sales of other investments	44,003	425	38,745
Investments in and advances to associates	1,950	(3,654)	—
Decrease / (increase) in restricted cash	17,182	7,522	(2,278)
Net cash used in investing activities	<u>(2,384,686)</u>	<u>(2,707,989)</u>	<u>(3,247,320)</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars)

	Years ended December 31,		
	2009	2008 (restated— see Note 2)	2007 (restated— see Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock options exercised	—	9,183	6,057
Cash payments for the acquisition of Comstar-UTS, Stream TV and non-controlling interests (Note 3)	(1,333,418)	(109,442)	—
Repurchase of Comstar-UTS shares (Note 3)	—	(100,000)	(32)
Disposal of Comstar-UTS shares (Note 3)	—	—	322,237
Contributions from SMM, related party	—	4,439	—
Proceeds from issuance of notes	1,003,226	986,004	—
Repurchase of common stock	—	(1,059,833)	(254,443)
Repayment of notes	(9,182)	(565,074)	—
Notes and debt issuance cost	(105,137)	(6,693)	(1,863)
Capital lease obligation principal paid	(15,592)	(14,785)	(22,146)
Dividends paid	(1,261,728)	(1,144,719)	(794,311)
Proceeds from loans	3,598,100	894,803	1,362,695
Loan principal paid	(1,728,544)	(572,425)	(876,263)
Net cash provided by/ (used in) financing activities	147,725	(1,678,542)	(258,069)
Effect of exchange rate changes on cash and cash equivalents	42,015	(342,338)	112,717
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,401,162	301,085	458,700
CASH AND CASH EQUIVALENTS, beginning of the year	1,121,669	820,584	361,884
CASH AND CASH EQUIVALENTS, end of the year	\$ 2,522,831	\$ 1,121,669	\$ 820,584
SUPPLEMENTAL INFORMATION:			
Income taxes paid	\$ 432,066	\$ 1,035,095	\$ 937,448
Interest paid	510,784	285,212	265,054
Non-cash investing and financing activities:			
Contributed property, plant and equipment	\$ 3,213	\$ 3,194	\$ 6,299
Building contributed in the share capital of Sistema Mass Media	—	—	4,751
Additions to network equipment and software under capital lease	830	5,673	6,037
Purchase of Comstar-UTS' shares funded by issuing of the promissory note	—	365,552	—
Equipment acquired through vendor financing	27,983	13,198	2,770
Amounts owed for capital expenditures	236,364	604,641	383,834
Payable related to business acquisitions	37,985	31,719	14,639

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Business of the Group—Open Joint-Stock Company Mobile TeleSystems (“MTS OJSC”, or “the Company”) was incorporated on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS.

In these notes, “MTS” or the “Group” refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services, including voice and data transmission, internet access, various value added services through wireless and fixed lines as well as selling equipment and accessories. Group’s principal operations are located in Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol “MBT”. Since 2003 common shares of MTS OJSC have been traded on the Moscow Interbank Currency Exchange (“MICEX”).

During the year ended December 31, 2009 through a series of transactions the Group acquired a 61.97% stake in Open Joint-Stock Company Comstar—United TeleSystems (“Comstar-UTS”), a provider of fixed line telecommunication services in Russia and the CIS, from Joint-Stock Financial Corporation Sistema (“Sistema”) (Note 3). Acquisition of Comstar-UTS provided access to important growth markets in commercial and residential broadband which gives rise to the development of convergent telecommunication services.

During the year ended December 31, 2009, the Group started to expand its own retail network, operated by Russian Telephone Company CJSC, a wholly owned subsidiary of MTS OJSC. During 2009 following this strategy the Group acquired a number of Russian federal and regional mobile retailer operators (Note 3).

Ownership—As of December 31, 2009 and 2008, MTS’ shareholders of record and their respective percentage direct interests in outstanding shares were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Joint-Stock Financial Corporation Sistema	33.2%	33.7%
Sistema Holding Limited (“Sistema Holding”), a subsidiary of Sistema	10.1%	10.3%
Invest-Svyaz CJSC (“Invest-Svyaz”), a subsidiary of Sistema	8.4%	8.5%
VAST, Limited Liability Company (“VAST”), a subsidiary of Sistema	3.1%	3.2%
ADS Holders	40.6%	41.2%
Free float, GDR Holders and others	4.6%	3.1%
	<u>100.0%</u>	<u>100.0%</u>

The effective ownership of Sistema in MTS was 54.8% and 55.7% as of December 31, 2009 and 2008, respectively.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Accounting principles—The Group’s entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislations. The accompanying consolidated financial statements have been prepared in order to present MTS financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and are expressed in terms of U.S. Dollars.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities’ books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

Basis of consolidation—Wholly-owned and majority-owned subsidiaries where the Group has operating and financial control are consolidated. All intercompany accounts and transactions are eliminated upon consolidation. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in other investments in the consolidated statements of financial position. The Group’s share in the net income of unconsolidated associates is included in other income in the accompanying consolidated statements of operations and disclosed in Note 13. Results of operations of subsidiaries acquired are included in the consolidated statements of operations from the date of their acquisition.

The acquisition of Comstar-UTS, an entity under common control, in the fourth quarter of 2009 (Note 3) has resulted in change in the reporting entity. The consolidated financial statements presented for the periods subsequent to the acquisition include the accounts of MTS OJSC and its subsidiaries, in which MTS OJSC exercises control through the ownership of majority voting interest. As the Group and Comstar-UTS are under the common control of Sistema, the assets and liabilities acquired were recorded at the historical carrying value and the consolidated financial statements were retroactively

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

restated to reflect the Group as if Comstar-UTS had been owned since the beginning of the earliest period presented. The following table presents the significant effects of this restatement.

	<u>As previously reported</u>	<u>Comstar-UTS</u>	<u>Eliminations and other*</u>	<u>As restated</u>
As of December 31, 2008:				
Total current assets	\$ 2,368,734	\$ 673,577	\$(19,888)	\$ 3,022,423
Goodwill	377,982	91,489	—	469,471
Property, plant and equipment, net	5,900,129	1,858,091	—	7,758,220
Intangible assets, net	1,392,131	230,050	96,843	1,719,024
Investments in shares of Svyasinvest	—	1,240,977	—	1,240,977
Other non-current assets	409,358	98,143	(437)	507,064
Total assets	<u>10,448,334</u>	<u>4,192,327</u>	<u>76,518</u>	<u>14,717,179</u>
Total current liabilities	3,307,141	852,192	(36,292)	4,123,041
Total long-term liabilities	3,062,798	1,133,836	31,849	4,228,483
Total liabilities	<u>6,369,939</u>	<u>1,986,028</u>	<u>(4,443)</u>	<u>8,351,524</u>
Redeemable noncontrolling interest	—	—	145,748	145,748
Shareholders' equity attributable to the Group	4,054,896	798,517	52,505	4,905,918
Nonredeemable noncontrolling interests	23,499	703,891	586,599	1,313,989
Total equity	<u>\$ 4,078,395</u>	<u>\$1,502,408</u>	<u>\$639,104</u>	<u>\$ 6,219,907</u>

* Includes the effect of implementation of the provisions of EITF Topic D-98 (see Recently adopted accounting pronouncements).

	<u>As previously reported</u>	<u>Comstar-UTS</u>	<u>Eliminations and other*</u>	<u>As restated</u>
For the year ended December 31, 2008:				
Net operating revenue	\$10,245,293	\$1,765,226	\$(109,585)	\$11,900,934
Net operating income	3,203,492	441,192	2,652	3,647,336
Income before provision for income taxes and noncontrolling interests	2,570,684	355,134	4,241	2,930,059
Net income	1,940,063	242,694	4,421	2,187,178
Net income attributable to the Group	1,930,419	109,912	(40,212)	2,000,119
EPS, basic and diluted, U.S. Dollars	\$ 1.00			\$ 1.04

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

	As previously reported	Comstar-UTS	Eliminations and other*	As restated
For the year ended December 31, 2007:				
Net operating revenue	\$ 8,252,378	\$1,562,291	\$ (90,763)	\$ 9,723,906
Net operating income	2,733,846	451,635	(553)	3,184,928
Income before provision for income taxes and noncontrolling interests	2,829,088	245,517	(2,767)	3,071,838
Net income	2,090,818	131,597	(2,592)	2,219,823
Net income attributable to the Group	2,071,504	35,176	(19,265)	2,087,415
EPS, basic and diluted, U.S. Dollars	\$ 1.05			\$ 1.06

* Includes the effect of implementation of the provisions of EITF Topic D-98 (see Recently adopted accounting pronouncements).

As of December 31, 2009 and 2008, the Company had investments in the following significant legal entities:

	Accounting method	December 31,	
		2009	2008
Sibintertelecom	Consolidated	100.0%	100.0%
Dagtelecom	Consolidated	100.0%	74.9%
Russian Telephone Company (“RTC”)	Consolidated	100.0%	100.0%
Evrotel	Consolidated	100.0%	—
Ukrainian Mobile Communications (“UMC”)	Consolidated	100.0%	100.0%
MTS Finance(1)	Consolidated	100.0%	100.0%
Uzdunrobita	Consolidated	100.0%	100.0%
BCTI	Consolidated	100.0%	100.0%
MTS Bermuda(2)	Consolidated	100.0%	100.0%
K-Telekom	Consolidated	80.0%	80.0%
Comstar-UTS	Consolidated	64.0%	59.4%
MTS Belarus	Equity	49.0%	49.0%
TS-Retail	Equity	34.6%	33.9%

(1) Represents beneficial ownership.

(2) A wholly-owned subsidiary established to repurchase the Group’s ADSs.

Functional currency translation methodology—As of December 31, 2009, the functional currencies of the Group entities were the following:

- For entities incorporated in Russian Federation, MTS Bermuda and MTS Finance—Russian ruble (“RUB”);

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

- For UMC—Ukrainian hryvnia;
- For Turkmen branch of BCTI—Turkmenian manat;
- For K-Telecom—Armenian dram;
- For MTS-Belarus—Belarusian ruble; and
- For Uzdunrobita and other entities—U.S. Dollar (“USD”).

The Group’s reporting currency is U.S. Dollars. Remeasurement of financial statements into functional currencies where applicable and translation of financial statements into U.S. Dollars has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and transaction gains and losses in the accompanying consolidated statements of operations.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end statement of financial position items have been translated into U.S. Dollars at the period-end exchange rate. Revenues and expenses have been translated at average exchange rate for the period. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

Management 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 during the reporting period. Actual results could differ from those estimates.

Significant estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, valuation of assets acquired and liabilities assumed in business combinations, income tax benefits, the recoverability of investments, goodwill, intangible assets and other long-lived assets, certain accrued liabilities and valuation of financial instruments.

Cash and cash equivalents—Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months.

Short-term investments and loans—Short-term investments generally represent investments in promissory notes, loans and time deposits which have original maturities in excess of three months but less than twelve months. These investments are being accounted for at amortized cost.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Accounts receivable—Accounts receivable are stated net of allowance for doubtful accounts. Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

Provision for doubtful accounts—The Group provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable, advances given, loans and other receivables. Such allowance reflects either specific cases, collection trends or estimates based on evidence of collectibility. For changes in the provision for doubtful loans and accounts receivable see Notes 5 and 6, respectively.

Prepaid expenses—Prepaid expenses primarily comprise advance payments made to vendors for inventory and services.

Inventory—Inventory mainly consists of handsets and accessories held for sale, cables and spare parts to be used for equipment maintenance within the next twelve months and advertising materials. Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method.

Handsets and accessories held for sale are expensed when sold. The Group periodically assesses its inventories for obsolete and slow-moving stock.

Value-added tax ("VAT")—Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Assets held for sale—In 2006, the Group management decided to discontinue use of certain telecommunication equipment ("Lucent equipment") 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 fair value of these assets held for sale was considered a Level 3 valuation as it was based on significant unobservable inputs. The equipment had a fair value less costs to sell of approximately \$46.4 million and \$67.4 million as of December 31, 2009 and 2008, respectively.

The Group initially negotiated with a third party to sell this equipment during the year ended December 31, 2007. However, due to the wide range of geographical areas in which the equipment was located and its diversity, the Group reconsidered the time needed to sell the equipment in 2007 and, as a result, the original plan of sale was extended. The amount of Lucent equipment sold during 2008 and 2009 equaled \$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 statement of financial position as of December 31, 2009.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Due to the fact that the initial plan of sale was reconsidered, the fair value of Lucent equipment was determined using the discounted cash flows based on an updated expected timing of sale. As a result, an impairment loss on Lucent equipment in the amount of \$6.8 million was recorded as other operating expenses in the Group’s consolidated statement of operations for the year ended December 31, 2007. This loss is entirely attributable to the “Russia Mobile” operating reportable segment. No impairment loss on Lucent equipment was recorded during the years ended December 31, 2008 and 2009.

Long-term investments and loans—Long-term financial instruments consist primarily of long-term investments and loans and long-term debt. Since quoted market prices are not readily available for all of its long-term investments and loans, the Group estimates their fair values based on the use of estimates incorporating various unobservable market inputs.

The Group does not discount promissory notes of and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

Property, plant and equipment—Property, plant and equipment, including improvements that extend useful lives, are stated at cost. Property, plant and equipment transferred to MGTS free of charge are capitalized at their fair value at the date of transfer, and corresponding liability is recorded and amortized to the consolidated statements of operations over the contributed asset’s useful life. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life as follows:

Mobile telecommunication equipment	5 - 12 years
Fixed line telecommunication equipment	7 - 31 years
Leasehold improvements	Lesser of estimated useful life and lease term (1 - 10 years)
Buildings and constructions	20 - 50 years
Other fixed assets	3 - 25 years

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized. Interest expense incurred during the construction phase of MTS’ network is capitalized as part of property, plant and equipment until the relevant projects are completed and placed into service.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Asset retirement obligations—The Group calculates asset retirement obligations 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. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statement of financial position.

License costs—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.

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2009, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. However, the Group has limited experience with the renewal of its existing licenses covering the territories of the Group's foreign subsidiaries. Management believes that licenses required for the Group's operations will be renewed upon expiration, though there is no assurance of such renewals and the Group has limited experience in seeking renewal of its licenses.

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.

Other intangible assets and goodwill—Intangible assets represent various purchased software costs, telephone numbering capacity, acquired customer base, rights to use radio frequencies and rights to use premises. A part of the rights to use premises was contributed by shareholders to the Group's charter capital. Telephone numbering capacity with a finite contractual life is being amortized over the contract period which varies from two to ten years. The rights to use premises are being amortized over five to fifteen years. Amortization of numbering capacity costs starts immediately upon the purchase of numbering capacity. Telephone numbering capacity with unlimited contractual life is not amortized, but is reviewed, at least annually, for impairment in accordance with the authoritative guidance on intangibles.

For acquisitions before January 1, 2009 goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in purchase business combination and is not amortized. For the acquisitions after January 1, 2009 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 reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangibles, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill (see Note 11).

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Software and other intangible assets are amortized over one to fifty years. Customer bases are amortized on a straight-line basis over their respective estimated average subscriber life, being from 20 to 240 months. Rights to use radio frequencies are amortized over the period of their contractual life, being from two to fifteen years. All finite-life intangible assets are amortized using the straight-line method.

Impairment of long-lived assets—MTS 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, MTS compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When the undiscounted cash flows are less than the carrying amounts of the assets, MTS 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. Impairment of property, plant and equipment and intangible assets amounted to \$75.1 million, \$1.3 million and \$10.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The impairment amounts were reported within other operating expenses in the accompanying consolidated statement of operations. The losses are entirely attributable to the “Russia Mobile” operating reportable segment.

Investments impairment—Management periodically assesses the recoverability of the carrying values of investments and, if necessary, records impairment losses to write the investments down to fair value (see Note 14 and 15).

Leasing arrangements—Entities of the Group lease operating facilities which include switches, other network equipment, vehicles, premises and sites to install base stations equipment and towers. Rentals payable under operating leases are charged to the statements of operation on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the statement of financial position. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

Subscriber prepayments—MTS requires the majority of its customers to pay in advance for telecommunication services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recorded as revenues until the related services have been provided to the subscriber.

Treasury stock—Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders’ equity in the Group’s consolidated financial statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Revenue recognition—Revenue include all revenues from the ordinary business activities of MTS. Revenues are recorded net of value-added tax. They are recognized in the accounting period in which they are earned in accordance with the realization principle:

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services (“connection fees”) are deferred and recognized over the estimated average subscriber life, as follows:

Mobile subscribers	14 - 60 months
Residential wireline voice phone subscribers	15 years
Residential subscribers of broadband internet service	1 year
Other fixed line subscribers	3 - 5 years

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes regional connection fees.

Sales of handsets and accessories—MTS sells wireless handsets and accessories to customers who are entering into contracts for service and also as separate distinct transactions. The Group recognizes revenues from the sale of wireless handsets and accessories 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 the authoritative guidance on 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.

Customer incentives—Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue. However, if the sales incentive is a free product or service delivered at the time of sale, the cost of the free product or service is classified as an expense. In particular, MTS sells handsets at prices below cost to contract subscribers. Such subsidies are recognized in the cost of handsets and accessories when the sale is recorded.

Prepaid cards—MTS sells prepaid cards to subscribers, separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer uses the airtime or the card expires.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Roaming discounts—Group entered into roaming discount agreements with a number of wireless operators. According to the terms of the agreements MTS is obliged to provide and entitled to receive a discount that is generally dependant on the volume of inter operator roaming traffic. The Group accounts for rebates received from and granted to roaming partners in accordance with the authoritative guidance on customer payments and incentives. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information. The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in consolidated statement of financial position.

Income taxes—The Group recognizes income tax positions if it is more likely than not that they will be sustained on a tax audit, including resolution of related appeals or litigation processes, if any, and measures them as the largest amount which is more than 50% likely of being realized upon ultimate settlement. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that the assets will not be realized (see Note 23). Interests and penalties related to uncertain tax positions are recognized in income tax expense.

Sales and marketing expenses—Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. MTS expenses these costs as incurred. Advertising costs for the years ended December 31, 2009, 2008 and 2007, were \$336.3 million, \$475.6 million and \$422.9 million, respectively.

Borrowing costs—Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the years ended December 31, 2009, 2008 and 2007 were \$72.3 million, \$84.5 million and \$104.5 million, respectively. Debt issuance costs are capitalized and amortized over the term of the respective borrowings using the effective interest method. Interest expense net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2009, 2008 and 2007, were \$534.3 million, \$211.8 million and \$187.4 million, respectively.

Retirement benefit and social security costs—The Group contributes to the local state pension and social funds, on behalf of all its employees.

In Russia all social contributions are represented by 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. The UST is allocated to three social funds, including the pension fund, where the rate of contributions

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

varies from 20% to 2%, depending on the annual gross salary of employee. These contributions are expensed as incurred. The amount of UST paid by the Group in Russia amounted to \$95.2 million, \$122.3 million and \$99.6 million in 2009, 2008 and 2007, respectively.

Effective January 1, 2010, UST was abolished and replaced with direct contributions to the Pension Fund of the Russian Federation, Social Security Fund of the Russian Federation and Medical Insurance Fund of the Russian Federation.

MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes current service costs and amortization of prior service costs. The expense is recognized during an employee's years of active service with MGTS. 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, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with the requirements of the authoritative guidance on retirement benefits.

In Ukraine, Uzbekistan, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to the local pension fund, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to \$64.9 million, \$14.9 million and \$12.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Amounts contributed to the pension funds in Uzbekistan, Turkmenistan and Armenia were not significant.

The Group does not participate in any pension funds other than described above.

Earnings per share—Basic earnings per share (“EPS”) have been determined using the weighted average number of MTS shares outstanding during the year. Diluted EPS reflect the potential dilutive effect of stock options granted to employees.

Financial instruments and hedging activities—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 acquire noncontrolling stake in the existing subsidiary. These put and call option agreements are classified as redeemable securities and are accounted for at redemption value which is generally the fair value of redeemable 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 U.S. GAAP guidance). Changes in redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

The Group uses derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statement of financial position. The Group reviews its fair value hierarchy classifications quarterly. Changes in significant observable valuation inputs identified during these reviews may trigger

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2009 and 2008 no reclassifications occurred. The fair value measurement of the Group's hedging agreements is based on the observable yield curves for similar instruments.

The Group designates derivatives as either fair value hedges or cash flow hedges in case 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 accumulated other comprehensive income. 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, gains and losses from changes in the fair value are included in the consolidated statement of operations (Note 21).

The Group does not use financial instruments for trading or speculative purposes.

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. The fair value of issued notes based on MICEX and the Luxembourg stock exchange quotes as of December 31, 2009, is disclosed in Note 21.

Based on current market interest rates available to the Group for long-term borrowings with similar terms and maturities, the Group believes the fair value of other fixed rate debt including capital lease obligations and the fair value of variable rate debt approximated its carrying value as of December 31, 2009.

Comprehensive income—Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Stock-based compensation—The Group accounts for stock-based compensation under the authoritative guidance on stock compensations. Under the provisions of this guidance companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operation. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments.

The Group adopted the guidance using the modified-prospective-application transition method. Under this transition method, compensation cost for all share-based awards granted prior to, but not yet vested as of December 31, 2006, was determined based on the grant date fair value estimated using the same assumptions and taking into account the estimated forfeitures.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Recently adopted accounting pronouncements—On January 1, 2008, the Group adopted the authoritative guidance issued by the Financial Accounting Standards Board (“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 \$11.3 million in the consolidated statement of operations and recorded a liability for contingent consideration in amount of \$30.8 million in its consolidated statement of financial position as of December 31, 2009.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB that changes the accounting for noncontrolling interests in the consolidated financial statements. Noncontrolling interests (previously referred to as “minority interest”) are to be reported as part of consolidated net earnings, and the accumulated amount of noncontrolling 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 noncontrolling 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 noncontrolling interests to equity and presentation of net income and other comprehensive income gross of amounts attributable to noncontrolling shareholders of the subsidiaries of the Group.

In connection with the issuance of the guidance on noncontrolling 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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

required by Topic D-98 applies to noncontrolling 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 noncontrolling interests should be applied no later than the effective date of the new guidance. The implementation of the provisions of Topic D-98 as of January 1, 2009 resulted in reduction of Group's retained earnings by \$122.2 million (there of \$78.8 million related to the redeemable noncontrolling interest in K-Telecom and \$43.5 million related to the redeemable noncontrolling interest in Dagtelecom).

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 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, but the effect is dependent upon the acquisitions that are made in the future.

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, but the effect is dependent upon the acquisitions that are made in the future.

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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 statement of financial position 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 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 non-grandfathered 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 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

New accounting pronouncements—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 maintain any variable interest entities 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 and will not have an impact on 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 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.

3. BUSINESS ACQUISITIONS AND DISPOSALS

Acquisitions of certain retail chains—In 2009, in conjunction with the development of its own retail network, MTS acquired controlling interests in the number of retail chains in Russia. The acquisitions were accounted for using the purchase method of accounting.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

The following table summarizes the purchase price allocation of the retail chains acquired as of the acquisition date:

	<u>Telefon.ru</u>	<u>Eldorado</u>	<u>Teleforum</u>	<u>Total</u>
Month of acquisition	February	March	October	
Ownership interest acquired	100%	100%	100%	
Current assets	\$ 48,979	\$ 2,467	\$ 2,953	\$ 54,399
Non-current assets	2,315	911	745	3,971
Brand	—	374	—	374
Goodwill	123,333	29,875	9,050	162,258
Current liabilities	(108,701)	(12,248)	(3,614)	(124,563)
Non-current liabilities	(5,926)	(115)	—	(6,041)
Fair value of contingent consideration	—	(3,414)	(6,934)	(10,348)
Consideration paid	<u>\$ 60,000</u>	<u>\$ 17,850</u>	<u>\$ 2,200</u>	<u>\$ 80,050</u>

The Group's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Goodwill was mainly attributable to the synergies from the Group's ability to optimize the dealers' compensation structure and to maintain its subscriber market share in Russia. Goodwill is not deductible for income tax purposes and was assigned to "Russia Mobile" operating segment. Brand components are amortized over the periods of 6 months.

Under the terms of the individual purchase agreements, the Group may have to pay additional consideration as follows:

- up to \$25 million during the period from 12 to 18 months for Telefon.ru;
- up to \$5 million in 12 months for Eldorado; and
- up to \$8.8 million in 12 months for Teleforum.

The additional consideration may be reduced by the amount of tax liability related to the activities prior to the acquisition dates. The Group may also deduct amounts of any potential losses arising from the loss of control on any of Teleforum's outlets from the amount of contingent consideration. The financial statements reflect management's estimate of the fair value of the contingent consideration at the acquisition date.

Eurotel acquisition—In December 2009, MTS acquired a 100% stake in Eurotel OJSC ("Eurotel"), a Russian federal back bone network operator, from a third party. The consideration paid comprised \$90 million. Under the terms of agreement the Group shall pay contingent consideration of up to \$20 million by the end of February 2011 should Eurotel complete the construction of certain fibre-optic lines and the Group retain control over the technical support agreements in relation to the optic cable lines. At the acquisition date the estimated fair value of this contingent consideration was \$20 million.

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

completed the valuation of individual assets of 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	<u>(1,103)</u>
Fair value of contingent consideration	(20,000)
Consideration paid	<u>\$ 90,000</u>

The excess of the purchase price over the value of net assets acquired and the fair value of contingent consideration was preliminary allocated to goodwill which was assigned to the “Russia Fixed” operating segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the synergies from reduction of interconnect and internet-traffic expenses of the Group.

Comstar-UTS acquisition—In October 2009, MTS acquired a 50.91% stake in Comstar-UTS, a provider of fixed line communication services in Russia, Ukraine and Armenia, from Sistema. Consideration paid amounted to RUB 39.15 billion (\$1.32 billion as of October 12, 2009) or RUB 184.02 (\$6.21) per global depositary receipt (“GDR”).

This acquisition has been accounted for as a common control transaction at carrying amount. The excess of consideration over the carrying value of net assets received has been recorded as a decrease in additional paid-in capital of the Group in the amount of \$1.080 billion and as a decrease in retained earnings in the amount of \$242.7 million (see also Note 2).

Further, in December 2009, in a series of transactions, the Group acquired a 14.2% stake in the Moscow City Networks OJSC (“MGTS”) in exchange for 31,816,462 ordinary MTS shares (equal to RUB 7.17 billion based on the MICEX price on December 17, 2009, or RUB 225.4 per share, per the terms of the agreement with MGTS shareholder), representing 1.6% shares outstanding, previously held in treasury and \$7.3 million in cash. The MGTS stake, represented by 2,462,687 ordinary shares and 11,135,428 preferred shares, were held by a wholly owned subsidiary of Comstar-UTS. Simultaneously, MTS received 46,232,000 shares, representing 11.06% of total shares outstanding, of Comstar-UTS from MGTS Finance S.A., a wholly owned subsidiary of MGTS. In addition, MTS paid Comstar-UTS a cash consideration of \$8.3 million. The transaction was accounted for directly in equity.

Kolorit acquisition—In September 2009, MTS acquired a 100% stake in Kolorit Dizayn Inc (“Kolorit”), a company providing outdoor advertising services in the territory of Uzbekistan, for \$39.7 million in cash.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

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

Current assets	\$ 993
Non-current assets	11,788
Brand	2,097
Goodwill	27,109
Current liabilities	(2,098)
Non-current liabilities	<u>(235)</u>
Consideration paid	<u>\$39,654</u>

Goodwill is mainly attributable to synergies from advertising cost optimization. Goodwill is not deductible for income tax purposes and was assigned to the “Uzbekistan Mobile” operating segment.

Dagtelecom acquisition—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 directly in equity.

Acquisitions of controlling interests in regional fixed line operators—In 2008, as a part of its program of regional expansion, Comstar-UTS has acquired controlling interests in certain alternative fixed-line operators in several regions of Russia. The acquisitions were accounted for using the purchase method of accounting.

The following table summarizes the purchase price allocation of the fixed-line operators acquired as of the acquisition dates:

	<u>Interlink Group</u>	<u>Strategia (Urals Telephone Company ("UTC"))</u>	<u>Total</u>
Month of acquisition	June	July	
Ownership interest acquired	100%	100%	
Current assets	\$ 994	\$ 4,194	\$ 5,188
Property, plant and equipment	7,042	15,135	22,177
Goodwill	4,230	27,846	32,076
Subscriber base	—	12,553	12,553
Current liabilities	(2,928)	(6,280)	(9,208)
Non-current liabilities		(5,253)	(5,253)
Deferred tax liabilities	<u>(910)</u>	<u>(4,710)</u>	<u>(5,620)</u>
Consideration paid	<u>\$ 8,428</u>	<u>\$43,485</u>	<u>\$51,913</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Recognition of goodwill in the amounts of \$4.2 million and \$27.8 million from the acquisition of Interlink Group and UTC, respectively, was due to the economic potential of the markets the acquired companies operate in. Goodwill was recognized in the “Russia Fixed” operating segment.

The Group’s financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Goodwill is not deductible for tax purposes. Subscriber base components are amortized over the periods ranging from 9 to 17 years, depending on the type of subscribers.

Acquisition of Stream-TV—In December 2008, as part of its regional expansion, Comstar-UTS entered into an agreement with Sistema Mass Media (“SMM”), a subsidiary of Sistema, to acquire all of SMM’s interest in certain of its subsidiaries (collectively referred to as “Stream-TV”) for a total cash consideration of RUB 3,544.5 million (\$117.2 million as of December 31, 2009), determined by an independent appraiser and payable in installments between December 2008 and March 2009, including RUB 980.0 million (\$32.4 million as of December 31, 2009) payable to Stream-TV and RUB 2,564.5 million (\$84.8 million as of December 31, 2009) payable to SMM. RUB 2,460.8 million (\$81.4 million as of December 31, 2009) and RUB 103.3 million (\$3.4 million as of December 31, 2009) of the consideration was paid to SMM during the years ended December 31, 2008 and 2009, respectively. In addition, in December 2008 Stream-TV paid \$19.1 million in cash to SMM for the controlling interests in certain regional subsidiaries acquired by Stream-TV from SMM in 2007.

In the first quarter of 2009, legal title to the business and full control of Stream-TV transferred to Comstar-UTS. This acquisition was accounted for by Comstar, and therefore the Group in a like manner, as a common control transaction. These financial statements reflect retrospective application of this acquisition in a manner similar to a pooling of interests. The transaction was accounted for directly in equity.

MSS acquisition—In February 2008, MTS acquired an additional 9% stake in its Omsk subsidiary, Mobilnye Sistemy Svyazi (“MSS”), from a private investor for \$16.0 million in cash. As a result of this transaction, the Group’s ownership in the subsidiary increased to 100%. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded license cost by \$8.8 million and customer base cost by \$3.2 million. License costs are amortized over the remaining contractual terms of the license of approximately 3 years and the customer base is amortized on a straight-line basis over the estimated average subscriber’s life of approximately 5 years.

Acquisitions of controlling interests in regional fixed line operators—In 2007, as a part of its program of regional expansion, Comstar-UTS has acquired controlling interests in a number of alternative fixed-line operators in certain regions of Russia and Ukraine. The acquisitions were accounted for using the purchase method of accounting.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

The following table summarizes the purchase price allocation of the fixed-line operators acquired as of the acquisition dates:

	Sochi- telecom service	Digital Telephone Networks— South	Regional Technical Centre	Comstar Ukraine*	Total
Month of acquisition	August	November	December	May	
Ownership interest acquired	100%	100%	88%	25%	
Current assets	\$ 51	\$ 10,977	\$ 13,421	\$ —	\$ 24,449
Property, plant and equipment	114	102,558	21,402	—	124,074
Goodwill	451	—	—	543	994
Subscriber base	232	91,923	738	—	92,893
Trademark	—	1,683	—	—	1,683
Current liabilities	(98)	(6,873)	(3,949)	—	(10,920)
Non-current liabilities	—	(33,112)	(3,377)	—	(36,489)
Noncontrolling interest	—	—	(2,109)	424	(1,685)
Consideration paid	<u>\$ 750</u>	<u>\$ 167,156</u>	<u>\$ 26,126</u>	<u>\$ 967</u>	<u>\$194,999</u>

* Acquisition of an additional 25% interest in the existing subsidiary, Comstar Ukraine, resulting in 100% ownership as of December 31, 2007.

Goodwill is attributable to the economic potential of the markets the acquired companies operate in. Goodwill is not deductible for income tax purposes and was assigned to “Russia Fixed” operating segment. The Group’s financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Subscriber base components are amortized over the periods ranging from 13 to 24 years, depending on the type of subscribers.

Bashcell acquisition—In December 2007, MTS acquired a 100% of Bashcell, the GSM-1800 mobile services provider in the Republic of Bashkortostan situated in Russia’s Volga region, for \$6.7 million in cash. In connection to the purchase MTS assumed debt in the amount of \$31.9 million due from Bashcell to its previous shareholder.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

This acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

Current assets	\$ 5,645
Non-current assets	13,156
Customer base cost	2,260
Goodwill	21,077
Current liabilities	(7,737)
Non-current liabilities	(31,918)
Deferred taxes	4,209
Consideration paid	<u>\$ 6,692</u>

Goodwill is mainly attributable to the synergy expected as a result of the acquisition and was assigned to the “Russia Mobile” operating segment. The amount of goodwill is not deductible for income tax purposes. The customer base is amortized on a straight-line basis over the estimated average subscriber’s life of 5 years.

K-Telecom acquisition—In September 2007, MTS acquired an 80% stake in International Cell Holding Ltd, 100% indirect owner of K-Telecom, Armenia’s wireless telecommunication operator. Along with acquisition, the Group entered into a call and put option agreement for the remaining 20% stake to be exercised not earlier than July 2010 and not later than July 2012. In accordance with put and call option agreement, the exercise price shall be fair value, as determined by an independent investment bank at the date the option is exercised subject to a cap of €200.0 million (equivalent of \$286.9 million as of December 31, 2009).

K-Telecom operates under the VivaCell brand in the GSM-900/1800 standard covering the entire territory of Armenia. The license is valid until the end of 2019.

In accordance with sale and purchase agreement, MTS paid €260.0 million (\$361.2 million as of the date of acquisition) for 80% of K-Telecom and €50.0 million (\$69.0 million as of the date of acquisition) shall be paid out to the sellers in the course of three years from 2008 to 2010 provided certain agreed financial targets are met by K-Telecom. In conjunction with the acquisition, MTS extended a €140.0 million (\$194.5 million as of date of acquisition) loan to K-Telecom for repayment of payables for equipment and other liabilities due as of the date of acquisition to PMF Telecommunications, an entity affiliated to the sellers. As a result, K-Telecom’s liabilities to the seller and its affiliates were settled. The loan is eliminated in consolidation and is not part of the purchase price. Finders and consultants fees paid in connection with the business combination and included in the purchase price were \$26.7 million.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

This acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

Current assets	\$ 31,805
Non-current assets	198,984
License costs	217,354
Customer base cost	76,754
Trade mark	2,555
Goodwill	120,579
Current liabilities	(25,138)
Non-current liabilities	(149,841)
Deferred tax liabilities	(59,722)
Noncontrolling interest	<u>(10,772)</u>
Consideration paid	<u>\$ 402,558</u>

In accordance with the terms of the sale and purchase agreement, based on K-Telekom’s financial results for the year ended December 31, 2008, €20.0 million (\$28.2 million as of December 31, 2008) was accounted for as the adjustment to purchase price and recognized as a liability in the accompanying consolidated statement of financial position as of December 31, 2008. And based on K-Telekom’s financial results for the year ended December 31, 2009, €5.0 million (\$7.2 million as of December 31, 2009) was accounted for as the adjustment to purchase price and recognized as a liability in the accompanying consolidated statement of financial position as of December 31, 2009.

Goodwill is mainly attributable to the economic potential of Armenia, given the low mobile penetration level of the market. Goodwill is not deductible for income tax purposes and was assigned to the “Armenia Mobile” operating segment.

The customer base is amortized on a straight-line basis over the estimated average subscriber’s life of 46 months.

Uzdunrobita acquisition—In June 2007, MTS purchased an additional 26% stake in Uzdunrobita, a mobile telecom operator in Uzbekistan, from a private investor for \$250.0 million in cash. Previously MTS owned 74% of Uzdunrobita. As a result of this transaction, MTS’ ownership increased to 100%. The transaction was accounted for using the purchase method. Allocation of the purchase price increased the recorded license cost by \$155.7 million, customer base cost by \$6.5 million, and property plant and equipment cost by \$5.4 million. Additionally, \$35.0 million was recognized as goodwill. Goodwill is not deductible for income tax purposes and is mainly attributable to the economic potential of the markets where Uzdunrobita operates. Goodwill was assigned to the “Uzbekistan Mobile” operating segment.

License costs are amortized over the remaining contractual terms of the licenses of approximately 9 years and the customer base is amortized over the estimated average subscriber’s life of 20 months.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Acquisition of minority interest in Golden Line—In April 2007 Comstar-UTS acquired 100% shares in Golden Line from Comstar-Direct, a 52%-owned subsidiary of Comstar-UTS, thus increasing its effective shareholding in Golden Line to 100%. Golden Line was a provider of dedicated leased access lines in Moscow to corporate clients using its fiber optic network and MGTS’ switches.

The acquisition has been accounted for as a common control transaction, at carrying amounts with excess of the book value of the net assets acquired over the purchase price, recorded as an increase in the additional paid-in capital of the Group in the amount of \$2.8 million.

Disposal of shares in Metrocom—In March 2007, Comstar-UTS sold its 45% stake in Metrocom, an affiliate, to a third party for a total cash consideration of \$20.0 million, resulting in a gain of \$3.2 million recognized as other income in the accompanying consolidated statement of operations for the year ended December 31, 2007.

Reorganization of Comstar-Direct—Prior to December 2008, Comstar-Direct was owned 52% by Comstar-UTS and 48% by Sistema Mass Media (“SMM”), a subsidiary of Sistema. In December 2008, Comstar-Direct was split into two legal entities: SMM-Finance which became a 100% subsidiary of SMM, and Comstar-Direct which became a 100% subsidiary of Comstar-UTS. The effect of this transaction was the disposal of \$26.8 million of net assets of Comstar-Direct and the acquisition of the remaining 48% minority interest in Comstar-Direct from SMM by Comstar-UTS. The transaction was accounted for at cost as a transaction between entities under common control. The excess of the net assets disposed of and the noncontrolling interest acquired was recorded in additional paid-in capital.

Summary of the assets and liabilities disposed of by Comstar-UTS and the acquisition of the remaining 48% minority interest in Comstar-Direct is as follows:

Cash and short-term investments and loans	\$ 5,029
Inventory and other current assets	6,168
Trade and other accounts receivable	22,379
Long-term investments and loans	7,508
Trade accounts payable	(14,264)
Total assets and liabilities disposed, net	26,820
Noncontrolling interest acquired	(15,813)
Excess of the net assets disposed of and minority interest acquired	<u>\$ 11,007</u>

Pro forma results of operations (unaudited)—The following unaudited pro forma financial data for the years ended December 31, 2009 and 2008, gives effect to the acquisitions of Eurotel, Teleforum,

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

Kolorit, Eldorado and Telefon.ru, as though these business combinations had been completed at the beginning of 2008.

	<u>2009</u>	<u>2008</u>
Pro forma:		
Net revenues	\$9,908,584	\$12,729,516
Net operating income	2,547,218	3,644,378
Net income	980,553	1,964,364

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 acquisitions had been consummated as of January 1, 2008, 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. The actual results of operations of these companies are included in the consolidated financial statements of the Group only from the respective dates of acquisition.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009 and 2008 comprised the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Ruble current accounts	571,424	140,045
Ruble deposit accounts	1,059,105	142,272
U.S. Dollar current accounts	217,586	108,935
U.S. Dollar deposit accounts	12,000	35
Euro current accounts	602,825	5,940
Euro deposit accounts	4,161	423,150
Hryvna current accounts	1,260	1,462
Hryvna deposit accounts	2,768	1,948
Uzbek som current accounts	26,922	229,904
Uzbek som deposit accounts	662	57,430
Turkmenian manat current accounts	21,020	1,496
Armenian dram current accounts	2,683	—
Armenian dram accounts	—	4,162
Other	415	4,890
Total cash and cash equivalents	<u>2,522,831</u>	<u>1,121,669</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

5. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2009 comprised the following:

Type of investment	Contractor	Annual interest rate	Maturity date	Amount
Promissory notes	Sberbank (Note 17)	6.0%	March – June 2010	\$143,300
Funds in trust management	Gazprombank	9.0%	October 2010	20,077
Deposit	VTB	8.8%	March 2010	16,532
Loan agreement	TS-Retail (Note 25)	13.0%	August 2010	12,421
Deposit	VTB	8.5%	March 2010	9,919
Deposit	UniBank	7.0%–9.0%	January – June 2010	7,666
Deposit	Converse Bank	8.0%–8.5%	January – July 2010	1,600
Deposit	AreximBank	9.0%	January 2010	1,000
Other				4,695
Total				<u>\$217,210</u>

Short-term investments as of December 31, 2008 comprised the following:

Type of investment	Contractor	Annual interest rate	Maturity date	Amount
Deposit	MBRD (Note 25)	10.3%	July 2009	\$ 30,000
Deposit	MBRD (Note 25)	7.5%	June 2009	15,000
Promissory notes	Alt (Note 25)	18.0%	January 2009	85,091
Promissory notes	Delfa (Note 25)	18.0%	January 2009	68,073
Promissory notes	Finexcort (Note 25)	16.5%	January 2009	68,073
Funds in trust management	MBRD (Note 25)	16.0%	March 2009	45,949
Loan agreement	Sistema-Hals (Note 25)	11.0%	December 2009	16,688
Funds transferred to the investment broker	IFC Metropol	0.0%	March 2009	11,981
Loan agreement	Sky Link and subsidiaries (Note 25)	11.0%	Various	10,522
Other				8,740
Total				<u>\$360,117</u>

Beta Link—During the year ended December 31, 2008 the Group granted a short-term loan in the amount of \$28.2 million to Beta Link with a maturity date of December 2, 2009 and related interest of 9.0%. The Group had 49.0% of shares of Beta Link assigned as collateral pursuant to the loan agreement. As of December 31, 2008, the Group’s management became aware of the deteriorated financial position of Beta Link. Further, in March 2009, Beta Link filed a bankruptcy petition to the Arbitration Court of Moscow. The Group’s management believes that a probable risk exists that such loan may not be recovered. Accordingly, an allowance for the entire loan amount was recorded in the provision for doubtful accounts in the accompanying statement of operations for the year ended December 31, 2008.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

6. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2009 and 2008 comprised the following:

	December 31,	
	2009	2008
Subscribers	323,135	239,782
Interconnect	108,376	105,430
Dealers	61,827	86,821
Roaming	159,119	33,958
Other	37,982	46,247
Allowance for doubtful accounts	(97,337)	(69,054)
Trade receivables, net	<u>593,102</u>	<u>443,184</u>

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Balance, beginning of year	69,054	69,716	67,708
Provision for doubtful accounts	104,125	97,459	63,966
Accounts receivable written off	(75,280)	(84,363)	(66,096)
Currency translation adjustment	(562)	(13,758)	4,138
Balance, end of year	<u>97,337</u>	<u>69,054</u>	<u>69,716</u>

7. INVENTORY AND SPARE PARTS

Inventory and spare parts as of December 31, 2009 and 2008, comprised the following:

	December 31,	
	2009	2008
Spare parts for telecommunication equipment	\$ 26,928	\$ 69,008
SIM cards and prepaid phone cards	23,821	24,026
Equipment for resale	164,974	36,694
Advertising materials	2,195	2,966
Other materials	20,775	8,419
Total inventory and spare parts	<u>\$238,693</u>	<u>\$141,113</u>

Obsolescence expense for the years ended December 31, 2009, 2008 and 2007, amounted to \$4.1 million, \$3.9 million and \$4.9 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2009 and 2008, was as follows:

	December 31,	
	2009	2008
Network, base station equipment and related leasehold improvements	\$ 9,391,656	\$ 8,080,872
Office equipment, computers and other	1,047,753	881,580
Buildings and related leasehold improvements	890,913	802,655
Vehicles	54,105	54,855
Property, plant and equipment, at cost	11,384,427	9,819,962
Accumulated depreciation	(5,095,168)	(4,038,053)
Construction in progress and equipment for installation	1,456,072	1,976,311
Property, plant and equipment, net	\$ 7,745,331	\$ 7,758,220

Depreciation expenses during the years ended December 31, 2009, 2008 and 2007, amounted to \$1,387.0 million, \$1,537.1 million and \$1,145.7 million, respectively.

9. CAPITAL LEASE OBLIGATIONS

MGTS entered into several agreements for the lease of telecommunication equipment with InvestSvyazHolding, a subsidiary of Sistema. The agreements expire on various dates in 2008-2010 and provide for transfer of ownership of the equipment to the Group after the last lease payment is made. The interest rate implicit in the leases varies from 10% to 14%. Respective obligations are denominated in Euro. In addition to the agreements with InvestSvyazHolding, the Group has certain other leasing agreements with third parties; assets capitalized under these agreements and respective liabilities are not material.

The following is a summary of leased assets and respective depreciation as of December 31, 2009 and 2008:

	2009	2008
Telecommunication equipment	\$ 68,547	\$ 70,563
Vehicles	9,995	12,114
Buildings	171	171
Improvement	1,096	—
Leased assets, at cost	\$ 79,809	\$ 82,848
Accumulated depreciation	(36,380)	(28,377)
Leased assets, net	<u>\$ 43,429</u>	<u>\$ 54,471</u>

Depreciation of the assets recorded under capital leases is included in depreciation and amortization in the accompanying consolidated statements of operations. Interest expense accrued on

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

9. CAPITAL LEASE OBLIGATIONS (Continued)

capital lease obligations for the years ended December 31, 2009, 2008 and 2007 amounted to \$1.5 million, \$ 2.0 and \$ 3.3 million, respectively.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

<u>Payments due in the period ended December 31,</u>	
2010	\$ 3,598
2011	1,066
2012	173
2013	172
2014	172
After 2014	<u>241</u>
Total minimum lease payments (undiscounted)	5,422
Less amount representing interest	<u>(1,328)</u>
Present value of net minimum lease payments	4,094
Less current portion of lease obligations	<u>(3,173)</u>
Non-current portion of lease obligations	<u>\$ 921</u>

10. LICENSES

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

As of December 31, 2009 and 2008, the recorded values of the Group's telecommunication licenses were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Russia	\$ 264,387	\$ 275,883
Uzbekistan	196,517	196,517
Armenia	196,193	241,710
Ukraine	49,046	50,642
Turkmenistan	<u>—</u>	<u>18,685</u>
Licenses, at cost	706,143	783,437
Accumulated amortization	<u>(341,421)</u>	<u>(295,056)</u>
Licenses, net	<u>\$ 364,722</u>	<u>\$ 488,381</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

10. LICENSES (Continued)

Amortization expense for the years ended December 31, 2009, 2008 and 2007, amounted to \$78.7 million, \$154.7 million and \$200.5 million, respectively.

As of December 31, 2009, operating license related to Turkmenistan was fully amortized and its respective cost and accumulated amortization was written off from the consolidated statement of financial position.

Based on the cost of amortizable operating licenses existing at December 31, 2009, the estimated future amortization expenses are \$70.2 million during 2010, \$51.3 million during 2011, \$35.2 million during 2012, \$30.6 million during 2013, \$29.8 million during 2014 and \$147.6 million thereafter. The actual amortization expense 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.

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 statements of financial position 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.

11. GOODWILL

The change in the net carrying amount of goodwill for 2009 and 2008 by reportable segments was as follows:

	<u>Russia Mobile</u>	<u>Ukraine Mobile</u>	<u>Russia Fixed</u>	<u>Other</u>	<u>Total</u>
Balance at January 1, 2008	\$134,818	\$ 8,000	\$163,099	\$216,632	\$522,549
Acquisitions (Note 3)	16,366	—	3,550	29,222	49,138
Impairment	—	—	(49,891)	—	(49,891)
Currency translation adjustment	(23,873)	(2,492)	(25,269)	(691)	(52,325)
Balance at December 31, 2008	<u>127,311</u>	<u>5,508</u>	<u>91,489</u>	<u>245,163</u>	<u>469,471</u>
Acquisitions (Note 3)	189,842	—	104,439	34,283	328,564
Finalization of purchase accounting . .	—	—	41,835	—	41,835
Currency translation adjustment	(3,636)	(197)	(1,397)	(30,867)	(36,097)
Balance at December 31, 2009	<u>\$313,517</u>	<u>\$ 5,311</u>	<u>\$236,366</u>	<u>\$248,579</u>	<u>\$803,773</u>

Based on goodwill impairment testing, as of December 31, 2008 the Group recorded an impairment loss of \$49.9 million included in other operating expenses in the accompanying statement of operations for the year ended December 31, 2008 and related to the acquisition of United Cable Networks by Sistema Mass Media in 2006. United Cable Networks were acquired by the Group in 2009 as part of acquisition of Stream-TV (see Note 3). The impairment loss was primarily caused by changes in management forecasts with respect to regional markets and increase in weighted average cost of

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

11. GOODWILL (Continued)

capital due to the economic crisis. The fair value of the reporting units was measured using a combination of present value techniques, the Gordon model and earnings multiples.

As of December 31, 2009 no impairment of goodwill allocated to “Russia Fixed” reportable segment was recognized based on the goodwill impairment test. The fair value of the reporting unit was measured using a combination of present value techniques, the Gordon model and earnings multiples involving the assumptions that are based upon what management believes a hypothetical marketplace participant would use in estimating fair value on the measurement date. The most significant of these assumptions are as follows:

- (i) cost of capital was estimated at 14% based on internally calculated weighted average cost of capital and cost of capital estimated for Comstar-UTS by major market analysts;
- (ii) growth rate into perpetuity reflects the level of economic growth from the last forecasted period into perpetuity and reflects the long-term expectations for inflation. Management estimates these rates based on observable market data;
- (iii) operating expenses are forecasted with reference to the historic absolute and relative levels of expenses the Group has incurred in generating revenue in each reporting unit, operating strategies, specific forecasted operating expenses to be incurred and expectations on what these expenses would be like for an average market participant. Estimates of the forecasted operating expenses are developed from a number of internal and external sources, in combination with a process of on-going consultation with operational management; and
- (iv) forecasted capital expenditures, both recurring expenditure to replace retired assets and investments in new projects, are forecasted based on current strategies and specific forecast expenditures to be incurred, as well as expectations on what these costs would be like for an average market participant. Estimates of the forecasted capital expenditures are developed from a number of internal and external sources, in combination with a process of on-going consultation with operational management.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

12. OTHER INTANGIBLE ASSETS

Intangible assets as of December 31, 2009 and 2008 comprised the following:

	Useful lives, months	December 31, 2009			December 31, 2008		
		Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets							
Billing and telecommunication software	13 to 240	\$1,461,834	\$ (896,243)	\$ 565,591	\$1,293,005	\$(710,988)	\$ 582,017
Acquired customer base	20 to 240	221,536	(74,320)	147,216	381,054	(63,823)	317,231
Rights to use radio frequencies	24 to 180	239,475	(75,762)	163,713	205,923	(48,622)	157,301
Accounting software	13 to 60	134,292	(79,480)	54,812	94,026	(41,140)	52,886
Numbering capacity with finite contractual life	24 to 120	90,266	(80,822)	9,444	89,273	(76,727)	12,546
Office software	13 to 60	71,997	(41,110)	30,887	57,833	(20,366)	37,467
Other software	36 to 600	77,616	(29,680)	47,936	40,648	(9,440)	31,208
		<u>2,297,016</u>	<u>(1,277,417)</u>	<u>1,019,599</u>	<u>2,161,762</u>	<u>(971,106)</u>	<u>1,190,656</u>
Numbering capacity with indefinite contractual life		47,737	—	47,737	39,987	—	39,987
Total other intangible assets		<u>\$2,344,753</u>	<u>\$(1,277,417)</u>	<u>\$1,067,336</u>	<u>\$2,201,749</u>	<u>\$(971,106)</u>	<u>\$1,230,643</u>

As a result of the limited availability of local telephone numbering capacity in Moscow and the Moscow region, MTS has been required to enter into agreements for the use of telephone numbering capacity with several telecommunication operators in Moscow. The costs of acquired numbering capacity with a finite contractual life are amortized over a period of two to ten years in accordance with the terms of the contracts to acquire such capacity. Numbering capacity with an indefinite contractual life is not amortized.

Amortization expense for the years ended December 31, 2009, 2008 and 2007 amounted to \$373.9 million, \$459.3 million and \$328.7 million, respectively. Based on the amortizable intangible assets existing at December 31, 2009, the estimated amortization expense is \$370.0 million for 2010, \$248.5 million for 2011, \$149.4 million for 2012, \$85.0 million for 2013, \$36.4 million for 2014 and \$130.3 million thereafter. The actual amortization expense reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives and other relevant factors.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of December 31, 2009 and 2008, the Group's investments in and advances to associates comprised the following:

	December 31,	
	2009	2008
MTS Belarus—equity investment	\$220,350	\$237,427
MTS Belarus—loan receivable	100	2,050
Coral/Sistema Strategic Fund—equity investment	—	10,041
Receivables from other investee companies	—	369
Total investments in and advances to associates	<u>\$220,450</u>	<u>\$249,887</u>

MTS Belarus—In April 2008 the Group entered into a credit facility agreement with MTS Belarus valid till March 15, 2009. The facility allowed MTS Belarus borrowing up to \$33.0 million and bears an interest of 10.0%. In 2009 the maturity date was extended to March 15, 2010 and the total allowable amount was increased to \$46.0 million. As of December 31, 2009, the balance outstanding under the facility was \$0.1 million. After the statement of financial position date the agreement with MTS Belarus was prolonged till March 15, 2011.

The financial position and results of operations of MTS Belarus as of and for the year ended December 31, 2009 were as follows:

	<u>(unaudited)</u>
Total assets	\$498,278
Total liabilities	56,736
Net income	143,061

Coral/Sistema Strategic Fund—In the years ended December 31, 2007 and 2008, the Group purchased an equity interests in a limited partnership organized by Sistema. The purpose of the strategic fund was to invest in various projects in the telecommunications and high-technology area. The Group exercised significant influence over Coral and therefore the investment was accounted for using equity method.

As of December 31, 2009 the management of the Group determined that the investment was fully impaired, consequently the carrying value of the investment was written off in the amount of \$7.4 million and recorded in equity in net income/loss of associates in the accompanying consolidated statement of operations for the year then ended. As of December 31, 2009 the Group did not have any further commitment to invest in Coral according to the restructuring agreement which was signed by the partners of the fund in September 2009.

TS-Retail—As discussed in Note 25, in the year ended December 31, 2007 the Group invested in TS-Retail, an equity investee, \$5.6 million. As of December 31, 2007 the investment was written off to \$nil.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES (Continued)

The Group's share in the earnings or losses of associates was included in other income in the accompanying consolidated statements of operations. For the years ended December 31, 2009, 2008 and 2007, this share amounted to \$60.3 million, \$75.7 million and \$71.1 million, respectively.

14. 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. 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 fixed-line operators ("MRKs") based in seven federal districts of Russia.

Based on the analysis of all relevant factors, the management determined that the acquisition of 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 charter documents. Accordingly, the Group accounts for its investment in Svyazinvest under the cost method.

In November 2009, the Group, Sistema and Svyazinvest ("the Parties") signed a non-binding memorandum of understanding ("MOU"), under which the Parties agreed to enter in the 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 17); (iii) increase in Sistema's ownership in Sky Link Group (currently a 50% affiliate of Sistema, see also Note 25) 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 Sistema. 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. The 28% stake in MGTS is then intended to be transferred to the Group.

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).

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

14. INVESTMENT IN SHARES OF SVYAZINVEST (Continued)

The following table represents carrying value of investment in Svyazinvest as of December 31, 2009 and 2008:

Balance at December 31,2008	\$1,240,977
Impairment loss	(349,370)
Currency translation adjustment	<u>(31,938)</u>
Balance at December 31,2009	<u>\$ 859,669</u>

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 a near future. Further, due to material uncertainties inherent in the valuation of Svyazinvest, the result could be materially different from the valuation performed by another party or using information which management of the Group does not have the ability to access, or from the amount the Group would be able to realize in an exchange transaction involving the investment in Svyazinvest.

15. OTHER INVESTMENTS

As of December 31, 2009 and 2008, the Group's other investments comprised of the following:

	<u>Annual interest rate</u>	<u>Maturity date</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Loans receivable from TS-Retail (Note 25)	11.0 - 15.0%	August 2011	30,192	11,156
Investment in Tammaron Ltd	—	on demand	—	21,230
Promissory notes of Sistema Telecom (Note 25)	3.0 - 4.4%	various in 2009	—	51,966
Investments in ordinary shares (Note 25)	—	—	11,724	12,091
Loan receivable from Intellect Telecom (Note 25)	7.0 - 11.0%	July - August 2012	12,808	11,717
Promissory notes of Sistema (Note 25)	0.0%	2017	20,449	—
Other			<u>3,720</u>	<u>3,399</u>
Total other investments			<u>78,893</u>	<u>111,559</u>

During the year ended December 31, 2008, the Group deposited in Tammaron Ltd., a company incorporated under the laws of the British Virgin Islands, an amount of \$21.2 million for the a potential business acquisition. During 2009 based on the analysis of the current Russian and global financial markets situation management believes that a significant uncertainty exists with regard to the completion of such transaction and accordingly a reserve for the entire amount has been provided by the Group as an impairment of investments in the Group's consolidated statement of operations for the year ended December 31, 2009.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

16. RESTRICTED CASH

Restricted cash of \$6.4 million and \$23.6 million, as of December 31, 2009 and 2008, respectively, consists of cash deposited by Uzdunrobita in a special bank account which was created to be in compliance with the government regulation for local currency conversion into foreign currencies.

The cash deposited will be converted from Uzbek Som into U.S. Dollars and used for settlements with suppliers of equipment and software.

17. BORROWINGS

Notes—As of December 31, 2009 and 2008, the Group's notes consisted of the following:

	<u>Currency</u>	<u>Interest rate</u>	<u>2009</u>	<u>2008</u>
MTS OJSC Notes due 2016	RUB	14.25%	\$ 495,963	\$ —
MTS OJSC Notes due 2014	RUB	16.75%	495,963	—
MTS Finance Notes due 2012	USD	8.00%	400,000	400,000
MTS Finance Notes due 2010	USD	8.38%	400,000	400,000
MTS OJSC Notes due 2018	RUB	8.70%	323,698	268,544
MTS OJSC Notes due 2015	RUB	14.01%	248,213	255,272
MTS OJSC Notes due 2013	RUB	14.01%	247,981	255,272
MGTS Notes due 2010	RUB	16.00%	402	5,202
MGTS Notes due 2009	RUB	7.10%	—	5,233
Less: unamortized discount			(2,587)	(548)
Total notes			\$ 2,609,633	\$1,588,975
Less: current portion			(1,218,084)	(10,435)
Total notes, long-term			<u>\$ 1,391,549</u>	<u>\$1,578,540</u>

The Group has an unconditional obligation to repurchase MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

MTS OJSC Notes due 2013	April 2010
MTS OJSC Notes due 2014	May 2011
MTS OJSC Notes due 2015	April 2010
MTS OJSC Notes due 2016	June 2012
MTS OJSC Notes due 2018	June 2010

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 OJSC Notes due 2013, 2015, 2018), in 2011 (MTS OJSC Notes due 2015) and in 2012 (MTS OJSC Notes due 2016) in the aggregated maturities schedule

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

17. BORROWINGS (Continued)

as these are the reporting periods when the noteholders will first have the unilateral right to demand repurchase.

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

	<u>Stock exchange</u>	<u>% of par</u>	<u>Fair value</u>
MTS OJSC Notes due 2016	MICEX	110.1	\$ 546,055
MTS OJSC Notes due 2014	MICEX	108.3	537,127
MTS Finance Notes due 2012	Luxembourg stock exchange	104.6	418,400
MTS Finance Notes due 2010	Luxembourg stock exchange	103.3	413,200
MTS OJSC Notes due 2018	MICEX	99.9	323,375
MTS OJSC Notes due 2015	MICEX	101.7	252,432
MTS OJSC Notes due 2013	MICEX	102.0	252,941
MGTS Notes due 2010	MICEX	98.4	396
Total notes			<u>\$2,743,926</u>

Subject to certain exceptions and qualifications, the indentures governing MTS Finance Notes contain covenants limiting the Group's ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate with another person or convey its properties and assets to another person, and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if the Group experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest. The notes also have cross default provisions with publicly traded debt issued by Sistema, the shareholder of the Group. The Group is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. 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.

The indenture governing MTS OJSC Notes contains certain covenants which limit the Group's ability to delist the notes from the quotation lists and delay the coupon payments.

Management believes that the Group is in compliance with all restrictive note covenants as of December 31, 2009.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

17. BORROWINGS (Continued)

Bank loans—As of December 31, 2009 and 2008, the Group’s loans from banks and financial institutions consisted of the following:

	<u>Maturity</u>	<u>Interest rate (actual at December 31, 2009)</u>	<u>December 31,</u>	
			<u>2009</u>	<u>2008</u>
<i>USD-denominated:</i>				
Syndicated Loan Facility granted to MTS OJSC in 2006	2010–2011	LIBOR+1.15% (1.58%)	\$ 323,077	\$ 1,168,462
Syndicated Loan Facility granted to MTS OJSC in 2009	2011–2012	LIBOR+6.5% (6.93%)	360,000	—
Skandinaviska Enskilda Banken AB	2010–2017	LIBOR+0.23%–1.8% (0.66%–2.23%)	279,519	159,047
EBRD	2010–2014	LIBOR+1.51%–3.1% (1.94%–3.53%)	150,000	183,333
HSBC Bank plc and ING BHF Bank AG	2010–2014	LIBOR+0.3% (0.73%)	90,985	110,727
Citibank International plc and ING Bank N.V.	2010–2013	LIBOR+0.43% (0.86%)	84,560	106,358
HSBC Bank plc, ING Bank and Bayerische Landesbank	2010–2015	LIBOR+0.3% (0.73%)	76,180	92,789
Commerzbank AG, ING Bank AG and HSBC Bank plc	2010–2014	LIBOR+0.3% (0.73%)	66,557	81,348
Barclays	2010–2014	LIBOR+0.13%–0.15% (0.56%–0.58%)	59,203	72,360
ABN AMRO Bank N.V.	2010–2013	LIBOR+0.35% (0.78%)	25,149	31,436
Promissory note Access Telecommunications Cooperatief U.A.	2009	—	—	263,552
Other	2010–2013	various	21,694	17,938
			\$1,536,924	\$ 2,287,350

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

17. BORROWINGS (Continued)

	Maturity	Interest rate (actual at December 31, 2009)	December 31,	
			2009	2008
<i>EUR-denominated:</i>				
Syndicated Loan Facility granted to MTS OJSC in 2009	2011–2012	EURIBOR+6.5% (7.49%)	341,580	—
EBRD	2010–2016	EURIBOR+6.5%–6.9% (7.49%–7.89%)	312,743	—
European Investment Bank	2010–2016	EURIBOR+6.4% (7.39%)	164,979	—
Gasprombank	2011	8.0%	143,460	423,150
Nordic Investment Bank	2010–2016	EURIBOR+6.5%–6.9% (7.49%–7.89%)	114,768	—
ABN AMRO Bank N.V.	2010–2013	EURIBOR+0.35% (1.34%)	19,859	24,406
Other	2010–2012	various	5,972	16,425
			\$1,103,361	\$ 463,981
<i>RUB-denominated:</i>				
Sberbank	2010–2012	13.35%	859,669	884,944
Sberbank	2012–2013	11.75%	1,554,017	—
Sberbank	2011	Refinancing rate of the Central Bank of Russia+2.25% (11.0%)	396,770	—
Gazprombank	2012	13.0%	213,600	—
Other	2010–2012	various	25,241	35,966
			\$3,049,297	\$ 920,910
Debt-related parties	2010–2056	various	26,207	94,776
			\$ 26,207	\$ 94,776
Total bank loans			\$5,715,789	\$ 3,767,017
Less: current portion			(780,514)	(1,677,529)
Total bank loans, long-term			\$4,935,275	\$ 2,089,488

Interest rate of Sberbank loan maturing in 2012-2013 is set as 11.75% till March 27, 2010. For the subsequent periods (quarters) the rate is determined as a total of base rate (11.75%), rate A and rate B. Rate A and B depend on the average daily bank account balance for the period maintained by MTS OJSC and RTC with Sberbank. In case the balance maintained by MTS OJSC and RTC is below RUB 1.0 billion and RUB 0.5 billion, respectively, rates A and B are set at 0.5% each. No extra interest is charged if the average daily bank account balance maintained is equal or above RUB 1.0 billion for MTS OJSC and RUB 0.5 billion for RTC.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

17. BORROWINGS (Continued)

The loans of the Group are subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries.

Management believes that as of December 31, 2009 the Group is in compliance with all existing bank loan covenants.

Pledges—The loan facility of RUB 26 billion (equivalent of \$859.7 million as of December 31, 2009) from Sberbank granted to Comstar-UTS is secured by pledge of a 25.0% plus one share stake in Svyazinvest and two RUB-denominated promissory notes of Sberbank purchased by Comstar-UTS in the total amount of RUB 4,334 million (\$143.3 million as of December 31, 2009).

The loan facility of RUB 25 billion (equivalent of \$826.6 million as of December 31, 2009) from Sberbank granted to MTS OJSC is secured by the pledge of 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 reporting date), with assigned pledge value of RUB 21 billion (equivalent of \$694.3 million as of reporting date).

The equipment with the fair value of approximately RUB 421.8 million (\$13.9 million as of December 31, 2009) acquired by Comstar-UTS under the vendor financing agreement with Cisco Capital is pledged as collateral against the outstanding liability of RUB 408.8 million (\$13.5 million as of December 31, 2009).

The vendor financing agreement between K-Telecom and Intracom, a related party, with total outstanding amount as of December 31, 2009 of \$23.2 million is secured by the telecommunication equipment and other assets supplied under the agreement with carrying value of \$17.1 million.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

17. BORROWINGS (Continued)

Available credit facilities—As of December 31, 2009, the Group's total available credit facilities amounted to \$1,666 million and related to the following credit lines:

	<u>Maturity</u>	<u>Interest rate</u>	<u>Commitment fees</u>	<u>Available till</u>	<u>Available amount (USD equivalent)</u>
Calyon, ING Bank N.V. and Nordea Bank AB	2019/2020	LIBOR +1.15%	0.40%	August 2011/ December 2012	\$1,073,371
Bank of China (BNP Paribas)	2016	EURIBOR+1.95%	0.60%	December 2011	212,500
Export Development Canada (EDC)	2012	LIBOR +4.5%	1.50%	December 2010	165,000
Gazprombank	2012	8.0%	0.75%	January 2012	143,460
Landesbank Baden-Wuerttemberg	2016	EURIBOR+0.75%	0.45%	March 2010	53,590
Gazprombank	2012	13.0%	0.00%	March 2010	17,849
Total available credit facilities					<u>\$1,665,770</u>

The following table presents the aggregated scheduled maturities of the notes and bank loans principal outstanding as of December 31, 2009:

	<u>Notes</u>	<u>Bank loans</u>
Payments due in the year ended December 31,		
2010	\$1,218,084	\$ 780,514
2011	495,963	1,872,512
2012	895,586	1,834,103
2013	—	893,030
2014	—	149,222
Thereafter	—	186,408
Total	<u>\$2,609,633</u>	<u>\$5,715,789</u>

On February 24, 2010, subsequent to the statement of financial position date, the Group repaid the full amount due under the Syndicated Loan Facility granted to MTS OJSC in 2009 with an original maturity in 2011-2012. In the maturity schedule presented above, the principal outstanding as of December 31, 2009 under this facility and totaling \$701.6 million is included in payments due in the years ended December 31, 2011 and 2012 in the amounts of \$467.7 million and \$233.9 million, respectively, in accordance with their original maturity.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

18. ASSET RETIREMENT OBLIGATIONS

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:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	\$62,053	\$ 59,527
Liabilities incurred in the current period	3,923	3,840
Accretion expense	6,518	6,026
Revisions in estimated cash flows	17,693	3,383
Currency translation adjustment	<u>(1,504)</u>	<u>(10,723)</u>
Balance, end of the year	<u>\$88,683</u>	<u>\$ 62,053</u>

Revisions in estimated cash flows are attributable to the change in the estimated future useful life of the assets.

19. DEFERRED CONNECTION FEES

Deferred connection fees for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	\$174,225	\$216,511
Payments received and deferred during the year	60,590	89,195
Amounts amortized and recognized as revenue during the year	(67,057)	(95,080)
Currency translation adjustment	<u>(4,660)</u>	<u>(36,401)</u>
Balance, end of the year	163,098	174,225
Less: current portion	<u>(46,930)</u>	<u>(55,012)</u>
Non-current portion	<u>\$116,168</u>	<u>\$119,213</u>

MTS defers initial connection fees paid by subscribers for the activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (Note 2).

20. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the Moscow city wire line network from the real estate constructors free of charge as provided by

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

20. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS (Continued)

the regulations of the city government. Property, plant and equipment contributions received by MGTS during the years ended December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Unamortized property, plant and equipment contributions, beginning of the year	\$93,197	\$112,779
Contributions received during the year	3,213	3,194
Amortization for the year	(3,408)	(4,381)
Currency translation effect	<u>(2,653)</u>	<u>(18,395)</u>
Unamortized property, plant and equipment contributions, end of the year	<u>\$90,349</u>	<u>\$ 93,197</u>

21. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedging

In 2009, 2008 and 2007 the Group 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. Interest rate swap contracts outstanding as of December 31, 2009 mature in 2012-2015.

Further, in 2009 the Group 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. Cross-currency interest rate swap contracts outstanding as of December 31, 2009 mature in 2010-2011.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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.

	Statement of financial position location	December 31,	
		2009	2008
<i>Asset derivatives</i>			
Interest rate swaps	Other non-current assets	\$ 3,391	—
Total		\$ 3,391	—
<i>Liability derivatives</i>			
Interest rate swaps	Other long-term liabilities	\$(32,636)	\$(20,892)
Cross-currency interest rate swaps	Other payables	(9,211)	—
Cross-currency interest rate swaps	Other long-term liabilities	(17,348)	—
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, 2008 and 2007.

	Location of loss recognised	Year ended December 31,		
		2009	2008	2007
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)	—

The 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. The 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, 2008 and 2007.

	2009	2008	2007
Accumulated derivatives (loss)/gain, beginning of the year	\$(16,714)	\$ (355)	\$ 759
Fair value adjustments on hedging derivatives, net of tax	(28,764)	(18,361)	(1,114)
Amounts reclassified into earnings during the period, net of tax	5,185	2,002	—
Accumulated derivatives loss, end of the year	\$(40,293)	\$(16,714)	\$ (355)

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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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, 2008 and 2007.

Non-designated derivative instruments

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.

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 (see Note 24), 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 reporting date. In April 2010 the purchased call option expired unexercised as it was out-of-money.

Written call and put option—In 2006, simultaneously with the acquisition of the 25% stake plus one share in Svyazinvest (see Note 14), 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 reporting 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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. 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.

Currency forward—In December 2008, to mitigate foreign currency risks under the USD-denominated notes payable to Access (see Note 25) Comstar-UTS entered into forward contracts with MBRD to acquire \$32.0 and \$68.0 million of U.S. Dollars in January and February 2009, respectively, at a rate of RUB 27.85 per one USD. In the year ended December 31, 2009 the instrument was redeemed. Net cash proceeds from the redemption of the instrument in the amount of \$20.2 million were included in the cash flows from operating activities in the consolidated statement of cash flows.

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.

	Statement of financial position location	December 31,	
		2009	2008
<i>Asset derivatives:</i>			
Purchased call option	Other non-current assets	—	\$ 5,830
Currency forward	Other current assets	—	9,734
Total		—	\$15,564
<i>Liability derivatives:</i>			
Foreign currency options	Other payables	\$(2,654)	—
Foreign currency options	Other long-term liabilities	(1,627)	—
Total		\$(4,281)	—

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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, 2008 and 2007.

	Location of gain/(loss) recognised	Year ended December 31,		
		2009	2008	2007
Foreign currency options	Currency exchange and transaction loss	\$(4,280)	\$ —	\$ —
Purchased call option	Change in fair value of derivatives	(5,420)	(13,614)	—
Currency forward	Currency exchange and transaction gain	12,788	10,165	—
Written call and put option	Change in fair value of derivatives	—	(27,940)	(145,860)
Total		<u>\$ 3,088</u>	<u>\$(31,389)</u>	<u>\$(145, 860)</u>

Fair value of derivative instruments

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

	Quoted prices in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2009
<i>Assets:</i>				
Interest rate swap agreements	—	\$ 3,391	—	\$ 3,391
<i>Liabilities:</i>				
Interest rate swap agreements	—	\$(32,636)	—	\$(32,636)
Cross-currency interest rate swap agreements	—	(26,559)	—	(26,559)
Currency option agreements	—	(4,281)	—	(4,281)

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

22. ACCRUED LIABILITIES

	December 31,	
	2009	2008
Accruals for services	\$232,897	\$224,803
Accrued payroll and vacation	210,329	146,698
Accruals for taxes	241,838	131,971
Accruals for payments to social funds	12,396	10,134
Interest payable on debt	127,953	49,711
Total accrued liabilities	<u>\$825,413</u>	<u>\$563,317</u>

23. INCOME TAX

Provision for income taxes for the years ended December 31, 2009, 2008 and 2007 was as follows:

	December 31,		
	2009	2008	2007
Current provision for income taxes	\$402,511	\$ 948,983	\$937,036
Deferred income tax benefit	101,444	(206,102)	(85,021)
Total provision for income taxes	<u>\$503,955</u>	<u>\$ 742,881</u>	<u>\$852,015</u>

The statutory income tax rates in jurisdictions in which the Group operates for 2009 were as follows: Russia—20.0%, Ukraine—25.0%, Uzbekistan—3.4%, Turkmenistan—20.0%, and Armenia—20.0%.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

23. INCOME TAX (Continued)

The statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2009, 2008 and 2007 was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory income tax rate for the year	20.0%	24.0%	24.0%
Adjustments:			
Expenses not deductible for tax purposes	4.9	2.1	2.1
Currency exchange and transaction loss	0.5	1.0	0.2
Income tax provision	(0.2)	0.3	0.6
Settlements with tax authorities on prior period income tax (2005 - 2008)	(2.9)	—	—
Revaluation of UMC tax base	—	(1.8)	—
Different tax rate of foreign subsidiaries	(2.0)	(1.2)	0.1
Earnings distribution from subsidiaries	6.8	—	—
Disposal of treasury stock	(4.1)	—	—
Impairment of goodwill	—	0.4	—
Change in fair value of derivative financial instruments	(0.1)	0.3	1.1
Change in valuation allowance	10.3	(0.2)	(0.2)
Comstar corporate reorganization	0.4	—	—
Increase in deferred tax liability subject to registration	—	—	(0.3)
Other	<u>0.1</u>	<u>0.5</u>	<u>0.1</u>
Effective income tax rate	<u>33.7%</u>	<u>25.4%</u>	<u>27.7%</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

23. INCOME TAX (Continued)

Temporary differences between the tax and accounting bases of assets and liabilities gave rise to the following deferred tax assets and liabilities as of December 31, 2009 and 2008:

	December 31,	
	2009	2008
Assets/(liabilities) arising from tax effect of:		
Deferred tax assets		
Depreciation of property, plant and equipment	\$ 212,606	\$ 197,879
Other intangible assets	12,770	8,967
Deferred connection fees	33,610	35,873
Subscriber prepayments	16,663	17,057
Accrued expenses	130,603	155,508
Provision for doubtful accounts	3,603	13,827
Inventory obsolescence	3,046	2,004
Loss carryforward	111,784	24,130
Impairment of property, plant and equipment	19,906	—
Valuation of investment in Svyazinvest	78,761	—
Other	23,147	13,365
Valuation allowance	<u>(182,308)</u>	<u>(26,744)</u>
Total deferred tax assets	<u>464,191</u>	<u>441,866</u>
Deferred tax liabilities		
Licenses acquired	\$ (59,746)	\$(104,443)
Depreciation of property, plant and equipment	(188,611)	(127,616)
Customer base	(2,695)	(1,773)
Other intangible assets	(59,227)	(75,040)
Debt issuance cost	(22,690)	(7,446)
Potential distributions from/to Group's subsidiaries/associates	(118,608)	—
Other	<u>(1,025)</u>	<u>(39,662)</u>
Total deferred tax liabilities	<u>(452,602)</u>	<u>(355,980)</u>
Net deferred tax asset	<u>11,589</u>	<u>85,886</u>
Net deferred tax asset, current	\$ 212,687	\$ 213,091
Net deferred tax asset, non-current	\$ 97,355	\$ 63,507
Net deferred tax liability, long-term	\$(298,453)	\$(190,712)

In 2009, to streamline the ownership structure within Comstar group and to enable legal merger of certain its subsidiaries, certain of Comstar's subsidiaries were sold to Comstar-UTS. As a result, deferred tax assets on tax losses carried forward of \$6.8 million were written down.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

23. INCOME TAX (Continued)

The Group has the following significant balances for income tax losses carried forward as of December 31, 2009 and 2008:

<u>Jurisdiction</u>	<u>Period for carry-forward</u>	<u>2009</u>	<u>2008</u>
Luxembourg (MGTS Finance S.A.)	not limited	\$ 94,163	\$12,773
Russia (Comstar-UTS, RTC and other)	2011 - 2019	17,048	4,392
USA	not limited	573	6,965
Total		<u>\$111,784</u>	<u>\$24,130</u>

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 and K-Telecom) which are based on \$1,431.9 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated. The Group did not record any deferred tax liabilities related to undistributed earnings of these subsidiaries in prior periods as there was no intention to repatriate the earnings.

No deferred tax liability was recognized on undistributed earnings of Uzdunrobota as of December 31, 2009 as the Group plans to indefinitely reinvest those. As of December 31, 2009 and 2008 the amount of undistributed earnings of Uzdunrobota in accordance with local statutory accounting regulations amounted to \$530.7 million and \$401.6 million, respectively (unaudited). Potential earnings distributions from BCTI are tax free, so that no deferred tax liability arises in this regard.

As of December 31, 2009, 2008 and 2007, the Group included accruals for uncertain tax positions in the amount of \$10.6 million, \$12.4 million and \$35.8 million, respectively, as a component of income tax payable.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

23. INCOME TAX (Continued)

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	\$12,360	\$ 35,752	12,183
Additions based on tax position related to the current year	2,094	20,006	23,828
Additions based on tax positions related to prior years	—	—	5,933
Additions based on tax of acquired entities	1,521	—	—
Reduction in tax positions related to prior years	(1,778)	(11,692)	(2,963)
Settlements with tax authorities	(3,305)	(31,456)	(3,628)
Currency translation adjustment	(258)	(250)	399
Balance, end of the year	<u>\$10,634</u>	<u>\$ 12,360</u>	<u>35,752</u>

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2009, 2008 and 2007 amounted to (\$0.6) million, (\$1.0) million and (\$2.0) million, respectively, and are included in income tax expense in the accompanying consolidated statements of operations. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totalled to \$4.3 million and \$4.6 million as of December 31, 2009 and 2008, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

24. SHARE BASED COMPENSATION

MTS

The Stock Option Plan

In 2000, MTS established a stock bonus plan and stock option plan (“the Stock Option 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 Stock Option Plan. Since 2002, MTS has made several grants pursuant to its stock option plan to employees and directors of the Group. 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 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%.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

A summary of the status of the Group's Stock Option Plan is presented below:

	Number of shares	Weighted average exercise price (per share), U.S. Dollars	Weighted average grant date fair value of options (per share), U.S. Dollars	Aggregate intrinsic value
Outstanding at December 31, 2006	1,435,001	\$ 6.89	\$1.74	\$ 743
Granted	1,778,694	6.31	5.95	
Exercised	(848,126)	6.89	1.74	
Forfeited	(968,313)	6.66	2.65	
Outstanding at December 31, 2007	1,397,256	\$ 6.31	\$4.05	\$5,236
Granted	1,302,070	15.93	2.44	
Exercised	(1,397,256)	6.31	4.05	
Forfeited	—	—	—	
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, 2008 and 2007 was \$nil, \$7.4 million and \$0.4 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, 2008 were exercisable and therefore had a negative intrinsic value. None of the stock options outstanding as of December 31, 2007 were exercisable.

Compensation cost under Stock Option Plan of \$1.2 million, \$3.5 million and \$2.8 million was recognized in consolidated statements of operations during the years ended December 31, 2009, 2008 and 2007 respectively. Related deferred tax benefit amounted to \$0.2 million, \$0.7 million and \$0.6 million for the years ended December 2009, 2008 and 2007, respectively.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

The fair value of options granted during the year ended December 31, 2007 was estimated using the lattice model based on the following assumptions:

	2007
Risk free rate	3.1%
Expected dividend yield	0.3%
Expected volatility	40.3%
Expected life, years	2
Fair value of options (per share), U.S. Dollar	\$5.95

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 historical volatility of the MTS' ADSs.

The Group is required to estimate 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, \$2.3 million and \$1.7 million in 2009, 2008 and 2007, 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 Stock Option Plan. This amount will be recognized over the period through July 1, 2010.

The Phantom Stock Plan

In June 2007, MTS' Board of Directors approved the Phantom Stock 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

In April 2008, the Phantom Stock 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 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 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) was expired on July 1, 2009 and non 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 Group's Phantom Stock Plan 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, 2006	—	—	—	—
Granted	720,000	56.79	44.00	
Exercised	—	—	—	
Forfeited	(36,664)	56.79	44.00	
Outstanding at December 31, 2007	<u>683,336</u>	<u>\$56.79</u>	<u>\$44.00</u>	<u>\$30,750</u>
Granted	6,676,716	76.64	0.68	
Exercised	—	—	—	
Forfeited	(1,346,442)	72.02	0.88	
Outstanding at December 31, 2008	<u>6,013,610</u>	<u>\$75.41</u>	<u>\$ 0.78</u>	<u>\$ —</u>
Granted	—	—	—	
Exercised	—	—	—	
Expired	(3,883,144)	73.51	—	
Forfeited	(531,833)	76.62	0.03	
Outstanding at December 31, 2009	<u>1,598,633</u>	<u>79.63</u>	<u>0.06</u>	<u>—</u>

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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

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 had a negative intrinsic value.

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

	Phantom 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. Dollar	0.06

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

	Phantom Grant 2007	Phantom Grant 2008 (I)	Phantom 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. Dollar	2.00	0.07	1.99

The fair value of the liability under the Phantom Stock Plan as of December 31, 2007 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

	Phantom Grant 2007
Risk free rate	3.1%
Present value of expected dividends, U.S. Dollars	\$ 5.3
Expected volatility	40.3%
Remaining vesting period, years	1.5
Fair value of phantom share award (per share), U.S. Dollar	\$ 8.8

Expected volatilities were based on historical and implied 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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

\$0.8 million, respectively, was recognized in the consolidated statements of operations as a result of underlying stock price decrease. 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. 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.

The compensation cost under the Phantom Stock Plan recognized in consolidated statement of operations for the year ended December 31, 2007 amounted to \$7.6 million and the related deferred tax benefit amounted to \$1.8 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 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, \$1.5 and \$2.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Comstar-UTS

The 2006 Program

On September 15, 2006, the Extraordinary General Meeting of shareholders 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 Board of Directors of Comstar-UTS 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 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 Comstar-UTS 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 Comstar-UTS 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

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

In November 2008, the participants of the 2006 Program fully exercised their vested options, acquired 2,403,159 GDRs from Comstar-UTS for USD 4.60 per one GDR. The GDRs were then repurchased by Comstar-UTS at USD 5.34 per one GDR, and the 2006 Program was closed. 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 years ended December 31, 2008 approximated (\$9.2) million (a reversal).

The following table summarizes information about non-vested common stock options during the year ended December 31, 2008:

	<u>Quantity</u>	<u>Exercise price, U.S. Dollar</u>	<u>Weighted average grant- date fair value, U.S. Dollar</u>
Non-vested options at January 1, 2008	2,403,159	n/a	3.16
Options granted	—	—	—
Options vested	(2,403,159)	4.60	3.16
Options forfeited	—	—	—
Non-vested options at December 31, 2008 .	—	—	—

Phantom Option 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 estimated or actual outcome of the performance conditions of Comstar-UTS. 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

24. SHARE BASED COMPENSATION (Continued)

The following table summarizes information about phantom options during the years ended December 31, 2009 and 2008:

	<u>Quantity</u>	<u>Exercise price, U.S. Dollar</u>	<u>Weighted average grant- date fair value, U.S. Dollar</u>
Outstanding at January 1, 2008	—	—	—
Granted	13,065,882	10.2368	2.36
Forfeited	<u>(940,000)</u>	<u>10.2368</u>	<u>2.37</u>
Outstanding at December 31, 2008 (all non-vested)	<u>12,125,882</u>	<u>10.2368</u>	<u>2.36</u>
Granted	—	—	—
Forfeited	<u>(1,580,000)</u>	<u>10.2368</u>	<u>2.37</u>
Outstanding at December 31, 2009 (all non-vested)	<u>10,545,882</u>	<u>10.2368</u>	<u>2.35</u>

Comstar-UTS 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:

	<u>2009</u>	<u>2008</u>
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	USD 0.36

Expected volatility as of December 31, 2009 was based on historical volatility of the GDRs of Comstar-UTS 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

25. RELATED PARTIES

Related parties include entities under common ownership and control with the Group, affiliated companies and Svyazinvest, in which the Group owns 25% plus one share stake (see Note 14) and which owns approximately 28% voting shares in MGTS, a subsidiary of Comstar-UTS.

As of December 31, 2009 and 2008, accounts receivable from and accounts payable to related parties were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Accounts receivable:		
Sky Link and subsidiaries, an affiliate of Sistema	\$ 7,467	\$ 4,319
Svyazinvest and subsidiaries	4,446	9,334
TS-Retail, a subsidiary of Sistema	3,278	16,271
Sitronics, a subsidiary of Sistema	1,933	—
Intellect Telecom, a subsidiary of Sistema	622	1,073
Sistema Mass Media, a subsidiary of Sistema	204	14,416
Glaxen, a minority shareholder of a subsidiary of the Group	—	12,215
Mezhregion Tranzit Telecom, an affiliate of Sistema	—	8,323
Other related parties	2,023	4,669
Total accounts receivable, related parties	<u>\$19,973</u>	<u>\$ 70,620</u>
Accounts payable:		
Sitronics, a subsidiary of Sistema	\$68,296	\$162,906
Maxima, a subsidiary of Sistema	6,511	15,168
TS-Retail, a subsidiary of Sistema	5,739	—
Svyazinvest and subsidiaries	2,299	6,387
Mezhregion Tranzit Telecom, an affiliate of Sistema	—	18,257
Mediaplanning, a subsidiary of Sistema	—	6,118
Sistema Telecom, a subsidiary of Sistema	861	2,697
Sistema Mass Media, a subsidiary of Sistema	—	7,675
Sky Link and subsidiaries, an affiliate of Sistema	488	—
Other related parties	3,209	7,274
Total accounts payable, related parties	<u>\$87,403</u>	<u>\$226,482</u>

The Group does not have the intent and ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements with them.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

25. RELATED PARTIES (Continued)

Operating Transactions

For the years ended December 31, 2009, 2008 and 2007, operating transactions with related parties are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues from related parties:			
Svyazinvest and subsidiaries (interconnection, commission for provision of DLD/ILD services to the Group's subscribers and other)	\$ 43,174	\$ 63,147	\$ 69,094
TS-Retail, a subsidiary of Sistema (Sales of handsets and accessories)	20,689	1,500	—
Mezhregion Tranzit Telecom, an affiliate of Sistema (interconnection, line rental, commission for provision of DLD/ILD services to the Group's subscribers, and other)	11,465	128,560	93,224
Sky Link and subsidiaries, an affiliate of Sistema (interconnection and other)	9,857	7,977	9,857
Other related parties	7,653	10,306	6,137
Total revenues to related parties	<u>\$ 92,838</u>	<u>\$211,490</u>	<u>\$178,312</u>
Operating expenses incurred on transactions with related parties:			
RA Maxima, a subsidiary of Sistema (advertising)	\$102,005	\$138,756	\$134,878
Sitronics, a subsidiary of Sistema (IT consulting)	52,211	39,646	35,889
Svyazinvest and subsidiaries (interconnection and other)	28,997	41,533	36,633
Mediaplanning, a subsidiary of Sistema (advertising)	23,782	82,036	48,756
Mezhregion Tranzit Telecom, an affiliate of Sistema (interconnection, line rental and other)	18,115	191,155	121,355
TS-Retail, a subsidiary of Sistema (dealer commision)	17,889	4,448	133
Sistema Telecom, a subsidiary of Sistema (use of the brand name) . . .	11,738	14,676	14,556
City Hals, a subsidiary of Sistema (rent, repair, maintenance and cleaning services)	9,988	13,835	9,466
AB Safety, an affiliate of Sistema (security services)	5,576	—	—
Other related parties	17,931	14,296	12,199
Total operating expenses incurred on transactions with related parties	<u>\$288,232</u>	<u>\$540,381</u>	<u>\$413,865</u>

In addition to above, for the years ended December 31, 2009, 2008 and 2007 the Group received dividends from Svyazinvest totaling \$nil, \$2.4 million and \$1.9 million, respectively.

In the year ended December 31, 2007 Comstar-Direct, a subsidiary of Comstar-UTS, sold substantially all TV content and certain property, plant and equipment to Sistema Mass Media for \$14.8 million (exclusive of VAT). Respective gains totalling \$2.7 million were included in other income in the accompanying consolidated statement of operations. In the year ended December 31, 2008,

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

25. RELATED PARTIES (Continued)

respective receivables were transferred to SMM in the course of reorganization of Comstar-Direct (see Note 3).

Investing and financing transactions

During the years ended December 31, 2009 and 2008 the Group made certain investments in and loans to related parties. Respective balances are summarized as follows:

	December 31,	
	2009	2008
Loans to, promissory notes and investments in shares of related parties:		
Short-term investments (Note 5)		
TS-Retail, a subsidiary of Sistema	\$12,421	—
MBRD, a subsidiary of Sistema	992	\$ 90,949
Alt, a related party of Sistema	—	85,091
Delfa, a related party of Sistema	—	68,073
Finexkort, a subsidiary of Sistema	—	68,073
Sistema-Hals, an affiliate of Sistema	—	16,688
Sky Link and subsidiaries, an affiliate of Sistema	—	10,522
Total short-term investments to related parties	<u>\$13,413</u>	<u>\$339,396</u>
Other investments (Note 15)		
TS-Retail, a subsidiary of Sistema	30,192	11,156
Sistema	20,449	—
Intellect Telecom, a subsidiary of Sistema	12,808	11,717
Sistema Telecom, a subsidiary of Sistema	—	51,966
Total other investments to related parties	<u>\$63,449</u>	<u>\$ 74,839</u>
Investments in shares (Note 15)		
MBRD, a subsidiary of Sistema	5,248	5,401
Sistema Mass Media, a subsidiary of Sistema	3,856	3,970
Other	1,434	1,510
Total investments in shares of related parties	<u>\$10,538</u>	<u>\$ 10,881</u>

Moscow Bank of Reconstruction and Development (“MBRD”)—The Group has a number of loan agreements and also maintains certain bank and deposit accounts with MBRD, whose major shareholder is Sistema. As of December 31, 2009 and 2008, the Group cash position at MBRD amounted to \$963.6 million and \$242.4 million in current accounts, respectively. Deposit accounts at MBRD amounted to \$1.0 million and \$195.7 million as of December 31, 2009 and 2008, respectively. Deposit accounts in MBRD included deposit accounts with original maturities in excess of three months but less than twelve months totaling \$1.0 million and \$90.9 million as of December 31, 2009 and 2008, respectively, which are classified as short-term investments in the accompanying consolidated

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

25. RELATED PARTIES (Continued)

statements of financial position. The interest accrued on the deposits for the years ended December 31, 2009, 2008 and 2007, amounted to \$25.1 million, \$43.2 million and \$22.8 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

Loans payable to MBRD amounted to \$1.2 million and \$8.6 million as of December 31, 2009 and 2008, respectively. Interest expense on these loans for the years ended December 31, 2009 and 2008, 2007 amounted to \$0.8 million, \$1.3 million and \$1.0 million, respectively.

Sistema—In November 2009, the Group accepted a promissory note from Sistema as repayment of a loan principle and interest accrued to date under the agreement with Sistema-Hals (see Note 5). The note has zero interest rate and is repayable in 2017. As of December 31, 2009 the amount receivable of \$20.4 million was included in other investments in the accompanying consolidated statement of financial position.

In the year ended December 31, 2000 following the indemnification obtained from Sistema to repay debt from Ericsson Project Finance, the Group entered into a long-term, RUB-denominated promissory notes with zero interest rate and maturities from 2049 to 2056 to reimburse payments made by Sistema. As of December 31, 2009 and 2008 the carrying values of these notes amounted to \$1.8 million and \$nil, respectively.

Sistema Mass Media (“SMM”)—In 2008 and 2009, the Group had various loans and promissory notes payable to SMM, a subsidiary of Sistema. As of December 31, 2009 these loans and notes were fully repaid. Interest expense on these loans and notes for the years ended December 31, 2009 and 2008, 2007 amounted to \$1.4 million, \$8.1 million and \$1.5 million, respectively.

Intellect Telecom—During the years ended December 31, 2009 MGTS, a subsidiary of Comstar-UTS, and MTS itself granted loans to Intellect Telecom, a subsidiary of Sistema. Loans bear interest of 7.0% and 11.0%, respectively, and mature in 2012.

Sistema Telecom—In June 2009, the Group transferred RUB-denominated promissory notes of Sistema Telecom, a subsidiary of Sistema, for the total amount of \$8.7 million to SMM for partial extinguishment of the Group’s debt payable to SMM. In December 2009 the remaining portions of the notes were partly offset against the Group’s payables to Sistema Telecom and partly repaid in cash by Sistema Telecom.

Investments in ordinary shares—As of December 31, 2009 and 2008 the Group had several investments in share capitals of subsidiaries and affiliates of Sistema for \$10.5 million and \$10.9 million, respectively, which were individually immaterial. The main investments related to two subsidiaries of Sistema: MBRD of 4.56% and Sistema Mass Media of 3.14%.

Promissory notes of Alt, Delfa and Finexcort—In December 2008, the Group purchased promissory notes of Alt, Delfa, related parties of Sistema, and Finexcort, a subsidiary of Sistema. As of December 31, 2008 the total amount of \$221.2 was included in short-term investments in the accompanying consolidated statements of financial position. The notes, together with interest accrued, were redeemed in the first quarter of 2009.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

25. RELATED PARTIES (Continued)

Sky Link and subsidiaries—In 2009 and 2008, Sky Link, an affiliate of Sistema, repaid the Group \$14.3 million and \$3.4 million, respectively, of outstanding indebtedness, which resulted in partial reversal of a provision for uncollectible loans recorded by the Group in 2007 and recognition of a gain of \$4.3 million in the accompanying consolidated statement of operations for the year ended December 31, 2009.

Sitronics—During the years ended December 31, 2009, 2008 and 2007, the Group acquired from Sitronics Group, a subsidiary of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately \$190.1 million, \$357.6 million and \$222.1 million, respectively. In addition during the years ended December 31, 2009, 2008 and 2007, the Group purchased SIM cards and prepaid phone cards from Sitronics Smart Technologies, a subsidiary of Sitronics, for approximately \$32.4 million, \$39.6 million and \$19.2 million, respectively. As of December 31, 2009 and 2008 the advances given to Sitronics and its subsidiaries amounted to \$23.7 million and \$1.7 million, respectively. These amounts were included into property, plant and equipment in the accompanying consolidated statements of financial position.

Sistema-Hals—In October 2008, the Group entered into an agreement for the construction of an aerial system in Moscow metro with Sistema-Hals, an affiliate of Sistema. As of December 31, 2009 and 2008 the advances given to Sistema-Hals under this agreement amounted to \$6.7 million and \$11.7 million, respectively. These amounts were included into property, plant and equipment in the accompanying consolidated statements of financial position.

MGTS, a subsidiary of Comstar-UTS, entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, on project development and reconstruction of buildings which house MGTS' automatic telephone exchanges. As of December 31, 2009 and 2008, as a result of the work performed by Sistema-Hals under these contracts, MGTS recorded a liability of \$38.3 million and \$36.8 million, respectively, payable to Sistema-Hals that was recorded in the accompanying consolidated statements of financial position.

TS-Retail—In November 2006, MTS established a wholly-owned subsidiary, TS-Retail, with a registered capital of \$1.1 million for further expansion of Group's retail operations. In December 2007, MTS' stake in this company decreased from 100% to 25% following an increase of share capital by TS-Retail by \$14.0 million, which was paid by the Group and certain subsidiaries of Sistema. MTS deconsolidated TS-Retail in December 2007 and subsequently accounted for this investment under the equity method. During the years ended December 31, 2009 and 2008, the Group granted loans in total amount of \$42.6 million at 11.0%-15.0% annual interest rates maturing in 2010-2011.

InvestSvyazHolding—MTS itself and MGTS, a subsidiary of Comstar-UTS, entered into agreements with InvestSvyazHolding, a subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases in compliance with the authoritative guidance on leases and disclosed in Note 9.

Svyazinvest—In 2008, the Group paid \$3.6 million dividends to Svyazinvest.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

26. STOCKHOLDERS' EQUITY

Share capital—MTS' share capital comprises 1,916,869,262 and 1,885,052,800 of outstanding common shares, net of treasury shares, as of December 31, 2009 and 2008. The total shares in treasury stock of the Group comprised 76,456,876 and 108,273,338 as of December 31, 2009 and 2008, respectively.

Each ADS initially represented 20 shares of common stock of the Company. Effective January 2005, the ratio was changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares. The Company initially issued a total of 17,262,204 ADSs (69,048,816 ADSs recalculated using new ratio), representing 345,244,080 common shares. As of December 31, 2009 MTS repurchased 13,599,067 ADSs.

Noncontrolling interest—MTS' equity was affected by changes in subsidiaries' ownership interests as follows:

	December 31,		
	2009	2008	2007
Net income attributable to the Group	\$1,004,479	\$2,000,119	\$2,087,415
Transfers from the noncontrolling interest			
Increase in MTS equity due to acquisition of noncontrolling interest in Comstar-UTS	45,284	—	—
Decrease in MTS paid-in capital due to exercise of the put option on Comstar-UTS shares	—	(9,358)	—
Increase in MTS equity due to exercise of the call option on Comstar-UTS shares	—	—	71,060
Increase in MTS equity due to acquisition of noncontrolling interest in MGTS	269,281	—	—
Decrease in MTS paid-in capital due to acquisition of noncontrolling interest in Dagtelecom	(7,679)	—	—
Decrease in MTS paid-in capital due to reorganisation of Comstar-Direct	—	(6,539)	—
Increase in MTS paid-in capital due to acquisition of noncontrolling interest in Golden Line	—	—	1,467
Decrease in MTS paid-in capital due to acquisition of noncontrolling interest in other subsidiaries	(487)	—	—
Net transfers from the noncontrolling interest	306,399	(15,897)	72,527
Net income attributable to the Group and transfers from the noncontrolling interest:	\$1,310,878	\$1,984,222	\$2,159,942

Dividends—In 2007, the Board of Directors approved a dividend policy, whereby the Group shall aim to make dividend payments to shareholders in the amount of at least 50% of annual net income under U.S. GAAP. The dividend can vary depending on a number of factors, including the outlook for

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

26. STOCKHOLDERS' EQUITY (Continued)

earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, as well as the Group's debt position.

Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with the Russian laws, earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations, denominated in rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2009, 2008 and 2007 that is distributable under Russian legislation totaled RUB 33,480 million (\$1,055.4 million), RUB 40,554 million (\$1,631.6 million) and RUB 37,696 million (\$1,473.8 million), respectively.

The following table summarizes the Group's declared cash dividends in the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Dividends declared (including dividends on treasury shares of \$45,631, \$36,529 and \$5,967, respectively)	\$1,265,544	\$1,257,453	\$747,213
Dividends, U.S. Dollars per ADS	3.2	3.2	1.9
Dividends, U.S. Dollars per share	0.647	0.631	0.375

As of December 31, 2009 and 2008, dividends payable were \$1.1 million and \$0.6 million, respectively.

MGTS' preferred stock—MGTS, a subsidiary of Comstar-UTS, had 15,965,850 preferred shares outstanding at December 31, 2009. MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In June 2009, the general shareholders' meeting of MGTS approved zero dividend payment for 2008. Accordingly, the preferred shares obtained voting rights which will lapse after the first payment of the dividend in full.

In December 2009, the Group has acquired 11,135,428 preferred shares of MGTS (see Note 3).

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

27. RETIREMENT AND POST RETIREMENT OBLIGATIONS

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 national pension fund “Sistema” (NPF “Sistema”), a subsidiary of Sistema, 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 December 31. 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

27. RETIREMENT AND POST RETIREMENT OBLIGATIONS (Continued)

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	—	(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	<u>\$ 11,769</u>	<u>\$ 14,540</u>	<u>\$ 26,309</u>	<u>\$ 11,924</u>	<u>\$ 17,797</u>	<u>\$ 29,721</u>
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	<u>\$ 772</u>	<u>\$ —</u>	<u>\$ 772</u>	<u>\$ 471</u>	<u>\$ —</u>	<u>\$ 471</u>
Unfunded status of the plan, end of the year, net	<u>\$(10,997)</u>	<u>\$(14,540)</u>	<u>\$(25,537)</u>	<u>\$(11,453)</u>	<u>\$(17,797)</u>	<u>\$(29,250)</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

27. RETIREMENT AND POST RETIREMENT OBLIGATIONS (Continued)

Reconciliations of the unfunded status of the plan 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
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	<u>\$10,997</u>	<u>\$14,540</u>	<u>\$25,537</u>	<u>\$11,453</u>	<u>\$17,797</u>	<u>\$29,250</u>

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	<u>\$2,115</u>	<u>\$2,726</u>	<u>\$4,841</u>	<u>\$2,570</u>	<u>\$4,576</u>	<u>\$7,146</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

27. RETIREMENT AND POST RETIREMENT OBLIGATIONS (Continued)

Amounts recognized in other comprehensive income 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 gains	\$(565)	\$(2,123)	\$(2,688)	\$(3,289)	\$ (331)	\$(3,620)
Unrecognized prior service cost/(credit)	60	(180)	(120)	152	1,843	1,995
Total recognized in other comprehensive income	<u>\$(505)</u>	<u>\$(2,303)</u>	<u>\$(2,808)</u>	<u>\$(3,137)</u>	<u>\$1,512</u>	<u>\$(1,625)</u>

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

28. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2009, 2008 and 2007, comprised the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Salaries and social contributions	991,568	1,094,148	922,652
Rent	278,536	243,837	190,690
General and administrative	213,255	256,731	239,250
Taxes other than income	180,775	215,570	172,684
Repair and maintenance	157,932	221,192	218,824
Billing and data processing	64,169	62,203	45,097
Consulting expenses	58,931	50,774	40,157
Business acquisitions related costs	11,353	—	—
Insurance	7,561	11,452	19,339
Provision for obsolescence	4,113	3,870	4,931
Total	<u>1,968,193</u>	<u>2,159,777</u>	<u>1,853,624</u>

29. SEGMENT INFORMATION

Historically, the Group has reflected its reportable segments on a geographical basis. Management has taken this approach as this was effectively how the business was managed.

In 2009, since the acquisition of Comstar-UTS the Group’s management determined a new operating segment and identified three reportable segments: Russia Mobile, Russia Fixed and Ukraine Mobile. These segments have been determined based on different geographical areas of business activities and the nature of their operations: mobile includes activities for the providing of wireless telecommunication services to the Group’s subscribers and distribution of mobile handsets and accessories; fixed line includes all activities for providing wireline telecommunication services, broadband and consumer Internet. Information about other business activities and operating segments that are not reportable due to non materiality of business activity was combined and disclosed in the “Other” category separately from other reconciling items.

Also, historically, the Group included corporate headquarters expenses to “Russia” reportable segment as the chief operating decision maker assessed the performance of the segments on such basis. In 2009, since the acquisition of Comstar-UTS, the chief operating decision maker has changed the approach to the allocation of corporate headquarters expenses and such changes have been reflected in the financial information the chief operating decision maker now reviews. According to the new approach corporate headquarters expenses which are not directly attributable to the reportable segments are included into “Other” category. The accompanying consolidated financial statements reflect these changes for all periods presented.

Intercompany eliminations presented below consist primarily of sales transactions between segments conducted under the normal course of operations.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

29. SEGMENT INFORMATION (Continued)

Financial information by reportable segment is presented below:

	December 31,		
	2009	2008	2007
Revenue:			
Russia Mobile	\$6,636,568	\$ 7,840,225	\$6,181,023
Russia Fixed	1,485,590	1,765,226	1,562,291
Ukraine Mobile	1,048,751	1,661,951	1,608,021
Other	787,543	779,520	483,499
Intercompany eliminations	(134,910)	(145,988)	(110,928)
Total revenue	<u>\$9,823,542</u>	<u>\$11,900,934</u>	<u>\$9,723,906</u>
Depreciation and amortization:			
Russia Mobile	\$1,107,593	\$ 1,312,406	\$1,076,586
Russia Fixed	193,357	214,288	185,337
Ukraine Mobile	352,037	437,988	324,976
Other	186,581	186,443	87,986
Total depreciation and amortization	<u>\$1,839,568</u>	<u>\$ 2,151,125</u>	<u>\$1,674,885</u>
Operating income:			
Russia Mobile	\$1,941,174	\$ 2,836,660	\$2,251,259
Russia Fixed	406,995	440,441	450,907
Ukraine Mobile	120,248	321,328	456,778
Other	82,257	45,503	25,808
Intercompany eliminations	(3,107)	3,404	176
Net operating income	<u>\$2,547,567</u>	<u>\$ 3,647,336</u>	<u>\$3,184,928</u>
Net operating income	\$2,547,567	\$ 3,647,336	\$3,184,928
Currency exchange and transaction loss (gain)	252,945	565,663	(161,856)
Interest income	(108,543)	(70,860)	(53,507)
Interest expense	571,719	233,863	192,237
Change in fair value of derivatives	5,420	41,554	145,860
Impairment of investments	368,355	—	22,691
Equity in net income of associates	(60,313)	(75,688)	(71,116)
Other expense, net	23,254	22,745	38,781
Income before provision for income taxes and minority interest	<u>\$1,494,730</u>	<u>\$ 2,930,059</u>	<u>\$3,071,838</u>

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

29. SEGMENT INFORMATION (Continued)

	2009	2008
Additions to long-lived assets:		
Russia Mobile	\$ 1,247,307	\$ 1,595,643
Russia Fixed	120,036	353,975
Ukraine Mobile	259,388	405,127
Other	463,624	313,002
Total additions to long-lived assets	\$ 2,090,355	\$ 2,667,747
Long-lived assets:		
Russia Mobile	\$ 4,821,658	\$ 4,840,847
Russia Fixed	2,268,116	2,276,474
Ukraine mobile	1,365,686	1,484,317
Other	1,525,702	1,345,077
Total long-lived assets	\$ 9,981,162	\$ 9,946,715
Total assets:		
Russia Mobile	\$ 8,662,850	\$ 6,971,541
Russia Fixed	3,881,353	4,282,381
Ukraine Mobile	1,567,563	1,669,996
Other	1,668,979	1,793,261
Total assets	\$15,780,745	\$14,717,179

30. COMMITMENTS AND CONTINGENCIES

Recent volatility in global and Russian financial markets—During 2009, a number of major economies around the world continued to experience 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. As at the date these consolidated financial statements are authorized for issue as a consequence of the market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilization measures that may be put into place by the Russian Government, there exists economic uncertainties surrounding the continual availability, and cost, of credit facilities, the potential for economic uncertainties to continue in the foreseeable future. The crisis may also damage purchasing power of the Group's customers mainly in business sector and thus lead to decline in revenue streams and cash generation.

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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

Operating environment—The economies in Russia and the CIS countries, while deemed to be market economies, continue to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The further development of the Russian and CIS countries' economies will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

Capital commitments—As of December 31, 2009, the Group had executed purchase agreements of approximately \$200.2 million to acquire property, plant and equipment, and intangible assets and costs related thereto.

Agreement with Apple—In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. In 2009 and 2008, the Group made 0.4% and 7.2% of its total purchase installment contemplated by the agreement, respectively.

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.

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 of 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 had 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 additional floor space constructed during the course of the investment program. The obligation arises at the time the reconstruction of 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, a subsidiary of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The main part of the work under these

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

contracts was to be performed between 2006 and 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 one building. During 2009 and 2008, project development and site preparation works were performed by Sistema-Hals on 96 sites, which resulted in \$2.8 million and \$11.0 million addition to construction in-progress in 2009 and 2008, respectively, and recognition of payable to Sistema-Hals (see Note 25). 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 agreements with Sistema-Hals with respect to 26 sites, which also extinguishes the respective portion of MGTS' liability to Sistema-Hals, and signing of 26 new agreements with investor companies. Under the new agreements, the investor companies would perform all 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 transfer of the building into the investment project, MGTS is to receive 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 2 out of aforementioned 26 agreements was signed by Sistema-Hals.

Operating leases—The Group has entered into non-cancellable agreements to lease the space for telecommunication equipment, offices and transmission channels, which expire in various years up to 2058. Rental expenses under the operating leases of \$278.5 million, \$243.8 million and \$190.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, are included in operating expenses in the accompanying consolidated statements of operations. Rental expenses under the operating leases of \$168.7 million, \$175.8 million and \$129.1 million for the years ended December 31, 2009, 2008 and 2007, respectively, are included in cost of services in the accompanying consolidated statements of operations. Future minimum lease payments due under these leases at December 31, 2009 are as follows:

<u>Payments due in the years ended December 31,</u>	
2010	\$196,858
2011	33,741
2012	25,768
2013	11,707
2014	8,313
Thereafter	<u>93,609</u>
Total	<u>\$369,996</u>

Taxation—Russia and the CIS countries 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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

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 and the CIS countries 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 OJSC and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

In October 2009, the Russian tax authorities completed the tax audit of Sibintertelecom for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 174.5 million (\$5.8 million as of December 31, 2009) of additional taxes, penalties and fines were payable by the Group. The resolution has not come into force yet as the Group has prepared and filed an appeal with the Federal Tax Service to recognize the tax authorities' resolution to be invalid. As of December 31, 2009, no provision was recorded in the consolidated financial statements in respect of this matter, as the management believes the decision to be favorable.

The Group purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that custom 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 custom 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 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. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled \$4.2 million and \$8.0 million as of December 31, 2009 and 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

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 providing services in the Russian Federation by 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. Management believes that as of December 31, 2009 MTS is in compliance with these conditions.

Issued guarantees—In 2006, MGTS became a guarantor under a credit facility provided to InvestSvyazHolding, a subsidiary of Sistema, by Komerčni banka, a.s., Prague. The credit line for the total amount of €10.4 million matures in April 2011. MGTS' guarantee amounted to \$6.7 million as of December 31, 2009.

In 2006, MGTS became a guarantor under a credit facility provided to MBRD, a subsidiary of Sistema, by Bankgesellschaft Berlin AG, Berlin. The credit line for the total amount of €2.1 million matures in June 2011. MGTS' guarantee amounted to \$0.9 million as of December 31, 2009.

Under these guarantees the Group could be potentially liable for a maximum amount of \$7.6 million in case of borrowers' default under the obligations. As of December 31, 2009, no event of default has occurred under any of the guarantees issued by the Group. The Group does not recognize a liability at inception for the fair value of the guarantor's obligation, as provisions of the authoritative guidance on guarantees do not apply to the guarantees issued between corporations under common control.

Bitel—In December 2005, 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.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

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.

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-Manx 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

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

30. COMMITMENTS AND CONTINGENCIES (Continued)

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.

Beta Link—On August 12, 2009, Beta Link CJSC (“Beta Link”) filed a claim against MTS, seeking (i) payment of RUB 238.5 million (\$7.9 million as of December 31, 2009) in dealer commission, (ii) payment of \$10.0 million in penalties for breach of dealers' agreement and (iii) payment of \$2.7 million of unrealized potential benefits. On December 11, 2009, Moscow Arbitration Court ruled against MTS enacting to pay an amount of RUB 118.6 million (\$3.9 million as of December 31, 2009) and \$10 million in penalties. MTS prepared and filed an appeal in response of Moscow Arbitration Court ruling, which resulted in a judgment in favor of the Group on March 23, 2010. Beta Link, in return, prepared the further appeal against MTS. Group's management is unable to predict the outcome of this claim at this time. As of December 31, 2009, the provision for the entire amount totaled to \$13.9 million was recorded in the consolidated financial statements in respect of this claim.

Other litigations—In the ordinary course of business, the Group may be party to various legal, tax and customs proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which MTS operates. Management believes that the Group's liability, if any, in all such pending litigation, other legal proceeding or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

31. SUBSEQUENT EVENTS

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through April 29, 2010, which is the date these financial statements were available to be issued.

Increase in MGTS Tariffs—In January 2010, the Federal Tariff Service approved new tariffs for MGTS residential and corporate subscribers effective February 1, 2010. The tariffs for subscribers increased at an average rate of 10.3% in RUB.

Non-controlling interest in EuroTel—In February 2010, the Group completed the cash acquisitions of the outstanding 20% minority stake in Yekaterinburg-based cable-TV and communications operator EuroTel LLC and a 25% minority stake in Management and Leasing LLC, which owns communication infrastructure in Yekaterinburg. The Group now owns 100% of the issued share capital in both companies. The total cash consideration for the two related acquisitions is RUB 100 million (\$3.3 million at the date of acquisition).

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

31. SUBSEQUENT EVENTS (Continued)

Acquisition of Tenzor Telecom—In February 2010, the Group 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 frame of regional expansion program of the Group.

Decrease in interest rates Gazprombank—In February 2010 MTS reached an agreement with Gazprombank to reduce the interest rates on the outstanding loans. The interest rate on the EURO 100.0 million credit facility with original maturity in September 2012 was reduced from an annual rate of 8% to 7%. The interest rate on the facility of RUB 6.46 billion with maturity in September 2012 was reduced from an annual rate of 13% to 10.95%. MTS also reduced the interest rate on the revolving credit line in the amount of €100.0 million with maturity in September 2012 from 8% to 7%.

Raising of financing from Credit Agricole Corporate and Investment Bank and BNP Paribas—On February 18, 2010 the Group entered into a credit facility agreement in amount of up to \$97.0 million with Credit Agricole Corporate and Investment Bank and BNP Paribas backed by Hermes. \$55.1 million of the facility is available till April 15, 2010, the rest \$41.9 million - till March 30, 2011. The funds are to be used for purchase of telecommunication software and equipment from Alcatel Lucent Deutschland. The facility matures in 2017 and bears an interest of EURIBOR + 1.65%. The related commitment fee is set at 0.825% on undrawn balance of the facility.

Legal proceedings by anti-monopoly authorities—In March 2010, the Federal Anti-Monopoly Service of Russia (“FAS”) started legal proceedings against MTS, VimpelCom OJSC and Megafon OJSC about their alleged violation of antimonopoly legislation by charging artificially high prices for roaming services. The Group does not possess information related to the date that this case will be considered by the FAS. In case roaming tariffs of the Group are found to be in violation of applicable legislation, the Group may face certain fines of up to 15% of the revenue from the services provided in violation of the legislation. Management believes that there was no violation of the anti-monopoly legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this claim.

Amendment to Sberbank Credit Line Facility—In March 2010, Comstar-UTS agreed to amend the repayment schedule of Sberbank credit line facility (see Note 17). 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, 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.

Approval of new credit facility from Sberbank—In March 2010 Sberbank approved a new RUB 5.8 billion (\$191.8 million as of December 31, 2009) credit facility for Comstar. 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.

MGTS dividend—In March 2010, the extraordinary general shareholders’ meeting of MGTS approved dividend on preferred shares of MGTS for the total amount of RUB 321.9 million

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

31. SUBSEQUENT EVENTS (Continued)

(approximately \$10.7 million). The dividends are due to be paid until the end of May 2010. Upon dividend payment, preferred shares of MGTS will become non-voting.

Voluntary partial repayment of RUB 12 billion Sberbank facility—On April 5, 2010 the Group voluntarily repaid RUB 6 billion (equivalent of \$205.3 million as of the date of repayment) of its 12 billion Sberbank facility.

Raising of financing from the Bank of Moscow—On April 6, 2010 the Group signed a credit agreement with the Bank of Moscow in amount of RUB 22 billion. The terms of the agreement stipulate a three-year maturity with one-year extension option and an annual interest of up to 10.25%. The credit line can be drawn down until October 1, 2010. The facility carries no commitment fees or any other upfront fees payable at signing. However, the Group is to pay fee of 0.2% from each amount drawn under the agreement.

Decrease in interest rates Sberbank—On April 13, 2010, the Group lowered interest rates on MTS' Sberbank facilities. The interest rate for RUB 47 billion facility closed in September 2009 was set at 10.65%, the interest rate for RUB 12 billion facility closed in August 2009 (partially repaid in April 2010) was set at 9.75%.

Repurchase of MTS OJSC Notes due 2013—In April 2010 the Group set a new 7.0% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2013 until maturity. On April 26, 2010, upon demand of certain noteholders, the Group repurchased 7.1 million of MTS OJSC Notes due 2013 at nominal value of RUB 7.1 billion (\$242.5 million as of the date of the transaction).

Repurchase of MTS OJSC Notes due 2015—In April 2010 the Group set a new 7.75% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2015 until maturity. On April 29, 2010, upon demand of certain noteholders, the Group repurchased 6.3 million of MTS OJSC Notes due 2015 at nominal value of RUB 6.3 billion (\$214.5 million as of the date of the transaction).

Change of ADS ratio—Effective May 3, 2010, the ratio of Company's ADSs changed from 1 ADS per 5 common shares to 1 ADS per 2 common shares.

Agreement to sell Svyazinvest stake to Rostelecom—On May 20, 2010, Comstar-UTS, MGTS Finance S.A., a company controlled by Comstar-UTS, and Rostelecom entered into agreements involving the sale of a 25% + 1 share of Svyazinvest to Rostelecom for RUB 26 billion.

The closing of the transactions is subject to a number of conditions including, inter alia, obtaining the necessary corporate approvals by the parties involved, regulatory clearances, including those from the FAS, and the entry by Sistema and Svyazinvest into an exchange transaction, upon completion of which, Svyazinvest will control 100% of the share capital in Sky Link and Sistema will acquire the 23.33% stake in MGTS controlled by Svyazinvest. The precise terms and consummation of this and certain additional related transactions remain subject to the negotiation and execution of definitive binding documentation by these and other parties.

**APPROVED BY
GENERAL MEETING OF SHAREHOLDERS
OF MOBILE TELESYSTEMS
OPEN JOINT STOCK COMPANY**

JUNE 24, 2010, MINUTES NO. 25

**MOBILE TELESYSTEMS
OPEN JOINT STOCK COMPANY**

COMPANY CHARTER

(Rev. 8)

**MOSCOW
2010**

PART I. THE COMPANY	3
1. GENERAL PROVISIONS	3
2. MISSION, SUBJECT AND TYPES OF COMPANY ACTIVITIES	6
3. LEGAL STATUS OF THE COMPANY	7
4. PROPERTY OF THE COMPANY	7
5. BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY	8
6. DIVIDENDS OF THE COMPANY	10
7. FUNDS OF THE COMPANY	11
8. ACCOUNTING AND REPORTING IN THE COMPANY	11
9. INFORMATION ABOUT THE COMPANY	12
10. REORGANIZATION AND LIQUIDATION OF THE COMPANY	12
11. CHARTER OF THE COMPANY	13
PART II. CHARTER CAPITAL OF THE COMPANY	13
12. CHARTER CAPITAL OF THE COMPANY, GENERAL PROVISIONS	13
13. INCREASE OF CHARTER CAPITAL OF THE COMPANY	13
14. DECREASE OF COMPANY CHARTER CAPITAL	14
PART III. SHARES AND OTHER EQUITY SECURITIES OF THE COMPANY	15
15. SHARES OF THE COMPANY	15
16. BONDS AND OTHER EQUITY SECURITIES OF THE COMPANY	15
17. CONSOLIDATION AND SPLITTING OF SHARES	16
18. PAYMENT FOR SHARES AND OTHER EQUITY SECURITIES AT THEIR PLACEMENT	16
19. ACQUISITION OF PLACED SHARES BY THE COMPANY	17
20. REDEMPTION OF COMPANY SHARES AT SHAREHOLDERS' REQUEST	17
PART IV. SHAREHOLDERS OF THE COMPANY	17
21. SHAREHOLDERS OF THE COMPANY	17
22. SHAREHOLDER REGISTER OF THE COMPANY	17
23. SHAREHOLDERS' RIGHTS	18
24. SHAREHOLDERS' OBLIGATIONS	19
PART V. REGULATORY BODIES OF THE COMPANY	20
25. THE STRUCTURE OF REGULATORY BODIES OF THE COMPANY	20
26. GENERAL MEETING OF COMPANY SHAREHOLDERS	20
27. TERMS OF REFERENCE OF GENERAL MEETING OF SHAREHOLDERS	20
28. PREPARATION AND CALLING OF GENERAL MEETING OF SHAREHOLDERS	24
29. HOLDING OF GENERAL MEETING OF SHAREHOLDERS	26
30. DOCUMENTS OF THE GENERAL MEETING OF THE COMPANY'S SHAREHOLDERS	29
31. BOARD OF DIRECTORS OF THE COMPANY	29
32. TERMS OF REFERENCE OF BOARD OF DIRECTORS OF THE COMPANY	30
33. MEETINGS OF BOARD OF DIRECTORS OF THE COMPANY	35
34. EXECUTIVE BODIES OF THE COMPANY	36
35. MANAGEMENT OF THE COMPANY	37
36. PRESIDENT OF THE COMPANY	38
PART VI. CONTROL OF FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY	39
37. AUDITOR OF THE COMPANY	39
38. AUDIT COMMISSION OF THE COMPANY	39

PART 1. THE COMPANY

1. GENERAL PROVISIONS

- 1.1 Mobile TeleSystems Open Joint Stock Company (hereinafter the “Company”) was registered with the State Registration Chamber at the Russian Federation’s Ministry of Justice on March 1, 2000 under registration number of R-7882.16.
- 1.2 On September 2, 2002, an entry was made into the Consolidated State Register of Legal Entities, to include the Company as an entity registered prior to July 1, 2002, and having Primary state registration number of 1027700149124.
- 1.3 The Company was established and acts in accordance with the Civil Code of the Russian Federation, the Federal Law “On Joint Stock Companies”, other normative legal acts of the Russian Federation and with this Charter.
- 1.4 A full trade name of the Company in the Russian language shall be: **Открытое акционерное общество “Мобильные ТелеСистемы”**.
- 1.5 A short trade name of the Company in the Russian language shall be: **ОАО «МТС» or ОАО «Мобильные ТелеСистемы»**.
- 1.6 A full trade name of the Company in the English language shall be: **Mobile TeleSystems Open Joint Stock Company**.
- 1.7 An abbreviated trade name of the Company in the English language shall be: **MTS OJSC**.
- 1.8 The location of the Company shall be: **4 Marksistskaya St., Moscow 109147, Russian Federation**.
- 1.9 The duration of the Company shall be unlimited.
- 1.10 Information about Company’s reorganizations and legal successions:
- (1) The Company was established by way of reorganization in form of a merger of Mobile TeleSystems Closed Joint Stock Company (registered on October 28, 1993 with the Moscow Registration Chamber, under the number of 027.941, and, on September 21, 1994, with the State Registration Chamber, under the registration number of R-3566.16) and of Russian Telephone Company Closed Joint Stock Company (registered on July 21, 1995 with the Moscow Registration Chamber, under the registration number of 634.535, and, on August 19, 1996, with the State Registration Chamber under the registration number of R-6068.16).
- (2) The Company is a legal successor of the Mobile TeleSystems Closed Joint Stock Company and the Russian Telephone Company Closed Joint Stock Company with respect to all rights and obligations.
- (3) The Company is a legal successor of all rights and obligations to Rosico Closed Joint Stock Company (registered with Moscow Registration Chamber at the Moscow Government on March 4, 1994 under the number of 005.821 and entered into the Consolidated State Register of Legal Entities on December 18, 2002 by the Moscow Office of the Russian Federation’s Ministry for Taxes and Levies under Primary state registration number of 1027700547126), which, on June 9, 2003 was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.
- (4) The Company is a legal successor of all rights and obligations, to Amur Cellular Communications Closed Joint Stock Company (registered with the Administration of Blagoveshchensk on April 11, 1996 under the number of 189P and entered into the Consolidated State Register of Legal Entities on August 27, 2002 by the Regional Inspectorate No. 1 for Amur Region at Russian Federation’s Ministry for Taxes and Levies under Primary state registration number of 1022800511810), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.
- (5) The Company is a legal successor of all rights and obligations to Dontelecom Closed Joint Stock Company (registered with the Administration of Rostov Region on April 14, 1994 under the number of СП -1160/231 and entered into the Consolidated State Register of Legal Entities on October 25, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Proletarsky District of Rostov-on-Don under Primary state registration number of 1026104143944), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.
- (6) The Company is a legal successor of all rights and obligations to Kuban-GSM Closed Joint Stock Company (registered with the Krasnodar Registration Chamber on May 15, 1997 under number of 6948 and entered into the Consolidated State Register of Legal Entities on July 30, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for Krasnodar under Primary state

registration number of 1022301190779), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(7) The Company is a legal successor of all rights and obligations of Mobile TeleSystems-Barnaul Closed Joint Stock Company (registered by the Order of the Administration of the Otyabrsky District of Barnaul on April 25, 2000 under number of 1287 and entered into the Consolidated State Register of Legal Entities on September 30, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for Otyabrsky District of Barnaul, Altai Territory under Primary state registration number of 102201506854), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(8) The Company is a legal successor of all rights and obligations to Mobile TeleSystems-Nizhny Novgorod Closed Joint Stock Company (registered with the Nizhny Novgorod Registration Chamber on January 22, 2001 under number of 4583 and entered into the Consolidated State Register of Legal Entities on August 14, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Soviet District of Nizhny Novgorod under Primary state registration number of 1025203721168), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(9) The Company is a legal successor of all rights and obligations to Telecom-900 Closed Joint Stock Company (registered with the Moscow Registration Chamber on September 2, 1999 under number of 001.455.369 and entered into the Consolidated State Register of Legal Entities on September 11, 2002 by the Russian Ministry for Taxes and Levies Interdistrict Inspectorate No. 39 for Moscow under primary state registration number of 1027739174682), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(10) The Company is a legal successor of all rights and obligations to Telecom-XXI Open Joint Stock Company (registered by the Resolution of the Saint Petersburg Registration Chamber on April 4, 1997 under number of 68581 and entered into the Consolidated State Register of Legal Entities on August 21, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Central District of Saint Petersburg under primary state registration number of 1027809176031), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(11) The Company is a legal successor of all rights and obligations to Udmurt Digital Networks-900 Closed Joint Stock Company (registered with the Administration of the Otyabrsky District of Izhevsk, Udmurt Republic on May 21, 1996 under number of 598/1 and entered into the Consolidated State Register of Legal Entities on December 10, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Otyabrsky District of Izhevsk, Republic of Udmurtia under primary state registration number of 1021801168058), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(12) The Company is a legal successor of all rights and obligations to Horizon-RT Open Joint Stock Company (registered with the Russian Ministry for Taxes and Levies Inspectorate for Yakutsk, Sakha Republic (Yakutia) on September 26, 2003 and entered into the Consolidated State Register of Legal Entities on September 26, 2003 by the Russian Ministry for Taxes and Levies Inspectorate for Yakutsk, Sakha Republic (Yakutia) under primary state registration number 1031402065419), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(13) The Company is a legal successor of all rights and obligations to Uraltel Closed Joint Stock Company (registered with the Government of the Sverdlovsk Region on July 23, 1993 under number P-2417.16 and entered into the Consolidated State Register of Legal Entities on October 7, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Verkh-Issetsky District of Ekaterinburg under primary state registration number 1026602321206), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(14) The Company is a legal successor of all rights and obligations to Far East Cellular Systems-900 Closed Joint Stock Company (registered with the Administration of Khabarovsk on July 17, 1996 under number of 002753-A and entered into the Consolidated State Register of Legal Entities on July 30, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Central District of Khabarovsk under Primary state registration number of 1022700911122), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(15) The Company is a legal successor of all rights and obligations to Siberian Cellular Systems-900 Closed Joint Stock Company (registered with the Novosibirsk Municipal Registration Chamber on November 29, 1996 under number of 7816 and entered into the Consolidated State Register of Legal Entities on November 23, 2002 by the Russian Ministry for Taxes and Levies' Inspectorate for the Central District of Novosibirsk under Primary state registration number of 1025402480102), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(16) The Company is a legal successor of all rights and obligations to TAIF-TELCOM Open Joint Stock Company (registered with the State Registration Chamber with the Ministry of Justice of the Republic of Tatarstan on April 4, 2000 under number of 1213/k-1(50-02) and entered into the Consolidated State Register of Legal Entities on July 23, 2002 by the Russian Ministry for Taxes

and Levies' Interdistrict Inspectorate No. 14 for the Republic of Tatarstan under Primary state registration number of 1021602825397), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(17) The Company is a legal successor of all rights and obligations to Tomsk Cellular Communications Closed Joint Stock Company (registered with the Federal Tax Service Inspectorate for Tomsk on September 30, 2005 and entered into the Consolidated State Register of Legal Entities on September 30, 2005 by the Federal Tax Service Inspectorate for Tomsk under Primary state registration number of 1057002621280), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(18) The Company is a legal successor of all rights and obligations to SibChallenge Closed Joint Stock Company (registered with the Federal Tax Service Inspectorate for the Central District of Krasnoyarsk on October 3, 2005 and entered into the Consolidated State Register of Legal Entities on October 3, 2005 by the Federal Tax Service Inspectorate for the Central District of Krasnoyarsk under Primary state registration number of 1052466370648), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(19) The Company is a legal successor of all rights and obligations to BM Telecom Closed Joint Stock Company (registered with the Federal Tax Service Inspectorate for the Octyabrsky District of Ufa on October 3, 2005 and entered into the Consolidated State Register of Legal Entities on October 3, 2005 by the Federal Tax Service Inspectorate for the Octyabrsky District of Ufa under Primary state registration number of 1050204327557), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(20) The Company is a legal successor of all rights and obligations to MTS-RTK Closed Joint Stock Company (registered with the Federal Tax Service Interdistrict Inspectorate No. 46 for Moscow on October 4, 2005 and entered into the Consolidated State Register of Legal Entities on October 4, 2005 by the Federal Tax Service Interdistrict Inspectorate No. 46 for Moscow under Primary state registration number of 1057748460660), which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(21) The Company is a legal successor of all rights and obligations to ReCom Open Joint Stock Company (registered with the Orel Registration Chamber on February, 26, 1998 under the number of 1244-C and entered into Consolidated State Register of Legal Entities on August 7, 2002 by the Federal Tax Service Inspectorate for the Sovietsky district of Orel city under Primary state registration number of 1025700824544) which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(22) The company is a legal successor of all rights and obligations to Telesot-Alania Closed Joint Stock Company (registered with the local home-rule administration of the Promyshlenny district of Vladikavkaz on May 14, 1997 under the number of 1893 and entered into Consolidated State Register of Legal Entities on December 30, 2002 by the Federal Tax Service Inspectorate for the North-West municipality district of Vladikavkaz city of the North Ossetia/Alania Republic under Primary state registration number of 1021500773546) which was reorganized by way of merger with Mobile TeleSystems Open Joint Stock Company.

(23) The Company is a legal successor of all rights and obligations to Astrakhan Mobile Closed Joint Stock Company (registered with the Department of Foreign Relations and External Economic Relations of Astrakhan Region Administration on January 17, 1995 under No. 1112/081 and entered into the Consolidated State Register of Legal Entities on August 26, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Kirov municipal district of the city of Astrakhan under Primary state registration number 1023000819401), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(24) The Company is a legal successor of all rights and obligations to Mar Mobile GSM Closed Joint Stock Company (registered with the State Registration Chamber under the authority of the Ministry of Justice of the Mari El Republic on November 15, 2000 under No. 4097 and entered into the Consolidated State Register of Legal Entities on July 17, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the city of Ioshkar Ola under Primary state registration number 1021200750702), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(25) The Company is a legal successor of all rights and obligations to Volgograd Mobile Closed Joint Stock Company (registered with the State Registration Chamber under the authority of the RF Ministry of Economy on June 23, 1995 under No. P-5193.16 and entered into the Consolidated State Register of Legal Entities on November 14, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the Central municipal district of the city of Volgograd under Primary state registration number 1023403440147), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(26) The Company is a legal successor of all rights and obligations to PRIMTEFON Closed Joint Stock Company (registered with the State Registration Chamber under the authority of the Ministry

of Justice of the Russian Federation on August 02, 2001 under No. P-877.16.6 and entered into the Consolidated State Register of Legal Entities on October 31, 2002 by the Russian Federal Tax Service Inspectorate for the Lenin municipal district of the city of Vladivostok under Primary state registration number 1022501282671), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(27) The Company is a legal successor of all rights and obligations to Mobile Communication Systems Open Joint Stock Company (registered with the Omsk City Registration Chamber on September 17, 1996 under No. 38608040 and entered into the Consolidated State Register of Legal Entities on September 02, 2002 by the Russian Ministry for Taxes and Levies Inspectorate No. 2 for the Central municipal district of the city of Omsk under Primary state registration number 1025500973728), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

(28) The Company is a legal successor of all rights and obligations to BashCEL Closed Joint Stock Company (registered with the State Registration Chamber under the authority of the Ministry of External Relations of the Bashkortostan Republic on November 28, 1997 under No. 80/083-Ю and entered into the Consolidated State Register of Legal Entities on June 28, 2002 by the Russian Ministry for Taxes and Levies Inspectorate for the city of Agidel of the Bashkortostan Republic under Primary state registration number 1020201436639), which was reorganized by way of merger into Mobile TeleSystems Open Joint Stock Company.

2. MISSION, SUBJECT AND TYPES OF COMPANY ACTIVITIES

2.1 The purpose of the Company's economic activity shall be: to make profit by planning, marketing, and operating a radiotelephone mobile cellular network in the regions specified in the licenses issued to the Company by an empowered government body.

2.2 To achieve the above stated purposes the Company's activities shall include:

- (1) operations in the area of telecommunications;
- (2) operations in the area of telephone communications;
- (3) operations in the area of fixed telephone communications;
- (4) operations in the area of mobile communications;
- (5) operations in the area of data transmission;
- (6) operations in the area of telematic services;
- (7) other operations in the area of telecommunications;
- (8) cooperation with national and international GSM operators inside and outside the territory of the Russian Federation to ensure the optimal level of service for the Company's customers;
- (9) cooperation with certain telephone operators in Moscow and the Russian Federation as well as with international telecom operators;
- 10) settlement of accounts with customers, commercial and financial management of the network in accordance with accepted international practices;
- (11) implementation and marketing of value added mobile telecom services;
- (12) importation, sales, leasing, installation and maintenance of terminals and related accessories;
- (13) operation and maintenance of monitoring equipment for GSM networks;
- (14) protection of state secret data in compliance with the current legislation of the Russian Federation;
- (15) carrying out of works with the use of state secret data and (or) provision of services in the area of state secret data protection;
- (16) any other activities following decisions of the Board of Directors that further the achievement of the Company's principal goals.

2.3 The company may carry out any other types of activity to the extent not prohibited by the current RF laws.

2.4 Those types of activity that are subject to licensing shall be carried out on the basis of corresponding licenses.

3. LEGAL STATUS OF THE COMPANY

- 3.1 The Company is a legal entity under the Russian laws, with its own separate property reflected in Company's own balance sheet, and is entitled to acquire and exercise proprietary and personal non-property rights in its own name; it may accept obligations and to sue and be sued in a court.
- 3.2 The Company shall have a round seal bearing a Company full name in the Russian language and a reference to the Primary state registration number, letterheads with the Company full name as well as trade marks registered as stipulated by laws. The Company may have a seal, stamps and letterheads with the Company full name in the Russian and English languages, as well as an emblem and other means of visual identification.
- 3.3 The Company is entitled to participate, in conformity with relevant regulations, in the establishment of other organizations both within the Russian Federation and abroad, to have subsidiaries and affiliates on the territory of the Russian Federation and abroad, to acquire shares (equities) in their charter capitals, buildings, structures, land and other immobility, securities, as well as any other property which may be an object of the ownership right according to the current laws.
- 3.4 In order to attract additional funds, the Company shall be entitled to issue securities of various classes, whose circulation is permitted by current laws of the Russian Federation, including registered shares, bonds and other securities, and to independently define the conditions of their issue and placement according to laws of the Russian Federation and this Charter.
- 3.5 The Company shall be entitled to participate in holding companies, financial/industrial groups, associations and other amalgamations of commercial organizations on the terms that are not in contradiction to the current laws of the Russian Federation and this Charter.
- 3.6 The Company shall be entitled to take part in unions, associations and other unions of organizations on the terms that are not in contradiction to current laws of the Russian Federation and this Charter. The Company shall be entitled to cooperate with international financial organizations in any form that is not prohibited by law.
- 3.7 The Company acquires civil rights and assumes liabilities through its bodies, acting in conformity with the law and this Charter.
- 3.8 The Company shall not liable for the obligations of its shareholders, and the shareholders shall not liable for the obligations of the Company and bear the risk of damages, associated with its activities, within the cost of the shares owned by them. The Company shall not be liable for obligations of the state and its bodies, and the state and its bodies shall not be liable for the obligations of the Company.
- 3.9 The Company, in pursuing the state, social, economic and tax policies, shall be responsible for safekeeping of company's documents (administrative, financial and logistical, concerning the personnel etc.); it ensures the transfer for storage by the state in the Moscow central archives of the documents of scientific and historical importance in compliance with the list of documents agreed with "Mosgorarkhiv" association; documents on personnel shall be kept and used in the established manner.
- 3.10 The Company performs state activities on mobilization preparation according to the current laws of the Russian Federation and Moscow Government regulatory documents.
- 3.11 The Company undertakes to be in compliance with the current legislation of the Russian Federation as of the state secret concerned.

4. PROPERTY OF THE COMPANY

- 4.1 The Company is the owner of its property, including the property, transferred to the Company by its shareholders. The Shareholders of the Company have no right of ownership for the property contributed to the charter capital of the Company.
- 4.2 The Company shall exercise its right to free possession, use and disposal of property in its ownership in compliance with the Russian laws.
- 4.3 Major transactions and party-related transactions shall be entered into by the Company solely with approval of a General Meeting of the shareholders or of the Board of Directors, according to the procedure stipulated in sub-clauses 27.1.23 — 27.1.29, 32.2.17 — 32.2.18 of this Charter, and following requirements of the current laws of the Russian Federation.
- 4.4 The property of the Company consists of the fixed assets and working capital, as well as of other property, the cost of which is accounted for in the Company own balance. The sources of property

build-up, income, balance and net profit of the Company are formed in the way prescribed by the laws of the Russian Federation.

5. BRANCHES AND REPRESENTATIVE OFFICES OF THE COMPANY

5.1 The Company may, following the adopted procedure, establish branches and representative offices both on the territory of Russia and abroad that act on the basis of relevant provisions endorsed by the Company's Board of Directors. Branches and representative offices shall not be deemed legal entities, their heads are appointed by the President and they act within the powers vested in them by a power of attorney issued to them. The company Charter shall contain information on branches and representative offices of the Company.

5.2 The Company has the following branches:

(1) Branch of Mobile TeleSystems Open Joint Stock Company in the North-West Macro-region. Location of branch: 8, Italyanskaya St., Saint-Petersburg, Russian Federation.

(2) Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, the Republic of Komi. Location of branch: Syktyvkar, Republic of Komi, Russian Federation.

(3) Branch of Mobile TeleSystems Open Joint Stock Company in Pskov. Location of branch: Pskov, Pskov Region, Russian Federation.

(4) Branch of Mobile TeleSystems Open Joint Stock Company in the Archangelsk Region. Location of branch: Archangelsk, Archangelsk Region, Russian Federation.

(5) Branch of Mobile TeleSystems Open Joint Stock Company in the Vologda Region. Location of branch: Vologda, Vologda Region, Russian Federation.

(6) Branch of Mobile TeleSystems Open Joint Stock Company in the Kaliningrad Region. Location of branch: Kaliningrad, Kaliningrad Region, Russian Federation.

(7) Branch of Mobile TeleSystems Open Joint Stock Company in the Murmansk Region. Location of branch: Murmansk, Murmansk Region, Russian Federation.

(8) Branch of Mobile TeleSystems Open Joint Stock Company in the Novgorod Region. Location of branch: V. Novgorod, Novgorod Region, Russian Federation.

(9) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karelia. Location of branch: Petrozavodsk, Republic of Karelia, Russian Federation.

(10) Branch of Mobile TeleSystems Open Joint Stock Company in the Leningrad Region. Location of branch: Vyborg, Leningrad Region, Russian Federation.

(11) Branch of Mobile TeleSystems Open Joint Stock Company in the South Macro-region. Location of branch: 61, Gimnazicheskaya St., Krasnodar, Krasnodar Kray, Russian Federation.

(12) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia. Location of branch: Elista, Republic of Kalmykia, Russian Federation.

(13) Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory. Location of branch: Stavropol, Stavropol Territory, Russian Federation.

(14) Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Region. Location of branch: Rostov-on-Don, Rostov Region, Russian Federation.

(15) Branch of Mobile TeleSystems Open Joint Stock Company in Novorossiysk. Location of branch: Novorossiysk, Krasnodar Kray, Russian Federation.

(16) Branch of Mobile TeleSystems Open Joint Stock Company in Sochi. Location of branch: Sochi, Krasnodar Kray, Russian Federation.

(17) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Dagestan. Location of branch: Mahachkala, Republic of Dagestan, Russian Federation.

(18) Branch of Mobile TeleSystems Open Joint Stock Company in the Chechen Republic. Location of branch: Grozny, Chechen Republic, Russian Federation

(19) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Adygei. Location of branch: Maikop, Republic of Adygei, Russian Federation.

(20) Branch of Mobile TeleSystems Open Joint Stock Company in the Astrakhan Region. Location of branch: Astrakhan, Astrakhan Region, Russian Federation.

(21) Branch of Mobile TeleSystems Open Joint Stock Company in the Volgograd Region. Location of branch: Volgograd, Volgograd Region, Russian Federation.

(22) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kabardino-Balkaria. Location of branch: Nalchik, Republic of Kabardino-Balkaria, Russian Federation.

(23) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karachay-Cherkessia. Location of branch: Cherkessk, Republic of Karachay-Cherkessia, Russian Federation.

(24) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Ingushetia. Location of branch: Magas, Republic of Ingushetia, Russian Federation.

(25) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of North Ossetia-Alania. Location of branch: Vladikavkaz, Republic of North Ossetia-Alania, Russian Federation.

- (26) Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macro-region. Location of branch: 61, Beketova St., Nizhny Novgorod, Nizhny Novgorod Region, Russian Federation.
- (27) Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg. Location of branch: Orenburg, Orenburg Region, Russian Federation.
- (28) Branch of Mobile TeleSystems Open Joint Stock Company in Saratov. Location of branch: Saratov, Saratov Region, Russian Federation.
- (29) Branch of Mobile TeleSystems Open Joint Stock Company in Samara. Location of branch: Samara, Samara Region, Russian Federation.
- (30) Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Region. Location of branch: Ulyanovsk, Ulyanovsk Region, Russian Federation.
- (31) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan. Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- (32) Branch of Mobile TeleSystems Open Joint Stock Company in Kirov. Location of branch: Kirov, Kirov Region, Russian Federation.
- (33) Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic — Chuvashia. Location of branch: Cheboksary, Chuvash Republic — Chuvashia, Russian Federation.
- (34) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia. Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- (35) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El. Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.
- (36) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Udmurtia. Location of branch: Izhevsk, Republic of Udmurtia, Russian Federation.
- (37) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tatarstan. Location of branch: Kazan, Republic of Tatarstan, Russian Federation.
- (38) Branch of Mobile TeleSystems Open Joint Stock Company in the Ural Macro-region. Location of branch: 128, Mamin Sibiryak St., Yekaterinburg, Sverdlovsk Region, Russian Federation.
- (39) Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk. Location of branch: Chelyabinsk, Chelyabinsk Region, Russian Federation.
- (40) Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan. Location of branch: Kurgan, Kurgan Region, Russian Federation.
- (41) Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Region. Location of branch: Tyumen, Tyumen Region, Russian Federation.
- (42) Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous Area. Location of branch: Noyabrsk, Yamalo-Nenets Autonomous Area, Russian Federation.
- (43) Branch of Mobile TeleSystems Open Joint Stock Company in the Khanty-Mansi Autonomous Area — Yugra. Location of branch: Surgut, Khanty-Mansi Autonomous Area — Yugra, Russian Federation.
- (44) Branch of Mobile TeleSystems Open Joint Stock Company in the Perm Kray. Location of branch: Perm, Perm Kray, Russian Federation.
- (45) Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macro-region. Location of branch: 57/2, Frunze St., Novosibirsk, Novosibirsk Region, Russian Federation.
- (46) Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Region. Location of branch: Kemerovo, Kemerovo Region, Russian Federation.
- (47) Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory. Location of branch: Barnaul, Altai Territory, Russian Federation.
- (48) Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory. Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- (49) Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Region. Location of branch: Tomsk, Tomsk Region, Russian Federation.
- (50) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva. Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- (51) Branch of Mobile TeleSystems Open Joint Stock Company in the Omsk Region. Location of branch: 17, Martynova Blvd, Omsk, Omsk Region, Russian Federation.
- (52) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Khakassia. Location of branch: Abakan, Republic of Khakassia, Russian Federation.

(53) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Altai. Location of branch: Gorno-Altaysk, Republic of Altai, Russian Federation.

(54) Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macro-region. Location of branch: 53-A, Nekrasovskaya St., Vladivostok, the Primorsky Krai, Russian Federation.

(55) Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk. Location of branch: Blagoveshchensk, Amur Region, Russian Federation.

- (56) Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Region. Location of branch: Yuzhno-Sakhalinsk, Sakhalin Region, Russian Federation.
- (57) Branch of Mobile TeleSystems Open Joint Stock Company in the Khabarovsk Krai. Location of branch: Khabarovsk, Khabarovsk Krai, Russian Federation.
- (58) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Sakha (Yakutia). Location of branch: Yakutsk, Republic of Sakha (Yakutia), Russian Federation.
- (59) Branch of Mobile TeleSystems Open Joint Stock Company in the Zabaikalsky Krai. Location of branch: Chita, Zabaikalsky Krai, Russian Federation.
- (60) Branch of Mobile TeleSystems Open Joint Stock Company in the Irkutsk Region. Location of branch: Irkutsk, Irkutsk Region, Russian Federation.
- (61) Branch of Mobile TeleSystems Open Joint Stock Company in the Kamchatka Krai. Location of branch: Petropavlovsk-Kamchatski, Kamchatka Krai, Russian Federation.
- (62) Branch of Mobile TeleSystems Open Joint Stock Company in the Magadan Region. Location of branch: Magadan, Magadan Region, Russian Federation.
- (63) Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Buryatia. Location of branch: Ulan-Ude, Republic of Buryatia, Russian Federation.
- (64) Branch of Mobile TeleSystems Open Joint Stock Company in Tula. Location of branch: Tula, Tula Region, Russian Federation.
- (65) Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk. Location of branch: Smolensk, Smolensk Region, Russian Federation.
- (66) Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan. Location of branch: Ryazan, Ryazan Region, Russian Federation.
- (67) Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir. Location of branch: Vladimir, Vladimir Region, Russian Federation.
- (68) Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga. Location of branch: Kaluga, Kaluga Region, Russian Federation.
- (69) Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma. Location of branch: Kostroma, Kostroma Region, Russian Federation.
- (70) Branch of Mobile TeleSystems Open Joint Stock Company in Tver. Location of branch: Tver, Tver Region, Russian Federation.
- (71) Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl. Location of branch: Yaroslavl, Yaroslavl Region, Russian Federation.
- (72) Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo. Location of branch: Ivanovo, Ivanovo Region, Russian Federation.
- (73) Branch of Mobile TeleSystems Open Joint Stock Company in Tambov. Location of branch: Tambov, Tambov Region, Russian Federation.
- (74) Branch of Mobile TeleSystems Open Joint Stock Company in the Orel Region. Location of branch: Orel, Orel Region, Russian Federation.
- (75) Branch of Mobile TeleSystems Open Joint Stock Company in the Belgorod Region. Location of branch: Belgorod, Belgorod Region, Russian Federation.
- (76) Branch of Mobile TeleSystems Open Joint Stock Company in the Lipetsk Region. Location of branch: Lipetsk, Lipetsk Region, Russian Federation.
- (77) Branch of Mobile TeleSystems Open Joint Stock Company in the Kursk Region. Location of branch: Kursk, Kursk Region, Russian Federation.
- (78) Branch of Mobile TeleSystems Open Joint Stock Company in the Voronezh Region. Location of branch: Voronezh, Voronezh Region, Russian Federation.
- (79) Branch of Mobile TeleSystems Open Joint Stock Company in the Bryansk Region. Location of branch: Bryansk, Bryansk Region, Russian Federation.

5.3 The Company has the following representative offices:

- (1) Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus. Location of representative office: Minsk, Republic of Belarus.

6. DIVIDENDS OF THE COMPANY

- 6.1 Based on the results of the first quarter, half-year, nine months of fiscal year and (or) based on the results of fiscal year, the Company has the right to make a decision (declare) on the payment of dividends on placed shares.
- 6.2 Decision on the payment (declaration) of dividends based on the results of the first quarter, half-year, nine months of financial year may be made by an extraordinary General Meeting of shareholders within three months after the end of the corresponding period. Decision on the payment of dividends based on the results of fiscal year shall be made by Annual General Meeting of the shareholders of the Company.

- 6.3 Decision to pay dividends, the amount of dividend and the form of payment shall be taken based on the Board of Directors proposal. The amount of dividend shall not exceed the value recommended by the Board of Directors.
- 6.4 After a decision to pay out dividends has been adopted by the General Meeting of Shareholders, such dividends must be paid by the end of the year in which decision was adopted, unless a shorter period is established by the decision to pay dividends.
- 6.5 The Company is obliged to pay the declared dividends on the shares of each category (class).
- 6.6 The amount of dividend is declared as a percentage of the par value of a share, or in rubles per one share.
- 6.7 The dividend may be paid in cash and, if the General Meeting of shareholders so decided, in kind — in shares, bonds, commodities or other property.
- 6.8 The list of individuals, having the right to receive dividends, shall be compiled as of the date of drafting the list of the individuals, having the right to participate in the General Meeting of shareholders, that has the issue of paying (declaring) dividends on its agenda.
- 6.9 The current laws stipulate instances where the declaration and payment of dividends shall be restricted.

7. FUNDS AND NET ASSETS OF THE COMPANY

- 7.1 The Company shall establish a reserve fund by annually allocating an amount not less than 5% (five percent) of the net profit, until the reserve fund achieves 15% (fifteen percent) of the Company's charter capital. This reserve fund is designated to cover the Company losses, as well as to redeem Company bonds and to buy out the Company stock in case of absence of other funds. The reserve fund may not be used for any other purpose. The assets of the reserve fund may be used on the basis of the Board of Directors decision in line with a specific procedure defined by the Board.
- 7.2 The Company shall be entitled to establish other funds.
- 7.3 Net assets value (NAV) of the Company shall be evaluated according to the accounting data with the use of the procedure stipulated with the legislation of the Russian Federation.
- 7.4. In case of Company's NAV is less than Company's Charter Capital, the Company shall take actions stipulated with the legislation of the Russian Federation.

8. ACCOUNTING AND REPORTING IN THE COMPANY

- 8.1 The Company shall organize the Company accounting activity and take steps to ensure that the bookkeeping practice of the Company provides a trustworthy and complete reflection of information concerning all transactions and other facts of economic activity.
- 8.2 The Company shall keep the documents defined by the current laws.
- 8.3 The Company shall disclose its financial information according to the procedure established by the current laws and internal documents of the Company.
- 8.4 The President of the Company shall be liable to the extent set out in the current laws for organization, status and reliability of the Company's accounting records, for a timely submission of annual reports and other financial statements to overseeing bodies, and for the trustworthiness of information about Company activities submitted to the shareholders of the Company, to its creditors and other persons.
- 8.5 The annual balance sheet of the Company, supported by Auditor's and Audit Commission's report, shall be submitted by the President of the Company to the Board of Directors and the Annual General Meeting of shareholders.
- 8.6 The annual balance sheet of the Company is subject to a preliminary approval by the Board of Directors of the Company not later than in 30 (thirty) days before the date of holding the Annual General Meeting of the shareholders.
- 8.7 The Audit Commission of the Company shall certify the trustworthiness of data contained in the annual report of the Company and its balance sheet submitted to the Annual General Meeting of shareholders.

9. INFORMATION ABOUT THE COMPANY

- 9.1 Information about the Company shall be submitted to Shareholders in accordance with current laws and other legal acts of the Russian Federation.
- 9.2 The Company shall ensure the shareholders' access to the documents that should be kept and provided by the Company provide according to this Charter and laws of the Russian Federation. Information about the Company and the copies of the corresponding documents of the Company shall be made available by procedure set forth by current laws of the Russian Federation.
- 9.3 The Shareholders and the Company shall make all reasonable efforts to prevent an unauthorized disclosure and a leak of such information. The members of the Board of Directors, having access to the confidential information about the Company, may neither disclose such information to any persons, who have no access to such information, nor use it in their own interests or interests of other persons.
- 9.4 If necessary, the Company may enter into confidentiality agreements with its employees, members of the Board of Directors and the shareholders, while these persons enter in confidentiality agreements among themselves.
- 9.5 Compulsory disclosure of information shall be made by the Company to the extent and in the manner stipulated by the internal documents of the Company and current laws of the Russian Federation.
- 9.6 Access to the state secret data shall be prohibited for foreign persons.

10. REORGANIZATION AND LIQUIDATION OF THE COMPANY

- 10.1 The Company may be voluntarily reorganized by procedure set forth in current RF legislation. As stipulated by law, Company reorganization shall entail the transfer of Company's rights and obligations to its legal successors.
- 10.2 The reorganization of the Company may be performed in the form of a merger, takeover, divestiture, spin-off and restructuring.
- 10.3 The Company is considered as reorganized, except for the cases of reorganization in the form of a takeover, from the moment of state registration of the newly created legal entities.
- 10.4 In the case of the Company reorganization by way of a take over, the Company is considered as reorganized from the moment of making an entry into the Consolidated State Register of Legal Entities on the termination of activity of a company which had been taken over.
- 10.5 The Company may be liquidated voluntarily by procedure established by law, or by the court decision on the grounds envisaged by current RF laws.
- 10.6 The liquidation of the Company entails its termination without transfer of rights and obligations by way of a legal succession to the other individuals.
- 10.7 Upon the appointment of liquidation commission, the latter shall have all powers to manage the Company activity. The liquidation commission shall appear in the court on behalf of the Company under liquidation.
- 10.8 Liquidation commission shall place a notice on the liquidation of the Company, on the procedure and terms for its creditors to make their claims, in printed media that publish data on the registration of legal entities. The period for the creditors' making such claims shall be less than two months from the date of publishing the notice of the Company liquidation.
- 10.9 Upon the expiration of the period for creditors to make their claims, the liquidation commission shall draw up an interim liquidation balance sheet containing data on the property of the Company being liquidated, claims of its creditors, and the results of the consideration thereof. The interim liquidation balance sheet shall be approved by the General Meeting of the shareholders.
- 10.10 Upon completion of the settlements with creditors, the liquidation commission shall draw up a liquidation balance sheet subject to approval by the General Meeting of the shareholders.
- 10.11 The Company's property that survived the settlement of accounts with creditors, shall be distributed by the liquidation commission among the shareholders in the following order:
- firstly, payments shall be made on the shares, which the Company is obliged by law to buy out from shareholders;
 - secondly, payments shall be made of accrued but not paid out dividends on the preferred shares and of a liquidation value of preferred shares as defined by the Charter of the Company;



- thirdly, the property of the Company under liquidation shall be distributed among the shareholders — owners of common shares and all the classes of preferred shares.

- 10.12 Allocation of the property at each stage shall be performed after the property allocation of the previous stage has been fully completed.
- 10.13 Liquidation of the Company shall be deemed completed, and the Company no longer existing, from the moment of a corresponding entry has been made in the Consolidated State Register of Legal Entities.
- 10.14 In the process of reorganization (liquidation) of the Company, as well as after the cessation of work involving the use of data containing RF state secrets, the Company shall protect such data and data medium through development and implementation of procedures for information security and information protection< counterintelligence, safety guard and fire safety.

11. CHARTER OF THE COMPANY

- 11.1 This Charter is a constituent document of the Company. The requirements of the Charter of the Company are mandatory for execution by all managing and overseeing bodies of the Company and by the shareholders of the Company. This Charter enters into force from the moment of its registration in compliance with the procedure established by the current RF legislation.
- 11.2 Decisions on amendments and additions to this Charter shall be taken by the General Meeting of the shareholders of the Company or by the Company's Board of Directors, according to the procedure, envisaged by laws and this Charter, and shall come into effect for third parties after the state registration of the aforementioned modifications.
- 11.3 Provisions of the Charter shall be applicable in their part that is not in contradiction to the law. Should modifications of the law result in Charter articles and provisions' entering in conflict with legal acts, such articles and provisions shall be considered null and void until corresponding modifications are made to the Charter.

PART II. CHARTER CAPITAL OF THE COMPANY

12. CHARTER CAPITAL OF THE COMPANY, GENERAL PROVISIONS

- 12.1 The charter capital of the Company defines the minimal size of the Company property that ensures the interests of its creditors.
- 12.2 The Company shall have a Charter Capital equal to 199 332 613 rubles 80 kopecks (one hundred ninety-nine million three hundred thirty-two thousand six hundred thirteen rubles eighty kopecks), divided into 1 993 326 138 (one billion nine hundred ninety-three million three hundred twenty-six thousand one hundred thirty-eight) placed registered common shares with a par value of 0.1 (one-tenth) of one ruble (or 10 (ten) kopecks) each. The Charter Capital of the Company has been fully paid.
- 12.3 In addition to the placed registered common shares, the Company declares (shall have the right to place) 103 649 654 (one hundred and three million six hundred forty-nine thousand six hundred fifty-four) registered common shares with a par value of 0.1 (one-tenth) of one ruble each and a total amount of 10 364 965 rubles 40 kopecks (ten million three hundred sixty-four thousand nine hundred sixty-five rubles forty kopecks) (declared shares).

Upon placement, declared registered common shares of the Company shall grant the rights to the extent provided for the placed registered shares of the Company.

13. INCREASE OF CHARTER CAPITAL OF THE COMPANY

- 13.1 The charter capital of the Company may be increased by the raise of par value of the shares, or by the placement of additional shares by decision of a General Meeting of shareholders according to the sub-clauses 27.1.6. - 27.1.10 of this Charter or by decision of the Company's Board of Directors according to sub-clauses 32.2.33 and 32.2.34 of this Charter.
- 13.2 The increase of the Company charter capital by raising the par value of the shares may be performed only at the cost of the property of the Company. The increase of the Company charter capital via the placement of additional shares may be performed at the cost of the property of the Company.
- 13.3 In the case of the Company charter capital's increase by way of additional share placement, the Company may place such additional shares only within the limits of the amount of declared shares, envisaged by this Charter. Thus, in the case if the amount of declared shares of the Company is not sufficient for the placement of expected amount of additional shares of the Company, then, by

procedure and on the terms established by this Charter and the law, the decision to increase the charter capital of the Company may be taken simultaneously with the decision to make amendments to this Charter with respect to the amount of declared shares of the Company, as necessary to take the decision on charter capital increase.

- 13.4 Additional shares of the Company can be placed by subscription or conversion, as well as by distribution among all shareholders of the Company — in the case where an increase of the Company charter capital is performed at the cost of its property.
- 13.5 The Company shall be entitled to place additional shares by either public or private subscription.
- 13.6 The placing price of the additional shares for the individuals who have a preemptive right of share purchase can be lower than the placing price for other persons, but not more than by 10% (ten percent). The placing price of such additional shares cannot be lower than their par value.
- 13.7 The payment for the additional shares of the Company, placed by subscription, can be made in cash, securities, other commodities or property rights or other rights, having a pecuniary valuation, according to the decision on the increase of the Company charter capital.
- 13.8 Additional shares of the Company, placed by subscription, shall be deemed placed upon full payment.
- 13.9 In the case where an increase of the Company charter capital is done at the cost of its property by placing additional shares, such shares shall be distributed among all shareholders. In doing so, each shareholder shall be offered shares of the same category (class), as he/she owns, on pro rata basis.
- 13.10 The amount, by which the charter capital of the Company is augmented at the cost of the property of the Company, shall not exceed the difference between the net asset value of the Company and the reserve fund of the Company.

14. DECREASE OF COMPANY CHARTER CAPITAL

- 14.1 The company shall be entitled, and in the cases, stipulated by the current RF laws, obliged to decrease its charter capital by reducing the par value of shares or by diminishing their total quantity, including an acquisition of a part of the shares in the cases stipulated by current RF laws and by this Charter.
- 14.2 The decision to decrease the charter capital of the Company by reducing the par value of the shares or by acquisition of a part of the shares with a view to diminish their total quantity, shall be taken by the General Meeting of shareholders according to the sub-clauses 27.1.11 — 27.1.12 of this Charter.
- 14.3 Payment in cash to all shareholders of the Company and (or) transfer to them of equity securities, owned by the Company and placed by other legal entity may be envisaged by the decision to decrease the charter capital of the Company.
- 14.4 The charter capital of the Company can be decreased by reduction of the total quantity of the placed shares, including the acquisition and cancellation of a part of the shares at the Company disposal in the following cases:
- (1) in the case of cancellation of a part of the shares, acquired by the Company following the decision to decrease the charter capital of the Company by acquisition and cancellation of a part of the shares with a view to diminishing their total quantity;
 - (2) if the shares bought out by the Company on shareholders' demand have not been sold within one year from the date of their redemption (except for the case of redemption of shares following the decision to reorganize the Company);
 - (3) redemption of Company shares in the case of its reorganization;
 - (4) Company reorganization by way of its spin-off at the cost of redemption of converted shares;
 - (5) if shares, acquired by the Company by decision of a competent body of the Company established by the Company Charter have not been sold within one year from the date of their acquisition;
 - (6) in other cases specified by current RF laws.
- 14.5 The decision to decrease the charter capital of the Company by acquisition of a part of the shares with a view to diminishing their total quantity shall be taken by a General Meeting of shareholders.
- 14.6 Within 3 (three) working days after the date of Company's decision to decrease its charter capital, the Company shall notify of the decision the authority, that carries out government incorporation of legal entities, and twice with the periodicity of once a month publish in mass media where information on the state incorporation of legal entities are published a notice on reduction of



Company's charter capital. A creditor of the Company, if its rights arose prior to the publication of the notice on Company's charter capital reduction, shall be entitled within 30 days after the date of the last publication of the notice to demand early performance of the relevant obligation or, if early performance of the obligation is impossible, for reimbursement of the costs related to it.

PART III. SHARES AND OTHER EQUITY SECURITIES OF THE COMPANY

15. SHARES OF THE COMPANY

- 15.1 Common share of the Company is registered equity security granting its owner (shareholder) a specific scope of proprietary rights, including the right for participation in the management of the Company, the right to receive a part of Company's profit in form of dividend, as well as the right to receive a part of property outstanding after liquidation of the Company.
- 15.2 All issued and placed shares of the Company are common registered shares of the same par value. The value of the shares is expressed in rubles, regardless of the form and the way they have been paid for.
- 15.3 The Company has a right to place one or more classes of preferred shares of the Company.
- 15.4 The par value of the shares of the same category (class) shall be the same.
- 15.5 The par value of placed preferred shares of the Company should not exceed 25% of the charter capital of the Company.
- 15.6 The procedure of formation and floatation of fractional shares of the Company shall be set forth by this Charter and the current RF laws.
- 15.7 The scope of rights granted by a share of the Company shall be defined by this Charter and the current RF laws.
- 15.8 The rights granted by a share of the Company shall be transferred onto their acquirer at the moment of transfer of rights for such security.

16. BONDS AND OTHER EQUITY SECURITIES OF THE COMPANY

- 16.1 Besides additional shares, the Company shall be entitled to place bonds, options and other equity securities according to the requirement of the current RF laws.
- 16.2 The Company has no right to place bonds and other equity securities, convertible into the shares of the Company, if the quantity of Company declared shares of specific categories and classes is less than the quantity of shares of such classes and categories, the right for whose purchase is granted by such securities. In such a case, according to the procedure and conditions, stipulated by the law and this Charter, the decision to place equity securities convertible into the shares of the Company may be taken simultaneously with the decision to make the amendments to this Charter so that the quantity of declared shares be as necessary to make such decision.
- 16.3 The placing price of equity securities of the Company convertible into the shares of the Company for the individuals having a preemptive purchase right can be lower than the placing price for other persons, but not more than by 10% (ten percent). The placing price of equity securities of the Company convertible into the shares of the Company may not be lower than the par value of shares, such equity securities are converted into.
- 16.4 Payment for equity securities placed by the Company (except for the additional shares of the Company placed by subscription) may be made only in cash.
- 16.5 The equity securities of the Company placed by subscription shall be deemed placed, if fully paid for.
- 16.6 The redemption of Company bonds may be performed in cash or in kind according to the decision on their issue.
- 16.7 A bond shall attest the right of its owner to demand the redemption of the bond (payment of the par value, or the par value and interest) within the stated timeframe.
- 16.8 Placement of bonds and other equity securities (including bonds and other equity securities convertible into shares) shall be performed on the basis of decision of a General Meeting of shareholders and (or) the Board of Directors of the Company.
- 16.9 The decision to issue bonds shall specify the form, timeframe and other terms of bond redemption.

- 16.10 A bond shall have a par value. The par value of all bonds issued by the Company shall not exceed the amount of charter capital of the Company or the value of security provided to the Company by a third party for the purpose of issuing bonds. The placement of bonds shall be allowed to the Company upon a full payment of its charter capital.
- 16.11 The Company may place bonds with flat maturity term or bonds redeemable by series on certain dates.
- 16.12 The Company shall be entitled to an early redemption of its bonds on demand of bond owners. At the same time, the decision to issue bonds should indicate the cost of redemption and the earliest date when bond may be presented for an early redemption.
- 16.13 The Company shall be entitled to place bonds secured by pledge of specific property of the Company, or the bonds under security provided to the Company by a third party for the issue of bonds, and debenture bonds.
- 16.14 The placement of debenture bonds (with no security provided by a third party) shall be permitted not earlier than on the third year of Company's activity and provided that there is a proper approval of annual balance sheets of the Company for the past two completed fiscal years.
- 16.15 Bonds can be name bonds and bearer bonds. When issuing name bonds, the Company shall keep the register of their owners. A lost name bond can be renewed by the Company for a reasonable charge. The owner's rights for a lost bearer bond shall be restored by the court, according to the procedure established by Russian Federation laws on court proceedings.
- 16.16 Specific details of securities issue, depending on the category of securities and the manner of their placement, are defined by current laws of the Russian Federation.

17. CONSOLIDATION AND SPLITTING OF SHARES

- 17.1 The Company shall be entitled to perform a consolidation of placed common shares of the Company, which results in conversion of two or more Company common shares into one new common share of the Company by decision of General Meeting of shareholders. In this case, the corresponding modifications shall be made to this Charter with respect to the share's par value and the quantity of placed and declared common shares of the Company.
- 17.2 If the purchase of the whole number of shares by a shareholder is not possible during the consolidation, the parts of shares (fractional shares) shall be formed.
- 17.3 By decision of a General Meeting of shareholders, the Company shall be entitled to perform a splitting of placed shares of the Company, which results in conversion of one share of the Company into two or more shares of the same class (category). In this case, corresponding modifications should be made to this Charter with respect to the share par value and the quantity of placed and declared shares of the Company in corresponding class (category).

18. PAYMENT FOR SHARES AND OTHER EQUITY SECURITIES AT THEIR PLACEMENT

- 18.1 The shares of the Company placed at the time of its establishment have been completely paid for by the Company founders following the decision on establishing the Company and the terms of agreement on the establishment of the Company.
- 18.2 Additional shares and equity securities of the Company, placed by subscription, shall be deemed placed if fully paid for.
- 18.3 Payment for the additional shares of the Company placed by subscription may be made in cash, securities, other commodities or property rights or other rights, having a pecuniary valuation. Payment for the additional shares with offsetting of Company's liabilities shall be allowed, in case of private offering.
- 18.4 The form of payment for additional shares of the Company shall be defined by decision on their placement. The payment for other equity securities shall be made only in cash.
- 18.5 In the case of payment for additional shares in kind, a pecuniary valuation of the property used to pay for shares shall be made according to article 77 of Federal law "On joint-stock companies".
- 18.6 In the case of payment for shares in kind, an independent appraiser should be assigned to evaluate the market value of such property, if otherwise is not specified by the requirement of RF laws. The amount of property's pecuniary valuation undertaken by the Board of Directors of the Company may not be higher than the amount of the valuation, performed by an independent appraiser.

19. ACQUISITION OF PLACED SHARES BY THE COMPANY

- 19.1 The Company shall be entitled to acquire the shares placed by it based on the decision of General Meeting of shareholders with respect to a decrease of charter capital of the Company by acquiring a part of placed shares with a view of diminishing their total quantity. The decision to decrease the charter capital may not be taken, if the nominal value of shares, remaining in circulation would be less than the minimal amount of charter capital stipulated by the current laws of the Russian Federation. Shares acquired by decision of General Meeting of shareholders to decrease the charter capital shall be cancelled upon their acquisition.
- 19.2 The Company shall be entitled to acquire the placed shares by decision of the Board of Directors. Such a decision may be taken, if the nominal value of the shares remaining in circulation would constitute at least 90 percent of the charter capital of the Company. The acquired shares do not grant the right of vote, they are not taken onto consideration when counting the votes, there are no dividends accrued on such shares. Such shares should be sold at their market price no later than one year after the date of their acquisition. Otherwise, the General Meeting of shareholders should take a decision to decrease the charter capital of the Company by canceling the mentioned shares.

20. REDEMPTION OF COMPANY SHARES AT SHAREHOLDERS' REQUEST

- 20.1 Shareholders — owners of the voting shares shall be entitled to request the Company's redemption of all or a part of the shares owned by them in the following cases:
- (1) reorganization of the Company or entering into a major transaction, whose approval is decided upon by General Meeting of shareholders according to the Federal law "On Joint-stock companies";
 - (2) introduction of modifications and additions to the Charter of the Company or approval of the revised Charter, if their rights are restricted.
- 20.2 The request referred to above may be put forward by the shareholders, who voted against adoption of the respective decisions or who did not take part in the voting on such issues.
- 20.3 The redeemed shares shall be put at the Company's disposal and be sold at their market price within one year of the date of their redemption. The shares, redeemed by the Company in the case of its reorganization, shall be cancelled at the moment of their redemption.

PART IV. SHAREHOLDERS OF THE COMPANY

21. SHAREHOLDERS OF THE COMPANY

- 21.1 Shareholder of the Company is any individual, having exercised the ownership of the shares of the Company according to the procedure established by the current laws of the Russian Federation and this Charter. The number of Company's shareholders is not limited.
- 21.2 Unless otherwise specified by the law, in the case of legitimate common proprietary right for one or more shares of the Company by two or more individuals, all such individuals are recognized as one shareholder with respect to the Company and shall exercise the rights of the Company's shareholder thus granted to them, including the voting right at General Meeting of shareholders, by one of them or by their common representative at their discretion. Powers of either of mentioned individuals shall be duly formalized. Co-owners of the share are jointly responsible for all obligations accepted by the shareholders.
- 21.3 An individual, having entered into ownership of a fractional share of the Company on the grounds envisaged by current laws of the Russian Federation and this Charter, shall be recognized as Company's shareholder. A fractional share of the Company grants to the shareholder the rights granted by a whole share of the Company, to the extent corresponding to such part of the whole share that this fractional share represents.
- 21.4 The shareholder's legal status is defined by the scope of rights granted to him and obligations assigned to him. The rights of shareholder(s) of the Company in relation to the Company and other shareholders are conditional on the class and category, as well as the quantity of shares, owned by them.
- 21.5 Access to the state secret information shall be provided for Company's shareholders under security clearance executed in compliance with the procedure stipulated by the legislation of the Russian Federation.

22. SHAREHOLDER REGISTER OF THE COMPANY

- 22.1 The rights of shareholders for the shares owned by them are attested in the system of registration — the registrar's records in the personal accounts — or, in the case of registration of rights in a depository, — records in the custody accounts in depositories.

- 22.2 The right for the Company share shall be transferred to the acquirer from the moment the registrar makes a record on the personal account of the acquirer in the registration system, or, in case of registration of rights in a depository — from the moment the individual, performing the depository activity, makes a record on the custody account of the acquirer.
- 22.3 The Register of shareholders of the Company shall contain data on each registered individual, the quantity and classes (categories) of shares recorded to the name of such individual, as well as other data stipulated by the current laws.
- 22.4 The Company shall ensure the maintaining and keeping of the Register of shareholders according to the requirements of the current laws of the Russian Federation.
- 22.5 In case of functions on maintenance and caring of Company shareholders' register are transferred to Company's Registrar, the Company is not released from responsibility for maintenance and caring of the register.

23 SHAREHOLDERS' RIGHTS

- 23.1 Shareholders (shareholder), having 1 (one) whole common share of the Company in the aggregate, have 1 (one) vote at the voting during the General Meeting of shareholders. A fractional common share of the Company shall give its owner a proportional part of the vote.
- 23.2 Every common registered share of the Company provides shareholder — its owner with the same scope of rights, including:
- (1) the right to take part in the management of the Company, and participate personally or via representative in the General Meeting of shareholders with the voting right on all the issues within its terms of reference with the number of votes, corresponding to the quantity of common shares of the Company owned by him;
 - (2) the right to receive dividend from the net profit of the Company;
 - (3) the right to receive a part of Company property in the case of its liquidation;
 - (4) the right to freely alienate all or a part of shares owned by him without prior agreement of other shareholders or the Company;
 - (5) the right to demand the redemption of all or a part of shares owned by him in the cases and according to the procedure, established by the law;
 - (6) the preemption right to acquire the shares placed by the Company through public subscription, as well as in the cases stipulated by the current legislation, through a limited subscription, according to the terms and the procedure, of additional common shares and equity securities, convertible into the common shares, in the quantity, proportional to the quantity of the shares of a given category, owned by him;
 - (7) when exercising the pre-emption right to acquire additional shares, placed by the Company and other equity securities, convertible into the shares of the Company, the right to pay for such placed equity shares in cash, if he/she chooses to do so, provided that the decision, that sets a basis for the placement of such equity securities, foresees their payment in non-monetary funds;
 - (8) the right to request, by a procedure set by the law, the Company registrar to confirm shareholder's rights for the shares of the Company in his possession by issuing an extract from the register of Company shareholders, which extract shall not be regarded as a security;
 - (9) the right to request the Company to issue an extract from the list of individuals entitled to take part in the General Meeting of shareholders containing the data about the requesting shareholder, or a certificate, confirming that he/she is not on the list of the individuals entitled to take part in the General Meeting of shareholders;
 - (10) the right to request the Company to issue an extract from the list of individuals entitled to demand the Company to redeem shares in his/her possession, containing the data about the requesting shareholder, or a certificate, confirming that he/she is not included in the list of individuals entitled to demand the Company's redemption of shares;
 - (11) the right to request the Company to issue an extract from the list of individuals, having a preemptive right to acquire additional shares and other equity securities placed by the Company, containing the data about the requesting shareholder, or a certificate, confirming that he/she is not on the list of such individuals;
 - (12) the right of access to the documents of the Company defined by the Federal law "On Joint-stock companies";
 - (13) in the time of preparation for the General Meeting of shareholders, the right of free access to information (materials) that should be made available to shareholder in his/her exercising the right to take part in the General Meeting of shareholders;

(14) the right to appeal to the court that a major transaction or a party-related transaction, which has been entered into by the Company in violation of the procedure established by the law, be recognized invalid;

(15) the right to claim in the court against a decision taken by the General Meeting of shareholders in violation of provision of the law and this Charter (including any decision taken in violation of Charter provisions concerning convening and holding annual and extraordinary General Meetings of shareholders), in the case that the claimant didn't take part in the General Meeting of shareholders or voted against such a decision, and that such a decision violates his/her rights and legitimate interests;

(16) other rights, envisaged by the current RF legislation.

23.3 Shareholders (shareholder), having at least 1% (one percent) of the voting shares of the Company in aggregate shall also have the right to:

(1) request the Company to provide a list of individuals entitled to take part in the General Meeting of shareholders, if they are included in such a list;

(2) according to the procedure established by the law, to put a claim against the Board of Directors, a member of the Board and the President of the Company to reimburse the damages caused to the Company.

23.4 Shareholder(s) registered in the system of register keeping and having more than 1% (one percent) of the voting shares of the Company in aggregate shall also have the right to request the Company Registrar to provide data from the Register of Company shareholders on the names of share owners entered in the Register of the Company shareholders and on the quantity, category and par value of the securities in their possession.

23.5 Shareholder(s) having at least 2% (two percent) of the voting shares of the Company in aggregate shall also have the right to:

(1) submit items to the agenda of the Annual meeting of shareholders, as well as to propose candidates (including self-nomination) for the Board of Directors of the Company, Audit Commission and Election Committee of the Company, and propose a candidate for Auditor of the Company;

(2) submit candidates (including self-nomination) for the Board of Directors of the Company, if the proposed agenda of an extraordinary General Meeting of shareholders includes an item on election of the Board of Directors of the Company;

(3) in case of approval by Company's Board of Directors of the resolution on refusal to include a certain item into the agenda of the General Meeting of shareholders or of a certain candidate into the list of candidates for election to a respective body of the Company or in case of the Board of Directors' (Supervisory Board's) avoidance of taking a corresponding resolution, put a claim for compelling the Company to include the proposed item into the agenda of the General Meeting of shareholders or a candidate into the list of candidates for election to a respective body of the Company. .

23.6 At the same stime, Shareholder(s) having in aggregate at least 10% (ten percent) of the voting shares of the Company, shall also be entitled to:

(1) request a convening of an extraordinary General Meeting of shareholders on any of the issues within the Meeting's terms of reference;

(2) in case of Board of Directors' failure to approve within the time provided for with this Charter, Clause 28.9, the resolution on holding of an extraordinary General Meeting of shareholders or in case of the resolution on refusal in holding of an extraordinary General Meeting of shareholders, put a claim for compelling the Company to hold an extraordinary General Meeting of shareholders;

(3) demand a conduct of an interim inspection (revision) of financial and economic activities of the Company by the Audit Commission of the Company;

(4) demand an independent audit inspection of activities of the Company.

23.7 At the same time, Shareholder(s) having in aggregate at least 25% (twenty-five percent) of the voting shares of the Company, shall also be entitled for a free access to the accounting documents and the minutes of Company's Management meetings.

24. SHAREHODERS' OBLIGATIONS

24.1 The obligations of shareholders are determined by the current laws and this Charter. The shareholders of the Company are particularly obliged to:

(1) observe the provisions of this Charter, follow the decisions of the General Meeting of shareholders and other internal documents of the Company;

(2) timely, and following other terms and procedures envisaged by the law, this Charter and internal documents of the Company, make the payment for shares and other equity securities placed by the Company;

(3) timely notify the Board of Directors of the Company, Audit Commission and Auditor of the Company of the transactions made by the Company and expected transactions, where they can be regarded as concerned parties, as well as of legal entities, where they own independently or jointly

with an affiliated individual(s) 20% (twenty percent) of the voting equities (shares) or more; and of legal entities, where they hold positions in the management bodies.

(4) not to disclose confidential information on Company activity.

24.2 The shareholders of the Company shall have no right to act on behalf of the Company without special powers vested in accordance with procedure established by the law.

PART V. REGULATORY BODIES OF THE COMPANY

25. THE STRUCTURE OF REGULATORY BODIES OF THE COMPANY

25.1 The Company shall be managed through regulatory bodies of the Company.

25.2 The regulatory bodies of the Company are the General Meeting of shareholders, the Board of Directors, Management (collective executive body of the Company) and the President (sole executive body of the Company).

25.3 Additional internal structural subdivisions (including counsels, committees, commissions) may be established at the corresponding body of the Company.

26. GENERAL MEETING OF COMPANY SHAREHOLDERS

26.1 The General Meeting of shareholders shall be the superior regulatory body of the Company.

26.2 The General Meeting of shareholders shall perform its activity according to the provisions of this Charter, internal documents of the Company approved by decision of the General Meeting of shareholders, and the requirements of RF legislation.

26.3 General Meeting of OJSC MTS Shareholders shall be held in Moscow.

26.4 The Company is obliged to conduct Annual (regular) General Meeting of shareholders.

26.5 The Annual General Meeting of shareholders shall consider issues related to the election of the Board of Directors of the Company, Audit Commission of the Company, approval of Auditor of the Company, issues referred to in sub-clause 27.1.19 of this Charter, and other issues within the terms of reference of the General Meeting of shareholders.

26.6 The General Meetings of shareholders held in addition to annual meetings shall be deemed extraordinary. An extraordinary General Meeting of shareholders may decide on issues concerning an early termination of powers of the Board of Directors members and concerning the election of the Board of Directors of the Company, concerning an early termination of powers of the Audit Commission members and concerning the election of the Audit commission of the Company, approval of Auditor of the Company, and other issues, stipulated by the current legislation.

27. TERMS OF REFERENCE OF GENERAL MEETING OF SHAREHOLDERS

27.1 The following matters are referred to the terms of reference of the General Meeting of shareholders:

(1) modifications and additions to this Charter (with exception of instances, when such a decision is referred to the terms of reference of the Board of Directors of the Company), as well as approval of a new version of the Charter of the Company;

- decision shall be made by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company, who participate in the General Meeting of shareholders

(2) reorganization of the Company;

- the decision to reorganize the Company into a noncommercial partnership shall be made only upon proposal of the Board of Directors of the Company by unanimous decision of all the shareholders of the Company;
- the decisions to reorganize the Company in other forms shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company, who participate in the General Meeting of shareholders

(3) liquidation of the Company, appointment of liquidation commission and approval of interim and ultimate liquidation balance sheet;

- decision shall be made by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(4) determination of number of members of the Board of Directors of the Company, election of its members and making decision concerning the early termination of powers of all members of the Board of Directors, as well as making decision to pay reward and/or to set a procedure for compensation of expenses to the members of the Board of Directors of the Company during the period of execution of their obligations;

- decision on election of members of the Board of Directors shall be made by cumulative voting. During the cumulative voting the number of votes that belong to each shareholder is multiplied by the number of individuals to be elected in the Board of Directors of the Company, and a shareholder has a right to give the votes, received in such a manner, completely for one candidate or distribute them among two or more candidates. The candidates who received the largest number of votes are considered as elected to the Board of Directors of the Company;
- decision on all other issues shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(5) determination of quantity, par value and category (class) of authorized shares of the Company and the rights granted by such shares;

- decision shall be made by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders)

(6) increase of charter capital of the Company by augmenting the par value of Company shares;

- decision shall be made only upon proposal of the Board of Directors of the Company by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(7) increase of charter capital of the Company by placement of additional shares only among the shareholders of the Company, in case of increase of charter capital of the Company at the cost of its property;

- (decision shall be made only upon proposal of the Board of Directors of the Company by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(8) increase of charter capital of the Company by placement of additional shares by limited subscription

- decision shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(9) increase of charter capital of the Company by placement of common shares by public subscription, constituting to more than 25% (twenty-five percent) of previously placed common shares of the Company;

- decision shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(10) in the case if the Company receives a voluntary or mandatory offer to acquire shares, as well as other equity securities convertible into the shares of the Company — increase of charter capital of the Company by placement of additional shares within the quantity and categories (classes) of authorized shares, according to the procedure stipulated by the law;

- decision shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders)

(11) decrease of charter capital of the Company by reducing the par value of Company shares;

- decision shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(12) decrease of charter capital of the Company by acquisition by the Company of a part of the shares on purpose to reduce their total quantity, as well as by redemption of acquired or bought out shares of the Company;

- decision shall be made upon proposal of the Board of Directors of the Company by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(13) placement of equity securities convertible into the common shares of the Company by private subscription;

- decision shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(14) placement of equity securities convertible into the common shares of the Company by public subscription, in the case of placement of equity securities convertible into the common shares of the Company, constituting more than 25% (twenty-five percent) of previously placed common shares of the Company;

- decision shall be made only upon proposal of the Board of Directors of the Company by qualified majority (three fourth) of shareholders votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(15) placement of securities convertible into shares, including options of the Company, in the case if the Company receives a voluntary or mandatory offer to acquire shares, as well as other equity securities convertible into the shares of the Company, according to the procedure, stipulated by the law;

- decision shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(16) determination of quantitative composition of the Audit Commission of the Company, election of its members and making decision concerning an early termination of powers of all members of Audit Commission, as well as making decision to pay reward and/or to set a procedure for compensation of expenses to the members of the Audit Commission of the Company during the period of execution of their duties;

- decision of election of members of Audit Commission shall be made by simple majority (more than a half) of the shareholders' votes — owners of voting shares of the Company, except for those are members of the Board of Directors or individuals, holding positions in regulatory bodies of the Company, participating in the General Meeting of shareholders;
- decisions on the rest of the issues shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders.

(17) appointment of the Auditor for Company;

- decision is made by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(18) dividend payment (declaration) based on the results of the first quarter, half-year, nine months of a fiscal year;

- decision is made by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(19) approval of annual reports, annual accounting statement, including Income and Loss statements (Income and Loss accounts) of the Company, as well as profit distribution (including dividend payment (declaration)), except for the profit distributed as dividends based on the results of the first quarter, half-year, nine months of a fiscal year and losses of the Company according to the results of a fiscal year;

- decision is made by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(20) determination of the General Meeting of shareholders' conduct procedures;

- decision is made by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(21) determination of quantitative composition by procedure stipulated in the law and in this Charter of the Election Committee, electing members of the Election Committee and early termination of their power;

- decision is made by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(22) consolidation and splitting of shares;

- decision is made only upon proposal of the Board of Directors of the Company by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(23) approval of party-related transactions by procedure stipulated in the law and in this Charter, when the subject of a transaction or of several interrelated transactions is a property whose value according to the Company's books (offer price of the acquired) is equal to 2% (two percent) or more of the Company's assets book cost according to its accounting statement at the last reporting date, except for transactions referred to in subparagraphs 27.1.24. and 27.1.25. of this Charter;

(24) approval of party-related transactions, by procedure stipulated in the law and in this Charter, when the

subject of a transaction or of several interrelated transactions is a placement by subscription or by sale of the shares in value exceeding 2% (two percent) of previously placed Company common shares and common shares, to which the previously placed securities and equity securities may be converted;

(25) approval of party-related transactions, by procedure stipulated in the law and in this Charter, when the subject of a transaction or of several interrelated transactions is a placement by subscription of the shares in value exceeding 2% (two percent) of previously

placed Company common shares and common shares, to which the previously placed securities and equity securities may be converted;

(26) approval of party-related transactions, by procedure stipulated in the law and in this Charter, if all members of the Board of Directors of the Company, at the time of taking a decision on the party-related transaction at the Board of Directors' meeting in all cases other than those stipulated in subparagraphs 27.1.23—27.1.25. of this item of the Charter, have been recognized as concerned persons and/or are not independent directors, and the relevant issue has been referred by the Board of Directors for decision at the General Meeting of shareholders;

(27) if the Company receives voluntary or compulsory offer to purchase shares, as well as any other equity securities, convertible into shares of the Company, the General Meeting of shareholders approves party-related transactions by procedure defined provided by law;

- decisions on the approval of party-related transactions in all cases mentioned above in sub-clauses (23) — (26) shall be taken only upon the proposal of the Company's Board of Directors by a simple majority (more than one half (1/2)) of votes of all non-concerned shareholders owning voting shares of the Company;
- decisions on the approval of party-related transactions in the case mentioned in sub-clause (27) shall be taken by a simple majority (more than one half (1/2)) of votes of all non-concerned shareholders owning voting shares of the Company

(28) approval of major transactions, in the case, when the subjects of the transaction is a property of a value of more than 50% (fifty percent) of Company's assets book cost defined according to its accounting statement on the last reporting date;

- decision is made only upon proposal of the Board of Directors of the Company by a special majority (three quarters) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(29) approval of major transactions, by procedure stipulated in the law and in this Charter, in the case, when unanimity of members of the Board of Directors of the Company with respect to the approval of such major transaction, as requested by subparagraph 31.2.19 of this Charter, has not been achieved, and the relevant issue has been referred by the Board of Directors for decision at the General Meeting of shareholders;

- decision is made only upon proposal of the Board of Directors of the Company by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(30) making a decision on participation in financial and industrial groups, associations and other unions of commercial organizations;

- decision is made only upon proposal of the Board of Directors of the Company by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(31) approval of internal documents that regulate Company's bodies' activities;

- decision is made only upon proposal of the Board of Directors of the Company by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(32) transferring powers of the sole executive body of the Company by agreement to a commercial organization (managing organization) or to an individual entrepreneur (manager), as well as making a decision on early termination of powers of such Managing organization or Manager;

- decision is made only upon proposal of the Board of Directors of the Company by a simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(33) if the Company receives a voluntary or compulsory offer to acquire shares, as well as any other equity securities convertible into shares of the Company, approval of such transaction or several interrelated transactions connected with the acquisition, alienation or an opportunity of alienation by the Company, in direct or indirect way, of any property in value of 10 or more percent of Company's assets book cost, defined according to its accounting statement on the last reporting date, unless such transactions are entered into in line with the regular business activities of the Company or have been made before the Company has received such voluntary or compulsory offering;

- decision shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(34) in the case where the Company receives a voluntary or compulsory offer to acquire shares, as well as any other equity securities convertible into shares of the Company, taking a decision on raising the reward for persons occupying positions in the Company managing

organs, on setting terms for terminating their powers and on increase of compensations paid to such persons in the case of termination of their powers;

- decision shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(35) in the case where the Company receives a voluntary or compulsory offer to acquire shares, as well as any other equity securities convertible into shares of the Company, approval of Company's acquiring these outstanding shares;

- decision shall be made by simple majority (more than a half) of shareholders' votes — owners of voting shares of the Company who participate in the General Meeting of shareholders

(36) Other issues stipulated by law and by this Charter.

27.2 Issues referred to the terms of reference of the General Meeting of shareholders, may not be referred for decision by the Board of Directors of the Company or by an executive body of the Company.

27.3 General Meeting of shareholders shall not be entitled to consider issues not related to its terms of reference and to take decisions on these issues.

27.4 Resolutions approved by the General Meeting of shareholders on issues not included in the agenda of the General Meeting of shareholders (unless all shareholders of Company took participation in the meeting) or approved with violation of competence of the General Meeting of shareholders or approved in the absence of quorum for holding of the General Meeting of shareholders or approved without majority of shareholders' votes required for approval of resolutions shall be null and void regardless of appeal of such resolutions.

28. PREPARATION AND CALLING OF GENERAL MEETING OF SHAREHOLDERS

28.1 Annual General Meeting of shareholders shall be held not earlier than 2 (two) months and not later than 6 (six) months after the end of the fiscal year. Annual General Meeting of shareholders shall be convened by the Company Board of Directors. Date of Annual Meeting of shareholders shall be defined by the Company Board of Directors.

28.2 Extraordinary General Meeting of shareholders shall be held following a decision of the Company's Board of Directors on its own initiative, by the request of the Audit Commission of the Company, Auditor of the Company, as well as of shareholders (shareholder), who own at least 10% (ten percent) of voting shares of the Company in aggregate on the date of the demand. An extraordinary General Meeting of shareholders is called by the Board of Directors of the Company. In case of Board of Directors' failure to approve within the time provided for with this Charter, Clause 28.9, the resolution on holding of an extraordinary General Meeting of shareholders or in case of the resolution on refusal in holding of an extraordinary General Meeting of shareholders, a body of the Company or persons who require to hold a meeting shall be entitled to put a claim for compelling the Company to hold an extraordinary General Meeting of shareholders

28.3 The request for convening an annual General Meeting of shareholders shall contain the wording of the items to be included in the meeting agenda. The request for an extraordinary Meeting may contain the wording of draft decisions on each of the items under consideration, as well as the proposal on the form of the meeting conduct.

28.4 Board of Directors' decision that initiates the calling of extraordinary meeting of Shareholders shall be adopted by a simple majority of votes of members of the Board of Directors present at the meeting. This decision shall include the approval: (1) of the wording of agenda items; (2) of the form of holding the meeting. Minutes of the Board of Director meeting where such decision has been taken shall contain the names of the Board members who voted for the decision, against it or abstained.

28.5 A request of the Audit Commission of the Company to call an extraordinary General Meeting shall be adopted by a simple majority of votes of the members of the Audit Commission present at its meeting and be sent to the Board of Directors. Said request shall be signed by the members of the Audit Commission who voted in favor of its adoption.

28.6 A request by the External Auditor initiating the calling of an extraordinary General Meeting shall be signed by him/her and sent to the Board of Directors.

28.7 Shareholders owning in aggregate at least 10 percent of the voting shares of the Company who initiate the calling of an extraordinary General Meeting of Shareholders shall send to the Board of Directors a written request specifying, in addition to the information indicated in clause 28.3, the following information: (1) the names of the Shareholders, (2) and information about the voting

shares owned by them. Such request shall be signed by the Shareholder or its agent. If the request is signed by an agent, his/her power of attorney shall be attached. If the request is signed by a representative of the legal entity who acts on its behalf by proxy, the power of attorney shall be attached to the request.

28.8 A request of initiators of calling an extraordinary General Meeting shall be submitted in writing by a registered letter to the Company's address with delivery confirmation or shall be delivered to the secretary of the Company Board of Directors against the secretary signature or be delivered to the Company expedition office or any other department empowered to receive letter correspondence addressed to the Company.

28.9 Within 5 days of the date of submission of such request, the Board of Directors shall adopt a decision in favor or against the calling of an extraordinary General Meeting. Either decision of the Board shall be brought to meeting initiators' notice within three days upon its taking.

28.10 The list of persons, who are entitled to take part in the General Meeting of shareholders, is made relying on the data of the Company's Shareholders Register on a certain date, set by the Board of Directors of the Company in compliance with requirements of the applicable laws and of this Charter.

28.11 Board of Directors while preparing a General Meeting shall define:

- form for the conduct of meeting (joint attendance or absentee voting)
- the date, place, and time of the meeting and/or final date of Company's accepting voting ballots and the mailing address, which the filled ballots shall be sent to
- the date, place, and start time of registration of meeting participants for a joint attendance meeting
- final date when the list of persons entitled to take part in the General Meeting must be compiled
- General Meeting agenda
- the way in which Shareholders should be notified of the General Meeting of Shareholders
- list of information (materials) to be handed to the persons entitled to take part in the meeting of shareholders and procedure for delivery of such materials.
- form and text of the voting ballots.

28.12 Annual General Meeting of shareholders agenda shall include items for the election of the Board of Directors, Audit Commission, approval of the Auditor, as well as items for approval of annual reports, annual or accounting statement, Company's profits and losses distribution.

28.13 Board of Directors of the company shall not entitled to amend wordings of items suggested for the inclusion into the agenda of the General Meeting of shareholders, and wordings of decisions on such items.

28.14 Voting at the General Meeting of shareholders shall be carried out by voting ballots. If the Meeting is held in form of joint attendance, the voting ballot shall be sent by registered letter or by messenger or handed in to each person or its representative, entered in the list of persons, who are entitled to take part in the General Meeting of shareholders. Should the General Meeting be held in form of absentee voting or in any other instances stipulated by the law or by this Charter, the voting ballot shall be sent by registered mail or by messenger or delivered by hand against the signature to each person included in the list of persons entitled to take part in the General Meeting of shareholders not later than 20 days before the convening date. Those shareholders shall be deemed to have taken part in the General Meeting of shareholders in form of joint attendance, who have registered for participation in such a meeting, as well as shareholders whose ballots have been received at least two days before the convening date. Those shareholders shall be deemed to have taken part in the General Meeting of shareholders in form of absentee voting, whose ballots have been received before the final date of accepting ballots.

28.15 Notification of the General Meeting of shareholders' convening shall be sent to shareholders included in the list of persons entitled to take part in the General Meeting of shareholders at least 30 days before the convening date, unless otherwise specified by the law, by circulating the notice text by registered mail at the addresses referred to in the list of persons entitled to take part in the General Meeting, or delivered messenger to those persons against their signature.

The notice text on holding the General Meeting shall be published also in mass media (newspapers Rossiyskaya Gazeta and Vedomosty) according to the timeframe set forth for sending such a notice. The date of shareholders' notification of the General Meeting shall be defined by the mailing date, by the publication date, or by hand delivery date.

Wording of the notice of the Meeting convening may, by Board decision, sent also in electronic form to those Company shareholders who left their electronic addresses with the Company of Registrar.

- 28.16 If a person registered in the Register of Shareholders of the Company is a nominee holder of shares, the notice of a General Meeting shall be sent to the nominee holder of shares, unless other mailing address is indicated in the list of persons entitled to take part in the General Meeting of shareholders.
- 28.17 Additional requirements to General Meeting convening and holding procedure are stipulated by the RF laws and Company's internal documents.
- 28.18 The list of information and materials concerning the Meeting agenda to be provided to shareholders and the way to provide such materials are defined by requirements of the RF law. By the Board decision, the information that should be made available for persons entitled to take part in the General Meeting of shareholders, unless it is confidential or proprietary, may be partially or fully disclosed on the Company site in Internet.
- 28.19 Proposals on entering items to the annual General Meeting agenda and proposals on offering candidates for Company bodies elected by General Meeting may be put by Company shareholders who own at least 2 percent of voting shares within 100 days of the fiscal year termination. Proposal on the agenda and candidates to Company bodies shall be sent to the Company address by registered mail with delivery confirmation or handed in to Company secretary or be delivered to the Company expedition office or any other department empowered to receive letter correspondence addressed to the Company.

29. HOLDING OF GENERAL MEETING OF SHAREHOLDERS

- 29.1 Decisions of the General Meeting of shareholders may be taken by holding a meeting (joint attendance of company shareholders for discussion on agenda items and adopting decisions on issues put to vote).
- 29.2 Decision of the General Meeting of shareholders may also be taken without holding a meeting, by way of absentee voting.
- 29.3 The general Meeting of shareholders whose agenda includes such issues as election of the Board of Directors, Auditing Commission of the Company, approval of the Company Auditor as well as issues referred to in 27.1.19 of this Charter may not be held in form of absentee voting.
- 29.4 the following persons can participate in the General Meeting of shareholders: those included in the list of persons, who are entitled to take part in the General Meeting of shareholders, persons, to whom the property rights for the shares of above said persons have been transferred by way of legal succession or reorganization, or their representatives acting by proxy to vote or by the law. If a General Meeting of shareholders is held in form of joint attendance, persons from the list of those entitled to take part in the General Meeting of shareholders (or their representatives), shall be entitled to take part in such a meeting or to mail the filled voting ballots to the Company.
- 29.5 Registration of persons, who take part in the General Meeting of shareholders, held as a joint attendance meeting, shall be carried out by the Election Commission of the Company. The Election Commission shall be elected by the General Meeting and include at least three persons. If Election Commission has not been established, its functions shall be performed by the Secretary of by the Board of Directors of the Company or by any other person designated by the Board. Functions of the Election Commission may be performed by the Registrar of the Company. In the case where the number of shareholder owing voting shares exceeds 500, the Election Commission's functions shall be performed by the Company Registrar. The Election Commission in performing its duties shall be an independent permanent body of the General Meeting of shareholders. Its functions shall be to: (1) verify powers of persons who register for participation in the General Meeting of Shareholders, (2) verify power of attorney of shareholder representatives for compliance with the RF law, (3) keep records of powers of attorney and the rights granted thereby, reflecting these in a corresponding journal, (4) hand out and send voting ballots and other information (materials) for the General Meeting and maintain a journal of issued (sent) ballots, (5) determine a quorum of the General Meeting of Shareholders, (6) count votes and tally voting results, (7) perform other functions stipulated by the RF laws, by Company internal documents

relative to the Election Commission activity or by an agreement between the Company and person acting as Election Commissions.

- 29.6 Transfer of rights (powers) to a representative who is entitled to take part in General Meeting of shareholders shall be in form of a power of attorney issued following the requirements of current laws. Shareholder may at any time replace his/her representative and personally exercise the rights granted by the share, by canceling the power of attorney in way prescribed by the law. In the cases where the share is a subject of fractional ownership of several persons, the voting right at the General Meeting of shareholder shall be given, at their decision, to one of the participants of such fractional ownership or to their common representative. Power of each of such persons shall be duly formalized.
- 29.7 General Meeting of shareholders, held in form of joint attendance is declared open if by the time of its holding there is a quorum with respect to at least one issue on the agenda of this General Meeting. Registration of persons entitled to take part in the General Meeting of shareholders, who failed to register before the opening of the Meeting, shall continue until the discussion has been completed of the last agenda item of the General Meeting for which a quorum is available.
- 29.8 If agenda of the General Meeting of shareholders includes items to be voted upon by different membership of voters, a quorum necessary to take decisions on these items shall be defined separately for each such item. If there is no quorum allowing decisions to be taken on the items that require a certain composition of voters, it shall not impede the adoption of decisions to be voted upon by a different composition of voters if a quorum is sufficient for taking such decisions.
- 29.9 Quorum of the General Meeting of shareholders is defined depending on the composition of voters' audience with respect to the agenda items of the General Meeting of shareholders.
- 29.10 All shareholders — owners of common shares of the Company shall be deemed as those who vote on any item included in agenda of the General Meeting of shareholders, except for the following items:
- approval of party-related transactions (subparagraphs 27.1.23 — 27.1.27 of this Charter); not included in the number of voters are the shareholders of the Company, who, in the way prescribed by the law, are recognized as a related party with respect to such transaction made by the Company;
 - electing members of the Audit Commission of the Company; not included in the number of voters are the shareholders of the Company, who are members of the Board of Directors, and persons, who occupy positions in the Company managing bodies.
- 29.11 Quorum of the General Meeting of shareholders in the case of a vote taken on the issue of reorganizing the Company in a non-commercial partnership shall be as high as 100% (one hundred percent) of the membership, voting on this issue. Quorum of the General Meeting of shareholders on any other issue included in the agenda of the General Meeting of shareholders, is defined as a simple majority (more than a half) of shareholders' votes — those who owns shares of the Company, voting on the relevant issue.
- 29.12 If quorum is satisfied, then the number of votes, necessary to take a corresponding decision at the General Meeting of shareholders, stated in paragraph 27.1 of this Charter, is defined according to the total number of shareholders' votes — those who possess voting shares of the Company and take part in the General Meeting of shareholders, except for voting the issue of reorganizing the Company in non-commercial partnership and the approval of party-related transaction (subparagraphs 27.1.23 — 27.1.27 of this Charter). In the above stated cases the number of votes, required to make a corresponding decision at the General Meeting of shareholders, is defined according to the total number of shareholders' votes — those who possess voting shares of the Company, included in the number of voters on the relevant issue.
- 29.13 If at the assigned beginning of the General Meeting of shareholders quorum is not satisfied for all issues, included in agenda Of the General Meeting, opening General Meeting of shareholders may be postponed to the later time, but not later than 2 (two) hours
- 29.14 If there is no quorum to hold the annual General Meeting of shareholders, then the second General Meeting of shareholders with the same agenda shall be held. If there is no quorum to hold the extraordinary General Meeting of shareholders the second General Meeting of shareholders with the same agenda shall be held.
- 29.15 The second General Meeting of shareholders is law competent (has quorum), if it is attended by shareholders, who possess not less than 30 percent of votes of company's outstanding voting shares in aggregate.

- 29.16 For convening a second General Meeting of shareholders called instead of the meeting that failed to take place the way to convene such a meeting is defined following the provisions of Article 28 of the Charter. Sending notification of the second meeting is made according to 28.17 and 28.18 of this Charter. Sending ballots for voting at the second meeting shall follow the rules of applicable laws of Russian Federation.
- 29.17 In case of failure to have a quorum for holding of an Annual General Meeting of shareholders pursuant to a court decision, the second General Meeting of shareholders with the same agenda shall be held within 60 days at the latest. No additional claim is required for it. The second General Meeting of shareholders shall be called and held by a person or Company's body specified in the court decision and, if the said person or Company's body does not hold an Annual General Meeting of shareholders in the time specified in the court decision, the second meeting of shareholders shall be called and held by other persons or Company's body which put a claim provided that such persons or Company's body were specified in the court decision.
- 29.18 If the second General Meeting of shareholders is held less than in 40 days after the postponed General Meeting of shareholders, persons, who are entitled to take part in the General Meeting of shareholders, are defined according to the list of persons, who were entitled to take part in the postponed General Meeting of shareholders.
- 29.19 Voting at the General Meeting of shareholders is held according to the concept «one voting share of the Company — one vote», except for holding cumulative voting in case, stipulated by law and this Charter.
- 29.20 Voting on all agenda items at a General Meeting of Shareholders shall be conducted only by voting ballots. The Board of Directors shall approve the ballot form and wording..
- 29.21 A voting ballot shall be deemed invalid with respect to the agenda item specified thereon in the event that:
- (1) there are corrections to ballot's original data;
 - (2) there are discrepancies between the ballot submitted to the Election Committee and the text and the form of the ballot approved by the Company's Board of Directors;
 - (3) more than one voting option is left; unless the vote is taken in accordance with instructions of persons who had acquired the shares after the date of making up a list of persons entitled to participate in the General Meeting of Shareholders, or in compliance with instructions of the owners of depositary securities.
 - (4) no voting option is left in the ballot;
 - (5) all voting options have been crossed out;
 - (6) the ballot has no Shareholder's signature;
 - (7) the Company, after having received voting ballots signed by a representative acting by proxy, was notified, not later than two (2) days prior to the date of the General Meeting of Shareholders, that this representative has been replaced (recalled);
 - (8) in the course of counting the votes, two or more filled voting ballots of one person have been discovered where for the same item of the agenda of the General Meeting of Shareholders the voter has left different voting options. This rule shall not cover the ballots signed by a person who had issued a proxy for voting with respect to shares that have been transferred after the date of making up a list of persons entitled to participate in the General Meeting of Shareholders, and/or persons acting on the basis of such proxy, where in the boxes used for the indicating a number of votes given for each voting option the number of votes cast for the respective option is indicated and appropriate marks are present as stipulated by the normative acts of the Russian Federation;
 - (9) the ballot for voting on the issue of election of members of the Company's Audit Commission or members of the Election Committee has the "in favor" box left for more candidates than the number of persons that should be elected to the respective body of the Company. This rule shall not cover voting ballots that have been signed by a person voting on shares that have been transferred after the date of making up a list of persons entitled to participate in the General Meeting of Shareholders, in accordance with instructions received from the persons who acquired such shares, and/or a person voting on shares circulating outside the Russian Federation in the form of depositary securities, and that contain appropriate marks stipulated by the normative acts of the Russian Federation;
 - (10) the ballot has the votes "in favor" left for alternative versions of decision;
 - (11) in the course of cumulative voting, a Shareholder has distributed between the candidates to the Board of Directors a number of votes that exceeds the numbers of votes he have had at his disposal.
 - (12) the ballots were submitted to Election Committee after the time when the counting of votes was started.

29.22 Additional requirements to the conduct of a General Meeting of shareholders are set forth in the RF laws and by the Company's internal Regulations.

30. DOCUMENTS OF THE GENERAL MEETING OF THE COMPANY'S SHAREHOLDERS

- 30.1 According to results of voting the Election Committee executes the Minutes of results of the voting, which is signed by members of the Election Committee or by a person, who performs its functions. The Minutes of results of the voting is executed not later than in 3 (three) working days after the General Meeting of shareholders is closed or after the day, when the voting papers cease to be accepted any more, if the General Meeting of shareholders is held as distant voting.
- 30.2 Decisions, made at the General Meeting of shareholders, as well as results of voting are disclosed at the General Meeting of shareholders, during which the voting was held, or delivered not later than in 10 (ten) days after the Minutes of results of the voting is executed if the form of the Report on results of the voting to persons, included in the list of persons, who are entitled to take part in the General Meeting of shareholders, in order, stipulated for notification about the General Meeting of shareholders. The Report on results of the voting at the General Meeting of shareholders is signed by a person, presiding at the General Meeting of shareholders and By the Corporate Secretary. Results of voting on electing the Board of Directors and the Audit Commission of the Company are to be disclosed at the General Meeting of shareholders and take effect since they are disclosed.
- 30.3 Chairman of the General Meeting of shareholders shall be elected by majority of votes of shareholders present at the meeting. The chairman shall perform the following functions: (1) conducts the General Meeting, (2) enforce compliance with the regulations, (3) signs the minutes of the General Meeting of shareholders.
- 30.4 Report on voting results shall be attached to the minutes of the General Meeting.
- 30.5 The Minutes of the General Meeting of shareholders (in two copies) shall be executed within 3 (three) working days of the General Meeting of shareholders' closure. Both copies are signed by Meeting chairman and by a secretary of the General Meeting of shareholders. Extracts from Minutes of the General Meeting of shareholders shall be signed by the Secretary of the General Meeting of shareholders.
- 30.6 After the Report on results of the voting is executed and the Minutes of the General Meeting of shareholders are signed, the voting papers are sealed up by the Election Commission and handed over for storage in the Company archives.
- 30.7 Additional requirements to the form and the way of presenting documents of the General Meeting of shareholders of the Company are set forth by the RF laws and internal documents of the Company.

31. BOARD OF DIRECTORS OF THE COMPANY

- 31.1 Board of Directors of the company manages activities of the Company more generally, except for solving questions, referred by law and by this Charter to the terms of reference of the General Meeting of shareholders.
- 31.2 Only individual person is allowed to be a member of the Board of Directors of the Company. Persons, elected in the Board of Directors of the Company, may be reelected unlimited number of times. A member of the Board of Directors of the Company may be not a shareholder of the Company.
- 31.3 A person, who performs functions of the President of the Company, is not allowed to be the Chairman of the Board of Directors of the Company simultaneously.
- 31.4 Members of the Board of Directors of the Company are elected by the General Meeting of shareholders in order, stipulated by law and in this Charter, for the term up to the next annual General Meeting of shareholders. If annual General Meeting of shareholders was not held in at a stated time, powers of the Board of Directors of the Company cease to be effective, except for powers to prepare, call and hold the annual General Meeting of shareholders.
- 31.5 Number of members of the Board of Directors of the Company is defined by the decision of the General Meeting of shareholders and may not be less than 7 (seven). Until a decision is taken setting other number of members, the shareholders, while submitting candidates for the Board positions shall be guided by the existing number of Directors in the Company as defined by General Meeting decision by the time of such submission.

- 31.6 Organization and managing work of the Board of Directors are performed by the Chairman of the Board of Directors of the Company. The Chairman of the Board of Directors presides at the meetings of the Board of Directors of the Company and ensures that minutes be taken at the meetings.
- 31.7 The Chairman of the Board of Directors and one deputy chairman shall be elected by members of the Board of Directors out of their membership by a simple majority of votes, present at the Board of Directors of the Company. The Board of Directors of the company is entitled to reelect at any time the Chairman of the Board of Directors and his deputy by a simple majority of votes from the total votes of the Board of Directors of the Company.
- 31.8 The Board of Directors shall adopt decisions and organize work in accordance with the Board of Directors' regulations approved by General Meeting of Shareholders.
- 31.9 The Board of Directors members shall act in interests of the Company, conscientiously and reasonably exercise their rights and obligations in relation to the Company.
- 31.10 The Board of Directors of the Company shall annually report on its activity to General Meeting of Shareholders.
- 31.11 Duties of the members of the Company's Board of Directors shall be defined by applicable laws, by this Charter and by internal documents of the Company. Members of the Board of Directors shall, in particular:
- (1) comply with requirements of this Charter and decisions General Meeting of shareholders of the Company;
 - (2) timely provide the Company with their personal data and data about their affiliated persons and notify of any changes of these data by procedure stipulated by law;
 - (3) timely inform the Board of Directors of the Company, the Audit Commission of the Company and the Auditor of the Company about transactions made the Company and/or anticipated transactions, for which they may be recognized as a related party, as well as about legal entities, in which they have (personally or jointly with their affiliated persons) 20% (twenty percent) or more of voting shares (equities), and about legal entities where they occupy positions in management bodies.
- 31.12 By the General Meeting of shareholders' decision, members of the Board of Directors of the Company shall, in the period of performing their duties, receive remuneration and reimbursement of their expenses connected with performing their functions as members of the Board of Directors of the Company. Amounts of such remunerations and reimbursements shall be set by the General Meeting of shareholders decision. Responsibility of the members of the Board of Directors during the performance of their duties may be insured if the Company managing bodies so decide.

32. TERMS OF REFERENCE OF BOARD OF DIRECTORS OF THE COMPANY

- 32.1 In order to maintain a stable financial status and competitiveness of the Company, the Board of Directors shall establish an effective organizational structure and a management system for the Company, develop basic strategic and tactical goals, and enforce their implementation by the Company.
- 32.2 Terms of reference of the Board of Directors of the Company shall include the following issues:
- (1) identifying priority directions of Company activity, defining development strategy of the Company, working out the Company investment policy, defining new types of the Company activity, approving the annual budgets (finance plans) of the Company, examining the principal directions of activity and development strategy of subsidiaries and affiliated companies;**
 - decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors
 - (2) approving the Company organizational structure (in the form of a list showing positions in the Company and structural subdivisions of the Company directly reporting to the President of the Company);**
 - decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors
 - (3) examining results of financial and economic activity of the Company and its subsidiaries and affiliated companies; preliminary examination of annual reports and annual accounting statements of the Company;**
 - decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(4) calling annual and extraordinary General Meetings of shareholders, except for cases, stipulated in 23.6.2 of this Charter;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(5) approval of the agenda of the General Meeting of shareholders;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(6) setting the final date for closing the list of persons, who are entitled to take part in the General Meeting of shareholders, and resolving other issues, connected with preparation and holding of the General Meeting of shareholders and meetings of the Board of Directors and referred to terms of reference of the Board of Directors of the Company by the applicable laws and by this Charter;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(7) placing bonds and other equity securities by the Company (including equity securities convertible into Company shares), except for cases when the adoption of relevant decision is within the General Meeting's terms of reference;

- decision on offering of equity securities convertible into Company shares shall be unanimously taken by all members of the Board of Directors exclusive of exiting members of the Board of Directors;
- decision on offering of bonds or other equity securities shall be taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(8) defining, in cases, stipulated by law, the price (pecuniary valuation) of the property subject to transactions effected by the Company, as well as placement and redemption price of equity securities of the Company;

- decision is made by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors. If a related party with respect to one or several transactions when the price (pecuniary value) of the property is defined by the Board of Directors of the company, is a Board member (or Overseeing Board member), the price of the property shall be defined by the decision of Board members (or Overseeing Board members) who are not a related party with respect to such transaction

(9) purchasing shares, bonds and other securities paced by the Company in cases and by procedure stipulated by laws of the Russian Federation, except for the cases, where such a purchase is connected with decrease of the charter capital of the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(10) appointing the President of the Company; defining the number of members of the Board of Directors, electing its members; approving terms of engagement agreements with the President and members of the Management of the Company; early termination of power the President of the Company and members of the Management of the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(11) recommendations to the General Meeting of shareholders on the value of reward to be paid and/or on procedure of compensating expenses for members of the Audit Commission of the Company, as well as evaluating the payment for the Company Auditor's services;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(12) recommendations to the General Meeting of shareholders concerning amount of dividend on share and procedure for paying dividends;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(13) use of a reserve fund and other funds of the Company, as well as approval of internal documents guiding the way of setting up and using the funds of the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(14) approval of internal documents of the Company, except for internal documents, approval of which is within

the terms of reference of the General Meeting of shareholders of the Company, Management of the Company and the President of the Company, regulating business principles of the Company in the following fields: strategy, investments, new types of Company activity, human resource management policy and personnel motivation and loyalty insurance system; corporate management;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(15) approval of a Corporate Code of Ethics;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(16) establishing subsidiaries and opening representative offices of the Company, as well as deciding on their closing; approval of Regulations on subsidiaries and representative offices, as well as taking decisions on amending the Charter in connection with establishment of subsidiaries and representative offices of the Company and their liquidation;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(17) approving major transactions involving the property valued at 25% (twenty five percent) to 50% (fifty percent) of the Company's assets book cost, defined according to its accounting statement on the last reporting date, as well as approving transactions, connected with alienation or an opportunity of alienation of real estate property, which costs more than 10% (ten percent) of the Company's assets book cost;

- a decision to approve major transactions, stated in this subparagraph, is taken unanimously by all members of the Board of Directors with exception of retired members of the Board of Directors

(18) approval by procedure stipulated by law, of party-related transactions, except for the cases where the adoption of relevant decision is within the terms of reference of the General Meeting of shareholders of the Company in compliance with subparagraphs 27.1.23. — 27.1.27. of this Charter;

- decision is taken by a simple majority (more than one half (1/2)) of votes of all independent members of the Board of Directors who are not a related party.

(19) approval of the Company registrar and terms of his assignment, as well as terminating the assignment;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(20) approval of candidature of Managing organization (Manager) and terms of respective agreement, so that the issue of transferring powers of the sole executive body of the Company to such Managing organization (Manager) be included in the agenda of the General Meeting of shareholders of the Company ;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(21) temporary suspension of powers of Managing organization (Manager), simultaneously with taking a decisions on establishment of the provisional sole executive body of the Company and on holding an extraordinary General Meeting of shareholders to solve the issue of an early termination of powers of the Managing organization (the Manager) and transferring the powers of the sole executive body of the Company to a Managing Organization (Manager);

- decision is taken by a qualified majority in three quarters of votes of all members of the Board of Directors with exception of retired members of the Board of Directors

(22) Taking a decision on purchase of Company shares that have been redeemed and purchased for other reasons and are in the Company possession in compliance with requirements of law and of this Charter;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(23) approval of a decisions on issuing, prospectus, reports on the results of the issue, as well as reports on the results of purchasing Company' securities by the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(24) including issues in the agenda of the General Meeting of shareholders in the cases, stipulated by law and this Charter;

- decisions on including all mentioned issues in agenda of the General Meeting of shareholders are made by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(25) taking decision on Company participation, changing its share and cutting participation in other organizations (except for the cases where such a decision is within the of terms of reference of the General Meeting of shareholders of the Company in compliance with subparagraph 27.1.30. of this Charter), including those on establishing subsidiaries and associated companies of the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(26) approval of President and Board members' accepting positions in managing bodies of other organizations.

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(27) adopting recommendations in relation to voluntary or compulsory offering, received by the Company, in compliance with Chapter XI.1 of the Federal law «On joint-stock companies», which include assessment of the offer price of securities to be purchased and probable change of their market price after the purchase, assessment of plans of the person, who has made such voluntary or compulsory offer, in relation to the Company, including in relation to its personnel;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(28) appointment (if required) of the Corporate Secretary of the Company and termination of his/her powers, as well as approval of principles of assessment of his/her work and of a reward system;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(29) appointment of the secretary for the Board of Directors of the Company and termination of his/her powers, as well as approval of principles for evaluating hi/hers work and of a reward system

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(30) approving specimens of trademark, as well as emblems and other means of visual identification of the Company;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(31) establishing committees, commissions and other internal structural subdivisions at the Board of Directors of the Company, defining their powers and approving their personal composition;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(32) approval of transactions connected with alienation or possible alienation of land, buildings (including those what are objects of incomplete construction), and living and non-living spaces (related to floor space in excess of 1000 sq. meters).

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(33) increase of charter capital by placing additional shares of the Company by way of an open subscription, except for cases set forth in 27.1.9 of this Charter.

- decision is taken unanimously by all members of the Board of Directors; the votes of retired Board Members are not taken into account

(34) increase of charter capital by placing additional shares of the Company and converting into these shares the previously issued equity securities convertible into such shares;

- decision is taken unanimously by all members of the Board of Directors; the votes of retired Board Members are not taken into account

(35) Approval of transactions involving a property with the price over 100 million USD in ruble equivalent at the RF Central Bank exchange rate as of the date of decision taking but not exceeding 25 percent of the assets value of the Company, assessed by its accounting data on the last reporting date;

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors

(36) Formulating the Company opinion with respect to corporate conflicts among the Company shareholders.

- decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the

Board of Directors

(37) Approval of the candidates to be nominated for election to the Board of Directors (Supervisory Boards) and Auditing Commissions of the Company's foreign subsidiaries;

- (decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors)

(38) Approval of the candidates to fill the vacancies of the top officers in the Company, who report directly to the President of the Company;

- (decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors)

(39) Approval of the general principles of appraisal of the work and remuneration and incentive scheme for the top offices of the Company, who report directly to the President of the company;

- (decision is taken by a simple majority (more than a half) of votes of those who take part in the meeting of the Board of Directors)

(40) Approval of transactions on the acquisition, alienation and encumbrance of shares and equity stakes in charter capitals of other companies and the approval of material terms and conditions of such transactions, including, but not limited to, provisions specifying the number of acquired, alienated and encumbered shares or provisions specifying the size of the acquired, alienated or encumbered equity stake and the price of the transaction;

- decision is taken by a simple majority (more than one half (1/2)) of votes of the Board members participating in the meeting;

(41) Determination of the Company (Company's representatives) position on issues concerning the Company (Company's representatives) participation (non-participation) in voting, voting on draft resolutions "in favour", "against" or "abstained" on the following issues of agendas for (a) General Meetings of shareholders (participants), (b) Board of Directors meetings, (c) meetings of collective executive bodies as well as (d) position on approval of resolutions by a sole executive management body of subsidiaries and affiliated/associated operating companies of the Company and business enterprises in which Company directly or indirectly participates and/or such subsidiaries and affiliated/associated companies of Company:

on participation of Company's subsidiaries and affiliated/associated companies in other organizations and/or on participation of enterprises in which Company directly or indirectly participates and/or such subsidiary and affiliated/associated company in other organizations (on either entering as a participant (shareholder) into an existing organization or setting up a new organization) or on termination of such participation, including making transactions on acquisition, alienation or encumbrance of shares and equity stakes in charter capitals of such organizations, including the approval of material terms and conditions of such transactions, including, but not limited to, provisions specifying the number of acquired, alienated or encumbered shares or provisions specifying the size of the acquired, alienated or encumbered equity stake and the transaction value;

HOWEVER provisions of the sub-clause (41) shall not apply to: (a) transactions made by COMSTAR-OTS OJSC and/or its subsidiaries and affiliated/associated companies and/or organizations in which such COMSTAR-OTS OJSC' subsidiaries and affiliated/associated companies directly or indirectly participate, if the value of each transaction does not exceed USD 30 000 000 (thirty million) in Ruble equivalent at the exchange rate of the Central Bank of the Russian Federation as of the date of the resolution approval; and b) transactions made between the companies identified in item (a) of this paragraph.

- (decision is taken by a simple majority (more than one half (1/2)) of votes of the Board of Directors members participating in the meeting);

(42) Consideration of information and reports of the President and the Management Board of the company on the following issues:

- Company activities;
- performance by the President and Management Board of their duties and responsibilities;
- performance by the Company top officers, who report directly to the President, of their duties and responsibilities
- implementation of the resolution of General Shareholders Meetings and the Board of Directors of the Company;

(43) Approval of the reports the Company executive bodies on effectiveness of the risk management system (process) and internal control system (process) of the Company;

- decision is taken by a simple majority (more than one half (1/2)) of votes of the Board members participating in the meeting

(44) Taking decisions on issues referred to the Boars of Directors' terms of reference by rules and recommendations of security exchanges, security trading organizers, public organizations and state authorities of foreign countries that regulate the security circulation and listing (including bonds, Depository receipts, other equity securities convertible into shares) and derivative securities (including debenture notes and other derivative instruments) of a Russian issuer on the territory of such foreign countries, applicable to the

Company activity, as well as placement of securities by the Company, including problems of limiting the placement price, placement timeframe, essential conditions, placement and circulation parameters for such securities (including derivative securities), setting liability limitations applied by the Company in connection with such issue and/or in connection with the existing contractual obligations of the Company;

(45) Adopting decisions on other issues referred to the Board of Directors' terms of reference by this Charter, by the law and by Company contractual obligations, as well as a by foreign laws applicable to the Company as a security issuer placed outside the Russian Federation.

32.3 Issues referred by the law and this Charter to the Board of Directors' terms of reference may not be delegated for decision to an executive body of the Company.

33. MEETINGS OF BOARD OF DIRECTORS OF THE COMPANY

33.1 Board of Directors of the company organizes shall carry out its activity in form of joint attendance meetings of members of the Board of Directors held according to the Board of Directors Regulations and based on free discussions of agenda items with a view of taking decisions within the Board' terms of reference. If meetings are held in the joint attendance form, account shall be taken of written opinions of absent members of the Board of Directors. The Company's Board of Directors may hold its meetings by means of electronic (telephone) communication facilities. In such case the Secretary of the Board of Directors ensures the magnetic (electronic) tape recording of the Board of Directors meeting to be taken. Participation in the Board of Directors meeting held by means of electronic (telephone) communication facilities shall be deemed equal to personal presence. If necessary, the Board of Directors of the Company may take decisions by absentee voting (polling) in the way prescribed by Regulations of the Board of Directors. Decision to hold a meeting of the Board of Directors of the Company by absentee voting shall be taken by the Chairman of the Board of Directors.

33.2 Meetings of the Board of Directors of the Company shall be convened as necessary, but at least twice a quarter, and be called by the Chairman of the Board of Directors of the Company on his own initiative, at the request of a member of the Board of Directors of the Company, the Audit Commission of the Company or the Auditor of the Company, as well as at the request of the executive body of the Company.

33.3 Not later than 30 (thirty) days before the annual General Meeting of shareholders of the Company, a meeting of the Board of Directors of the Company shall be held in order to approve preliminary those annual reports, annual accounting statement, including accounts of profits and losses of the Company, Auditor's report, report of the Audit Commission of the Company covering the results of examination of the annual accounting statement, that should be submitted for approval of the annual General Meeting of shareholders. At the such Board meeting, the Chairman of the Board of Directors of the Company shall present complete current financial information to the Board of Directors, as well as complete report on the current state in the Company, on basic results of its business activity and plans of the Company.

33.4 Meetings of the Board of Directors shall be held at the Company location or at any other place, defined by the Board of Directors.

33.5 Members of the Board of Directors shall be timely notified of the coming meeting of the Board of Directors. Such a notice shall include the meeting agenda.

33.6 A quorum required to hold meetings of the Board of Directors of the Company shall be a half of elected members of the Board of Directors. Should the number of members of the Board of Directors of the Company become less than a number constituting such quorum, the Board of Directors of the Company shall take a decision to hold an extraordinary General Meeting of shareholders in order to elect a new membership of the Board of Directors of the Company. In this case, powers of the Board of Directors of the Company shall terminate, except for powers related to preparation, convening and holding of such extraordinary General Meeting of shareholders.

33.7 When taking decisions at the meeting of the Board of Directors of the Company, each member of the Board of Directors has 1 (one) vote.

33.8 Unless otherwise specified by law or by this Charter, a decision of the Board of Directors shall be deemed accepted, if more than a half of members of the Board of Directors, participating in the meeting of the Board, has voted in its favor. Should the votes be equally split, the Chairman of the Board of Directors shall have a casting vote.

- 33.9 For the purpose of defining a quorum and of counting results of the vote taken on agenda items of a meeting of the Board of Directors, account shall be taken of a written opinion of an absent member of the Board of Directors. A written opinion of member of the Board of Directors shall be attached to the Minutes of the meeting.
- 33.10 In the cases, stipulated in the Federal law «On joint-stock companies», when voting on relevant issues, the votes of retired members of the Board of Directors of the Company shall be disregarded. The following categories of individuals shall be referred to retired members of the Board of Directors:
- (1) a member of the Board of Directors who has submitted to the Company (to the name of Chairman of the Board of Directors) a notice of voluntary resignation as a member of the Board of Directors, as of the date when such notice has been received by the Chairman of the Board of Directors;
 - (2) the member of the Board of Directors disqualified by a court decision;
 - (3) a deceased member of the Board of Directors.
- If the notice of resignation of a member of the Board of Directors has been received by the Company later than 10 calendar days in advance of the next meeting of the Board of Directors, the notifying member of the Board of Directors shall be deemed retired after the regular meeting of the Board of Directors has been held before which the notice had been submitted. The signature of the member of the Board of Directors on the resignation notice shall be certified by a notary.
- 33.11 No transfer of the voting right from one member of the Board of Directors of the Company to another shall be permitted.
- 33.12 The casting vote of the Chairman of the Board of Directors of the Company shall not be used by the Deputy Chairman of the Board of Directors or any other member of the Board of Directors, who performs Chairman's functions in Chairman absence.
- 33.13 Minutes of a meeting of the Board of Directors shall be taken by the Secretary of the Board of Directors. Minutes of a meeting of the Board of Directors of the Company shall be executed within 3 (three) days of the meeting date. Minutes of a meeting of the Board of Directors of the Company shall be signed by the Secretary and the Chairman of the Board of Directors. The Minutes shall be accompanied by documents approved by the Board of Directors. Extracts from Minutes of the General Meeting of shareholders shall be signed by the Secretary of the General Meeting of shareholders.
- 33.14 Additional requirements to procedures of holding meetings of the Board of Directors of the Company are set by applicable laws, by Regulations of the Board of Directors and by other internal documents of the Company.

34. EXECUTIVE BODIES OF THE COMPANY

- 34.1 Executive bodies of the Company shall be collective executive body — the Board of Directors and the Sole executive body — the President.
- 34.2 Executive bodies shall manage current activities of the Company and report to the Board of Directors and to the General Meeting of shareholders.
- 34.3 Terms of reference of executive bodies of the Company shall include the solution of all issues of current activities of the Company, except for those issues, which are referred to terms of reference of General Meeting of shareholders and of the Board of Directors of the Company.
- 34.4 Executive bodies of the Company shall be established by the Board of Directors of the Company.
- 34.5 Rights and obligations of Executive bodies shall be regulated by applicable laws, by this Charter and by internal normative documents of the Company.
- 34.6 Executive bodies of the Company shall organize activities of the Company and be responsible for results of these activities, ensure the enforcement of decisions taken at General Meetings of shareholders and by the Board of Directors.
- 34.7 Executive bodies of the Company shall be responsible for effective economic, financial, scientific and technical and social policies of the Company.
- 34.8 Holding an office in managing bodies of other organizations by the President and members of the Board of Directors shall be permitted only with the Board of Directors' consent.
- 34.9 Board of Directors of the company is shall be entitled to take decision on an early termination of the President's powers, as well as powers of an individual member of the Management or of all members of Management and on establishing new executive bodies of the Company.

34.10 If functions of the Sole executive body are performed by a managing organization (an Executive Manager), then such managing organization (Executive Manager) shall not be entitled to exercise identical functions in organization — competitor of the Company.

35. MANAGEMENT OF THE COMPANY

35.1 The Management of the Company, within its terms of reference, as set forth by this Charter, by decisions of General Meetings of shareholders, of the Board of Directors and by internal documents of the Company endorsed by General Meetings of shareholders, shall be responsible for the following issues:

- (1) organizing an efficient management of the Company's everyday operations;
- (2) developing basic principles for planning the Company activity;
- (3) development and implementation of the Company current economic policy with a view of increasing the Company's profitability and competitiveness;
- (4) drafting quarterly, annual and advanced plans of the Company's activity, budget and investment program and overseeing their execution;
- (5) drafting and founding proposals on improvement of internal organizational and managerial structure of the Company;
- (6) drafting and submitting for approval by the Board of Directors of proposals on strategic organization and planning of the activity of the Company as a whole;
- (7) development of financial and investment strategies and lists of specific tasks for the Company's everyday operations;
- (8) drafting and submitting for approval by the Board of Directors of key standards of Corporate ethics including matter of confidentiality and information resources' management;
- (9) developing and enhancing the Company employees' motivation system;
- (10) drafting proposals to the Company President and Board of Directors relative to the annual results to be achieved by the Company in pursuing the general goals of activity;
- (11) submitting reports to the Board of Directors, Audit Commission, and Company Auditor;
- (12) by a Management Chairman decision, a preliminary consideration of materials to be submitted to members the Board of Directors and the Company shareholders in preparation for meetings of the Board of Directors and General Meetings of shareholders;
- (13) supporting the enforcement of decisions taken by General Meetings of shareholders and the Board of Directors;
- (14) issues of interaction with Company's subsidiaries and affiliated companies;
- (15) examination of activity results the subsidiaries and affiliated companies;
- (16) drafting proposals to the Board of Directors of the Company for approval of the budget and the finance and economic activity plan of the Company as well as for making amendments to the previously approved budget of the Company;
- (17) approval of internal documents submitted for the Management consideration by decision of the President of the Company;
- (18) participation in resolving labor disputes and appointment of a representative from the administration for an out-of-court settlement of disputed on hand;
- (19) development and submission to Company's Board of Directors of proposals on subjects set forth in Article 32, Clause 41, hereof and in cases, when approval of resolutions by Company's Board of Directors on transactions set forth in Article 32, Clause 41, hereof is not required, preliminary approval of such transactions including approval of material terms and conditions of such transactions, including, but not limited to, provisions specifying the number of acquired, alienated or encumbered shares or provisions specifying the size of the acquired, alienated or encumbered equity stake and the transaction value;
- (20) discussion of other issues of the current activities of the Company.

35.2 The President of the Company shall be entitled to submit for Management considerations any issue of the Company's

current activity that is not within the terms of reference of the Company' General Meeting of shareholders or the Board of Directors.

- 35.3 Personal and quantitative membership of the Management shall be approved by the Board of Directors at the suggestion of the President of the Company for the term defined by the Board of Directors at the time of establishing the Management. The term of the Management shall not exceed the term of the office for the acting President of the Company. Members of the Management may be reelected for unlimited number of terms.
- 35.4 A contract with a member of the Management on behalf of the Company shall be signed by the Chairman of the Board of Directors of the Company, or by a person authorized by the Board of Directors. Terms and conditions of such a contract shall be approved by the Board of Directors of the Company. Members of the Management of the Company, who signed the engagement

contracts with the Company, are subject to specific labor regulations set forth in chapter 43 of the Labor Code of the Russian Federation.

- 35.5 The Board of Directors shall be entitled to terminate powers of any member of the Management at any time.
- 35.6 When powers a member of the Management are terminated, such member of the Management shall, within the timeframe defined by the engagement contract, present a report on his/her activity to the Board of Directors of the Company.
- 35.7 The Management shall carry out its activities by holding meetings and taking decisions. Meetings of the Management are conducted according to a plan. Meetings of the Management are called by the Chairman of the Management or by request of any member of the Management, the Board of Directors, Audit Commission or Auditor of the Company. A resolution of the Company's Management on the issues falling within its terms of reference may be adopted by absentee voting (polling).
- 35.8 Agenda of a regular meeting of the Management is defined according to the plan of the Management activity, by proposals of the Chairman and members of the Management. At such meetings, a written opinion of an absent member of the Management shall be taken into account when defining a quorum and drawing balance of the vote taken on agenda items.
- 35.9 The Management shall be entitled to take decisions (has a quorum), if a meeting of the Management is attended by at least a half of its members. If the number of present members of the Management is less than necessary for a quorum, the Board shall take a decision on establishing a new Management.
- 35.10 Decisions on agenda items at the meetings of the Management are taken by a simple majority of votes of the meeting participants. Should the votes be split equally, the Chairman of the Management shall have a casting vote.
- 35.11 If a member of the Management disagrees with a decision taken, he/she may request that his/her special opinion be attached to the Minutes of a meeting of the Management; within 2 days of the date of the meeting of the Management, he/she shall submit such special opinion in writing to the Secretary of the Management.
- 35.12 Members of the Management shall act within the terms of reference defined in this Charter, in internal documents of the Company, by decisions of the General Meetings of shareholders, of the Board of Directors and/or based on powers of attorney of the President of the Company.

36. PRESIDENT OF THE COMPANY

- 36.1 President of the Company shall be vested with all necessary powers to execute an everyday management of the Company activity and to solve corresponding issues, not referred to the terms of reference of the General Meeting of shareholders, of the Board of Directors and of the Management of the Company.
- 36.2 The President shall represent the viewpoint of executive bodies at meetings of the Board of Directors and at General Meetings of shareholders.
- 36.3 The President shall head the Management of the Company and organize its work.
- 36.4 The President, without any proxy, shall act on behalf of the Company and represent its interests in relationships with any persons on any issues, including representing and defending interests of the Company before state authorities and in court.
- 36.5 Within his/her terms of reference, the President shall perform the following functions:
- (1) disposal, in interest and on behalf of the Company, of the Company property and funds;
 - (2) entering, on behalf of the Company, into transactions both in the Russian Federation and abroad, except for the cases provided for by the Russian law and this Charter. Transactions involving property with the value exceeding one hundred million (100,000,000) US dollars in ruble equivalent as well as transactions involving alienation/possible alienation of plots of land or buildings (including objects of uncompleted construction), residential and non-residential premises (involving objects with the total floor space over one thousand (1,000) square meters) shall be made in accordance with requirements of this Charter;
 - (3) approval of the list of personnel of the Company, hiring and dismissing the Company staff in compliance with applicable laws of the Russian Federation, approval of internal working rules of the Company and setting out the remuneration system, incentives for excelled employees and applying disciplinary sanctions;

- (4) definition of a detailed internal structural and functional division of the Company's main departments directly accounting to the President (blocks, business units and other subdivisions of the same status), as well as endorsement of the organizational structure and the detailed internal structural and functional division of all other Company's structural elements including departments, divisions and other Company units of the same status;
- (5) organizing financial and tax accounting and financial reporting, ensuring safekeeping of accounting documentation, accounting registers and accounting statements;
- (6) taking measures to ensure state secrecy data privacy with development and usage of measures of keeping data confidentiality, data security, counteractions against foreign technical intelligence, security and fire safety;
- (7) determination of content and volume of data that is a trade secret or other confidential information of the Company as well as security procedures to be in compliance with the legislation of the Russian Federation;
- (8) adoption of measures for ensuring the safety of commercial and confidential information, related to Company;
- (9) presenting Company interests in court, in arbitrage and in arbitration court;
- (10) issuance of powers of attorney for performing any actions on behalf of the Company, including those with power to delegate such power of attorney;
- (11) issuing orders, approval of internal documents of the Company to regulate financial and economic activity of the Company, activity of internal structural subdivisions of the Company and other internal documents except for those whose approval referred to the terms of reference of General Meeting of shareholders of the Company, or of the Board of Directors;
- (12) submission, at the President's discretion, of documents indicated in 36.1.9 of this Charter for consideration by the Management of the Company.
- (13) exercising any other powers as required for everyday management of the Company's activity.

36.6 Within powers vested in him, the President shall issue orders and give written and verbal instructions that should be binding upon all Company employees.

36.7 The President is appointed by the Board of Directors of the Company for 3 (three) years, and may be reelected for unlimited number of times.

36.8 An engagement contract with the President on behalf of the Company is signed by the Chairman of the Board of Directors of the Company, or by a person, authorized by the Board of Directors. Terms and conditions of such a contract shall be approved by the Board of Directors of the Company.

36.9 Requirements that should be met by persons elected to the President position may be set forth by Regulations on the President of the Company and/or by a decision of the Board of Directors.

36.10 The President of the Company, in performing functions vested in him/her shall be governed by the laws of the Russian Federation, provisions of this Charter and internal documents of the Company.

PART VI. CONTROL OF FINANCIAL AND ECONOMIC ACTIVITIES OF THE COMPANY

37. AUDITOR OF THE COMPANY

37.1 To carry out examination and approval of the annual financial statements of the Company, the General Meeting of shareholders shall approve, on an annual basis, Auditor of the Company.

37.2 Terms of the Auditor engagement contract shall define the way the financial and economic activity of the Company be examined by the Auditor.

38. AUDIT COMMISSION OF THE COMPANY

38.1 Monitoring financial and economic activities of the Company (internal audit) shall be carried out by Audit Commission of the Company (hereinafter referred to as Commission), constituted of 3 (three) persons.

38.2 Activity of the Audit Commission shall be regulated by the laws of Russian Federation, by this Charter and by Regulations on the Audit Commission of the Company adopted in accordance with the Charter.

38.3 The Audit Commission shall be elected by General Meeting of shareholders from among the shareholders or candidates nominated by shareholders, provided that they are not members of the Board of Directors, do not hold any position in the

executive bodies of the Company, and do not perform functions of the Accountant general of the Company in the period to the next annual General Meeting of shareholders. Members of the Audit Commission may be reelected for the next

term. Powers of all and any of members of the Commission may be, on reasonable grounds, terminated earlier by decision of the General Meeting of shareholders taken by a simple majority of votes.

- 38.4 The Commission activities shall be guided by its Chairman elected at the first meeting of the Commission.
- 38.5 The Audit Commission shall undertake examinations on its own initiative, by instruction of General Meeting of shareholders, of the Board of Directors or on the request of shareholders owing in aggregate not less than 10% (ten percents) of voting shares of the Company. Planned auditing shall be carried out at least once a year. During the auditing, members of the Audit commission shall be entitled to request the Company officials to make available all necessary documents and provide personal explanations. The Audit Commission shall submit the auditing results to General Meeting of shareholders and to the Board of Directors of the Company.
- 38.6 In addition to the annual audit stipulated by laws of the Russian Federation, the Company may, at the request of shareholders owing in aggregate not less than 10% (ten percent) of voting shares, undergo an additional audit at any time by an organization chosen by requesting shareholder. Such additional audit shall be undertaken on the account of the requesting shareholder. Company officials shall ensure to the corresponding auditing organization a free access to Company accounting documents and to other documents as necessary to perform such an audit.
- 38.7 Annual report of the Company and annual accounting statement shall be submitted to General Meeting of shareholders only if accompanied by an Audit Commission report.
- 38.8 Results of document auditing and audits carried out by the Audit Commission shall be formalized in form of protocols signed by the Chairman and by those members of the Audit Commission, who performed the auditing, and shall be discussed at the Commission meetings. Protocols of audit and examinations, as well as Commission reports on annual financial statements and accounting reports of the Company shall be submitted to the Board of Directors.
- 38.9 Audit Commission shall be entitled, if necessary, to engage experts and independent audit companies on a contractual basis. In this case, additional costs shall be approved by the Board of Directors. Commission's evaluation of costs shall be coordinated with the Board of Directors. The Audit commission shall be entitled to engage the Company staff without doing damage to a regular working process of the Company.
- 38.10 Members of the Audit Commission may receive compensation for performing their functions. The amount of such compensation shall be set by a decision of General Meeting of shareholders following a recommendation of the Board of Directors. Technical and financial support of the Audit commission activities shall be a duty of the President of the Company.
- 38.11 Audit Commission's terms of reference shall include the following functions:
- (1) carrying out documental auditing of financial and economic activity of the Company (comprehensive or selective), its trade, settling, foreign currency and other operations;
 - (2) checking the compliance with adopted cost evaluations, standards and limits;
 - (3) checking the timeliness and correctness of payments to suppliers of goods and services, payments to the state budgets, accruing and paying dividends, redemption of other obligations;
 - (4) checking the observance by the Company of normative and legal acts, as well as decisions of the General Meeting of shareholders and of the Board of Directors, by the Company and by its managing bodies;
 - (5) checking the reliability of everyday accounting, bookkeeping practice and statistical accounting and recording in the Company;
 - (6) checking the cash and property status of the Company;
 - (7) checking the observance of rules of office work and keeping financial documentation;
 - (8) checking the fulfillment of recommendations issued based on previous audits and checks.
- 38.12 Members of the Audit Commission shall be entitled to take part in meetings of the Board of Directors with a right of consultative vote.
- 38.13 Members of the Audit Commission shall be accountable for negligent performance of duties vested in them in accordance with the laws of the Russian Federation and this Charter.
- 38.14 Members of the Audit commission shall be financially responsible before the Company for any damage incurred by their disclosure of information, which is a subject of commercial secret of the Company.

38.15 Additional requirements with respect to the working procedure as well as to rights and obligations of the Audit Commission shall be set forth by Regulations on Audit Commission of the Company.

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OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in thousands of U.S. Dollars, unless otherwise stated)

31. SUBSEQUENT EVENTS (Continued)

The agreements signed on May 20, 2010 are in line with the previously announced non-binding memorandum of understanding (“MOU”) concluded by Comstar-UTS with Sistema and Svyazinvest in November 2009 (see Note 14).

Repayment of EBRD, Nordic Investment Bank and European Investment Bank loans—On May 26, 2010 the Group repaid loans from EBRD, Nordic Investment Bank and European Investment Bank totalling EUR 413.0 million and accrued interest totalling EUR 13.9 million.

Notes issue—On June 22, 2010, the Group issued U.S. Dollar-denominated loan participation notes in the amount of \$750.0 million with an annual interest rate of 8.625% and a maturity in June 2020. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange.

Dividends—On June 24, 2010, the annual general meeting of the Company’s shareholders approved dividends of RUB 15.40 per ordinary share for the fiscal year ended December 31, 2009 amounting to a total of RUB 30.70 billion (\$991.3 million at the exchange rate as of June 24, 2010).

Repurchase of MTS OJSC Notes due 2018—In June 2010 the Group set a new 8.0% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2018 until maturity. On June 24, 2010, upon demand of certain noteholders, the Group repurchased the Notes in the amount of 179.5 million rubles (\$5.8 million as of the date of the transaction).

Proposed merger of MTS and Comstar-UTS—On June 25, 2010, MTS announced that the MTS and Comstar-UTS Boards of Directors approved the merger (“prisoedinenie” under Russian law) of MTS and Comstar-UTS. The merger is conditional on the approval of 75% of the shareholders present at each company’s Extraordinary Shareholders Meeting (EGM), the receipt of regulatory clearance and other closing conditions. MTS and Comstar-UTS expect to convene EGMs on December 23, 2010, at which MTS’ and Comstar-UTS’s respective shareholders will vote on the merger. If approved, the companies expect to complete the merger transaction in the second quarter of 2011. MTS and Comstar-UTS shareholders who vote against or do not vote on the merger will have the right to sell their shares back to MTS or Comstar-UTS, respectively, for cash at a price set by the respective companies’ Boards of Directors, subject to the statutory limit of 10% of each company’s Net Asset Value under Russian Accounting Standards.

MTS also announced contemporaneously with the merger its intent to launch a voluntary tender offer for up to 9.0% of Comstar-UTS’s issued share capital at RUR 220.0 per Comstar-UTS ordinary share. The tender offer has been submitted to the Federal Commission on the Securities Market for review and will be delivered to Comstar-UTS shareholders following this review.

Dated 21 June 2010

MOBILE TELESYSTEMS OPEN JOINT-STOCK COMPANY

and

MTS INTERNATIONAL FUNDING LIMITED

LOAN AGREEMENT

U.S.\$750,000,000

Linklaters

Ref: AB/JAP

Linklaters LLP

Table of Contents

Contents	Page
1 Definitions and Interpretation	1
2 Facility	8
3 Drawdown	9
4 Interest	9
5 Repayment and Prepayment	10
6 Payments	12
7 Conditions Precedent	14
8 Change in Law or Increase in Cost	14
9 Representations and Warranties	16
10 Covenants	21
11 Events of Default	24
12 Indemnity	26
13 Survival	27
14 General	27
15 Notices	28
16 Assignment	29
17 Law and Jurisdiction	30
18 Severability	31

19	Contracts (Rights of Third Parties) Act 1999	31
20	Language	31
21	Amendments	32
22	Counterparts	32
23	Limited Recourse and Non Petition	32

This Agreement is made on 21 June 2010 **between:**

- (1) **MOBILE TELESYSTEMS OPEN JOINT-STOCK COMPANY** (the “**Borrower**”); and
- (2) **MTS INTERNATIONAL FUNDING LIMITED** (the “**Lender**”).

Whereas:

- (A) The Lender has at the request of the Borrower agreed to make available to the Borrower a loan facility in the amount of U.S.\$750,000,000 on the terms and subject to the conditions of this Agreement.
- (B) It is intended that the Lender will issue loan participation notes for the sole purpose of financing the loan facility.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means the account in the name of the Lender with the Principal Paying Agent, account number 3655498400 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

“**Advance**” means the advance made or to be made by the Lender under Clause 3 of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

“**Affiliate**” of any specified person means (i) any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person; or (ii) any other person who is a director or executive officer of (a) such specified person or (b) any person described in (i) above. For purposes of this definition, “**control**” (including, with correlative meanings, the terms “**controlling**”, “**controlled by**” and “**under common control with**”), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10 per cent. or more of any class, or any series of any class, of equity securities of a person, whether or not voting, shall be deemed to be control;

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agency Agreement**” means the agency agreement relating to the Notes dated on or around the date hereof between the Lender, the Borrower, the Trustee, the Principal Paying Agent and the other agents named therein, from time to time modified;

“**Agreement**” means this loan agreement as originally executed or as it may be amended from time to time;

“**Attributable Debt**” means, in respect of a Sale and Lease-Back Transaction, at the time of determination, the lesser of (i) the Fair Market Value of the property subject to such Sale

and Lease-Back Transaction; and (ii) the present value (discounted at the weighted average annual interest rate on all Notes then issued and outstanding, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes and similar charges;

“Authorised Signatory” means, in relation to the Borrower, any person who is duly authorised (in such manner as may be reasonably acceptable to the Lender or the Trustee as the case may be) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such person and confirming such person’s authority to act;

“Bankruptcy Law” means any law of any jurisdiction for the relief of debtors as now or hereafter constituted, including, without limitation, any such law in the Russian Federation and, with respect to the United States, Title 11 of the United States Code and any similar federal or state law;

“Business Day” means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

“Capital Stock” of any person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such person, including any Preferred Stock, but excluding any debt securities convertible or exchangeable into such equity;

“Change of Control” means any of the following events or circumstances: any person or group of persons acting in concert or under an express or implied agreement or understanding, directly or through one or more intermediaries, shall (x) acquire ultimate beneficial or legal ownership of, or control over, more than 50% of the issued shares of the Borrower; (y) acquire ownership of or control over more than 50% of the voting interests in the share capital of the Borrower; or (z) obtain the power (whether or not exercised) to elect not less than half of the directors of the Borrower (provided, however, that or (a) any contribution by Sistema of all or part of its ownership interest in the Borrower into a partnership, joint venture or other indirect holding vehicle will not be a Change of Control unless another person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle acquires an indirect, direct or beneficial interest in the Borrower that results in the 50% threshold in paragraphs (x) and (y) above being exceeded, or in the power referred to in paragraph (z) above being obtained or (b) any acquisition by Sistema, any of its Subsidiaries, the Borrower, any Subsidiary of the Borrower or the Borrower’s employee benefit plan that results in the 50% threshold in paragraphs (x) and (y) above being exceeded, or in the power referred to in paragraph (z) above being obtained, will not be a Change of Control;

“Change of Control Put Event” means the occurrence of a Change of Control;

“Change of Control Put Option” means the put option granted to Noteholders pursuant to the Conditions;

“Change of Control Put Period” has the meaning given to it in the Conditions;

“Change of Control Put Settlement Date” means the fifth Business Day after the expiration of the Change of Control Put Period;

“Closing Date” means 22 June 2010 (or such later date not later than 6 July 2010 as may be agreed between the Lender and the Borrower);

“Commission” means the United States Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Agreement such Commission is not existing and performing the duties now assigned to it under applicable law, then the body performing such duties at such time;

“Conditions” means the terms and conditions of the Notes;

“Custodian” means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law;

“Debt” means, with respect to any person, without duplication: (i) all obligations of such person for borrowed money; (ii) all reimbursement obligations of such person in respect of letters of credit, banker’s acceptances or other similar instruments or credit transactions; (iii) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments; (iv) all obligations of such person to the extent that they defer the purchase price of property or services for more than 180 days, except trade accounts payable arising in the ordinary course of business; (v) all obligations of such person as lessee under leases that would be capitalised on a balance sheet of the lessee prepared in accordance with U.S. GAAP; (vi) all guarantees and indemnities of such person in respect of the Debt of any other person or persons, without duplication of any Debt otherwise included in this definition; and (vii) all Debt of other persons secured by a Lien on any property, income and assets of such person, whether or not such Debt is assumed by such person; *provided* that if such Debt is not assumed by such person, the amount of such Debt shall be the lesser of (a) the Fair Market Value of such property, income or assets at such date of determination and (b) the amount of such Debt of such other person;

“Default” means any event which is, or after notice or passage of time or after making any determination under this Agreement or the fulfilment of any other requirement (or any combination of the foregoing) would be, an Event of Default;

“Definitive Certificate” means the definitive certificates in registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed;

“Event of Default” has the meaning given to it in Clause 11.1;

“Facility” means the U.S.\$750,000,000 term loan facility granted by the Lender to the Borrower as specified in Clause 2;

“Fair Market Value” means, with respect to any property or assets, the sale price for such property or asset as could be negotiated in a free market transaction for cash conducted at arm’s length between a willing seller and a willing and able buyer, as determined by the board of directors of the Borrower in cases of property or assets with a Fair Market Value in excess of U.S.\$100,000,000 (or the U.S. Dollar Equivalent thereof), or by the chief financial officer or chief executive officer of the Borrower in cases of property or assets with a Fair Market Value equal to or less than U.S.\$100,000,000 (or the U.S. Dollar Equivalent thereof);

“Fitch” means Fitch Ratings Limited;

“**Global Certificates**” means the Rule 144A Global Certificate or, as the context may require, the Regulation S Global Certificate and “**Global Certificates**” shall be construed accordingly;

“**Group**” means the Borrower and its Subsidiaries taken as a whole;

“**Interest Payment Date**” means 22 June and 22 December of each year;

“**Interest Period**” has the meaning given to it in Clause 4.2;

“**Investment Grade Rating**” means a rating equal to or higher than (i) Baa3 (or the equivalent) by Moody’s (ii) BBB- (or the equivalent) by Standard & Poor’s and (iii) BBB- (or the equivalent) by Fitch;

“**Investment Grade Status**” means that the Notes have an Investment Grade Rating from any two Ratings Agencies;

“**Lien**” means, any mortgage, lien, pledge, charge, security interest, right of set off or other encumbrance or preferential arrangement, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction);

“**Loan**”, at any time, means an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time;

“**Material Adverse Effect**” means a material adverse effect, or any development that would be likely to result in a material adverse effect, on (a) the business, financial condition, prospects, or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement; or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

“**Material Subsidiary**” means any Subsidiary of the Borrower:

- (i) whose total consolidated assets represent not less than ten per cent. of the consolidated total assets of the Group or whose consolidated revenues represent not less than ten per cent. of the consolidated revenues of the Group all as calculated by reference to the then latest audited U.S. GAAP financial statements (consolidated or, to the extent that there are no Subsidiaries in the Group, unconsolidated) of the Group; or
- (ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer was a Material Subsidiary;

provided however, that an Officers’ Certificate that a Subsidiary of the Borrower is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“**Moody’s**” means Moody’s Investors Service Limited;

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

“**Notes**” means the U.S.\$750,000,000 8.625 per cent. loan participation notes due 2020 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

“**Officers’ Certificate**” means a certificate signed, in the case of the Borrower, by two officers of the Borrower, at least one of whom shall be the chief executive officer, a director, a chief financial officer, chief legal officer or general director of the Borrower;

“**Opinion of Counsel**” means a written opinion from legal counsel who is acceptable to the Trustee, which counsel may be an employee of or counsel to the Borrower;

“**Permitted Lien**” means:

- (i) any Lien existing on the date of this Agreement;
- (ii) any Lien on any property or assets of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or any Subsidiary of the Borrower or becomes a Subsidiary of the Borrower and not created in contemplation of such event, provided that no such Lien shall extend to any other property or assets;
- (iii) any Lien existing on any property or assets prior to the acquisition thereof by the Borrower or any Subsidiary of the Borrower and not created in contemplation of such acquisition, provided that no such Lien shall extend to any other property or assets;
- (iv) any Lien on any property or assets securing Debt of the Borrower or any Subsidiary of the Borrower incurred or assumed for the purpose of financing all or part of the cost of acquiring, repairing or refurbishing, purchasing or constructing such property or assets, provided that (a) no such Lien shall extend to any other property or assets; (b) the aggregate principal amount of all Debt secured by such Liens on such property or assets shall not exceed the lower of (x) the purchase price of such property or assets and (y) the Fair Market Value of such property or assets at the time of acquisition, repair or refurbishing; and (c) such Lien attaches to such property or assets concurrently with the repair or refurbishing thereof or within 90 days after the acquisition thereof, as the case may be;
- (v) any Lien arising by operation of law, including any Liens (a) arising in the ordinary course of business with respect to amounts not yet delinquent or being contested by the Borrower or a Subsidiary of the Borrower in good faith in appropriate proceedings or (b) for taxes, assessments, government charges or claims, including without limitation those in favour of Russian governmental fiscal authorities;
- (vi) any Lien on the property or assets of any Subsidiary of the Borrower securing intercompany Debt of such Subsidiary owing to the Borrower or another Subsidiary of the Borrower;
- (vii) easements, rights-of-way, restrictions and any other similar charges or encumbrances incurred in the ordinary course of business and not interfering in any material respect with the Borrower’s business or the business of any of the Borrower’s Subsidiaries, including any encumbrance or restriction with respect to an equity interest of any joint venture pursuant to a joint venture agreement;

- (viii) any extension, renewal or replacement of any Lien described in paragraphs (i)-(vii) above, provided that (a) such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; (b) the amount of Debt secured by such Lien is not increased; and (c) if the property, income or assets securing the Debt subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of the property or assets securing such Debt is not increased; and
- (ix) any Lien, other than those described in paragraphs (i) to (viii) above, provided that, immediately after giving effect to such Lien, all of the Borrower's secured Debt and Attributable Debt (other than such Debt and Attributable Debt permitted by paragraphs (i) to (viii) above) in the aggregate do not exceed 10 per cent. of the book value of the Borrower's total assets as determined by reference to the Borrower's most recent quarterly or annual consolidated balance sheet on a *pro forma* basis after giving effect to the incurrence of any Debt and any other changes in the Borrower's Debt since the date of such balance sheet;

“**person**” means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity;

“**Preferred Stock**” as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation;

“**Principal Paying Agent**” has the meaning given to it in the Agency Agreement;

“**Prospectuses**” has the meaning given to it in the Subscription Agreement;

“**Rate of Interest**” has the meaning given to it in Clause 4.1;

“**Ratings Agency**” means Moody's, Standard & Poor's or Fitch;

“**Regulation S Global Certificate**” means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part A of Schedule 1 of the Trust Deed and includes any replacements for the Regulation S Global Certificate issued pursuant to Condition 13;

“**Relevant Event**” has the meaning given to it in the Trust Deed;

“**Repayment Date**” means 22 June 2020;

“**Reserved Rights**” has the meaning given to it in the Trust Deed and the Conditions;

“**Rule 144A Global Certificate**” means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part B of Schedule 1 of the Trust Deed and includes any replacements for the Rule 144A Global Certificate issued pursuant to Condition 13;

“**Sale and Lease-Back Transaction**” means any arrangement providing for the leasing for a period, including renewals, in excess of 18 months, of any property or asset that has been owned by the Borrower or any Subsidiary of the Borrower for more than 180 days and has been or is to be sold or transferred by the Borrower or such Subsidiary in such transaction;

“**Same-Day Funds**” means same day, freely transferable, clearly identifiable cleared U.S. Dollar-funds or such other funds for payment in U.S. Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

“**Securities Act**” means the U.S. Securities Act of 1933, as amended;

“**Sistema**” means Joint Stock Financial Corporation Sistema;

“**Standard & Poor’s**” means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc.

“**Subscription Agreement**” means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower and the managers named therein;

“**Subsidiary**” means, with respect to any person, (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other Subsidiaries of such person (or any combination thereof); and (ii) any partnership (a) the sole general partner or the managing general partner of which is such person or a Subsidiary of such person or (b) the only general partners of which are such person or one or more Subsidiaries of such person (or any combination thereof);

“**Successor**” means, in the case of a merger, consolidation or combination of a person, or the sale, assignment, transfer, conveyance or other disposal of all or substantially all of a person’s assets, the corporation formed by or resulting from such consolidation or merger or which shall have received such assets;

“**Tax**” means any present or future taxes, duties, assessments, fees or other governmental charges imposed or levied by or on behalf of Ireland, the Russian Federation, any jurisdiction from or through which a payment is made or any political subdivision or taxing authority thereof or therein;

“**Trust Deed**” means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee, as amended from time to time;

“**Trustee**” means BNY Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

“**Uniform Commercial Code**” means the Uniform Commercial Code as in effect from time to time in the State of New York;

“**U.S. Dollar Equivalent**” means with respect to any amount denominated in a currency other than U.S. Dollars, at such time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under “Currency Rates” in the section of the *Financial Times* entitled “Currencies, Bonds & Interest Rates”;

“**U.S. Dollars**” and “**U.S.\$**” mean the lawful currency of the United States of America;

“**U.S. GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting

Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of this Agreement; and

“VAT” means value added tax and any other tax of a similar nature.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in, or are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings given to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to “**Clause**” or “**sub-Clause**” are references to a Clause or sub-Clause of this Agreement;

1.3.2 the terms “**hereof**”, “**herein**” and “**hereunder**” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 all references to “**taxes**” include all present or future taxes, levies, imposts and duties of any nature and the terms “**tax**” and “**taxation**” shall be construed accordingly; and

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2 Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Borrower and the Borrower hereby agrees to borrow from the Lender U.S.\$750,000,000.

2.2 Purpose

The net proceeds of the Advance will be used by the Borrower for general corporate purposes and, accordingly, the Borrower shall apply all amounts raised by it hereunder for such purposes, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee

The Borrower shall pay fees and expenses in the amount of U.S.\$6,134,733.68 to the Lender in consideration for the arrangement of the Facility (the “**Facility Fee**”) as set forth in Clause 3.2 below.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility (less any amount to be deducted in accordance with Clause 3.2).

3.2 Facility Fee

In consideration of the Lender making the Advance to the Borrower, the Borrower hereby agrees to pay to the Lender, in Same-Day Funds, the Facility Fee promptly, but in any event no later than 10.00 a.m. (New York City time) on 25 June 2010.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less any amount to be deducted pursuant to Clause 3.2) to the Borrower's account no. 40702840300000000652, for the account of Mobile TeleSystems OJSC INN 7740000076 with Moscow Bank for Reconstruction and Development, Moscow Russia, SWIFT Code MBRD RU MM in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender making available the Loan to the Borrower, the Borrower shall pay in one or more instalments on demand to the Lender each year an additional fee equating to all properly incurred and documented ongoing fees, taxes and expenses of the Lender (including, without limitation, any corporate service provider fees, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender) as set forth in an invoice from the Lender to the Borrower. Before such payment is made by the Borrower, the Lender shall submit an invoice providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

4 Interest

4.1 Rate of Interest

The Borrower will pay interest in U.S. Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 8.625 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will accrue to (but excluding) the Repayment Date (or any date upon which the Loan is prepaid pursuant to Clause 5) unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to (but excluding) the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded down). If interest is required to be calculated for any period of less than a year, it will be calculated

on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. “**Interest Period**” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 10 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If, as a result of the application of any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any authority thereof or therein having power to tax (the “**Taxing Jurisdiction**”) or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clause 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clause 3), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 calendar days’ nor more than 60 calendar days’ prior written notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender (with a copy to the Trustee) an Officers’ Certificate confirming that the Borrower would be required to increase the amount payable, supported by an opinion of an independent tax adviser of international repute addressed to the Lender.

5.3 Prepayment in the Event of Illegality

If, at any time, by reason of the introduction of any change after the date of this Agreement in any applicable law, regulation, regulatory requirement or directive of any applicable Agency, the Lender reasonably determines (setting out in reasonable detail the nature and extent of the relevant circumstances and such determination being accompanied if so requested by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an “**Event of Illegality**”), then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified the Borrower. If such a basis has not been determined within the 30 days, then upon written notice by the Lender to the Borrower and the Trustee, the

Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 Prepayment upon Change of Control Put Event

5.4.1 Promptly, and in any event within 30 calendar days after becoming aware of the occurrence of any Change of Control Put Event, the Borrower shall deliver to the Lender and the Trustee a written notice in the form of an Officers' Certificate, which notice shall be irrevocable, stating that a Change of Control Put Event has occurred and stating the circumstances and relevant facts giving rise to such Change of Control Put Event.

5.4.2 If, following a Change of Control Put Event, any Noteholder has exercised its Change of Control Put Option, the Borrower shall on the Change of Control Put Settlement Date, prepay 101 per cent. of the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to the Borrower by the Paying Agents) in relation to which the Change of Control Put Option has been duly exercised together with interest accrued (if any) to the Change of Control Put Settlement Date in accordance with the Conditions.

5.5 Reduction of Loan upon Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private placement at any price and deliver to the Lender Notes, having an aggregate principal value of at least U.S.\$1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.\$1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Certificates). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be extinguished for all purposes as of the date of such cancellation.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2, 5.3 or 5.4, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Lender shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

6 Payments

6.1 Making of Payments

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of a Default or a Relevant Event.

The Borrower shall, before 10 a.m. (Local Time) on the second Business Day prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent or to the Borrower (who shall immediately provide the same to the Principal Paying Agent) by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other moneys into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

The parties to the Trust Deed and the Agency Agreement are intended by the parties to this Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of this Clause 6.1.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in U.S. Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under applicable law, and shall deliver to the Lender without undue delay evidence of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes (including penalties or interest) the Borrower shall reimburse the Lender in U.S. Dollars for such properly documented payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.6.

6.3 Withholding on the Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation) that it has become

obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make, or would otherwise be obliged to make but for the imposition of any such withholding or deduction for or on account of such taxes, under or in respect of the Notes, the Borrower agrees to pay into the Account in Same-Day Funds, no later than one Business Day prior to the date on which payment is due to the Noteholders, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to any such additional amounts).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6, the Lender shall promptly pay to the Borrower so much of the benefit it received as will leave the Lender in substantially the same position as it would have been had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined reasonably by the Lender. Subject to Clauses 6.5 and 6.6, the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits, allowances or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or its computations.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall as soon as reasonably practicable upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be available to it to avoid such obligation or mitigate the

effect of such circumstances. The Borrower agrees to reimburse the Lender upon receipt of an original demand for payment for all properly documented costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5.

6.6 Tax Treaty Relief

6.6.1 The Lender shall once in each calendar year, prior to the first Interest Payment Date in that calendar year, at the expense of the Borrower, use commercially reasonable efforts to obtain and deliver, to the Borrower no later than 10 Business Days prior to such Interest Payment Date, a tax residency certificate issued by the competent authorities of Ireland confirming that the Lender is resident for tax purposes in Ireland. At the cost of the Borrower, the residency certificate shall be apostilled at the Irish Department of Foreign Affairs. Provided that the tax residency certificate application has been filed in due time, the Lender shall not be responsible for any failure to provide, or any delays in providing, such tax residency certificate as a result of any action or inaction of any authority of Ireland, but shall notify the Borrower as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such tax residency certificate.

6.6.2 If Russian legislation regulating the procedures for obtaining an exemption from Russian withholding tax on income changes, the Lender shall (subject to being informed of any such changes by the Borrower) use its reasonable and timely efforts to assist the Borrower to obtain relief from such tax pursuant to the double taxation treaty between the Russian Federation and Ireland and the procedures referred to in Clause 6.6.1 will be deemed changed accordingly.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of written evidence that the persons mentioned in Clause 17.5 have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the representations and warranties made and given by the Borrower in Clause 9.1 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing; (b) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement; (c) the Subscription Agreement, the Agency Agreement and the Trust Deed shall have been executed and delivered; (d) the Lender shall have received the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement; and (e) the Lender shall have received in full the amount referred to in Clause 2.3.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance

with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority, which:

- 8.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, any taxes referred to in Clause 6.2, or any Taxes referred to in Clause 6.3);
- 8.1.2** increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any taxes referred to in Clause 6.2 or any taxes referred to in Clause 6.3); or
- 8.1.3** imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan, and if as a result of any of the foregoing:
 - (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased;
 - (ii) the amount of principal, interest or additional amounts payable to or received by the Lender hereunder is reduced; or
 - (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then, subject to the following and in each such case:

- (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate signed by two directors of the Lender or by any persons empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, setting out in reasonable detail the basis on which such amount has been calculated, and providing all relevant supporting documents evidencing the matters set out in such certificate; and
- (b) upon demand by the Lender to the Borrower, the Borrower, in the case of sub-Clauses (i) and (iii) above, shall pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case

of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return; provided however, that the amount of such increased cost, reduced amount or payment made or forgone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and provided, further, that the Lender will not be entitled to such additional amount where such reduction, payment or forgone interest or other return arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 3.4, 6.2 and 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless the Borrower agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 The Borrower's Representations and Warranties

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date, that:

- 9.1.1** the Borrower has been duly registered and is validly existing as an open joint stock company under the laws of the Russian Federation with full power and authority to own, lease and operate its properties and assets and conduct its business as described in the Prospectuses, and is duly qualified to transact business in each jurisdiction in which its ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, except where the failure to be so qualified would not have a Material Adverse Effect and each Subsidiary is a company duly registered and validly existing under the laws of the jurisdiction of its incorporation and is duly qualified to transact business in each jurisdiction in which its ownership, leasing or operation of its properties or assets or the conduct of its business requires such qualification, and each has full power and authority to own, lease and operate its properties and assets and conduct its business as described in the Prospectuses, in each case except where the failure to be so qualified would not have a Material Adverse Effect;
- 9.1.2** this Agreement is a valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

- 9.1.3** the execution and delivery of this Agreement by the Borrower, the compliance by the Borrower with the provisions of this Agreement and the consummation of the other transactions herein contemplated do not (i) require the consent, approval, authorisation, registration or qualification of or with any governmental authority, except such as have been obtained or made; (ii) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, (a) any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries or any of their respective properties are bound, except where any such violation would not have a Material Adverse Effect; or (b) the constitutive documents of the Borrower; or (iii) conflict with or violate any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Borrower or any of its Subsidiaries;
- 9.1.4** (i) the execution and delivery of this Agreement have been duly authorised by all necessary corporate action of the Borrower; (ii) this Agreement has been duly executed and delivered by the Borrower; and (iii) the Borrower has received all licences, approvals, registrations and permissions necessary to effect the transactions contemplated by this Agreement;
- 9.1.5** (i) (a) no Event of Default exists and (b) no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Borrower or any of its Subsidiaries is a party or by which the Borrower or any of its Subsidiaries or any of their respective properties is bound, except where (in the case of this sub-Clause 9.1.5(i)(b) only) such default would not have a Material Adverse Effect; and (ii) no such event will occur upon the making of the Advance;
- 9.1.6** except as disclosed in the Prospectuses no legal or governmental proceedings are pending or, to the best of the Borrower's knowledge, threatened to which the Borrower or any of its Subsidiaries is a party or to which the property of the Borrower or any of its Subsidiaries is subject that are required to be described in the Prospectuses or are otherwise material to the Borrower or the Borrower and its Subsidiaries, taken as a whole, and are not described therein;
- 9.1.7** the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Debt, except as otherwise provided by mandatory provisions of applicable law;
- 9.1.8** the Borrower and each of the Subsidiaries have good and marketable title to all items of real property and marketable title to all personal property owned by each of them, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects, and any real property and buildings held under lease by the Borrower or any Subsidiary are held under valid, subsisting and enforceable leases, all except as described in the Prospectuses or where the failure to have or hold the same would not have a Material Adverse Effect;
- 9.1.9** the Borrower and its Subsidiaries own or possess, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade

names, licences, know-how, copyrights, trade secrets and proprietary or other confidential information necessary to operate the business now operated by them, and neither the Borrower nor any Subsidiary has received any notice of infringement of or conflict with asserted rights of any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavourable decision, ruling or finding, would have a Material Adverse Effect;

- 9.1.10** the Borrower and its Subsidiaries possess all consents, licences, certificates, authorisations and permits issued by the appropriate Russian or foreign regulatory authorities, including in each instance federal, state and local authorities, necessary to conduct their respective businesses, except as described in the Prospectuses or except where the failure to possess the same would not have a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorisation or permit which, singly or in the aggregate, if the subject of an unfavourable decision, ruling or finding, would have a Material Adverse Effect;
- 9.1.11** (i) except as described in the Prospectuses, the Borrower and each of its Subsidiaries maintains insurance of the types and in amounts adequate for its business and, to the best of the Borrower's knowledge, consistent with insurance coverage maintained by companies carrying on similar business or owning assets of a similar nature in the jurisdiction in which it operates; and (ii) neither the Borrower nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect;
- 9.1.12** except as described in the Prospectuses, neither the Borrower nor any of its Subsidiaries has violated any (i) Russian or foreign, including in each instance applicable federal, state or local, law or regulation relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants; (ii) any applicable Russian or foreign, including in each instance federal, state or local, law or regulation relating to discrimination in the hiring, promotion or pay of employees; or (iii) any applicable Russian or foreign, including in each instance, federal, state or local wages and hours laws or regulation, which in the case of (i), (ii) or (iii) above might reasonably be expected to have a Material Adverse Effect;
- 9.1.13** other than the restrictions imposed by Russian Law or other law applicable to the Borrower or its Subsidiaries, no Subsidiary of the Borrower is currently prohibited, directly or indirectly, from paying any dividends to the Borrower, making any other distribution on such Subsidiary's capital stock, repaying to the Borrower any loans or advances to such Subsidiary from the Borrower or transferring any of such Subsidiary's property or assets to the Borrower or any other Subsidiary of the Borrower;
- 9.1.14** the consolidated financial statements and schedules and the interim financial information for the three months ended March 31, 2010 extracted from a press release dated 8 June 2010, of the Borrower and its consolidated Subsidiaries included in the Prospectuses were prepared in accordance with U.S. GAAP consistently applied throughout the periods involved (except as otherwise noted

therein), and they present fairly the financial condition of the Borrower and its consolidated Subsidiaries as at the dates at which they were prepared and the results of operations of the Borrower and its consolidated Subsidiaries in respect of the periods for which they were prepared;

- 9.1.15** subsequent to 31 December 2009 and except as described in the Prospectuses, (i) neither the Borrower nor any of its Subsidiaries has sustained any loss or interference with its respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labour dispute or any legal or governmental proceeding that is material to the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) there has been no material adverse change, or development involving a prospective material adverse change, in the business, financial condition or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (iii) the Borrower or the Borrower and its Subsidiaries, taken as a whole, have not incurred any material liability or obligation, direct or contingent, or entered into any material transaction not in the ordinary course of business; (iv) the Borrower has not purchased any of its outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock; and (v) there has not been any material change in the capital stock, short-term or long-term debt of the Borrower or the Borrower and its Subsidiaries, taken as a whole;
- 9.1.16** the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.17** the Borrower is subject to civil and commercial law with respect to its obligations under this Agreement, and the execution, delivery and performance of this Agreement by it constitutes private and commercial acts rather than public or governmental acts. Under the laws of Russia, neither the Borrower nor any of its assets has any immunity (sovereign or otherwise) from set-off, the jurisdiction of any court of Russia or any legal process in any court of Russia (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise);
- 9.1.18** the Borrower has access, subject to the laws of the Russian Federation, to the internal currency market in the Russian Federation and, to the extent necessary, valid agreements with Russian commercial banks for purchasing U.S. dollars to make payments of amounts which may be payable pursuant to this Agreement;
- 9.1.19** except as would not have a Material Adverse Effect, no labour strike, dispute, disturbance, lockout, slowdown or stoppage of employees of the Borrower or any of the Subsidiaries currently exists, and, to the best knowledge of the Borrower, no such action is threatened;
- 9.1.20** in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and

enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements and court practice in Russia; and

- 9.1.21** subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by the Borrower under this Agreement, save (in each case) for VAT that may be payable with respect to the reimbursement of legal fees.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

- 9.2.1** the Lender is duly incorporated and validly existing under the laws of Ireland and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same;
- 9.2.2** the execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of Ireland, any agreement or instrument to which it is a party or by which it is bound or in respect of any Debt in relation to which it is a surety or the constitutive documents of the Lender;
- 9.2.3** this Agreement has been duly executed by and constitutes legal, valid and binding obligations of the Lender enforceable in accordance with its terms, subject to applicable bankruptcy, examinership, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;
- 9.2.4** all authorisations, consents and approvals required by the Lender in Ireland for or in connection with the execution of this Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein have been obtained and are in full force and effect;
- 9.2.5** the Lender is a resident of Ireland for taxation purposes and subject to taxation in Ireland not merely on the basis of the source of its income or location of its property but on the basis of its registration as a legal entity, location of its management body or other similar criteria. The Lender may also receive certification to the effect that it is resident in Ireland for taxation purposes from the relevant Irish authority. At the date hereof, the Lender reasonably believes that it does not have a permanent establishment or presence in the Russian Federation save for any which may be created solely as a result of the Lender entering into and performing its obligations under this Agreement and the transactions contemplated herein;
- 9.2.6** the Loan will be treated as an asset of the Lender under accounting guidance applicable in Ireland;
- 9.2.7** the Lender does not own, either directly or indirectly, any shares of the Borrower;
- 9.2.8** the Lender has taken no action (other than entering into loan arrangements with the Borrower and the transactions and documents connected therewith) which would cause it to become registered in Russia for VAT purposes;

9.2.9 there is no reference to the territory of Russia as the actual place of the Lender's activity in the memorandum or articles of association of the Lender; and

9.2.10 the members of the board of directors of the Lender are all individuals that are tax resident in Ireland.

10 Covenants

So long as the Loan or any other sum owing hereunder remains outstanding:

10.1 Negative Pledge

The Borrower will not, and will not permit any Subsidiary to, create, assume or permit to exist any Debt secured by Lien (other than a Permitted Lien) upon or in respect of any of its or their property or assets, now owned or hereafter acquired, without effectively providing that the Loan shall be directly secured equally and rateably with the Debt secured by such Lien.

10.2 Corporate Existence

Except as permitted in Clauses 10.3 and 10.4, the Borrower shall do or cause to be done all things necessary to preserve and keep in full force and effect the corporate existence, rights (by charter and statutory), licences and franchises of the Borrower and each of its Material Subsidiaries; provided that it and any of its Material Subsidiaries shall not be required to preserve the corporate existence of any such Material Subsidiary or any such right, licence or franchise if the board of directors of the Borrower shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Borrower and its Material Subsidiaries and that the loss thereof is not disadvantageous in any material respect to the Lender.

10.3 Merger, Consolidation and Disposition of Assets

The Borrower shall not, consolidate with or merge into any other person or convey, transfer, sell or lease its properties or assets substantially as an entirety to any person, or permit any person to consolidate with or merge into the Borrower, unless each of the following requirements is met:

- (a) the Successor, if other than the Borrower (i) shall be a corporation organised and existing under the laws of the Russian Federation and (ii) shall assume, by operation of law or by entering into an agreement supplemental hereto in a form satisfactory to the Lender, the due and punctual payment of all obligations under this Agreement and the performance of every covenant of this Agreement on the part of the Borrower to be performed or observed;
- (b) immediately after giving effect to such transaction, no Default shall have occurred; and
- (c) the Borrower shall have delivered to the Lender an Officer's Certificate relating to conditions (a) and (b) above and an Opinion of Counsel relating to condition (a) above.

In the event of any transaction described in and complying with this Clause 10.5 in which the Borrower is not the Successor, such Successor shall succeed to, and be substituted for, and may exercise every right and power of, the Borrower under this Agreement and, except in the case of a lease, the Borrower will be discharged from its obligations under this Agreement. Notwithstanding any other provision hereof, the Borrower and such

Successor shall provide written notice of such succession or substitution to the Lender, the Trustee and the Noteholders.

10.4 Sale of Assets by the Borrower

So long as the Loan remains outstanding, (a) each conveyance, transfer, sale or lease of assets (other than the payment of dividends) by the Borrower or one of its Subsidiaries to an Affiliate (other than the Borrower or one of its Subsidiaries) shall be made for Fair Market Value; and (b) if at any time subsequent to the Closing Date, the Borrower and its Subsidiaries have engaged in a transaction or series of related transactions that, in the aggregate, result in the conveyance, transfer, sale or lease of assets to one or more Affiliates (other than to the Borrower or one of its Subsidiaries) with a Fair Market Value of more than U.S.\$100,000,000 (or the equivalent in other currencies), the Borrower shall deliver to the Lender a resolution of the board of directors of the Borrower, which shall confirm that such transaction was made for Fair Market Value.

10.5 Reports

10.5.1 The Borrower shall (i) file with the Commission or otherwise make public and deliver to the Lender, within 180 days of the end of each fiscal year, an annual report on Form 20-F (or any successor form) containing the information required to be contained therein (or in such successor form), regardless of whether the Borrower is then required to file a Form 20-F under the rules promulgated by the Commission; (ii) make public and deliver to the Lender, within 150 days of the end of each fiscal year, reports for the fourth quarter of such fiscal year containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the fourth quarter; and (iii) submit to the Commission or otherwise make public and furnish to the Lender, within 90 days of the end of the first three fiscal quarters of each fiscal year, quarterly reports on Form 6-K (or any successor form) containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the period. In addition, the Borrower has agreed that, during any period in which it is not subject to and in compliance with Section 13 or 15 (d) of the Exchange Act or is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, it will provide to each Holder of the Notes (or holder of a beneficial interest therein) and to each prospective purchaser of the Notes (as designated by such Holder or holder of a beneficial interest), upon the request of such Holder, prospective purchaser or holder of a beneficial interest in the Notes, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

10.5.2 The Borrower hereby undertakes that it will deliver to the Lender, without undue delay, such additional information regarding the financial position of the Borrower as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

10.5.3 The Borrower consents that any information provided to the Lender pursuant to this Clause 10.6 may also be provided to the Trustee, if so requested by the Trustee, without violating any duty of confidentiality or secrecy that the Lender may owe to the Borrower under the laws of Ireland.

10.5.4 Delivery of such reports, information and documents to the Lender is for informational purposes only and the Lender's receipt thereof shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Borrower's compliance with any of their respective covenants hereunder (as to which the Lender is entitled to rely exclusively on Officers' Certificates).

10.6 Further Instruments and Acts

Upon request of the Lender or the Trustee, the Borrower shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Agreement.

10.7 Officers' Certificates

10.7.1 Following the occurrence of any matter or event specified in this Agreement where this Agreement provides for a determination of whether such matter or event has or will have a Material Adverse Effect, the Borrower shall provide the Lender (with a copy to the Trustee) with an Officers' Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Lender and the Trustee shall each be entitled to rely solely on an Officers' Certificate from the Borrower, certifying whether or not such matter has or will have a Material Adverse Effect without liability to the Noteholders or any other person for so doing.

10.7.2 The Borrower shall deliver within 14 days of any written request by the Trustee an Officers' Certificate as to any fact or matter *prima facie* within the knowledge of the Borrower as sufficient evidence thereof and a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient shall be sufficient evidence that such dealing, transaction, step or thing is expedient and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing to do so.

10.8 *Pari Passu* Ranking

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application and save for obligations mandatorily preferred by law applying to companies generally.

10.9 Notes held by the Borrower

Upon being so requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender (and to the Trustee) an Officers' Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by any person (including, but not limited to, the Borrower, the Lender or any of their respective Subsidiaries) for the benefit of the Borrower or any Subsidiary of the Borrower.

10.10 Verification

Neither the Lender nor the Trustee shall be under any obligation to verify the authenticity of any Officers' Certificate or any other certificate received by it or be responsible for determining the existence of any Default or Event of Default. The Lender and the Trustee shall each be at liberty to accept any aforementioned Officers' Certificate as sufficient evidence of any fact or matter stated in such Officers' Certificate and neither the Lender nor the Trustee shall be bound to call for further evidence or be responsible for any loss that may be occasioned by acting on such Officers' Certificate or selection or failure to determine the existence of any Default or Event of Default or whether any matter shall have a Material Adverse Effect.

10.11 Covenant Suspension

10.11.1 From and after the date on which the Notes have reached Investment Grade Status until such time as the Notes no longer have Investment Grade Status, the Borrower will be released from its obligations to comply with Clauses 10.3 and 10.4 and, in each case, any related Events of Default under Clause 11.

10.11.2 In the event that, after the Notes achieve Investment Grade Status, the Notes lose such Investment Grade Status, the Borrower will thereafter again be subject to all of the provisions of Clause 10. Such provisions will not, however, be of any effect with regard to the actions of the Borrower properly taken during the continuance of the covenant suspension described in Clause 10.11.1.

11 Events of Default

11.1 If one or more of the following events of default (each, an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 The Borrower fails to make any payment of interest or additional amounts payable hereunder when the same becomes due and payable and such failure continues for a period of 15 calendar days.

11.1.2 The Borrower fails to make any payment of principal when the same becomes due and payable.

11.1.3 The Borrower fails to comply with its obligations described in Clause 5.4.

11.1.4 The Borrower fails to comply with any of its other agreements or covenants in, or provisions of, this Agreement for 30 days.

11.1.5 A default under any Debt of the Borrower or any Subsidiary of the Borrower (other than the Loan) or under any indenture or other instrument under which any such Debt has been issued or by which it is governed and the expiration of the applicable period of grace, if any, contained in any such Debt (or the U.S. Dollar Equivalent), which in the aggregate exceeds U.S.\$15,000,000, which default (i) results in the acceleration of the payment of such Debt or (ii) has not been cured or waived and constitutes the failure to make any payment of principal or interest on such Debt when due, after the expiration of any applicable grace period.

11.1.6 The entry, by a court having jurisdiction in the premises, of (i) a decree or order for relief in respect of the Borrower or any Material Subsidiary in an involuntary case or proceeding under any Bankruptcy Law; or (ii) a decree or order adjudging the Borrower or any Material Subsidiary bankrupt or insolvent, or approving as properly

filed a petition seeking reorganisation, arrangement, adjustment or composition of, or in respect of, the Borrower or any Material Subsidiary under any Bankruptcy Law or appointing a Custodian of the Borrower or any Material Subsidiary or of any substantial part of the property of the Borrower or any Material Subsidiary, or ordering the winding-up or liquidation (except for any liquidation arising as a result of a merger of a Material Subsidiary into the Borrower) of the affairs of the Borrower or any Material Subsidiary, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive calendar days.

- 11.1.7** (i) The commencement by the Borrower or any Material Subsidiary of a voluntary case or proceeding under any Bankruptcy Law or of any other case or proceeding to be adjudicated a bankrupt or insolvent; (ii) the consent by the Borrower or any Material Subsidiary to the entry of a decree or order for relief in respect of the Borrower or any Material Subsidiary in an involuntary case or proceeding under any Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding against the Borrower or any Material Subsidiary; (iii) the filing by the Borrower or any Material Subsidiary of a petition or answer or consent seeking reorganisation or relief under any Bankruptcy Law; (iv) the consent by the Borrower or any Material Subsidiary to the filing of such petition or to the appointment of or taking possession by a Custodian of the Borrower or any Material Subsidiary or of any substantial part of the property of the Borrower or any Material Subsidiary, or the making by the Borrower or any Material Subsidiary of an assignment for the benefit of creditors; (v) the admission by the Borrower or any Material Subsidiary in writing of its inability to pay its debts generally as they become due; or (vi) the taking of corporate action by the Borrower or any Material Subsidiary to authorise or effect any such action.
- 11.1.8** A final action resulting in the suspension for more than 30 days or loss of any of the Borrower's GSM 900 or 1800 licences for the Moscow licence area, the St. Petersburg licence area, the Krasnodar licence area or the Ukraine licence area, in each case other than (a) in a transaction permitted under Clause 10.5; or (b) a loss where the relevant licence is issued within 30 days to the Borrower, the Successor of the Borrower or any of the Borrower's or Successor's Subsidiaries).
- 11.1.9** The reassignment to other users (other than a Subsidiary of the Borrower), cancellation or other loss of any of the Borrower's or Ukrainian Mobile Communications' assigned spectrum allocations, other than as would not have a Material Adverse Effect on the business, financial condition or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole.
- 11.1.10** The express transfer, sale or lease by the Borrower or any of its Subsidiaries of any of its GSM 900 or 1800 licences for the Moscow licence area, the St. Petersburg licence area, the Krasnodar licence area or the Ukraine licence area, regardless of whether such transfer, sale or lease is permitted by law, other than in a transaction described in and meeting the requirements of Clause 10.5 or that would not have a material adverse effect on the business, financial condition or results of operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole.
- 11.1.11** The rendering against the Borrower or any Subsidiary of the Borrower of a judgment, decree or order for the payment of money in an amount in excess of U.S.\$15,000,000 and the continuance of any such judgment, decree or order

unsatisfied and in effect for any period of 60 consecutive calendar days without such judgment, decree or order being appealed, discharged, waived or the execution thereof stayed.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee (i) on each Interest Payment Date; (ii) within seven Business Days of any written request by the Lender; or (iii) promptly upon becoming aware of the occurrence thereof, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and (b) declare the Loan to be immediately due and payable by the Borrower and declare all other amounts accrued and/or payable hereunder by the Borrower up to (and including) the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; provided, however, that if any event of any kind referred to in Clause 11.1.6 or 11.1.7 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11.5 Right of Set-off

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the fullest extent of all amounts payable to the Lender hereunder.

12 Indemnity

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including, without limitation, taxes and properly incurred legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such documented Loss and all costs, charges and expenses which it or any indemnified party

may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's gross negligence, bad faith, fraud or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 12.1.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of Loss and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligations of the Borrower under this Agreement in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement, shall continue in full force and effect.

13 Survival

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 12 and 14.2 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

14 General

14.1 Evidence of Debt

The entries made by the Lender in the accounts maintained by the Lender in accordance with its usual practice and evidencing the amounts from time to time lent by and owing to it hereunder shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the Borrower's obligations recorded hereunder.

14.2 Stamp Duties

14.2.1 The Borrower shall pay all stamp, registration and documentary taxes or other charges (if any) imposed on the Borrower by any person in the United Kingdom, the Russian Federation, Luxembourg, Belgium, the United States or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.

14.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or other charges (if any) imposed by any person in the United Kingdom, the Russian Federation, Luxembourg, Belgium, the United States or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes or similar charges.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.4 Prescription

In the event that any Notes become void pursuant to Condition 11, the Lender shall forthwith repay to the Borrower the principal amount of such Note subject to the Lender having previously received from the Borrower a corresponding amount in respect of principal pursuant to this Agreement.

15 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

15.1 if to the Borrower:

Mobile TeleSystems Open-Joint Stock Company
4, Marksistskaya Street

109147 Moscow
Russian Federation

Fax: +7 495 766 0100
Attention: Vice President—Investments and Securities

15.2 if to the Lender:

MTS International Funding Limited
19-20 City Quay
Dublin 2
Ireland

Fax: +353 1 633 6049
Attention: The Directors

or to such other address or facsimile number as any party may hereafter specify in writing to the other.

16 Assignment

16.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective Successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the forming of an opinion or the making of any determination, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 16.3, shall include references to the exercise of such rights or discretions or the forming of an opinion or the making of any determination by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clause 6.4, 6.5 or 8.2.

16.2 By the Borrower

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

16.3 By the Lender

Subject to the provisions of Clause 17 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement; and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with Clause 26 of the Trust Deed.

17 Law and Jurisdiction

17.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

17.2 Jurisdiction

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 17.2 (a “**Dispute**”), shall be resolved:

17.2.1 subject to sub-Clause 17.2.2, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration (“**LCIA Rules**”), which rules are deemed to be incorporated by reference into this sub-Clause 17.2.2, save that Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court. Save as provided in sub-Clause 17.2.2, the parties agree to exclude the jurisdiction of the English court under Sections 45 and 69 of the Arbitration Act 1996; or

17.2.2 at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have non-exclusive jurisdiction. If the Lender is in the position of a respondent and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 60 days of service on it of the request for arbitration.

For the avoidance of doubt, sub-Clause 17.2.2 is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

17.3 Appropriate Forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

17.4 Lender’s Process Agent

The Lender irrevocably appoints Law Debenture Corporate Services Limited (the “**Lender’s Agent**”), now of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

17.4.1 service upon the Lender’s Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;

17.4.2 the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender’s Agent within 28 days of such change;

17.4.3 if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and to deliver to the other parties to this Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

17.4.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

17.5 Borrower's Process Agent

The Borrower irrevocably appoints Law Debenture Corporate Services Limited (the "**Borrower's Agent**"), now of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

17.5.1 service upon the Borrower's Agent shall be deemed valid service upon the Borrower whether or not the process is forwarded to or received by the Borrower;

17.5.2 the Borrower shall inform all other parties to this Agreement and the Trustee, in writing, of any change in the address of the Borrower's Agent within 28 days of such change;

17.5.3 if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and the Trustee and to deliver to the other parties to this Agreement and the Trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and

17.5.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

17.6 Waiver of Immunity

To the extent the Borrower may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower irrevocably waives such immunity.

18 Severability

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

19 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, save that the Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Trustee to Clauses 6.1, 10 and 16.

20 Language

The language which governs the interpretation of this Agreement is the English language.

21 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22 Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

23 Limited Recourse and Non Petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from the Borrower (after any tax deduction required by law to be made by the Borrower in respect of such sums and for which the Lender has not received a corresponding additional payment from the Borrower pursuant to this Agreement (also after any tax deduction as may be required by law)) by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always to (i) the Security Interests (as defined in the Trust Deed); and (ii) to the fact that any claims of the Joint Lead Managers (as defined in the Subscription Agreement) shall rank in priority to claims of the Borrower hereunder, and that any such claim by the Joint Lead Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any other person acting on behalf of any of them shall be entitled at any time to institute proceedings against the Lender, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court-based or otherwise) against the Lender.

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

In witness whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

For and on behalf of

MOBILE TELESYSTEMS OPEN-JOINT STOCK COMPANY:

/s/ Alexey Kornya

/s/ Irina Borisenkova

By: Alexey Valerievich Kornya

By: Irina Radomirovna Borisenkova

Title: Vice President for Finance and Investment pursuant to Power of Attorney No. 0503/10 dated 15 June 2010

Title: Chief Accountant

Signed by a duly authorised attorney of

MTS INTERNATIONAL FUNDING LIMITED:

/s/ Nigel Woods

By: Nigel Woods

Title: Director

Non-Revolving Credit Facility Agreement No. 9656

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by its Vice-President and Director of the Major Clients Department, Mr. Alexander Vladimirovich Bazarov, acting on the basis of the Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, as one party, and Mobile TeleSystems Open Joint Stock Company, hereinafter referred to as the "Borrower", represented by its President Mr. Mikhail Valerievich Shamolin, acting on the basis of the Charter, as the other party, hereinafter collectively referred to as the "Parties" and individually the "Party" have made this agreement (the "Agreement") on the following:

Article 1. Subject of the Agreement

1.1. The Lender agrees to open to the Borrower a non-revolving Credit Facility with a facility limit of Twenty-Five Billion Rubles (RUR 25,000,000,000) for the purposes of financing of direct or indirect acquisition of shares of Comstar-UTS OJSC, and for the purposes of funding the Borrower's 2009 investment program, maturing on September , 2013, at a variable interest rate to be determined in accordance with Clause 2.5. hereof, and the Borrower agrees to repay the facility and pay interest thereon in the amount, within the period and on the terms and conditions hereof.

Article 2. Conditions Precedent to the Loan

2.1. The Lender shall open to the Borrower facility account No. 45208810600140029656.

2.2. The Borrower shall be charged a facility fee in the amount of Twenty Million (RUR 20,000,000). Such amount shall be paid up-front by the Borrower to the Lender within Two (2) business days after the execution hereof by the Parties.

2.3. The facility shall be made available to the Borrower after:

2.3.1. Provision to the Lender of documents confirming the intended use of the facility (agreements, contracts, payment documents and/or other documents) in form satisfactory to the Lender.

2.3.2. Execution and provision to the Lender of agreements (amendment agreements) to bank account agreements which provide the Lender with the right to debit without acceptance settlement and current currency accounts of the Borrower No. 40702810100020008293, No. 40702840400020008293 and No. 40702978000020008293 with Transaction Department of Sberbank of Russia OJSC, No. 40702810738050011729 with Maryinaroshchinskoye Branch No. 7981 of Sberbank of Russia OJSC, No. 4070281000000000652 and No. 40702840300000000652 with the Joint Stock Commercial Bank Moscow Bank for Reconstruction and Development (OJSC).

2.3.3. Payment of the facility fee specified in Clause 2.2 hereof.

2.3.4. Execution of the equipment pledge agreement specified in sub-clause 6.2.4.1. hereof.

2.3.5. Execution of an agreement on extrajudicial foreclosure on the property pledged under Clause 6.2.4.1. hereof.

2.4. The facility shall be disbursed by way of transfer of funds to the Borrower's settlement account No. 40702810100020008293 with Transaction Department of Sberbank of Russia OJSC on the basis of the Borrower's drawdown requests.

The facility shall be disbursed provided that no payments hereunder and under any other loan agreements (including non-revolving Credit Facility agreements) made or to be made between the Lender and the Borrower, including Non-Revolving Credit Facility Agreement No. 9662 dated August 28, 2009, are overdue.

2.5. The Borrower shall pay to the Lender interest on the facility at the rate of Sixteen percent(16%) per annum from the date hereof through March 27, 2010.

During the period from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof the Borrower shall pay to the Lender interest at a variable interest rate determined as the sum of the Base Rate, "A" and "B", where:

Lender

Borrower

Non-Revolving Credit Facility Agreement No. 9656 dated September , 2009

The Base Rate shall be Sixteen percent (16%) per annum.

“A” is the per annum percentage of increase in the Interest Rate depending on the average daily balances of the accounts specified in Annex 1 hereto constituting an integral part hereof (“Annex 1”) calculated in accordance with Clause 2.5.1. hereof;

“B” is the per annum percentage of increase in the interest rate depending on the amount of quarterly transfers to the accounts of the employees of the Borrower and/or Russian Telephony Company Closed Joint Stock Company (OGRN 1027739165662, registered address: 5 Vorontsovskaya Str., build. 2, Moscow, 109147, Russian Federation, hereinafter “RTC”) opened as part of the salary projects with the Lender, to be calculated in accordance with Clause 2.5.2. hereof.

The interest rate shall be fixed on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

Calculation Period	Interest Period
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

The interest rate shall be fixed for the relevant Interest Period without execution of an amendment agreement hereto by way of a written notice given by the Lender to the Borrower regarding the interest rate fixed for the Interest Period.

The Lender shall give notice of the Interest Rate to the Borrower on or before the Tenth (10) day of the second month of each calendar quarter in the manner set forth in Clause 9.3. hereof.

If the Borrower does not receive the notice in accordance with the preceding paragraph on or before the Twenty-Eighth (28th) day of the second month of the calendar quarter, the Interest Rate shall be determined by the Borrower itself in accordance herewith.

2.5.1. “A” shall be determined depending on the amount of average daily balances of accounts specified in Annex No. 1 in accordance with Clause 2.5.1.1. hereof.

The amount of average daily balances of accounts specified in Annex No. 1 shall be the sum of average daily balances of each account opened with the Lender. The average daily balance of an account shall be determined using the following formula:

$$B_{av} = (B_1 + B_2 + B_3 + \dots + B_n) / n, \text{ where}$$

B_{av} is the average daily balance of the account;

B₁, B₂, B₃... B_n — daily opening balances of the account;

n is the number of calendar days in the calculation period.

Daily opening balances of the currency accounts specified in Annex No. 1 shall be converted into rubles. The conversion of daily opening balances shall be effected at the exchange rate of the Bank of Russia quoted on the relevant calendar day of conversion.

2.5.1.1. In relation to the interest periods from the date hereof through March 27, 2010 the interest rate shall not be increased by “A”.

In relation to the interest periods from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof “A” shall be calculated on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

Calculation Period	Interest Period
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

Lender

Borrower

“A” shall be determined depending on the average daily balances of the Borrower’s accounts with the Lender specified in Annex 1 in accordance with the following table:

Amount of average daily balances of the Borrower’s accounts specified in Annex No. 1 for the Calculation Period, RUR	“A” (increase in the interest rate depending on the average daily balances, % p.a.)
Less than One Billion (1,000,000,000)	+ Five Tenths (0.5)
One Billion (1,000,000,000) or more	+ Zero Tenths (0.0)

2.5.1.2. For the purposes of Clause 2.5.1. hereof the Borrower shall provide to the Lender (or ensure that the Lender is provided with) properly certified bank statements of all settlement and currency accounts specified in Annex 1 for each full calendar quarter within Fifteen (15) business days from the last day of the calendar quarter.

If the Borrower fails to provide to the Lender within Fifteen (15) business days from the last day of the calendar quarter the bank statements containing information on the average daily balances of all settlement and current currency accounts specified in Annex 1 the amount of average daily balances of the Borrower’s accounts specified in Annex 1 for the relevant calculation period shall be deemed to be less than One Billion Rubles (RUR1,000,000,000).

2.5.2. In relation to the interest periods from the date hereof through March 27, 2010 the interest rate shall not be increased by “B”.

In relation to the interest periods from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof “B” shall be determined on a quarterly basis depending on the amount of quarterly transfers made in the calculation period (for the purposes of sub-clause 2.5.2. hereof the calculation period shall be three calendar months) to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, as follows:

2.5.2.1. “B” shall be calculated on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

Calculation Period	Interest Period
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

In relation to the interest periods from March 28, 2010 “B” shall be calculated in accordance with the following table:

Amount of transfers to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, made in the Calculation Period, RUR	“B” (increase in the interest rate depending on the amount of quarterly transfers of salary, % p.a.)
Less than Five Hundred Million (500,000,000)	+ Five Tenths (0.5)
Five Hundred Million (500,000,000) or more	+ Zero Tenths (0.0)

2.5.2.2. The Borrower shall provide to the Lender (or ensure that the Lender is provided with) properly certified bank statements in the agreed form of all transfers made in the Calculation Period to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, within Fifteen (15) business days from the last day of the calculation period.

If the Borrower fails to provide to the Lender within Fifteen (15) business days from the last day of the Calculation Period the bank statements of all transfers made in the Calculation Period to the accounts of the employees of the Borrower and/or RTC the amount of transfers made to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender in the

Lender

Borrower

relevant calculation period shall be deemed to be less than Five Hundred Million Rubles (RUR 500,000,000).

2.6. The interest shall be paid for the actual period during which the facility remained outstanding on a quarterly basis on the 27th day of the third month of each calendar quarter and on the final repayment date of the facility being September , 2013.

2.7. Any advance under the facility shall be made within the available balance of the facility limit in accordance with the following schedule:

No. of Tranche	Availability Period	Amount (in words), RUR
1	From September , 2009 to September 30, 2009	Twenty-Five Billion Rubles (RUR 25,000,000,000)

Repayment of any part of the facility shall not increase the available balance of the Credit Facility limit.

2.8. The Borrower shall be charged a commitment fee at Two percent (2%) per annum. The commitment fee shall accrue on the undisbursed amounts of the tranche for the period starting from the first drawdown date (excluding such date) determined in Clause 2.7. hereof to the last tranche disbursement date (including such date) determined in Clause 2.7. hereof.

2.9. The commitment fee shall be paid on a quarterly basis on the 27th day of the third month of each calendar quarter and on the final date of the availability period being September 30, 2009.

2.10. The facility shall be available for disbursement through September 30, 2009. If on September 30, 2009 the facility is not drawn down by the Borrower in full, the available facility limit shall be forfeited.

2.11. The outstanding facility shall be repaid in accordance with the following repayment schedule:

No	Repayment Date	Payment in percentage of the outstanding facility as of the final availability date (September 30, 2009)
1	March 27, 2012	1/7 (One Seventh)
2	June 27, 2012	1/7 (One Seventh)
3	September 27, 2012	1/7 (One Seventh)
4	December 27, 2012	1/7 (One Seventh)
5	March 27, 2013	1/7 (One Seventh)
6	June 27, 2013	1/7 (One Seventh)
7	September , 2013	1/7 (One Seventh)

2.12. The Borrower shall pay to the Lender the loan administration fee in the amount of Twenty-Five Thousandths percent (0.25%) per annum of the amount actually outstanding under the facility.

The loan administration fee shall be paid on the dates and for the periods set out in Clause 2.6 hereof for interest payments.

Article 3. Liability of the Parties

3.1. The Parties shall be liable in accordance with the applicable laws of the Russian Federation for failure to perform or improper performance of their obligations hereunder.

3.2. If the Borrower fails to make when due a repayment of the facility, to pay interest, or pay the facility fee, the commitment fee or loan administration fee, the Borrower shall pay to the Lender a penalty at the refinancing rate of the Bank of Russia in percent per annum multiplied by Two (2) to accrue on the overdue payment for each day of delay for the period from the date on which any payment becomes overdue (excluding such date) to the date of full repayment of the overdue amount (and including such date).

Lender

Borrower

Article 4. Settlement and Payment Terms

4.1. The facility disbursement date shall be the date on which the facility becomes outstanding as recorded on the facility account specified in Clause 2.1 hereof.

The date of performance of payment obligations hereunder shall be the date on which the Borrower's or third parties' accounts with the Lender are debited with the amounts intended for repayment of the obligations hereunder or the date on which the proceeds intended for repayment of the obligations hereunder are received at the correspondent account of the Lender if repayment is made from the accounts opened with other banks.

4.2. The interest, loan administration fee, commitment fee, prepayment fee and penalties shall be calculated on the basis of actual number of calendar days within a payment period, and the actual number of calendar days in a year (365 or 366, respectively).

4.3. The repayment proceeds hereunder, including the proceeds for which a direct debit was made, shall be applied regardless of the purpose of payment specified in the payment documents (subject to the provisions set forth in Clauses 4.7, 4.8, 4.9, 4.10 hereof), in the first place to cover the litigation and other costs incurred by the Lender as a result of recovery of the outstanding facility, and then in the following order of priority:

- 1) to pay the penalty for failure to perform obligations hereunder when due (other than the penalty under Clause 9.2. hereof);
- 2) to pay the overdue facility fee;
- 3) to pay the overdue commitment fee;
- 4) to pay the overdue loan administration fee;
- 5) to pay overdue interest;
- 6) to pay the facility fee due;
- 7) to pay the commitment fee due;
- 8) to pay the loan administration fee due;
- 9) to pay interest due;
- 10) to repay the overdue principal of the facility;
- 11) to pay the prepayment fee;
- 12) to repay the principal of the facility due;
- 13) to repay the outstanding facility before stated maturity dates as set forth in Clause 2.11 hereof pursuant to Clause 5.2.2 hereof;
- 14) to pay the penalty pursuant to Clause 9.2. hereof.

The obligations under this Agreement (to repay the outstanding principal, pay the interest and pay the fees) shall become due and payable on their stated maturity date pursuant to the provisions of Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12, 5.2.2. hereof (the "Payment Date").

For the purposes hereof the overdue obligations shall mean the obligations hereunder which are not performed on the Payment Date.

4.4. Payment obligations hereunder may be performed by third parties.

4.5. If a payment hereunder is made in a currency different from the currency of the payment under the Agreement, the Lender may itself convert such payment into the currency of the payment hereunder at the exchange rate and on the terms of the Lender and then apply the same to repay the due amounts hereunder.

4.6. The obligations to repay the outstanding facility may be performed before their stated maturity dates as set forth in Clause 2.11 hereof pursuant to Clause 5.2.2 hereof.

The payments received to repay the outstanding facility before the maturity dates stated in Clause 2.11 hereof shall be applied by the Lender to repay such obligations against the repayment of the outstanding facility which mature the next as set forth in Clause 2.11 hereof, subject to the order of the payments set out in Clause 4.3 hereof.

Lender

Borrower

If it is impossible to identify the purpose of a payment (where the obligation against which such payment is to be applied is not specified) under a payment document, the amounts received shall be applied by the Lender to repay the outstanding facility in accordance with this clause.

4.7. Interest and/or loan administration fee and/or commitment fee payable on the nearest Payment Date as set forth in Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12 hereof may be paid before such date ("Prepayment Amounts"), but not more than Ten (10) business days (including the 1st and the 10th business days) before the nearest Payment Date (the "Prepayment Period"), in accordance with the purpose of payment specified in the payment document.

Prepayment Amounts received during the relevant Prepayment Period shall be applied by the Lender against repayment of such obligations on the nearest date of the relevant payment.

If during the Prepayment Period other obligations of the Borrower to repay the principal, other than the obligation(s) specified in the payment document(s), become due and payable the Lender shall apply the Prepayment Amounts in accordance with the order of priority set out in Clause 4.3 hereof, except for the payment specified in sub-clause 13) of Clause 4.3 hereof.

4.8. Prepayment Amounts received before the Prepayment Period set forth in Clause 4.7 hereof, upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, except for the payment specified in sub-clause 13) of Clause 4.3 hereof, shall be returned by the Lender to the accounts from which they were made, on or before the first business day following the actual date of receipt of the relevant payment.

If the date of return falls within the Prepayment Period set forth in Clause 4.7 hereof, the Prepayment Amounts shall be applied by the Lender in accordance with Clause 4.7 and/or Clause 4.9 hereof.

4.9. The Borrower may within Three (3) business days following the actual date on which a Prepayment Amount is paid, but no later than Two (2) business days (inclusive) before the nearest Payment Date, submit a written request to the Lender (pursuant to Clause 9.3 hereof) on return or application against repayment of the outstanding facility of the Prepayment Amounts paid pursuant to Clause 4.7 hereof.

The Lender upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, excluding the payment set forth in sub-clause 13) of Clause 4.3 hereof, shall return the Prepayment Amounts and/or apply the same to repay the outstanding facility pursuant to Clause 5.2.2 hereof, on or before the first business day immediately following the day on which the Borrower's written application is received.

The Lender shall return the Prepayment Amounts to the accounts from which they were made.

If the Prepayment Amounts are applied to repay the outstanding facility the repayment date of the outstanding facility shall be the date on which the Lender applies the prepaid amount against the outstanding facility.

4.10. If on the date set forth in Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12 hereof, the payment amount received either before the stated maturity date (pursuant to Clause 4.7 hereof), or on such date exceeds the amount due under the said clauses, the overpaid amount upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, excluding the payments set forth in sub-clause 13) of Clause 4.3 hereof, shall be returned by the Lender to the account from which it was transferred, on or before the first business day following the relevant Payment Date.

Article 5. Rights of the Parties

5.1. The Lender may:

5.1.1. Unilaterally at its discretion increase the interest rate under Clause 2.5 hereof for the period from the execution date hereof to March 27, 2010 (inclusive) and the Base Rate values established in Clause 2.5 hereof for a period from March 28, 2010 to the final maturity date of the facility specified in Clause 1.1 hereof, including, without limitation, where the Bank of Russia makes a decision to increase its discount (refinancing) rate, by giving a notice thereof to the Borrower without execution of an amendment agreement hereto to this effect. In the event of a unilateral increase of the

Lender

Borrower

interest rate by the Lender, such change shall become effective upon expiration of Sixty (60) calendar days following the date the Lender gives a notice to the Borrower, unless a later effective date is specified in the notice.

The Borrower shall be notified of such amendments of this Agreement as provided for in Clause 9.3 hereof.

5.1.2. Unilaterally decrease the interest rate values specified in Clause 2.5 hereof, including, without limitation, where the Bank of Russia makes a decision to decrease its discount (refinancing) rate, by giving a notice thereof to the Borrower without execution of an amendment agreement to this effect. Should the Lender reduce the interest rate unilaterally, such change shall become effective upon expiration of Thirty (30) calendar days following the date the Lender gives notice to the Borrower, unless such notice specifies another date for such change to come into effect.

The Lender may unilaterally at its discretion decrease the penalty and/or grant a grace period during which the penalty will not be charged by giving a notice thereof to the Borrower without execution of an amendment agreement to this effect.

Reduction of the penalty amount and/or the commencement of grace period shall become effective on expiration of Thirty (30) calendar days following the date the Lender gives notice to the Borrower, unless such notice specifies another date for such change to come into effect.

The Borrower shall be notified of such amendments of this Agreement as provided for in Clause 9.3 hereof.

5.1.3. Request that the Borrower submit information and documents evidencing application of the facility proceeds in accordance with their designated purpose.

5.1.4. If any principal and/or interest and/or other payments hereunder become overdue, as the funds are credited directly debit the Borrower's accounts (including accounts with the Lender's branches and other banks) and apply such funds to repay such overdue amounts and pay the penalty.

The Lender shall inform the Borrower in writing of any such debit without acceptance subject to the procedure specified in Clause 9.3 hereof within Ten (10) business days from the date of such debit.

5.1.5. If the funds on the Borrower's accounts with the Lender are insufficient to make a repayment of the overdue amount hereunder, sell foreign currency from the current currency accounts of the Borrower opened by the Borrower with the Lender and other banks at the exchange rate and on the terms established by the Lender and other banks for conversion operations as of the transaction date, and credit the proceeds from sale of foreign currency to the Borrower's account with the Lender and other banks.

The Lender shall notify the Borrower in writing of the fact of sale of foreign currency as provided for in Clause 9.3 hereof.

5.1.6. Suspend disbursement of the facility and/or demand that the Borrower repay the total amount of the facility before maturity, pay the interest due, the facility fee, the commitment fee, the loan administration fee, penalties and make any other payments hereunder as well as foreclose on the pledged property securing performance hereof if:

a) the Borrower fails to perform or improperly performs its obligations under the Agreement and any of the agreements (including, without limitation: loan agreement, revolving/non-revolving credit facility agreement, bank guarantee agreement, deed of guarantee, other types of agreements) and arrangements as have been entered into (or may be entered into during the term hereof) between the Borrower and the Lender, and the payment obligations to the Lender and/or third parties to settle bills, repay notes, pay coupon yield, make involuntary/voluntary offers by virtue of the Federal Law On Joint Stock Companies which have arisen (may arise during the term hereof);

b) any MTS Group Company (as defined below) is in default or improperly performs its obligations under facility agreements (including revolving/non-revolving credit facility agreements) which are entered into (or may be entered into during the term hereof) between the MTS Group Companies and any other lender, as a result of which the MTS Group Company

Lender

Borrower

received an acceleration demand with respect to any outstanding amount in excess of Thirty Million US Dollars (US\$30,000,000) as a result of occurrence of an event of default, if such term is defined in the agreement with such lender and if the outstanding amount is declared immediately due and payable for any reason, if the term “event of default” is not defined in the agreement with such lender.

The Borrower shall provide or procure the provision to the Lender of copies of documents confirming whether an obligation which has not been performed qualifies as an “event of default” or not within Five (5) business days from the date of the acceleration demand by the relevant lender to repay the outstanding amount due to such lender.

The amounts of ruble facilities which were declared immediately due and payable shall be recalculated into US Dollars at the exchange rate of the Bank of Russia as at the date the relevant lender makes an acceleration demand with respect to the facility.

The amounts of facilities denominated in a currency other than US Dollars which were declared immediately due and payable shall be recalculated into US Dollars at the exchange rate determined by recalculation through the currency rates to the Russian Rubles established by the Bank of Russia as at the date the relevant lender makes an acceleration demand with respect to the facility.

For the purposes hereof, an “MTS Group Company” shall mean the Borrower and its subsidiaries, where a “Subsidiary” means a company which the Borrower, directly or indirectly (through any other companies) controls or owns, directly or indirectly (through other companies) over Fifty percent (50%) of the shares/interests in the charter capital or similar ownership rights.

c) loss of security hereunder or deterioration of its conditions, and a threat of loss of security or deterioration of its conditions due to reasons beyond the Lender’s control, except for a change of the market price of the shares pledged pursuant to Clause 6.2.4.2. hereof;

d) the Borrower uses the facility other than in accordance with its designated purpose;

e) the Borrower is in default under its reporting obligations set forth in Clauses 6.2.5. and 6.2.6 hereof;

f) applications, confirmations or information furnished by the Borrower to the Lender, including with respect to the MTS Group Companies, in connection with the Parties’ relations hereunder, are inaccurate, incomplete or unverified;

g) an arbitration court, acting in accordance with the procedure set forth in the applicable laws, accepts a petition seeking to recognize the Borrower as insolvent (bankrupt);

h) a claim or claims have been filed against the Borrower seeking payment of a cash amount or recovery of assets the amount of which exceeds in the aggregate Thirty Million US Dollars (US\$30,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date the claims were filed, or in another currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claims were filed (provided that the amount of at least one of such claims exceeds Five Million US Dollars (US\$5,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date such claim was filed, or an equivalent amount in any other currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claim was filed) and the judgment to grant such claim(s) entered into legal force;

i) a decision is made on reorganization (other than reorganization in the form of a merger of subsidiaries into the Borrower), liquidation or reduction of the charter capital of the Borrower without prior consent of the Lender;

Lender

Borrower

- j) the Borrower is declared insolvent (bankrupt) in accordance with the procedure set forth by the applicable laws;
- k) the Borrower is in default under its obligations set forth in Clause 6.2.4.2 hereof;
- l) the Borrower is in default under the provisions of Clauses 6.2.7.-6.2.13 and 6.2.16 hereof;
- m) the Borrower is in breach of the terms of Clauses 7.2-7.6 hereof.

The above violations and changes in circumstances shall be deemed material by the Lender.

The Lender shall notify the Borrower of its claims subject to the procedure specified in Clause 9.3 hereof.

5.1.7. Unilaterally terminate the available balance of the facility limit hereunder in the event that the disbursement of the facility is terminated for reasons specified in Clause 5.1.6 hereof, and the Lender shall notify the Borrower as provided in Clause 9.3 hereof.

5.1.8. Refuse to disburse the loan, in full or in part, if there is reasonable evidence that the loan will not be repaid by the Borrower within the timeline set out herein.

5.1.9. Conduct audits and check the accuracy of the information provided by the Borrower regarding its business and financial activity in a manner convenient for the Lender, and request other data pertaining to the use of the facility proceeds.

5.1.10. If requested by the Borrower at least Fifteen (15) calendar days prior to the maturity of the facility, the Lender shall have the right to extend the loan maturity date.

5.2. The Borrower may:

5.2.1. in the event that the Lender increases the interest rate pursuant to Clause 5.1.1 hereof, repay a portion or the entire amount of the facility and pay the interest, penalties and make other payments accrued as of the repayment date on the former terms (the terms that existed before the Lender increase the interest rate) within Sixty (60) calendar days from the date on which the Lender gives a written notice to the Borrower of such change of the terms of the facility.

5.2.2. fully or partially prepay the outstanding facility before the maturity dates set forth in Clause 2.11. hereof, and pay the interest, all fees hereunder and penalties accrued as of the prepayment date by giving a written notice to the Lender at least Sixty (60) business days before the prepayment date of the facility (or a portion thereof) (inclusive). The date of receipt of the notice by the Lender shall be not be taken into account as a business day of the notice period.

The Borrower shall notify the Lender of its intention to prepay the facility (or a portion thereof) as provided for in Clause 9.3. hereof and such notice shall specify the amount and the date of such prepayment.

In the event of a prepayment of the facility (or a portion thereof) without a prior written notice to the Lender or notice to the Lender given less than Sixty (60) business days prior to the prepayment date of the facility (or a portion thereof) the Borrower shall pay to the Lender a prepayment fee for prepayment of the facility (or a portion thereof) in the amount of Three percent (3%) of the amount so prepaid.

The prepayment fee for prepayment of the facility (or a portion thereof) shall be paid by the Borrower simultaneously with the prepayment hereunder.

5.2.3. If there is a need to extend the maturity date, submit a request to the Lender at least Fifteen (15) calendar days prior to the maturity date of the facility.

Article 6. Obligations of the Parties

6.1. The Lender assumes the following obligations:

6.1.1 Subject to the fulfillment of conditions set forth in Clauses 2.3, 2.4 and 2.7 hereof, as well as in the absence of any of the conditions whereby the Lender is entitled to terminate the disbursement of the facility and accelerate the same, to transfer facility amounts within the available balance of the facility limit, to the Borrower's settlement account based on its drawdown requests, within not later than Ten (10) calendar days from the date of the relevant drawdown request of the Borrower.

Lender

Borrower



6.2. The Borrower assumes the following obligations:

6.2.1. To repay the principal and pay the interest due, the commitment fee, the loan administration fee, and any penalties accrued as of the repayment date, within Five (5) business days from receipt of the Lender's acceleration demand in accordance with Clause 5.1.6 hereof.

6.2.2. To use facility in strict accordance with its designated purpose as provided in Article 1 hereof.

6.2.3. To provide the Lender with the duly executed payment documents confirming the intended use of the facility.

6.2.4. With the view to secure the Borrower's timely and complete performance of its obligations hereunder, including repayment of the principal, payment of the interest, the facility fee, the commitment fee, and the loan administration fee:

6.2.4.1. To pledge in favor of the Lender the equipment owned by the Borrower, the balance value of which as of September 1, 2009, is not less than Thirty Billion (RUR 30,000,000,000) rubles, and the pledge value of which, as determined by application of a Thirty (30%) per cent discount to the balance value thereof, is not less than Twenty-One Billion (RUR 21,000,000,000) rubles.

6.2.4.2. Not later than Forty-Five (45) calendar days from the date of transfer of title to any number of shares in COMSTAR-United TeleSystems Open Joint-Stock Company (Registered address: 27 Smolenskaya-Sennaya Sq., build. 2, Moscow, 119121, OGRN 1027700003946, hereinafter "COMSTAR-UTS") by Joint Stock Financial Corporation Sistema Open Joint Stock Company (OGRN 2077758799590, registered address: 17/8/9 Prechistenka str., Moscow, 119034, hereinafter "Sistema"), and/or any subsidiary of Sistema, to the Borrower and/or Communications Provider Limited Liability Company (OGRN 1097746395790, registered address: 8 Presnenskaya emb., build. 1, Moscow, 123100, Russian Federation, hereinafter "Communications Provider"), and/or Capital Limited Liability Company (OGRN 1097746415073, registered address: 8 Presnenskaya emb., build. 1, Moscow, 123100, Russian Federation, hereinafter "Capital"), to pledge (or to ensure that the relevant owners pledge) in favor of the Lender two hundred nine million six hundred eighty-seven thousand eight hundred and sixty (209,687,860) common shares of COMSTAR-UTS with the nominal value of one (RUR 1) ruble, representing Fifty Point Seventeen (50.17%) per cent, rounded down to the hundredth, of the charter capital of COMSTAR-UTS as of the execution date hereof.

The estimated value of the shares pledged in accordance with this clause is determined on the basis of the sale and purchase agreement in respect of COMSTAR-UTS' shares (or any similar document) to be entered into by the Borrower, Communications Provider and/or Capital from the one part, and Sistema and System of Telecommunications, Information and Communications Limited Liability Company (OGRN 1097746062996, registered address: 7 Bolshaya Pirogovskaya, Moscow, 119021, hereinafter "Telecom System") from the other part.

The pledged value shall be determined by application of a Fifty (50%) per cent discount to the estimated value determined in accordance with this clause.

COMSTAR-UTS' shares pledged in accordance with this clause shall be accounted for at the pledger's custody account opened with the Depository of Sberbank of Russia OJSC (Registered address: 19 Vavilov str., Moscow, 117997, hereinafter the "Depository"). The pledger shall bear all costs related to the pledge registration.

Further on, in case of issue and placement of additional common shares of COMSTAR-UTS, the Borrower shall within Ten (10) business days from the date of registration of the placement report with the relevant government authorities, ensure the pledge of so many common shares of COMSTAR-UTS in favor of the Lender, as to make the percentage of COMSTAR-UTS' shares pledged to the Lender in accordance with Clause 6.2.4.2 hereof after such placement of additional shares, be not less than Fifty Point Seventeen (50.17%) per cent of the charter capital of COMSTAR-UTS, and moreover the percentage of common shares thus pledged shall be not less than Fifty Point Seventeen (50.17%) per cent of the total number of the outstanding common shares.

Should it be resolved that no dividends shall be paid on preferred shares of COMSTAR-UTS, the pledger shall within Ten (10) business days from the date of the decision not to pay the dividends on

Lender

Borrower

preferred shares, ensure the pledge of so many shares of COMSTAR-UTS in favor of the Lender, as to make the percentage of COMSTAR-UTS' voting shares pledged to the Lender in accordance with Clause 6.2.4.2 hereof, be not less than Fifty Point Seventeen (50.17%) per cent of the total number of COMSTAR-UTS' voting shares, and moreover the percentage of common shares thus pledged shall be not less than Fifty Point Seventeen (50.17%) per cent of the total number of the outstanding common shares.

6.2.5. Each quarter not later than Ten (10) business days from the expiration of the period allocated by Federal Law No. 129-FZ On Accounting dated November 21, 1996, for preparation of the accounting statements, the Borrower shall provide to the Lender:

- a full accounting statement in forms established by the Ministry of Finance of Russia, containing a mark on submission method of the same with the relevant unit of the Federal Tax Service of Russia, certified by the signature of the Borrower's general manager and its seal, with the attachment of the notes (in respect of the annual accounts) and an auditor report (or its final part) (subject to mandatory audit of the accounting statements in accordance with the laws of the Russian Federation, and in respect of the annual statements);
- a breakdown of the accounting statements in respect of the accounts payable and receivable, specifying the names of creditors and debtors, the amounts due and the dates of their origination, and also indicating the status thereof (overdue/current);
- a breakdown of the accounting statements in respect of the short-term and long-term financial investments specifying their type, the amount, as well as the names of companies and entities;
- a breakdown of the accounting statements in respect of the short-term and long-term credits and loans (including bill and bond loans) specifying the creditor, the amounts due, the loan term, the interest rate (or the coupon yield), the repayment and interest payment schedule, the amounts overdue (dates of origination), accelerated amounts claimed (including the reasons for such acceleration, and the relevant creditor);
- a breakdown of the accounting statements in respect of the security received (indicating the security provider and the beneficiary of the same), and security provided (indicating the secured person and the beneficiary, the maturity date, and the balance value of the assets secured (pledged));
- information on all accounts opened by the Borrower and communicated to the tax inspectorate, as well as turnover and balance statements in respect of settlement and current currency accounts, and any claims thereon;
- copies of any changes and amendments introduced into the constituent documents of the Borrower (duly registered in accordance with the laws), and a copy of the certificate on the entry made in the Unified State Register of Legal Entities on the state registration of amendments introduced into the Borrower's constituent documents, either notarized or certified by a registering body, should any such changes be introduced into the Borrower's constituent documents in the expired calendar year.
- information on any changes in the membership of the Borrower's management bodies (Board of Directors/Management Board/General Director/President) occurred in the expired calendar quarter;
- information on any changes in the list of persons recorded in the share register and holding five (5%) per cent or more of the Borrower's shares, occurred in the expired calendar quarter;
- information on the subsidiaries (more than Fifty (50%) percent in the charter capital) and dependent entities (more than Twenty (20%) of the charter capital) as of the last reporting date, indicating the percentage of the charter capital held in such subsidiaries or dependent entities;
- information on security extended by MTS Group (indicating the secured person and the beneficiary, the maturity date, and the balance value of the assets secured (pledged));

Lender

Borrower

- a note issued by the relevant unit of the Federal Tax Service of Russia, on the status of statutory payments, or a settlement reconciliation report in respect thereto (and in case of any overdue statutory amounts — a taxpayer certificate specifying the periods, the amounts and the reasons of the debt).

Moreover, the Borrower shall upon demand of the Lender provide other reports and financial documents within Ten (10) business days from the date of receipt of the relevant Lender's demand.

6.2.6. Each quarter, within One Hundred And Twenty (120) business days from the date of expiration of each calendar quarter, the Borrower shall provide the Lender with the Borrower's consolidated financial statements certified by the Borrower's general manager and its chief accountant, prepared in accordance with the Generally Accepted Accounting Principles of the United States of America (GAAP) (hereinafter, the "Financial Statements"), and moreover, the Borrower's Financial Statements thus prepared following the calendar year results shall be confirmed by an audit company.

6.2.7. In case of reorganization (other than reorganization in form of the subsidiaries' merger into to the Borrower) or liquidation, reduction of the charter capital, to inform the Lender accordingly, at least Ten (10) business days prior to any of the abovementioned events, and upon the Lender's demand, to repay the facility irrespective of the due date specified in the Agreement, to pay the interest due, the commitment fee, and other payments as provided by the Agreement.

6.2.8. Prior to performance of its obligations to the Lender in full, to refrain from issuing additional shares in COMSTAR-UTS, as well as their consolidation and/or fraction in the absence of the Lender's written consent.

6.2.9. At the date of the transaction for the acquisition by the Borrower and/or Communications Provider and/or Capital of shares in COMSTAR-UTS, to provide to the Lender a copy of the sale and purchase agreement(s) (or similar documents) entered into between the seller and the buyer, duly and properly notarized.

6.2.10. To ensure that all settlements connected with the acquisition of shares in COMSTAR-UTS as between the Borrower, Communications Provider and/or Capital and Sistema, and Telecom System, be conducted only through the settlement accounts of the companies referred to in this clause, opened with the Lender.

6.2.11. To ensure the maintenance of not less than Fifty (50%) per cent plus one share of unpledged and unencumbered voting stock of COMSTAR-UTS at custody accounts of Communications Operator and/or Capital and/or United TeleSystems Closed Joint Stock Company (OGRN 1047796779535, registered address: 27 Smolenskaya-Sennaya Sq., build. 2, Moscow, 119121, hereinafter "UTS") opened with the Depository of Sberbank of Russia OJSC, from the date of acquisition (from the date of acquisition by Communications Operator and/or Capital of shares in UTS), and up to the date of the pledge executed in favor of the Lender.

6.2.12. Beginning from October 1, 2009 and up to the date of full repayment of the facility, specified in Clause 1.1 hereof, to maintain the overall credit turnover on any of the Borrower's settlement and current currency accounts opened with the Lender and specified in Annex 1 hereto, in the amount of no less than Seventeen Billion (RUR 17,000,000,000) rubles in each calendar quarter, however, no loans, issue proceeds, conversions of own funds, or transfers of the same to pay under import contracts, no borrowings or repayments of the loans extended shall be taken into account in the abovementioned overall amount.

Quarterly credit turnover in foreign currencies on current currency accounts shall be converted into rubles at the average exchange rate of the relevant currency as quoted by the Bank of Russia. The average exchange rate is calculated as the simple average of exchange rates of foreign currencies to ruble quoted by the Bank of Russia, in a given calendar quarter.

For the purposes of Clause 6.2.12 hereof the Borrower shall provide to the Lender properly certified bank statements of all the Borrower's settlement and currency accounts opened with the Lender and specified in Annex 1 hereto, for each full calendar quarter, within Twenty (20) business days from the last day of the calendar quarter.

Lender

Borrower

Failure to provide the abovementioned information within the timing set forth herein shall constitute a default to maintain the credit turnover on the Borrower's settlement and current currency accounts opened with the Lender, referred to in the first paragraph of this clause.

6.2.13. Beginning from January 1, 2010 and up to the date of full repayment of the facility, specified in Clause 1.1 hereof, to ensure that Ukrainian Mobile Communications CJSC (Registered address: 15 Leipzig Str., Kiev, 01015, Ukraine, EGRPOU (enterprise identification code) 14333937, hereinafter, "Ukrainian Communications") maintain the credit turnover on all accounts opened with the Subsidiary Bank of Sberbank of Russia OJSC (Registered address: 46 Vladimirska Street, Kiev, 01034 Ukraine, hereinafter the "Subsidiary Bank") and specified in Annex 2 hereto, in the amount of no less than Five Hundred Million (UAH 500,000,000) hryvnas in each calendar quarter, however, no loans, issue proceeds, conversions of own funds, or transfers of the same, no borrowings or repayments of the loans extended shall be taken into account in the abovementioned overall amount.

Quarterly credit turnover in foreign currencies on current currency accounts shall be converted into hryvnas at the average exchange rate of the relevant currency as quoted by the National Bank of Ukraine. The average exchange rate is calculated as the simple average of exchange rates of foreign currencies to hryvna quoted by the National Bank of Ukraine, in a given calendar quarter.

For the purposes of Clause 6.2.13 hereof the Borrower shall provide to the Lender properly certified bank statements of all the settlement and currency accounts of Ukrainian Communications opened with the Subsidiary Bank and specified in Annex 2 hereto, for each full calendar quarter, within Twenty (20) business days from the last day of the calendar quarter.

Failure to provide the abovementioned information within the timing set forth herein shall constitute a default to maintain the credit turnover on the accounts, referred to in the first paragraph of this clause.

6.2.14. Within Ten (10) business days from the execution date of any bank account agreement in respect of opening by the Borrower with the Lender of a new settlement and/or current currency account, to inform the Lender in writing of the details of such new account and of its intention, should it be necessary, to amend accordingly Annex 1 hereto in connection with opening by the Borrower of a new settlement and/or current currency account with the Lender.

6.2.15. Within Ten (10) business days from the execution date of any bank account agreement in respect of opening by Ukrainian Communications with the Subsidiary Bank of a new account, to inform the Lender in writing of the details of such new account and of the intention, should it be necessary, to amend accordingly Annex 2 hereto in connection with opening by Ukrainian Communications of a new account with the Subsidiary Bank.

6.2.16. Within Ten (10) business days from the date of receipt of the relevant notice from the Lender, the Borrower shall provide any additional collateral, or repay unsecured amount of the facility if, during the term hereof, the pledged value of the pledged properties specified in Clause 6.2.4.1 hereof, becomes by more than Twelve (12%) per cent less than the balance of the principal hereunder as of the date of the Lender's notice referred to in this clause.

Article 7. Special Terms

7.1. The Borrower does not object to filing by the Lender of the Borrower's information with the bureau of credit histories, as specified in Clause 4 of Federal Law No. 218-FZ On Credit Histories, dated December 30, 2004.

7.2. The ratio of the Indebtedness of the MTS Group of Companies to OIBDA value determined for the Reporting Period, shall not exceed Three (3) during the whole term hereof.

The following terms shall be used herein for the abovementioned purposes:

"Indebtedness of the MTS Group of Companies" shall mean any indebtedness (the nominal amount of any principal/limit of liability under off-balance obligations) of the Borrower and/or its Subsidiaries:

1) under loans and credits obtained, bond issues, financial leasing agreements, any other forms of repayable borrowings received either for consideration or without the same;

Lender

Borrower

2) under issued suretyships and/or guarantees (except for suretyships and/or guarantees provided by Subsidiaries in respect of the borrowings made by the Borrower, and/or suretyships and/or guarantees provided by the Borrower in respect of the borrowings made by Subsidiaries), notes (guarantees of the same), as well as other contingent liabilities.

For the purposes of calculation of the Indebtedness of the MTS Group of Companies, any amount due to be paid or repaid and denominated in the currency other than US Dollars, shall be taken on this day into account in US Dollars at a cross-rate which would be used for preparation of the Financial Statements on this day in accordance with US GAAP applied to the Borrower's Financial Statements.

The Indebtedness of the MTS Group of Companies and OIBDA will be calculated on the basis of the Financial Statements of the MTS Group of Companies and will be denominated in US Dollars.

"Reporting Period" shall mean a period of Six (6) consecutive months ending on the last day of each financial year, or of the relevant Borrower's financial quarter.

"OIBDA" shall mean in respect of each Reporting Period, the aggregate consolidated income of the MTS Group of Companies in such Reporting Period, determined on the basis of the Financial Statements, that:

1) does not include inflows or outflows recorded in the statement of profits and losses in respect of: the minority interest, the income tax, other expenses/income, MTS Group of Companies' interest in net profit (net losses) of its associated companies or entities, interest expenses and any interest income received, as well as any currency exchange and translation gains (losses);

2) is increased by depreciation and amortization charges and assets impairment losses, included in the operating costs in the given Reporting Period and multiplied by Two (2).

7.3. The ratio of OIBDA to the value of the Income Expenses determined for the given Reporting Period, shall not exceed Five (5) during the whole term hereof.

The following term shall be used herein for the abovementioned purposes:

"Interest Expenses" shall mean in respect of each Reporting Period, the aggregate expenses to pay any interest, commissions and other financial charges (irrespective of whether they have been paid, are due or to be capitalized) accrued as payable by MTS Group of Companies in the relevant Reporting Period, reduced by the interest income of the MTS Group of Companies in such Reporting Period, payable in cash, determined on the basis of the Financial Statements and multiplied by Two (2).

The value of the Interest Expenses will be calculated on the basis of the Financial Statements and will be denominated in US Dollars.

7.4. During the whole term hereof the balance value of the Borrower's assets as of each reporting date calculated on the basis of its accounting statements prepared in accordance with the requirements of the RAS *Enterprise Accounting* as approved by Order of the Ministry of Finance of the Russian Federation No. 43n dated July 6, 1999, shall be no less than Two Hundred Billion (RUR 200,000,000,000) rubles.

7.5. During the whole term hereof the balance value of the assets secured (pledged) by the MTS Group of Companies (except for the security granted to the Lender) calculated in accordance with the Financial Statements as of the last reporting date shall not exceed Thirty (30%) per cent of the aggregate value of assets calculated in accordance with the Financial Statements as of the last reporting date.

7.6. The Borrower shall ensure that MTS Group of Companies shall hold valid licenses for the provision of cellular wireless telephony in GSM 900/1800 MHz range in Moscow, Moscow Region, and St. Petersburg, from the execution date hereof and up to the date of full repayment of the facility referred to in Clause 1.1 hereof.

For the purposes of this clause, at the execution hereof, the Borrower shall provide the Lender with the certified copies of the licenses for the provision of cellular wireless telephony in GSM 900/1800 MHz range in Moscow, Moscow Region, and St. Petersburg.

Lender

Borrower

Article 8. Term

8.1. The Agreement shall become effective on the date of its execution by the Parties and remain in full force and effect until the Parties fully perform their obligations hereunder.

Article 9. Miscellaneous

9.1. All changes and amendments hereto, except indicated in Clause 2.5, 5.1.1, and 5.1.2 hereof, shall be valid only if they are made in writing and signed by authorized representatives of the Parties.

9.2. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change before it is officially registered in its constituent documents.

In the event of any change in the bank details of either Party, such Party shall notify the other Party of such change before it becomes effective.

The Borrower shall notify the Lender of any changes in the membership or powers of its management bodies authorized to enter into any transactions on behalf of the Borrower, stamp impression, other information required by the Lender to duly perform its obligations hereunder, not later than the date when such change becomes effective, and subject to provision of the duly certified copies of the confirmation documents within Three (3) business days. In case of failure to perform or timely perform the abovementioned condition:

a) the Borrower shall pay a penalty in the amount of Ten Thousand (RUR 10,000) rubles. The penalty shall be paid within Five (5) business days from the date of receipt from the Lender of the relevant notice to pay the same (including such date of receipt).

b) the Lender shall bear no liability for any consequences of processing the Borrower's drawdown requests for the transfer of facility amounts from the facility account to the settlement account, signed by any unauthorized persons.

9.3. Any notice or other communication sent by the Parties to each other hereunder shall be made in writing. Such notice or communication shall be deemed duly given if delivered to the addressee by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as such other Party may specify in accordance with Clause 9.2 hereof) and signed by a duly authorized person.

9.4. Any and all disputes under this Agreement shall be resolved in accordance with the applicable laws of the Russian Federation by the Moscow Arbitrazh Court.

9.5. The Agreement is made in 2 counterparts having equal legal force: one counterpart shall be kept by the Lender, the other — by the Borrower.

Article 10. Annexes

10.1. Annex 1 — A list of settlement and current currency accounts of the Borrower on one (1) page constituting an integral part hereof.

10.2. Annex 2 — A list of settlement and current currency accounts of Ukrainian Communications on one (1) page constituting an integral part hereof.

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Borrower

Mobile TeleSystems Open Joint Stock Company

Lender

Borrower

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel: (495) 957 57 75, fax: (495) 957 55 61
Account details for payments in rubles: corr. acc. #
3010181040000000225 maintained by Sberbank of
Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of
Russia, BIC 044525225, INN 7707083893
Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow Bank of New York: New York, NY, SWIFT
IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow,
Russia, SWIFT: SABRRUMM

Registered/mailing address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel: (495) 223 21 64, fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124,
KPP 770901001, OKPO 52686811
Account details for payments in rubles:
s/a. #40702810100020008293 with the Transaction Department of
Sberbank of Russia,
corr. acc. #3010181040000000225 maintained by Sberbank of
Russia with the Transaction Department of the Moscow Principal
Territorial Branch of the Bank of Russia,
BIC 044525225,
Account details for payments in foreign currencies:
Curr. foreign-currency acc. #40702840400020008293 with the
Transaction Department of Sberbank of Russia,
Bank of New York, New York, acc. #8900057610

Signatures of the Parties

Lender
Vice-President - Head of the Major Clients Department of
Sberbank of Russia OJSC

_____ A.V. Bazarov

Seal here

Borrower
President of MTS OJSC

_____ M.V. Shamolin

Seal here

Lender

Borrower

List of Settlement and Current Currency Accounts of Mobile TeleSystems OJSC

No.	Account number:	Account currency	Type of account	Sberbank of Russia Unit	Bank Account Agreement Number	Bank Account Agreement Date
1	40702810100020008293	RUR	settlement	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702810100020008293	August 12, 2009
2	40702810738050011729	RUR	settlement	Maryina Roscha Branch No. 7981 of Sberbank of Russia, OJSC	40702810738050011729	March 10, 2009
3	40702840400020008293	USD	current	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702840400020008293	August 12, 2009
4	40702978000020008293	EURO	current	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702978000020008293	August 12, 2009

Signatures of the Parties

Lender

Vice-President - Head of the Major Clients Department of
Sberbank of Russia OJSC

_____ A.V. Bazarov

Seal here

Borrower

President of MTS OJSC

_____ M.V. Shamoli

Seal here

_____ **Lender**

_____ **Borrower**

List of settlement and current currency accounts of Ukrainian Communications

<u>No.</u>	<u>Account number:</u>	<u>Account currency</u>	<u>Type of account</u>	<u>Sberbank of Russia Unit</u>	<u>Bank Account Agreement Number</u>	<u>Bank Account Agreement Date</u>
1	260090132615	multi-currency	current	SUBSIDIARY BANK OF SBERBANK OF RUSSIA, OJSC, 46 Vladimirskaya Str. Kiev, 01034	No. RKO32615	August 18, 2009

Signatures of the Parties

Lender

Vice-President - Head of the Major Clients Department of Sberbank of Russia OJSC

_____ A.V. Bazarov

Seal here

Borrower

President of MTS OJSC

_____ M.V. Shamoli

Seal here

Lender

Borrower

PROPERTY PLEDGE AGREEMENT
No. Z-9656/1

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, on the one part, and **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

Article 1. Scope of Agreement

- 1.1 Under this Agreement, the Pledger shall pledge to the Pledgee certain telecommunications equipment beneficially owned by the Pledger (the "**Pledged Properties**") as listed and described in terms of their quantity and qualitative characteristics in the Specification attached hereto as Annex 1 and constituting an integral part hereof.
- 1.2 The Pledged Properties have not been pledged, assigned or subjected to any dispute or seizure as of the effective date of this Agreement.
- 1.3 The net book value of the Pledged Properties has been determined based on the accounting data as of September 1, 2009 to amount to thirty billion four hundred and sixty-four thousand four hundred and fourteen rubles and fifty-two kopecks (RUR 30,000,464,414.52).
- 1.4 The Parties have agreed to value the Pledged Properties at twenty-one billion three hundred and twenty-five thousand ninety rubles and sixteen kopecks (RUR 21,000,325,090.16).

Article 2. Obligations Secured by the Pledge

- 2.1 The Pledged Properties shall secure the Pledger's obligations under Non-revolving Credit facility Agreement No. 9656 dated September , 2009 made by and between the Pledger (as the "Borrower") and the Pledgee (as the "Lender") (the "**Loan Agreement**").
- 2.2 The Borrower's obligations secured by this Agreement shall include, but not limited to, those to repay the amount of the loan and pay the loan interest, commitment fee, loan administration fees and any penalties payable under the Loan Agreement as well as any losses which may be inflicted on the Lender by any failure by the Borrower to perform or duly perform any of its obligations thereunder as well as the Borrower's obligations to reimburse the Lender for any legal and other debt collection costs, including any costs required to maintain the Pledged Properties.
- 2.3 The Pledger is aware of all of the terms of the Loan Agreement and hereby agrees to be liable for the Borrower's obligations under the Loan Agreement to the extent of the Pledged Properties, in particular on the following terms:

For the Pledgee:

For the Pledger:

- 2.3.1 Under the Loan Agreement, a non-revolving credit facility has been provided to the Borrower with a limit amounting to twenty-five billion rubles (RUR 25,000,000,000) for the period ending on September , 2013 to fund the purchase, whether direct or indirect, of shares in Comstar United TeleSystems OJSC and the Borrower's 2009 Investment Program.
- 2.3.2 The Borrower shall pay the Lender a loan interest at a variable interest rate to be determined in accordance with Article 2.5 of the Loan Agreement to be not more than seventeen percent (17%) per annum but not less than sixteen percent (16%) per annum.
- 2.3.3 The loan interest shall be payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on September , 2013.
- 2.3.4 The Borrower shall pay the Lender a commitment fee amounting to two percent (2%) per annum. Such commitment fee shall be accrued on the undrawn amounts of each tranche for the period from the first drawdown date of such tranche (excluding that date) as specified in Article 2.7 of the Loan Agreement through the last drawdown date of such tranche as specified in Article 2.7 of the Loan Agreement.
- 2.3.5 The commitment fee shall be payable on a monthly basis, on the 27th day of each month, and on the end date of the availability period on September 30, 2009.
- 2.3.6 The Borrower shall pay the Lender a loan administration fee amounting to naught point twenty-five percent (0.25%) per annum of the actual debt owed for the loan.

The loan administration fee shall be payable in cash in the national currency of the Russian Federation under payment orders to be issued by the Borrower, from its current account No. 40702810100020008293 maintained with the Transaction Department of Sberbank of Russia OJSC and from any other banks accounts of the Borrower on such dates and for such periods as specified in Article 2.6 of the Loan Agreement for interest payments.

- 2.3.7 The loan shall be repayable in accordance with the following schedule:

<u>No.</u>	<u>Repayment date</u>	<u>Amount of payment as a share of the total debt as of the end date of the availability period (September 30, 2009)</u>
1	March 27, 2012	One seventh (1/7)
2	June 27, 2012	One seventh (1/7)
3	September 27, 2012	One seventh (1/7)
4	December 27, 2012	One seventh (1/7)
5	March 27, 2013	One seventh (1/7)
6	June 27, 2013	One seventh (1/7)
7	September , 2013	One seventh (1/7)

- 2.3.8 Should the Borrower delay in making any payment to repay the loan or pay any loan interest, commitment fee or loan administration fee, the Borrower shall pay the Lender a penalty amounting to twice the refinancing rate set by the Bank of Russia in percent per annum to be applied to the amount of the overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

For the Pledgee:

For the Pledger:

2.3.9 The Lender may unilaterally, at its sole discretion, increase the interest rate specified in Article 2.5 of the Loan Agreement for the period from the execution date of the Loan Agreement through March 27, 2010 as well as the Base Rate set by Article 2.5 of the Loan Agreement for the period from March 28, 2010 through the final repayment date specified in Article 1.1 of the Loan Agreement, including, but not limited to, in the event that the Bank of Russia decides to increase its discount (refinancing) rate, upon notice to the Borrower of such increase but without the need to execute any addendum to the Loan Agreement for such increase to become effective. If the Lender unilaterally increases the interest rate, such increase shall become effective sixty (60) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated in such notice.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof.

Article 3. Rights and Obligations of the Parties

3.1 The Pledger shall be obligated as follows:

3.1.1 The Pledger shall take whatever measures may be deemed fit in the current circumstances to ensure the safekeeping of the Pledged Properties, including any current repairs or overhauls thereof.

The Pledger shall solely bear all the risks related to the safekeeping of the Pledged Properties.

3.1.2 The Pledger may not sell, exchange, present, grant on lease, financial lease or in trust, invest, re-pledge, assign, alienate or otherwise dispose of the Pledged Properties without prior written consent of the Pledgee until the Borrower fully performs all of its obligations under the Loan Agreement.

3.1.3 The Pledger may not take any action resulting in any modification or termination of the Pledged Properties or any decrease in the value thereof other than that resulting from the depreciation of the Pledged Properties in the course of normal business operation thereof.

3.1.4 The Pledger may not make any design changes in the Pledged Properties. If any actions taken by the Pledger in respect of the properties specified in the Specification attached hereto as Annex 1 result in the emergence of any new property, the Pledger shall notify the Pledgee on such emergence and sign an addendum to this Agreement to clarify the list of the Pledged Properties within ten (10) business days of the earlier of the date on which an inventory number is assigned to such new property or the date on which such new property is recorded in the Pledger's books.

3.1.5 The Pledger shall immediately notify the Pledgee on any emerging threat of loss of or damage to the Pledged Properties.

3.1.6 The Pledger shall immediately make the Pledged Properties available to the Pledgee for inspection at the place where they are actually located or furnish to the Pledgee any additional documents or information concerning the Pledged Properties as may be

For the Pledgee:

For the Pledger:

requested by the Pledgee within ten (10) business days of the receipt date of such request sent by fax, telex, telegram or registered mail with return receipt requested.

3.1.7 The Pledger shall immediately notify the Pledgee on any change (other than natural wear and tear) in, any third-party infringement committed in respect of, or any third-party claim raised against the Pledged Properties.

3.1.8 The Pledger shall keep a book of pledges and within ten (10) business days of the execution date of this Agreement make a record therein describing the Pledged Properties and the extent to which the Borrower's obligations under the Loan Agreement are secured by the Pledged Properties.

The Pledger shall make such book of pledges available to the Pledgee for review upon its request in writing; provided, however, that the Pledger shall be responsible for ensuring that the information concerning the Pledged Properties is entered into such book in due time and is true.

3.1.9 Upon request of the Pledgee, the Pledger shall replace the Pledged Properties with any property of equal value within thirty (30) calendar days of the date of such request if any real threat of loss or shortage of the Pledged Properties emerges not through the Pledgee's fault or if the Pledged Properties gets lost or damaged or title thereto is terminated for any ground provided for by law.

3.1.10 When executing this Agreement, the Pledger shall furnish to the Pledgee copies of any documents duly certified by the Pledger as proof of the Pledger's title to the Pledged Properties or any other documents as may be needed to operate the Pledged Properties.

3.1.11 Upon request of the Pledgee, the Pledger shall provide to the Pledgee any reasonably necessary information concerning the Pledged Properties within thirty (30) business days of the date of such request.

3.1.12 If any force liquidation or bankruptcy proceeding is instituted against the Pledger, the Pledger shall notify the Pledgee in writing on the application for such proceeding filed with the arbitration court within three (3) business days of the date of receipt of a copy of such application from the applicant.

3.1.13 The Pledged Properties are located at the addresses stated in Annex 1 hereto. Those addresses may not be changed without consent of the Pledgee except for:

- any relocation of those Pledged Properties or any part thereof located at the Pledger's warehouse as of the execution date hereof from such warehouse to the place of subsequent operation; or
- any relocation of those Pledged Properties or any part thereof located at the places where they are operated by the Pledger at those addresses stated in Annex 1 hereto as of the execution date hereof to any other place of operation due to any operational need in order to ensure operability of the network or enhance the communication quality; or
- any relocation of those Pledged Properties or any part thereof located at the places where they are operated by the Pledger at those addresses stated in Annex 1 hereto as of the execution date hereof for carrying out any repair if such repair cannot be carried out at such addresses.

For the Pledgee:

For the Pledger:

The Pledger shall notify the Pledgee in writing no later than on the twentieth (20th) day of the first month of each calendar quarter of those Pledged Properties or any part thereof relocated in the preceding calendar quarter as well as their location, place of subsequent operation and inventory numbers.

- 3.1.14 The Pledger shall be fully liable for the Pledged Properties and bear all risks of accidental loss thereof or damage thereto.
- 3.1.15 The Pledger shall warn the Pledgee on any potential risks to which the Pledged Properties may be exposed, including those arising out of the Pledger's business operations or any other events affecting the condition of the Pledged Properties.
- 3.1.16 The Pledger hereby confirms that the Pledged Properties have not been sold, pledged or subjected to any dispute, seizure or third-party rights as of the execution date hereof. The Pledger shall take any lawful steps practicable to prevent the Pledged Properties from being seized by any competent authorities and to protect the same against any third-party claims throughout the term of the Loan Agreement.
- 3.1.17 Should the Pledged Properties pledged in accordance with Article 1.1 above or any part thereof be recognized to be subject to registration with Gostekhnadzor, the Pledger shall register its title thereto under the applicable laws of the Russian Federation with Gostekhnadzor within thirty (30) calendar days of the date of receipt of the relevant written request from the Pledgee or the date of such recognition. The Pledger shall bear all costs related to such registration.
- 3.1.18 Should the Pledged Properties pledged in accordance with Article 1.1 above or any part thereof be recognized to constitute a real property, the Pledger shall enter into a pledge agreement in respect of such real property and cause such pledge agreement to be registered under the applicable laws of the Russian Federation within forty-five (45) calendar days of the date of receipt of a written request for entering into such pledge agreement from the Pledgee or the date of such recognition. The Pledger shall bear all costs related to such registration.

3.2 The Pledger shall have the right to:

- 3.2.1 Use the Pledged Properties for their intended purpose while ensuring their safety and integrity.
- 3.2.2 Stop recovery of the Pledged Properties at any time before they are sold by performing its obligations secured by the Pledged Properties.

3.3 The Pledgee shall have the right to:

- 3.3.1 Check, against documents and in practice, the availability, quantity, condition and terms of use of the Pledged Properties and request any documents as may be needed to do that.
- 3.3.2 Be involved as a third party in any case concerning any claim against the Pledged Properties.

For the Pledgee:

For the Pledger:

- 3.3.3 Recover the Pledged Properties before the obligations secured thereby become mature where permitted by the applicable laws of the Russian Federation and the Loan Agreement.
- 3.3.4 Demand the Pledger to early perform its obligations where permitted by the applicable laws of the Russian Federation.
- 3.3.5 Put its signs and seals onto the Pledged Properties to separate them from a plenty of similar pledged items and suspend any transactions with the Pledged Properties from being carried out if the Pledger fails to perform its obligations hereunder until the Pledger rectifies such failure.
- 3.3.6 Review the Pledger's book of pledges.

Article 4. Liability of the Parties

- 4.1 The Parties may be held liable under the applicable laws of the Russian Federation for any failure to perform or duly perform any of their respective obligations hereunder.
- 4.2 If the Pledger fails to perform any of its obligations under Articles 3.1.1, 3.1.2, 3.1.3, 3.1.4, 3.1.5, 3.1.8, 3.1.13, 3.1.15 and 3.1.16 above, the Pledger shall pay the Pledgee a penalty amounting to naught point one percent (0.1%) of the pledge value of the Pledged Properties as stated in Article 1.4 above within ten (10) business days of the date of receipt of a written request to pay such penalty from the Pledgee.
- 4.3 If the Pledger fails to perform any of its obligations under Articles 3.1.6, 3.1.7, 3.1.9, 3.1.11, 3.1.12, 3.1.17 or 3.1.18 above, the Pledger shall pay the Pledgee a penalty amounting to naught point naught five percent (0.05%) per day of the pledge value of the Pledged Properties as stated in Article 1.4 above for each day of such failure.
- 4.4 No payment of any penalty shall release the Pledger from any of its obligations hereunder.

Article 5. Miscellaneous

- 5.1 The Parties hereby agree that the Pledged Properties described in Article 1 above, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the Extrajudicial Recovery Agreement made in respect of the Pledged Properties.
- 5.2 All proceeds from the sale of the Pledged Properties to repay the debt owed by the Borrower to the Lender under the Loan Agreement shall be applied to cover any legal or other costs as may be incurred by the Lender to collect such debt.

Any proceeds remaining after such legal or other costs incurred by the Lender to collect such debt are covered shall be applied in the following order of priority, irrespective of the purpose of payment stated in the relevant payment order:

- (1) to repay the debt owed by the Borrower to the Lender under the Loan Agreement in accordance with the payment schedule specified by the Loan Agreement; and
- (2) to pay the penalties payable by the Pledger hereunder.

For the Pledgee:

For the Pledger:

Any proceeds remaining after the legal or other costs incurred by the Lender to collect the debt are covered, the debt under the Loan Agreement fully repaid and the penalties payable hereunder paid shall be transferred to the Pledger.

Article 6. Special Terms

- 6.1 In the event that the Borrower performs only part of its obligations secured by the pledge hereunder, the pledge shall remain in full force and effect in its original volume until the Borrower duly performs all of its obligations secured by the Pledged Properties.
- 6.2 The pledge hereunder shall remain in full force and effect if the Pledgee duly assigns its claims secured by the Pledged Properties to any third party; provided, however, that:
 - the Pledgee may assign any of its rights hereunder without the Pledger’s consent in accordance with the applicable claim assignment rules; and
 - the Pledger may not assign, whether in whole or in part, any of its rights hereunder without the Pledgee’s written consent.

Article 7. Term

- 7.1 This Agreement shall become effective on the date of its signing by both Parties and remain in full force and effect until the Borrower fully performs all of its obligations under the Loan Agreement and the Pledger fully performs all of its obligations hereunder.

Article 8. Concluding Provisions

- 8.1 Any relations between the Parties which are not covered by this Agreement shall be governed by the applicable laws of the Russian Federation.
- 8.2 Any and all disputes arising out of or related to this Agreement shall be resolved by the Moscow Arbitration Court under the applicable laws of the Russian Federation.
- 8.3 The Parties may not be held liable for any failure to perform, whether in whole or in part, any of their respective obligations hereunder if such failure is caused by any *force majeure* circumstances such as an earthquake, flood, fire, governmental resolution or order, or military actions, which prevents the Parties from performing their respective obligations hereunder and occurs after the execution date hereof as a result of any extraordinary event which the Parties could neither foresee nor prevent.

A Party referring to any *force majeure* circumstances shall immediately, but in no case later than three (3) business days following the occurrence of such circumstances, notify the other Party in writing on the occurrence of such circumstances.

After such circumstances cease to continue, the Parties may be held financially liable hereunder; provided, however, that the Parties may not be held liable for any failure to perform any of their respective obligations hereunder in the period during which such circumstances continued.

For the Pledgee:

For the Pledger:

- 8.4 Any agreement to amend or terminate this Agreement shall be made in writing by executing addenda hereto to be signed by duly authorized representatives of both Parties.
- 8.5 In the event of any change in the registered address of either Party, such Party shall notify the other Party of such change before the amendment made to its constituent documents to reflect such change is officially registered, but in no case later than five (5) business days after the date on which such change actually occurs.
- In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change before such change takes effect, but in no case later than five (5) business days after the date on which such change actually occurs.
- 8.6 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 8.5 above) and signed by a duly authorized representative of the giving or sending Party.
- 8.7 This Agreement is made in two (2) counterparts of equal legal effect, one for each of the Pledgee and the Pledger.

Article 9. Annexes

- 9.1 Annex 1 (*Specification*) containing one hundred and ninety-three (193) pages shall constitute an integral part hereof.

For the Pledgee:

For the Pledger:

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT
IRVT US 3N, acc. #890-0057-610 Sberbank,
Moscow, Russia, SWIFT: SABRRUMM

The Pledger:

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel.: (495) 223 21 64
Fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124,
KPP 770901001, OKPO 52686811

Account details for payments in rubles:
Curr. acc. #40702810100020008293 with the Transaction
Department of Sberbank of Russia,
corr. acc. #30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225

Account details for payments in foreign currencies:
Curr. foreign-currency acc. #40702840400020008293 with
the Transaction Department of Sberbank of Russia,
Bank of New York, New York, acc. #8900057610

Signatures of the Parties

For the Pledgee:

A.V. Bazarov
Vice President and Director of the Key Accounts
Department, Sberbank of Russia OJSC

Seal here

For the Pledgee:

For the Pledger:

M.V. Shamolin
President, Mobile TeleSystems OJSC

Seal here

For the Pledger:

Out-of-Court Enforcement Agreement
in Respect of the Properties Pledged under Property Pledge Agreement No. Z-9656/1
dated September , 2009

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, on the one part, and **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

1. The Pledgee may have its claims satisfied from those properties pledged under Property Pledge Agreement No. Z-9656/1 dated September , 2009 (the "**Pledge Agreement**") made by and between the Pledgee and the Pledger without going to court (Out-of-Courtly).
2. Under this Agreement, the Parties shall agree on a procedure for Out-of-Courtly recovering those properties pledged under the Pledge Agreement as listed in Annex 1 hereto (the "**Pledged Properties**").

The Pledged Properties shall secure the performance of the Borrower's obligations under Non-revolving Loan Facility Agreement No. 9656 dated September , 2009 (the "**Loan Agreement**") made by and between the Pledgee (as the "Lender") and the Pledger (as the "Borrower").

3. In the event that the Borrower fails to perform or duly perform any of its obligations under the Loan Agreement, the Pledgee may at its sole discretion either take ownership of or sell the Pledged Properties. The Pledgee shall notify the Pledger in accordance with the procedure established by the applicable laws of the Russian Federation on its beginning to recover the Pledged Properties.
4. The Pledgee may take ownership of the Pledged Properties on the following terms:
 - 4.1 The price at which the Pledgee will take ownership of the Pledged Properties shall be determined by an independent appraiser to be chosen and engaged by the Pledgee at its sole option from the following companies: PricewaterhouseCoopers Audit CJSC, KPMG CJSC, Deloitte & Touche CIS CJSC and Ernst & Young LLC;
 - 4.2 Should the purchase price determined in accordance with Article 4.1 above, including any costs that may be incurred by the Pledgee to acquire the Pledged Properties, exceed the debt owed by the Borrower to the Pledgee, the Pledgee shall transfer the difference to the bank account to be opened by the Pledger with the Pledgee and specified by the Pledger to the Pledgee within three (3) business days of the date on which the ownership of the Pledged Properties is transferred from the Pledger to the Pledgee.
5. The Pledgee may sell the Pledged Properties on the following terms:
 - 5.1 The Pledgee may sell the Pledged Properties at its sole discretion either through an auction to be held under the laws of the Russian Federation or to any third party direct

For the Pledgee:

For the Pledger:

without holding an auction, *inter alia*, under a commission agreement to be made by and between the Pledgee and a commission agent to be chosen by the Pledger without consultation with the Pledger.

- 5.2 The Pledgee may sell the Pledged Properties upon expiry of the earlier of ten (10) calendar days from the date of receipt by the Pledger of the notice mentioned in Article 3 above or forty-five (45) calendar days from the date on which the Pledgee or the auction arranger gives such notice to the Pledger. The Pledgee may sell the Pledged Properties before expiry of the above periods if the Pledged Properties are exposed to a material risk of loss or damage of the Pledged Properties or devaluation of the same as compared to the price (initial selling price) stated in the notice.
- 5.3 The initial selling price of the Pledged Properties shall amount to 90% of their market value to be determined by an independent appraiser to be chosen and engaged by the Pledgee at its sole option from the following companies: PricewaterhouseCoopers Audit CJSC, KPMG CJSC, Deloitte & Touche CIS CJSC and Ernst & Young LLC.
- 5.4 The auction arranger's or commission agent's fee not exceeding three percent (3%) of the proceeds from the sale of the Pledged Properties shall be withheld by the Pledgee from such proceeds. If such fee exceeds three percent (3%) of the proceeds from the sale of the Pledged Properties, the difference shall be paid by the Pledgee.
- 5.5 Under this Agreement, if the Pledgee opts to sell the Pledged Properties, the Pledgee shall do so within three (3) months of the date on which it becomes entitled to sell the Pledged Properties as determined under Article 5.2 above.
- 5.6 The Pledgee shall transfer any amount by which the proceeds from the sale of the Pledged Properties less any costs that may be incurred by the Pledgee to sell the Pledged Properties exceed the debt owed by the Borrower to the Pledgee to the bank account to be opened by the Pledger with the Pledgee and specified by the Pledger to the Pledgee within three (3) business days of the date on which such proceeds were received by the Pledgee.
- 5.7 In the event that the Pledgee sells the Pledged Properties to any third party direct without holding an auction or making a commission agreement, the Pledgee shall send to the Pledger a copy of the purchase agreement made with such third party as certified by the Pledgee within five (5) business days of the execution date of such purchase agreement.
- 5.8 The Pledger shall deliver the Pledged Properties to the purchaser within three (3) business days of the date of receipt of a copy of the purchase agreement as certified by the Pledgee.
6. For the purpose of Enforcement of the Pledged Properties, the Pledgee shall have the right to make on its own behalf any transactions as may be necessary to do that and within its legal capacity, including, but not limited to, any transactions with the auction arranger, commission agent or independent appraiser, and sign any necessary documents, including, but not limited to, any contracts, agreements, acceptance reports, transfer orders, etc.
7. Upon request of the Pledgee, the Pledger shall transfer the Pledged Properties to the Pledgee within three (3) business days of the date of receipt of such request.

For the Pledgee:

For the Pledger:

8. Upon request of the Pledgee, the Pledger shall make the Pledged Properties available for appraisal by an independent appraiser within three (3) business days of the date of receipt of such request.
9. If the Pledgee does not sell the Pledged Properties within the period specified in Article 5.5 above, the Pledger may demand that the Pledged Properties be recovered through court proceedings.
10. Any notice, statement or other communication given, made or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if sent by telegram or registered mail with return receipt requested or delivered by hand to the mailing address of such other Party as stated in the Pledged Agreement or, if given, made or sent to the Pledger, to such other address as may be specified by the Pledger in accordance with Article 8.5 of the Pledge Agreement.
11. Any amendment or addendum to this Agreement shall only be valid if made in writing and signed by duly authorized representatives of both Parties.
12. Any and all disputes arising out of or related to this Agreement shall be resolved by the Moscow Arbitration Court under the applicable laws of the Russian Federation.
13. This Agreement shall become effective on the date of its signing by both Parties and terminate on the occurrence of any of the following two events: the Pledger fully performs all of its obligations under the Pledge Agreement or the Borrower fully performs all of its obligations under the Loan Agreement.
14. This Agreement is made in two (2) counterparts of equal legal effect, one for the Pledgee and the other one for the Pledger.

For the Pledgee:

For the Pledger:

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel.: (495) 223 21 64
Fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124,
KPP 770901001, OKPO 52686811

Account details for payments in rubles:
Curr. acc. #40702810100020008293 with the Transaction
Department of Sberbank of Russia, corr. acc.
#30101810400000000225 maintained by Sberbank of
Russia with the Transaction Department of the Moscow
Principal Territorial Branch of the Bank of Russia, BIC
044525225

Account details for payments in foreign currencies:
Curr. foreign-currency acc. #40702840400020008293 with
the Transaction Department of Sberbank of Russia,
Bank of New York, New York, acc. #8900057610

Signatures of the Parties

For the Pledgee:

A.V. Bazarov
Vice President and Director of the Key Accounts
Department, Sberbank of Russia OJSC

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For the Pledgee:

For the Pledger:

M.V. Shamolin
President, Mobile TeleSystems OJSC

Seal here

For the Pledger:

[On Sberbank's letterhead]

Agreement No. 9656-BS

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Bank**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, on the one part, and **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Client**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

In consideration of Articles 2.3.2, 5.1.4 and 5.1.5 of Non-revolving Credit facility Agreement No. 9656 dated September , 2009 made by and between the Client (as the "Borrower") and the Bank (as the "Lender") (the "**Loan Agreement**"), the Parties hereby agree to amend Bank Account Agreement No. 40702810100020008293 dated August 12, 2009, Bank Account Agreement No. 40702840400020008293 dated August 12, 2009, Bank Account Agreement No. 40702978000020008293 dated August 12, 2009 and Bank Account Agreement No. 40702810738050011729 dated March 10, 2009 as follows:

1. The Bank shall have the right to withdraw, without any acceptance by or any further instruction from the Client, any amounts of money, whether immediately or as available, in repayment of any past due debt owed by the Borrower to the Lender (including the principal amount of the loan, loan interest and any other payments) and/or in payment of any penalties payable by the Borrower to the Lender under the Loan Agreement, to the extent of the amounts of such past due debt and penalties:
 - from current account #40702810100020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC and current account #40702810738050011729 maintained by the Client with Mariina Roscha Branch Office No. 7981 of Sberbank of Russia OJSC;
 - if the funds kept on the current accounts mentioned above are insufficient for such repayment, from current foreign-currency account #40702840400020008293 and current foreign-currency account #40702978000020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC and convert such amounts into rubles on the conversion terms set by the Bank for the date of such conversion, with the amounts resulting from such conversion to be credited on current account #40702810100020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC.
2. This Agreement shall constitute an instruction from the Client to the Bank to independently fill in any certificates for those foreign-currency transactions made hereunder in accordance with the regulations of the Bank of Russia.
3. The Bank shall return any amounts excessively withdrawn without acceptance hereunder to those accounts specified in Article 1 above no later than on the next business day following the withdrawal date.

For the Bank:

For the Client:

Agreement No. 9656-BS dated September , 2009

4. This Agreement shall become effective on the date of its signing by both Parties and terminate on the date on which the Client fully performs all of its obligations to the Bank under the Loan Agreement. This Agreement shall constitute an integral part of Bank Account Agreement No. 40702810100020008293 dated August 12, 2009, Bank Account Agreement No. 40702840400020008293 dated August 12, 2009, Bank Account Agreement No. 40702978000020008293 dated August 12, 2009 and Bank Account Agreement No. 40702810738050011729 dated March 10, 2009.
5. This Agreement is made in two (2) counterparts of equal legal effect, one for the Bank and the other one for the Client.

Addresses and Bank Account Details of the Parties

The Bank:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

For the Bank:

The Client:

Mobile TeleSystems Open Joint Stock Company

Registered/mailling address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel.: (495) 223 21 64
Fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124,
KPP 770901001, OKPO 52686811

Account details for payments in rubles:
Curr. acc. #40702810100020008293 with the Transaction
Department of Sberbank of Russia, corr. acc.
#30101810400000000225 maintained by Sberbank of
Russia with the Transaction Department of the Moscow
Principal Territorial Branch of the Bank of Russia, BIC
044525225

Account details for payments in foreign currencies:
Curr. foreign-currency acc. #40702840400020008293 with
the Transaction Department of Sberbank of Russia,
Bank of New York, New York, acc. #8900057610

For the Client:

Agreement No. 9656-BS dated September , 2009

Signatures of the Parties

For the Bank:

For the Client:

A.V. Bazarov
Vice President and Director of the Key Accounts
Department, Sberbank of Russia OJSC

M.V. Shamolin
President, Mobile TeleSystems OJSC

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Seal here

I.R. Borisenkova
Chief Accountant, Mobile TeleSystems OJSC

For the Bank:

For the Client:

AGREEMENT No. 9656-BS/MBRD

City of Moscow

, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Lender**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Client**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, and **Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company)** hereinafter referred to as the "**Bank**," represented by Mr. Andrey Vitalievich Sergiyenko, Director of its Corporate Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. I-24-665/8-(0) dated December 30, 2008, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

In consideration of Articles 2.3.2, 5.1.4 and 5.1.5 of Non-revolving Credit Facility Agreement No. 9656 dated September , 2009 made by and between the Lender and the Client (the "**Loan Agreement**"), the Parties hereby agree as follows:

1. The Client hereby authorizes the Bank to withdraw, without any acceptance by or any further instruction from the Client, any amounts from current account #4070281000000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company), upon a payment request from the Lender containing a reference to this Agreement and Articles 2.3.2, 5.1.4 and 5.1.5 of the Loan Agreement, in repayment of any past due debt owed by the Client to the Lender under the Loan Agreement (including the principal amount of the loan, loan interest and any other payments) and in payment of any penalties payable by the Client to the Lender under the Loan, to the extent of the amounts of such past due debt and penalties, and transfer such amounts to the bank account specified in such payment request.
 2. Upon receipt of any payment request from the Lender, the Bank shall withdraw the amount stated therein from the Client's current account specified in Article 1 above and transfer such amount to the bank account specified in such payment request within one (1) transaction day of the receipt date thereof. If no funds are kept on the Client's current account specified in Article 1 above or if the funds kept thereon are insufficient to meet the Lender's claim, the Bank shall transfer the missing funds to the Lender as they are credited onto such current account.
 3. If the funds kept on the Client's current account specified in Article 1 above are insufficient to repay the debt owed by the Client to the Lender as stated in the payment request from the Lender, the Client shall authorize the Bank to sell, no later than on the next transaction day following the receipt date of such request, the foreign-currency funds kept on foreign-currency account #40702840300000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company) on the conversion terms set by the Bank for the date of such transaction and transfer the proceeds from the sale of such funds to current account #4070281000000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company).
 4. The Lender shall notify the Bank in writing when the Client fully performs all of its obligations under the Loan Agreement no later than on the next business day following the date of such performance.
 5. This Agreement shall constitute an instruction from the Client to the Bank to independently fill in any certificates for those foreign-currency transactions made hereunder in accordance with the regulations of the Bank of Russia.
-

6. If any other account is opened for the Client with the Bank, the Client shall notify the Lender in writing of such opening within three (3) business days of the date on which the Bank gives notice of such opening or the date on which the information letter confirming receipt of the notice of such opening is filed with the local branch of the Federal Tax Service. Within five (5) business days of the date of receipt by the Lender of the notice of such opening, the Bank, the Client and the Lender shall make an additional agreement authorizing the Bank to withdraw without acceptance any amounts in favor of the Lender from such other account opened for the Client with the Bank in addition to those stated herein.
7. The Lender shall return any amounts excessively withdrawn without acceptance hereunder to those accounts specified in Articles 1 and 3 above no later than on the next business day following the date on which such amounts were credited on the Lender's correspondent account.
8. This Agreement shall become effective on the date of its signing by the Parties and terminate on the date on which the Client fully discharges all of its obligations under the Lender under the Loan Agreement. This Agreement shall constitute an integral part of Bank Account Agreement No. 1517 dated July 3, 2000 and Bank Account Agreement No. 1555 dated July 3, 2000.
9. This Agreement may be amended or terminated by agreement of the Parties.
10. This Agreement is made in three (3) counterparts of equal legal effect, one for each of the Parties.

Addresses and Bank Account Details of the Parties:

The Lender:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia, Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

For the Lender:

For the Client:

For the Bank:

The Bank:

Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company)

Registered/mailing address:

9 Kuznetsky Most, bldg. 1, Moscow 103031, Russian Federation

INN 7702045051,

Corr. acc. # 301018106000000232 with the Transaction Department of the Principal Branch of the Russian Federation Central Bank, BIC 044525232

The Client:

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:

4 Marksistskaya Str., Moscow 109147, Russian Federation

Tel.: (495) 223 21 64

Fax: (495) 223 21 68

INN 7740000076, OGRN 1027700149124,

KPP 770901001, OKPO 52686811

Account details for payments in rubles:

Curr. acc. #40702810100020008293 with the Transaction Department of Sberbank of Russia,

corr. acc. #3010181040000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225

Account details for payments in foreign currencies:

Curr. foreign-currency acc. #40702840400020008293 with the Transaction Department of Sberbank of Russia,

Bank of New York, New York, acc. #8900057610

For the Lender:

For the Client:

For the Bank:

For the Lender:

A.V. Bazarov
Vice President and Director of the Key
Accounts Department, Sberbank of
Russia OJSC

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For the Lender:

For the Client:

Mikhail Valerievich Shamolin,
President, Mobile TeleSystems
OJSC

Seal here

[•]
Chief Accountant, Mobile
TeleSystems OJSC

Seal here

For the Client:

For the Bank:

Andrey Vitalievich Sergiyenko,
Director of the Corporate Accounts
Department, Joint Stock Commercial
Moscow Bank for Reconstruction and
Development (Open Joint Stock
Company)

Seal here

For the Bank:

Schedule No. 1 to Property Pledge Agreement No. Z-9656/1

The following is an English summary of the Russian language document in accordance with Exchange Act Rule 12b-12(d).

Schedule No. 1 to the Property Pledge Agreement No. Z-9656/1 entered into between MTS and Sberbank on September 25, 2009 lists assets pledged under the credit facility. These assets are comprised entirely of equipment.

The specification includes 9,395 items for the total net book value of approximately RUR30 billion as of September 1, 2009, and the total agreed discounted pledge value of approximately RUR21 billion. The description of each list item includes the relevant asset's identification number, full title, location, net book value as of September 1, 2009, discount percentage and agreed pledge value.

The document was signed by (1) Mr. Alexander V. Bazarov, Sberbank's Vice President and major client relationship department head and (2) Mr. Mikhail V. Shamolin, MTS' President.

Non-Revolving Credit Facility Agreement No. 9657

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by its Vice-President and Director of the Major Clients Department, Mr. Alexander Vladimirovich Bazarov, acting on the basis of the Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, as one party, and Mobile TeleSystems Open Joint Stock Company, hereinafter referred to as the "Borrower", represented by its President Mr. Mikhail Valerievich Shamolin, acting on the basis of the Charter, as the other party, hereinafter collectively referred to as the "Parties" and individually the "Party" have made this agreement (the "Agreement") on the following:

Article 1. Subject of the Agreement

1.1. The Lender agrees to open to the Borrower a non-revolving Credit Facility with a facility limit of Twenty-Two Billion Rubles (RUR 22,000,000,000) for the purposes of financing of direct or indirect acquisition of shares of Comstar-UTS OJSC, and for the purposes of funding the Borrower's 2009 investment program, maturing on September , 2013, at a variable interest rate to be determined in accordance with Clause 2.5. hereof, and the Borrower agrees to repay the facility and pay interest thereon in the amount, within the period and on the terms and conditions hereof.

Article 2. Conditions Precedent to the Loan

2.1. The Lender shall open to the Borrower facility account No. 45208810900140029657.

2.2. The Borrower shall be charged a facility fee in the amount of Twenty Million (RUR 20,000,000). Such amount shall be paid up-front by the Borrower to the Lender within Two (2) business days after the execution hereof by the Parties.

2.3. The facility shall be made available to the Borrower after:

2.3.1. Provision to the Lender of documents confirming the intended use of the facility (agreements, contracts, payment documents and/or other documents) in form satisfactory to the Lender.

2.3.2. Execution and provision to the Lender of agreements (amendment agreements) to bank account agreements which provide the Lender with the right to debit without acceptance settlement and current currency accounts of the Borrower No. 40702810100020008293, No. 40702840400020008293 and No. 40702978000020008293 with Transaction Department of Sberbank of Russia OJSC, No. 40702810738050011729 with Maryinaroshchinskoye Branch No. 7981 of Sberbank of Russia OJSC, No. 40702810000000000652 and No. 40702840300000000652 with the Joint Stock Commercial Bank Moscow Bank for Reconstruction and Development (OJSC).

2.3.3. Payment of the facility fee specified in Clause 2.2 hereof.

2.4. The facility shall be disbursed by way of transfer of funds to the Borrower's settlement account No. 40702810100020008293 with Transaction Department of Sberbank of Russia OJSC on the basis of the Borrower's drawdown requests.

The facility shall be disbursed provided that no payments hereunder and under any other loan agreements (including non-revolving Credit Facility agreements) made or to be made between the Lender and the Borrower, including Non-Revolving Credit Facility Agreement No. 9662 dated August 28, 2009, are overdue.

2.5. The Borrower shall pay to the Lender interest on the facility at the rate of Sixteen percent(16%) per annum from the date hereof through March 27, 2010.

During the period from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof the Borrower shall pay to the Lender interest at a variable interest rate determined as the sum of the Base Rate, "A" and "B", where:

The Base Rate shall be Sixteen percent (16%) per annum.

"A" is the per annum percentage of increase in the Interest Rate depending on the average daily balances of the accounts specified in Annex 1 hereto constituting an integral part hereof ("Annex 1")

Lender

Borrower

Non-Revolving Credit Facility Agreement No. 9657 dated September , 2009

calculated in accordance with Clause 2.5.1. hereof;

“B” is the per annum percentage of increase in the interest rate depending on the amount of quarterly transfers to the accounts of the employees of the Borrower and Russian Telephony Company Closed Joint Stock Company (OGRN 1027739165662, registered address: 5 Vorontsovskaya Str., build. 2, Moscow, 109147, Russian Federation, hereinafter “RTC”) opened as part of the salary projects with the Lender, to be calculated in accordance with Clause 2.5.2. hereof.

The interest rate shall be fixed on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

<u>Calculation Period</u>	<u>Interest Period</u>
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

The interest rate shall be fixed for the relevant Interest Period without execution of an amendment agreement hereto by way of a written notice given by the Lender to the Borrower regarding the interest rate fixed for the Interest Period.

The Lender shall give notice of the Interest Rate to the Borrower on or before the Tenth (10) day of the second month of each calendar quarter in the manner set forth in Clause 9.3. hereof.

If the Borrower does not receive the notice in accordance with the preceding paragraph on or before the Twenty-Eighth (28th) day of the second month of the calendar quarter, the Interest Rate shall be determined by the Borrower itself in accordance herewith.

2.5.1. “A” shall be determined depending on the amount of average daily balances of accounts specified in Annex No. 1 in accordance with Clause 2.5.1.1. hereof.

The amount of average daily balances of accounts specified in Annex No. 1 shall be the sum of average daily balances of each account opened with the Lender. The average daily balance of an account shall be determined using the following formula:

$$B_{av} = (B_1 + B_2 + B_3 + \dots + B_n) / n, \text{ where}$$

B_{av} is the average daily balance of the account;

B₁, B₂, B₃... B_n — daily opening balances of the account;

n is the number of calendar days in the calculation period.

Daily opening balances of the currency accounts specified in Annex No. 1 shall be converted into rubles. The conversion of daily opening balances shall be effected at the exchange rate of the Bank of Russia quoted on the relevant calendar day of conversion.

2.5.1.1. In relation to the interest periods from the date hereof through March 27, 2010 the interest rate shall not be increased by “A”.

In relation to the interest periods from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof “A” shall be calculated on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

<u>Calculation Period</u>	<u>Interest Period</u>
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

“A” shall be determined depending on the average daily balances of the Borrower’s accounts with the Lender specified in Annex 1 in accordance with the following table:

Lender

Borrower



Amount of average daily balances of the Borrower's accounts specified in Annex No. 1 for the Calculation Period, RUR	"A" (increase in the interest rate depending on the average daily balances, % p.a.)
Less than One Billion (1,000,000,000)	+ Five Tenths (0.5)
One Billion (1,000,000,000) or more	+ Zero Tenths (0.0)

2.5.1.2. For the purposes of Clause 2.5.1. hereof the Borrower shall provide to the Lender (or ensure that the Lender is provided with) properly certified bank statements of all settlement and currency accounts specified in Annex 1 for each full calendar quarter within Fifteen (15) business days from the last day of the calendar quarter.

If the Borrower fails to provide to the Lender within Fifteen (15) business days from the last day of the calendar quarter the bank statements containing information on the average daily balances of all settlement and current currency accounts specified in Annex 1 the amount of average daily balances of the Borrower's accounts specified in Annex 1 for the relevant calculation period shall be deemed to be less than One Billion Rubles (RUR1,000,000,000).

2.5.2. In relation to the interest periods from the date hereof through March 27, 2010 the interest rate shall not be increased by "B".

In relation to the interest periods from March 28, 2010 to the date of full repayment of the facility specified in Clause 1.1 hereof "B" shall be determined on a quarterly basis depending on the amount of quarterly transfers made in the calculation period (for the purposes of sub-clause 2.5.2. hereof the calculation period shall be three calendar months) to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, as follows:

2.5.2.1. "B" shall be calculated on a quarterly basis in accordance with the Calculation/Interest Periods reconciliation table:

Calculation Period	Interest Period
from January 1 to March 31	from June 28 to September 27
from April 1 to June 30	from September 28 to December 27
from July 1 to September 30	from December 28 to March 27
from October 1 to December 31	from March 28 to June 27

In relation to the interest periods from March 28, 2010 "B" shall be calculated in accordance with the following table:

Amount of transfers to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, made in the Calculation Period, RUR	"B" (increase in the interest rate depending on the amount of quarterly transfers of salary, % p.a.)
Less than Five Hundred Million (500,000,000)	+ Five Tenths (0.5)
Five Hundred Million (500,000,000) or more	+ Zero Tenths (0.0)

2.5.2.2. The Borrower shall provide to the Lender (or ensure that the Lender is provided with) properly certified bank statements in the agreed form of all transfers made in the Calculation Period to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender, within Fifteen (15) business days from the last day of the calculation period.

If the Borrower fails to provide to the Lender within Fifteen (15) business days from the last day of the Calculation Period the bank statements of all transfers made in the Calculation Period to the accounts of the employees of the Borrower and/or RTC the amount of transfers made to the accounts of the employees of the Borrower and/or RTC opened as part of salary projects with the Lender in the relevant calculation period shall be deemed to be less than Five Hundred Million Rubles (RUR 500,000,000).

2.6. The interest shall be paid for the actual period during which the facility remained outstanding on a quarterly basis on the 27th day of the third month of each calendar quarter and on the final repayment date of the facility being September , 2013.

Lender

Borrower

2.7. Any advance under the facility shall be made within the available balance of the facility limit in accordance with the following schedule:

No. of Tranche	Availability Period	Amount (in words), RUR
1	From September , 2009 to September 30, 2009	Twenty-Two Billion Rubles (RUR 22,000,000,000)

Repayment of any part of the facility shall not increase the available balance of the Credit Facility limit.

2.8. The Borrower shall be charged a commitment fee at Two percent (2%) per annum. The commitment fee shall accrue on the undisbursed amounts of the tranche for the period starting from the first drawdown date (excluding such date) determined in Clause 2.7. hereof to the last tranche disbursement date (including such date) determined in Clause 2.7. hereof.

2.9. The commitment fee shall be paid on a quarterly basis on the 27th day of the third month of each calendar quarter and on the final date of the availability period being September 30, 2009.

2.10. The facility shall be available for disbursement through September 30, 2009. If on September 30, 2009 the facility is not drawn down by the Borrower in full, the available facility limit shall be forfeited.

2.11. The outstanding facility shall be repaid in accordance with the following repayment schedule:

No	Repayment Date	Payment in percentage of the outstanding facility as of the final availability date (September 30, 2009)
1	March 27, 2012	1/7 (One Seventh)
2	June 27, 2012	1/7 (One Seventh)
3	September 27, 2012	1/7 (One Seventh)
4	December 27, 2012	1/7 (One Seventh)
5	March 27, 2013	1/7 (One Seventh)
6	June 27, 2013	1/7 (One Seventh)
7	September , 2013	1/7 (One Seventh)

2.12. The Borrower shall pay to the Lender the loan administration fee in the amount of Twenty-Five Thousandths percent (0.25%) per annum of the amount actually outstanding under the facility.

The loan administration fee shall be paid on the dates and for the periods set out in Clause 2.6 hereof for interest payments.

Article 3. Liability of the Parties

3.1. The Parties shall be liable in accordance with the applicable laws of the Russian Federation for failure to perform or improper performance of their obligations hereunder.

3.2. If the Borrower fails to make when due a repayment of the facility, to pay interest, or pay the facility fee, the commitment fee or loan administration fee, the Borrower shall pay to the Lender a penalty at the refinancing rate of the Bank of Russia in percent per annum multiplied by Two (2) to accrue on the overdue payment for each day of delay for the period from the date on which any payment becomes overdue (excluding such date) to the date of full repayment of the overdue amount (and including such date).

Article 4. Settlement and Payment Terms

4.1. The facility disbursement date shall be the date on which the facility becomes outstanding as recorded on the facility account specified in Clause 2.1 hereof.

The date of performance of payment obligations hereunder shall be the date on which the Borrower's or third parties' accounts with the Lender are debited with the amounts intended for repayment of the obligations hereunder or the date on which the proceeds intended for repayment of the

Lender

Borrower

obligations hereunder are received at the correspondent account of the Lender if repayment is made from the accounts opened with other banks.

4.2. The interest, loan administration fee, commitment fee, prepayment fee and penalties shall be calculated on the basis of actual number of calendar days within a payment period, and the actual number of calendar days in a year (365 or 366, respectively).

4.3. The repayment proceeds hereunder, including the proceeds for which a direct debit was made, shall be applied regardless of the purpose of payment specified in the payment documents (subject to the provisions set forth in Clauses 4.7, 4.8, 4.9, 4.10 hereof), in the first place to cover the litigation and other costs incurred by the Lender as a result of recovery of the outstanding facility, and then in the following order of priority:

- 1) to pay the penalty for failure to perform obligations hereunder when due (other than the penalty under Clause 9.2. hereof);
- 2) to pay the overdue facility fee;
- 3) to pay the overdue commitment fee;
- 4) to pay the overdue loan administration fee;
- 5) to pay overdue interest;
- 6) to pay the facility fee due;
- 7) to pay the commitment fee due;
- 8) to pay the loan administration fee due;
- 9) to pay interest due;
- 10) to repay the overdue principal of the facility;
- 11) to pay the prepayment fee;
- 12) to repay the principal of the facility due;
- 13) to repay the outstanding facility before stated maturity dates as set forth in Clause 2.11 hereof pursuant to Clause 5.2.2 hereof;
- 14) to pay the penalty pursuant to Clause 9.2. hereof.

The obligations under this Agreement (to repay the outstanding principal, pay the interest and pay the fees) shall become due and payable on their stated maturity date pursuant to the provisions of Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12, 5.2.2. hereof (the "Payment Date").

For the purposes hereof the overdue obligations shall mean the obligations hereunder which are not performed on the Payment Date.

4.4. Payment obligations hereunder may be performed by third parties.

4.5. If a payment hereunder is made in a currency different from the currency of the payment under the Agreement, the Lender may itself convert such payment into the currency of the payment hereunder at the exchange rate and on the terms of the Lender and then apply the same to repay the due amounts hereunder.

4.6. The obligations to repay the outstanding facility may be performed before their stated maturity dates as set forth in Clause 2.11 hereof pursuant to Clause 5.2.2 hereof.

The payments received to repay the outstanding facility before the maturity dates stated in Clause 2.11 hereof shall be applied by the Lender to repay such obligations against the repayment of the outstanding facility which mature the next as set forth in Clause 2.11 hereof, subject to the order of the payments set out in Clause 4.3 hereof.

If it is impossible to identify the purpose of a payment (where the obligation against which such payment is to be applied is not specified) under a payment document, the amounts received shall be applied by the Lender to repay the outstanding facility in accordance with this clause.

4.7. Interest and/or loan administration fee and/or commitment fee payable on the nearest Payment Date as set forth

in Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12 hereof may be paid before such date (“Prepayment Amounts”), but not more than Ten (10) business days (including the 1st and the 10th business days) before the nearest Payment Date (the “Prepayment Period”), in accordance with the purpose of payment specified in the payment document.

Lender

Borrower

Prepayment Amounts received during the relevant Prepayment Period shall be applied by the Lender against repayment of such obligations on the nearest date of the relevant payment.

If during the Prepayment Period other obligations of the Borrower to repay the principal, other than the obligation(s) specified in the payment document(s), become due and payable the Lender shall apply the Prepayment Amounts in accordance with the order of priority set out in Clause 4.3 hereof, except for the payment specified in sub-clause 13) of Clause 4.3 hereof.

4.8. Prepayment Amounts received before the Prepayment Period set forth in Clause 4.7 hereof, upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, except for the payment specified in sub-clause 13) of Clause 4.3 hereof, shall be returned by the Lender to the accounts from which they were made, on or before the first business day following the actual date of receipt of the relevant payment.

If the date of return falls within the Prepayment Period set forth in Clause 4.7 hereof, the Prepayment Amounts shall be applied by the Lender in accordance with Clause 4.7 and/or Clause 4.9 hereof.

4.9. The Borrower may within Three (3) business days following the actual date on which a Prepayment Amount is paid, but no later than Two (2) business days (inclusive) before the nearest Payment Date, submit a written request to the Lender (pursuant to Clause 9.3 hereof) on return or application against repayment of the outstanding facility of the Prepayment Amounts paid pursuant to Clause 4.7 hereof.

The Lender upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, excluding the payment set forth in sub-clause 13) of Clause 4.3 hereof, shall return the Prepayment Amounts and/or apply the same to repay the outstanding facility pursuant to Clause 5.2.2 hereof, on or before the first business day immediately following the day on which the Borrower's written application is received.

The Lender shall return the Prepayment Amounts to the accounts from which they were made.

If the Prepayment Amounts are applied to repay the outstanding facility the repayment date of the outstanding facility shall be the date on which the Lender applies the prepaid amount against the outstanding facility.

4.10. If on the date set forth in Clauses 2.2, 2.5, 2.6, 2.8, 2.9, 2.12 hereof, the payment amount received either before the stated maturity date (pursuant to Clause 4.7 hereof), or on such date exceeds the amount due under the said clauses, the overpaid amount upon allocation in accordance with the order of payments set out in Clause 4.3 hereof, excluding the payments set forth in sub-clause 13) of Clause 4.3 hereof, shall be returned by the Lender to the account from which it was transferred, on or before the first business day following the relevant Payment Date.

Article 5. Rights of the Parties

5.1. The Lender may:

5.1.1. Unilaterally at its discretion increase the interest rate under Clause 2.5 hereof for the period from the execution date hereof to March 27, 2010 (inclusive) and the Base Rate values established in Clause 2.5 hereof for a period from March 28, 2010 to the final maturity date of the facility specified in Clause 1.1 hereof, including, without limitation, where the Bank of Russia makes a decision to increase its discount (refinancing) rate, by giving a notice thereof to the Borrower without execution of an amendment agreement hereto to this effect. In the event of a unilateral increase of the interest rate by the Lender, such change shall become effective upon expiration of Sixty (60) calendar days following the date the Lender gives a notice to the Borrower, unless a later effective date is specified in the notice.

The Borrower shall be notified of such amendments of this Agreement as provided for in Clause 9.3 hereof.

5.1.2. Unilaterally decrease the interest rate values specified in Clause 2.5 hereof, including, without limitation, where the Bank of Russia makes a decision to decrease its discount (refinancing) rate, by giving a notice thereof to the Borrower without execution of an amendment agreement to this

Lender

Borrower

effect. Should the Lender reduce the interest rate unilaterally, such change shall become effective upon expiration of Thirty (30) calendar days following the date the Lender gives notice to the Borrower, unless such notice specifies another date for such change to come into effect.

The Lender may unilaterally at its discretion decrease the penalty and/or grant a grace period during which the penalty will not be charged by giving a notice thereof to the Borrower without execution of an amendment agreement to this effect.

Reduction of the penalty amount and/or the commencement of grace period shall become effective on expiration of Thirty (30) calendar days following the date the Lender gives notice to the Borrower, unless such notice specifies another date for such change to come into effect.

The Borrower shall be notified of such amendments of this Agreement as provided for in Clause 9.3 hereof.

5.1.3. Request that the Borrower submit information and documents evidencing application of the facility proceeds in accordance with their designated purpose.

5.1.4. If any principal and/or interest and/or other payments hereunder become overdue, as the funds are credited directly debit the Borrower's accounts (including accounts with the Lender's branches and other banks) and apply such funds to repay such overdue amounts and pay the penalty.

The Lender shall inform the Borrower in writing of any such debit without acceptance subject to the procedure specified in Clause 9.3 hereof within Ten (10) business days from the date of such debit.

5.1.5. If the funds on the Borrower's accounts with the Lender are insufficient to make a repayment of the overdue amount hereunder, sell foreign currency from the current currency accounts of the Borrower opened by the Borrower with the Lender and other banks at the exchange rate and on the terms established by the Lender and other banks for conversion operations as of the transaction date, and credit the proceeds from sale of foreign currency to the Borrower's account with the Lender and other banks.

The Lender shall notify the Borrower in writing of the fact of sale of foreign currency as provided for in Clause 9.3 hereof.

5.1.6. Suspend disbursement of the facility and/or demand that the Borrower repay the total amount of the facility before maturity, pay the interest due, the facility fee, the commitment fee, the loan administration fee, penalties and make any other payments hereunder as well as foreclose on the pledged property securing performance hereof if:

a) the Borrower fails to perform or improperly performs its obligations under the Agreement and any of the agreements (including, without limitation: loan agreement, revolving/non-revolving credit facility agreement, bank guarantee agreement, deed of guarantee, other types of agreements) and arrangements as have been entered into (or may be entered into during the term hereof) between the Borrower and the Lender, and the payment obligations to the Lender and/or third parties to settle bills, repay notes, pay coupon yield, make involuntary/voluntary offers by virtue of the Federal Law On Joint Stock Companies which have arisen (may arise during the term hereof);

b) any MTS Group Company (as defined below) is in default or improperly performs its obligations under facility agreements (including revolving/non-revolving credit facility agreements) which are entered into (or may be entered into during the term hereof) between the MTS Group Companies and any other lender, as a result of which the MTS Group Company received an acceleration demand with respect to any outstanding amount in excess of Thirty Million US Dollars (US\$30,000,000) as a result of occurrence of an event of default, if such term is defined in the agreement with such lender and if the outstanding amount is declared immediately due and payable for any reason, if the term "event of default" is not defined in the agreement with such lender.

The Borrower shall provide or procure the provision to the Lender of copies of documents confirming whether an obligation which has not been performed qualifies as an "event of

Lender

Borrower

default” or not within Five (5) business days from the date of the acceleration demand by the relevant lender to repay the outstanding amount due to such lender.

The amounts of ruble facilities which were declared immediately due and payable shall be recalculated into US Dollars at the exchange rate of the Bank of Russia as at the date the relevant lender makes an acceleration demand with respect to the facility.

The amounts of facilities denominated in a currency other than US Dollars which were declared immediately due and payable shall be recalculated into US Dollars at the exchange rate determined by recalculation through the currency rates to the Russian Rubles established by the Bank of Russia as at the date the relevant lender makes an acceleration demand with respect to the facility.

For the purposes hereof, an “MTS Group Company” shall mean the Borrower and its subsidiaries, where a “Subsidiary” means a company which the Borrower, directly or indirectly (through any other companies) controls or owns, directly or indirectly (through other companies) over Fifty percent (50%) of the shares/interests in the charter capital or similar ownership rights.

c) the Borrower uses the facility other than in accordance with its designated purpose;

d) the Borrower is in default under its reporting obligations set forth in Clauses 6.2.4. and 6.2.5 hereof;

e) applications, confirmations or information furnished by the Borrower to the Lender, including with respect to the MTS Group Companies, in connection with the Parties’ relations hereunder, are inaccurate, incomplete or unverified;

f) an arbitration court, acting in accordance with the procedure set forth in the applicable laws, accepts a petition seeking to recognize the Borrower as insolvent (bankrupt);

g) a claim or claims have been filed against the Borrower seeking payment of a cash amount or recovery of assets the amount of which exceeds in the aggregate Thirty Million US Dollars (US\$30,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date the claims were filed, or in another currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claims were filed (provided that the amount of at least one of such claims exceeds Five Million US Dollars (US\$5,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date such claim was filed, or an equivalent amount in any other currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claim was filed) and the judgment to grant such claim(s) entered into legal force;

h) a decision is made on reorganization (other than reorganization in the form of a merger of subsidiaries into the Borrower), liquidation or reduction of the charter capital of the Borrower without prior consent of the Lender;

i) the Borrower is declared insolvent (bankrupt) in accordance with the procedure set forth by the applicable laws;

j) the Borrower is in default under the provisions of Clauses 6.2.6.-6.2.11 hereof;

k) the Borrower is in breach of the terms of Clauses 7.2-7.6 hereof.

The above violations and changes in circumstances shall be deemed material by the Lender.

The Lender shall notify the Borrower of its claims subject to the procedure specified in Clause 9.3 hereof.

5.1.7. Unilaterally terminate the available balance of the facility limit hereunder in the event that the disbursement of the facility is terminated for reasons specified in Clause 5.1.6 hereof, and the Lender shall notify the Borrower as provided in Clause 9.3 hereof.

Lender

Borrower

5.1.8. Refuse to disburse the loan, in full or in part, if there is reasonable evidence that the loan will not be repaid by the Borrower within the timeline set out herein.

5.1.9. Conduct audits and check the accuracy of the information provided by the Borrower regarding its business and financial activity in a manner convenient for the Lender, and request other data pertaining to the use of the facility proceeds.

5.1.10. If requested by the Borrower at least Fifteen (15) calendar days prior to the maturity of the facility, the Lender shall have the right to extend the loan maturity date.

5.2. The Borrower may:

5.2.1. in the event that the Lender increases the interest rate pursuant to Clause 5.1.1 hereof, repay a portion or the entire amount of the facility and pay the interest, penalties and make other payments accrued as of the repayment date on the former terms (the terms that existed before the Lender increase the interest rate) within Sixty (60) calendar days from the date on which the Lender gives a written notice to the Borrower of such change of the terms of the facility.

5.2.2. fully or partially prepay the outstanding facility before the maturity dates set forth in Clause 2.11. hereof, and pay the interest, all fees hereunder and penalties accrued as of the prepayment date by giving a written notice to the Lender at least Twenty (20) business days before the prepayment date of the facility (or a portion thereof) (inclusive). The date of receipt of the notice by the Lender shall be not be taken into account as a business day of the notice period.

The Borrower shall notify the Lender of its intention to prepay the facility (or a portion thereof) as provided for in Clause 9.3. hereof and such notice shall specify the amount and the date of such prepayment.

In the event of a prepayment of the facility (or a portion thereof) without a prior written notice to the Lender or notice to the Lender given less than Twenty (20) business days prior to the prepayment date of the facility (or a portion thereof) the Borrower shall pay to the Lender a prepayment fee for prepayment of the facility (or a portion thereof) in the amount of Three percent (3%) of the amount so prepaid.

The prepayment fee for prepayment of the facility (or a portion thereof) shall be paid by the Borrower simultaneously with the prepayment hereunder.

5.2.3. If there is a need to extend the maturity date, submit a request to the Lender at least Fifteen (15) calendar days prior to the maturity date of the facility.

Article 6. Obligations of the Parties

6.1. The Lender assumes the following obligations:

6.1.1 Subject to the fulfillment of conditions set forth in Clauses 2.3, 2.4 and 2.7 hereof, as well as in the absence of any of the conditions whereby the Lender is entitled to terminate the disbursement of the facility and accelerate the same, to transfer facility amounts within the available balance of the facility limit, to the Borrower's settlement account based on its drawdown requests, within not later than Ten (10) calendar days from the date of the relevant drawdown request of the Borrower.

6.2. The Borrower assumes the following obligations:

6.2.1. To repay the principal and pay the interest due, the commitment fee, the loan administration fee, and any penalties accrued as of the repayment date, within Five (5) business days from receipt of the Lender's acceleration demand in accordance with Clause 5.1.6 hereof.

6.2.2. To use facility in strict accordance with its designated purpose as provided in Article 1 hereof.

6.2.3. To provide the Lender with the duly executed payment documents confirming the intended use of the facility.

6.2.4. Each quarter not later than Ten (10) business days from the expiration of the period allocated by Federal Law No. 129-FZ On Accounting dated November 21, 1996, for preparation of the accounting statements, the Borrower shall provide to the Lender:

- a full accounting statement in forms established by the Ministry of Finance of Russia, containing a mark on submission method of the same with the relevant unit of the Federal

Lender

Borrower

Tax Service of Russia, certified by the signature of the Borrower's general manager and its seal, with the attachment of the notes (in respect of the annual accounts) and an auditor report (or its final part) (subject to mandatory audit of the accounting statements in accordance with the laws of the Russian Federation, and in respect of the annual statements);

- a breakdown of the accounting statements in respect of the accounts payable and receivable, specifying the names of creditors and debtors, the amounts due and the dates of their origination, and also indicating the status thereof (overdue/current);
- a breakdown of the accounting statements in respect of the short-term and long-term financial investments specifying their type, the amount, as well as the names of companies and entities;
- a breakdown of the accounting statements in respect of the short-term and long-term credits and loans (including bill and bond loans) specifying the creditor, the amounts due, the loan term, the interest rate (or the coupon yield), the repayment and interest payment schedule, the amounts overdue (dates of origination), accelerated amounts claimed (including the reasons for such acceleration, and the relevant creditor);
- a breakdown of the accounting statements in respect of the security received (indicating the security provider and the beneficiary of the same), and security provided (indicating the secured person and the beneficiary, the maturity date, and the balance value of the assets secured (pledged));
- information on all accounts opened by the Borrower and communicated to the tax inspectorate, as well as turnover and balance statements in respect of settlement and current currency accounts, and any claims thereon;
- copies of any changes and amendments introduced into the constituent documents of the Borrower (duly registered in accordance with the laws), and a copy of the certificate on the entry made in the Unified State Register of Legal Entities on the state registration of amendments introduced into the Borrower's constituent documents, either notarized or certified by a registering body, should any such changes be introduced into the Borrower's constituent documents in the expired calendar year.
- information on any changes in the membership of the Borrower's management bodies (Board of Directors/Management Board/General Director/President) occurred in the expired calendar quarter;
- information on any changes in the list of persons recorded in the share register and holding five (5%) per cent or more of the Borrower's shares, occurred in the expired calendar quarter;
- information on the subsidiaries (more than Fifty (50%) percent in the charter capital) and dependent entities (more than Twenty (20%) of the charter capital) as of the last reporting date, indicating the percentage of the charter capital held in such subsidiaries or dependent entities;
- information on security extended by MTS Group (indicating the secured person and the beneficiary, the maturity date, and the balance value of the assets secured (pledged));
- a note issued by the relevant unit of the Federal Tax Service of Russia, on the status of statutory payments, or a settlement reconciliation report in respect thereto (and in case of any overdue statutory amounts — a taxpayer certificate specifying the periods, the amounts and the reasons of the debt).

Moreover, the Borrower shall upon demand of the Lender provide other reports and financial documents within Ten (10) business days from the date of receipt of the relevant Lender's demand.

6.2.5. Each quarter, within One Hundred And Twenty (120) business days from the date of expiration of each calendar quarter, the Borrower shall provide the Lender with the Borrower's consolidated financial statements certified by the Borrower's general manager and its chief accountant, prepared in accordance with the Generally Accepted Accounting Principles of the United States of America (GAAP) (hereinafter, the "Financial Statements"), and moreover, the Borrower's Financial Statements thus prepared following the calendar year results shall be confirmed by an audit company.

Lender

Borrower

6.2.6. In case of reorganization (other than reorganization in form of the subsidiaries' merger into to the Borrower) or liquidation, reduction of the charter capital, to inform the Lender accordingly, at least Ten (10) business days prior to any of the abovementioned events, and upon the Lender's demand, to repay the facility irrespective of the due date specified in the Agreement, to pay the interest due, the commitment fee, and other payments as provided by the Agreement.

6.2.7. At the date of the transaction for the acquisition by the Borrower and/or Communications Provider Limited Liability Company (OGRN: 1097746395790, registered address: 8 Presnenskaya emb., build. 1, Moscow, 123100, hereinafter "Communications Provider") and/or Capital Limited Liability Company (OGRN: 1097746415073, registered address: 8 Presnenskaya emb., build. 1, Moscow, 123100, hereinafter "Capital") of shares in COMSTAR-United TeleSystems Open Joint Stock Company (OGRN: 1027700003946, registered address: 27 Smolenskaya-Sennaya Sq., build. 2, Moscow, 119121, hereinafter COMSTAR-UTS), to provide to the Lender a copy of the sale and purchase agreement(s) (or similar documents) entered into between the seller and the buyer, duly and properly notarized.

6.2.8. To ensure that all settlements connected with the acquisition of shares in COMSTAR-UTS as between the Borrower, Communications Provider and/or Capital and Sistema, and Telecom System, be conducted only through the settlement accounts of the companies referred to in this clause, opened with the Lender.

6.2.9. To ensure the maintenance of not less than Fifty (50%) per cent plus one share of unpledged and unencumbered voting stock of COMSTAR-UTS at custody accounts of Communications Operator and/or Capital and/or United TeleSystems Closed Joint Stock Company (OGRN 1047796779535, registered address: 27 Smolenskaya-Sennaya Sq., build. 2, Moscow, 119121, hereinafter "UTS") opened with the Depository of Sberbank of Russia OJSC, from the date of acquisition (from the date of acquisition by Communications Operator and/or Capital of shares in UTS), and up to the date of the pledge executed in favor of the Lender.

6.2.10. Beginning from October 1, 2009 and up to the date of full repayment of the facility, specified in Clause 1.1 hereof, to maintain the overall credit turnover on any of the Borrower's settlement and current currency accounts opened with the Lender and specified in Annex 1 hereto, in the amount of no less than Seventeen Billion (RUR 17,000,000,000) rubles in each calendar quarter, however, no loans, issue proceeds, conversions of own funds, or transfers of the same to pay under import contracts, no borrowings or repayments of the loans extended shall be taken into account in the abovementioned overall amount.

Quarterly credit turnover in foreign currencies on current currency accounts shall be converted into rubles at the average exchange rate of the relevant currency as quoted by the Bank of Russia. The average exchange rate is calculated as the simple average of exchange rates of foreign currencies to ruble quoted by the Bank of Russia, in a given calendar quarter.

For the purposes of Clause 6.2.12 hereof the Borrower shall provide to the Lender properly certified bank statements of all the Borrower's settlement and currency accounts opened with the Lender and specified in Annex 1 hereto, for each full calendar quarter, within Twenty (20) business days from the last day of the calendar quarter.

Failure to provide the abovementioned information within the timing set forth herein shall constitute a default to maintain the credit turnover on the Borrower's settlement and current currency accounts opened with the Lender, referred to in the first paragraph of this clause.

6.2.11. Beginning from January 1, 2010 and up to the date of full repayment of the facility, specified in Clause 1.1 hereof, to ensure that Ukrainian Mobile Communications CJSC (Registered address: 15 Leipzig Str., Kiev, 01015, Ukraine, EGRPOU (enterprise identification code) 14333937, hereinafter, "Ukrainian Communications") maintain the credit turnover on all accounts opened with the Subsidiary Bank of Sberbank of Russia OJSC (Registered address: 46 Vladimirska Street, Kiev, 01034 Ukraine, hereinafter the "Subsidiary Bank") and specified in Annex 2 hereto, in the amount of no less than Five Hundred Million (UAH 500,000,000) hryvnas in each calendar quarter, however, no

Lender

Borrower

loans, issue proceeds, conversions of own funds, or transfers of the same, no borrowings or repayments of the loans extended shall be taken into account in the abovementioned overall amount.

Quarterly credit turnover in foreign currencies on current currency accounts shall be converted into hryvnas at the average exchange rate of the relevant currency as quoted by the National Bank of Ukraine. The average exchange rate is calculated as the simple average of exchange rates of foreign currencies to hryvna quoted by the National Bank of Ukraine, in a given calendar quarter.

For the purposes of Clause 6.2.11 hereof the Borrower shall provide to the Lender properly certified bank statements of all the settlement and currency accounts of Ukrainian Communications opened with the Subsidiary Bank and specified in Annex 2 hereto, for each full calendar quarter, within Twenty (20) business days from the last day of the calendar quarter.

Failure to provide the abovementioned information within the timing set forth herein shall constitute a default to maintain the credit turnover on the accounts, referred to in the first paragraph of this clause.

6.2.12. Within Ten (10) business days from the execution date of any bank account agreement in respect of opening by the Borrower with the Lender of a new settlement and/or current currency account, to inform the Lender in writing of the details of such new account and of its intention, should it be necessary, to amend accordingly Annex 1 hereto in connection with opening by the Borrower of a new settlement and/or current currency account with the Lender.

6.2.13. Within Ten (10) business days from the execution date of any bank account agreement in respect of opening by Ukrainian Communications with the Subsidiary Bank of a new account, to inform the Lender in writing of the details of such new account and of the intention, should it be necessary, to amend accordingly Annex 2 hereto in connection with opening by Ukrainian Communications of a new account with the Subsidiary Bank.

Article 7. Special Terms

7.1. The Borrower does not object to filing by the Lender of the Borrower's information with the bureau of credit histories, as specified in Clause 4 of Federal Law No. 218-FZ On Credit Histories, dated December 30, 2004.

7.2. The ratio of the Indebtedness of the MTS Group of Companies to OIBDA value determined for the Reporting Period, shall not exceed Three (3) during the whole term hereof.

The following terms shall be used herein for the abovementioned purposes:

"Indebtedness of the MTS Group of Companies" shall mean any indebtedness (the nominal amount of any principal/limit of liability under off-balance obligations) of the Borrower and/or its Subsidiaries:

1) under loans and credits obtained, bond issues, financial leasing agreements, any other forms of repayable borrowings received either for consideration or without the same;

2) under issued suretyships and/or guarantees (except for suretyships and/or guarantees provided by Subsidiaries in respect of the borrowings made by the Borrower, and/or suretyships and/or guarantees provided by the Borrower in respect of the borrowings made by Subsidiaries), notes (guarantees of the same), as well as other contingent liabilities.

For the purposes of calculation of the Indebtedness of the MTS Group of Companies, any amount due to be paid or repaid and denominated in the currency other than US Dollars, shall be taken on this day into account in US Dollars at a cross-rate which would be used for preparation of the Financial Statements on this day in accordance with US GAAP applied to the Borrower's Financial Statements.

The Indebtedness of the MTS Group of Companies and OIBDA will be calculated on the basis of the Financial Statements of the MTS Group of Companies and will be denominated in US Dollars.

"Reporting Period" shall mean a period of Six (6) consecutive months ending on the last day of each financial year, or of the relevant Borrower's financial quarter.

"OIBDA" shall mean in respect of each Reporting Period, the aggregate consolidated income of the MTS Group of Companies in such Reporting Period, determined on the basis of the Financial

Lender

Borrower

Statements, that:

1) does not include inflows or outflows recorded in the statement of profits and losses in respect of: the minority interest, the income tax, other expenses/income, MTS Group of Companies' interest in net profit (net losses) of its associated companies or entities, interest expenses and any interest income received, as well as any currency exchange and translation gains (losses);

2) is increased by depreciation and amortization charges and assets impairment losses, included in the operating costs in the given Reporting Period and multiplied by Two (2).

7.3. The ratio of OIBDA to the value of the Income Expenses determined for the given Reporting Period, shall not exceed Five (5) during the whole term hereof.

The following term shall be used herein for the abovementioned purposes:

“Interest Expenses” shall mean in respect of each Reporting Period, the aggregate expenses to pay any interest, commissions and other financial charges (irrespective of whether they have been paid, are due or to be capitalized) accrued as payable by MTS Group of Companies in the relevant Reporting Period, reduced by the interest income of the MTS Group of Companies in such Reporting Period, payable in cash, determined on the basis of the Financial Statements and multiplied by Two (2).

The value of the Interest Expenses will be calculated on the basis of the Financial Statements and will be denominated in US Dollars.

7.4. During the whole term hereof the balance value of the Borrower's assets as of each reporting date calculated on the basis of its accounting statements prepared in accordance with the requirements of the RAS *Enterprise Accounting* as approved by Order of the Ministry of Finance of the Russian Federation No. 43n dated July 6, 1999, shall be no less than Two Hundred Billion (RUR 200,000,000,000) rubles.

7.5. During the whole term hereof the balance value of the assets secured (pledged) by the MTS Group of Companies (except for the security granted to the Lender) calculated in accordance with the Financial Statements as of the last reporting date shall not exceed Thirty (30%) per cent of the aggregate value of assets calculated in accordance with the Financial Statements as of the last reporting date.

7.6. The Borrower shall ensure that MTS Group of Companies shall hold valid licenses for the provision of cellular wireless telephony in GSM 900/1800 MHz range in Moscow, Moscow Region, and St. Petersburg, from the execution date hereof and up to the date of full repayment of the facility referred to in Clause 1.1 hereof.

For the purposes of this clause, at the execution hereof, the Borrower shall provide the Lender with the certified copies of the licenses for the provision of cellular wireless telephony in GSM 900/1800 MHz range in Moscow, Moscow Region, and St. Petersburg.

Article 8. Term

8.1. The Agreement shall become effective on the date of its execution by the Parties and remain in full force and effect until the Parties fully perform their obligations hereunder.

Article 9. Miscellaneous

9.1. All changes and amendments hereto, except indicated in Clause 2.5, 5.1.1, and 5.1.2 hereof, shall be valid only if they are made in writing and signed by authorized representatives of the Parties.

9.2. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change before it is officially registered in its constituent documents.

In the event of any change in the bank details of either Party, such Party shall notify the other Party of such change before it becomes effective.

The Borrower shall notify the Lender of any changes in the membership or powers of its management bodies authorized to enter into any transactions on behalf of the Borrower, stamp impression, other information required by the Lender to duly perform its obligations hereunder, not later than the date when such change becomes effective, and subject to provision of the duly certified copies of the confirmation documents within Three (3) business days. In case of failure to perform or timely perform the abovementioned condition:

Lender

Borrower

a) the Borrower shall pay a penalty in the amount of Ten Thousand (RUR 10,000) rubles. The penalty shall be paid within Five (5) business days from the date of receipt from the Lender of the relevant notice to pay the same (including such date of receipt).

b) the Lender shall bear no liability for any consequences of processing the Borrower's drawdown requests for the transfer of facility amounts from the facility account to the settlement account, signed by any unauthorized persons.

9.3. Any notice or other communication sent by the Parties to each other hereunder shall be made in writing. Such notice or communication shall be deemed duly given if delivered to the addressee by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as such other Party may specify in accordance with Clause 9.2 hereof) and signed by a duly authorized person.

9.4. Any and all disputes under this Agreement shall be resolved in accordance with the applicable laws of the Russian Federation by the Moscow Arbitrazh Court.

9.5. The Agreement is made in 2 counterparts having equal legal force: one counterpart shall be kept by the Lender, the other — by the Borrower.

Article 10. Annexes

10.1. Annex 1 — A list of settlement and current currency accounts of the Borrower on one (1) page constituting an integral part hereof.

10.2. Annex 2 — A list of settlement and current currency accounts of Ukrainian Communications on one (1) page constituting an integral part hereof.

Lender

Borrower

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)
Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel: (495) 957 57 75, fax: (495) 957 55 61
Account details for payments in rubles: corr. acc. # 3010181040000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893
Account details for payments in foreign currencies: #30301840800001000014 with Sberbank of Russia, Moscow Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT: SABRRUMM

Borrower

Mobile TeleSystems Open Joint Stock Company
Registered/mailling address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel: (495) 223 21 64, fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124, KPP 770901001, OKPO 52686811
Account details for payments in rubles: s/a. #40702810100020008293 with the Transaction Department of Sberbank of Russia, corr. acc. #3010181040000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225,
Account details for payments in foreign currencies: Curr. foreign-currency acc. #40702840400020008293 with the Transaction Department of Sberbank of Russia, Bank of New York, New York, acc. #8900057610

Signatures of the Parties

Lender
Vice-President - Head of the Major Clients
Department of Sberbank of Russia OJSC

A.V. Bazarov
Seal here

Borrower
President of MTS OJSC

M.V. Shamolin
Seal here

Lender

Borrower

List of Settlement and Current Currency Accounts of Mobile TeleSystems OJSC

No.	Account number:	Account currency	Type of account	Sberbank of Russia Unit	Bank Account Agreement Number	Bank Account Agreement Date
1	40702810100020008293	RUR	settlement	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702810100020008293	August 12, 2009
2	40702810738050011729	RUR	settlement	Maryina Roscha Branch No. 7981 of Sberbank of Russia, OJSC	40702810738050011729	March 10, 2009
3	40702840400020008293	USD	current	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702840400020008293	August 12, 2009
4	40702978000020008293	EURO	current	Transaction Department of Sberbank of Russia, 19 Vavilov Str., Moscow 117997	40702978000020008293	August 12, 2009

Signatures of the Parties

Lender

Vice-President - Head of the Major Clients
Department of Sberbank of Russia OJSC

_____A.V. Bazarov

Seal here

Borrower

President of MTS OJSC

_____M.V. Shamolin

Seal here

Lender

Borrower

List of settlement and current currency accounts of Ukrainian Mobile Communications CJSC

<u>No.</u>	<u>Account number:</u>	<u>Account currency</u>	<u>Type of account</u>	<u>Sberbank of Russia Unit</u>	<u>Bank Account Agreement Number</u>	<u>Bank Account Agreement Date</u>
1	260090132615	multi-currency	current	SUBSIDIARY BANK OF SBERBANK OF RUSSIA, OJSC, 46 Vladimirskaya Str. Kiev, 01034	No. RKO32615	August 18, 2009

Signatures of the Parties

Lender

Vice-President - Head of the Major Clients
Department of Sberbank of Russia OJSC

_____A.V. Bazarov

Seal here

Borrower

President of MTS OJSC

_____M.V. Shamolin

Seal here

Lender

Borrower

AGREEMENT No. 9657-BS/MBRD

City of Moscow

, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Lender**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Client**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, and **Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company)** hereinafter referred to as the "**Bank**," represented by Mr. Andrey Vitalievich Sergiyenko, Director of its Corporate Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. I-24-665/8-(0) dated December 30, 2008, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

In consideration of Articles 2.3.2, 5.1.4 and 5.1.5 of Non-revolving Credit facility Agreement No. 9657 dated September , 2009 made by and between the Lender and the Client (the "**Loan Agreement**"), the Parties hereby agree as follows:

1. The Client hereby authorizes the Bank to withdraw, without any acceptance by or any further instruction from the Client, any amounts from current account #4070281000000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company), upon a payment request from the Lender containing a reference to this Agreement and Articles 2.3.2, 5.1.4 and 5.1.5 of the Loan Agreement, in repayment of any past due debt owed by the Client to the Lender under the Loan Agreement (including the principal amount of the loan, loan interest and any other payments) and in payment of any penalties payable by the Client to the Lender under the Loan, to the extent of the amounts of such past due debt and penalties, and transfer such amounts to the bank account specified in such payment request.
 2. Upon receipt of any payment request from the Lender, the Bank shall withdraw the amount stated therein from the Client's current account specified in Article 1 above and transfer such amount to the bank account specified in such payment request within one (1) transaction day of the receipt date thereof. If no funds are kept on the Client's current account specified in Article 1 above or if the funds kept thereon are insufficient to meet the Lender's claim, the Bank shall transfer the missing funds to the Lender as they are credited onto such current account.
 3. If the funds kept on the Client's current account specified in Article 1 above are insufficient to repay the debt owed by the Client to the Lender as stated in the payment request from the Lender, the Client shall authorize the Bank to sell, no later than on the next transaction day following the receipt date of such request, the foreign-currency funds kept on foreign-currency account #40702840300000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company) on the conversion terms set by the Bank for the date of such transaction and transfer the proceeds from the sale of such funds to current account #4070281000000000652 maintained by the Client with Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company).
 4. The Lender shall notify the Bank in writing when the Client fully performs all of its obligations under the Loan Agreement no later than on the next business day following the date of such performance.
 5. This Agreement shall constitute an instruction from the Client to the Bank to independently fill in any certificates for those foreign-currency transactions made hereunder in accordance with the regulations of the Bank of Russia.
-

6. If any other account is opened for the Client with the Bank, the Client shall notify the Lender in writing of such opening within three (3) business days of the date on which the Bank gives notice of such opening or the date on which the information letter confirming receipt of the notice of such opening is filed with the local branch of the Federal Tax Service. Within five (5) business days of the date of receipt by the Lender of the notice of such opening, the Bank, the Client and the Lender shall make an additional agreement authorizing the Bank to withdraw without acceptance any amounts in favor of the Lender from such other account opened for the Client with the Bank in addition to those stated herein.
7. The Lender shall return any amounts excessively withdrawn without acceptance hereunder to those accounts specified in Articles 1 and 3 above no later than on the next business day following the date on which such amounts were credited on the Lender's correspondent account.
8. This Agreement shall become effective on the date of its signing by the Parties and terminate on the date on which the Client fully discharges all of its obligations under the Lender under the Loan Agreement. This Agreement shall constitute an integral part of Bank Account Agreement No. 1517 dated July 3, 2000 and Bank Account Agreement No. 1555 dated July 3, 2000.
9. This Agreement may be amended or terminated by agreement of the Parties.
10. This Agreement is made in three (3) counterparts of equal legal effect, one for each of the Parties.

Addresses and Bank Account Details of the Parties:

The Lender:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia, Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

For the Lender:

For the Client:

For the Bank:

The Bank:

Joint Stock Commercial Moscow Bank for Reconstruction and Development (Open Joint Stock Company)

Registered/mailing address:

9 Kuznetsky Most, bldg. 1, Moscow 103031, Russian Federation

INN 7702045051,

Corr. acc. # 301018106000000232 with the Transaction Department of the Principal Branch of the Russian Federation Central Bank, BIC 044525232

The Client:

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:

4 Marksistskaya Str., Moscow 109147, Russian Federation

Tel.: (495) 223 21 64

Fax: (495) 223 21 68

INN 7740000076, OGRN 1027700149124,

KPP 770901001, OKPO 52686811

Account details for payments in rubles:

Curr. acc. #40702810100020008293 with the Transaction Department of Sberbank of Russia,

corr. acc. #3010181040000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225

Account details for payments in foreign currencies:

Curr. foreign-currency acc. #40702840400020008293 with the Transaction Department of Sberbank of Russia,

Bank of New York, New York, acc. #8900057610

For the Lender:

For the Client:

For the Bank:

For the Lender:

A.V. Bazarov
Vice President and Director of the Key
Accounts Department, Sberbank of
Russia OJSC

Seal here

For the Client:

Mikhail Valerievich Shamolin,
President, Mobile TeleSystems OJSC

Seal here

[•]
Chief Accountant, Mobile
TeleSystems OJSC

Seal here

For the Bank:

Andrey Vitalievich Sergiyenko,
Director of the Corporate Accounts
Department, Joint Stock
Commercial Moscow Bank for
Reconstruction and Development
(Open Joint Stock Company)

Seal here

For the Lender:

For the Client:

For the Bank:

[On Sberbank's letterhead]

Agreement No. 9657-BS

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Bank**," represented by Mr. Alexander Vladimirovich Bazarov, its Vice President and Director of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, on the one part, and **Mobile TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Client**," represented by Mr. Mikhail Valerievich Shamolin, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

In consideration of Articles 2.3.2, 5.1.4 and 5.1.5 of Non-revolving Credit facility Agreement No. 9657 dated September , 2009 made by and between the Client (as the "Borrower") and the Bank (as the "Lender") (the "**Loan Agreement**"), the Parties hereby agree to amend Bank Account Agreement No. 40702810100020008293 dated August 12, 2009, Bank Account Agreement No. 40702840400020008293 dated August 12, 2009, Bank Account Agreement No. 40702978000020008293 dated August 12, 2009 and Bank Account Agreement No. 40702810738050011729 dated March 10, 2009 as follows:

1. The Bank shall have the right to withdraw, without any acceptance by or any further instruction from the Client, any amounts of money, whether immediately or as available, in repayment of any past due debt owed by the Borrower to the Lender (including the principal amount of the loan, loan interest and any other payments) and/or in payment of any penalties payable by the Borrower to the Lender under the Loan Agreement, to the extent of the amounts of such past due debt and penalties:
 - from current account #40702810100020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC and current account #40702810738050011729 maintained by the Client with Mariina Roscha Branch Office No. 7981 of Sberbank of Russia OJSC;
 - if the funds kept on the current accounts mentioned above are insufficient for such repayment, from current foreign-currency account #40702840400020008293 and current foreign-currency account #40702978000020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC and convert such amounts into rubles on the conversion terms set by the Bank for the date of such conversion, with the amounts resulting from such conversion to be credited on current account #40702810100020008293 maintained by the Client with the Transaction Department of Sberbank of Russia OJSC.
2. This Agreement shall constitute an instruction from the Client to the Bank to independently fill in any certificates for those foreign-currency transactions made hereunder in accordance with the regulations of the Bank of Russia.
3. The Bank shall return any amounts excessively withdrawn without acceptance hereunder to those accounts specified in Article 1 above no later than on the next business day following the withdrawal date.

For the Bank:

For the Client:

Agreement No. 9657-BS dated September , 2009

4. This Agreement shall become effective on the date of its signing by both Parties and terminate on the date on which the Client fully performs all of its obligations to the Bank under the Loan Agreement. This Agreement shall constitute an integral part of Bank Account Agreement No. 40702810100020008293 dated August 12, 2009, Bank Account Agreement No. 40702840400020008293 dated August 12, 2009, Bank Account Agreement No. 40702978000020008293 dated August 12, 2009 and Bank Account Agreement No. 40702810738050011729 dated March 10, 2009.
5. This Agreement is made in two (2) counterparts of equal legal effect, one for the Bank and the other one for the Client.

Addresses and Bank Account Details of the Parties

The Bank:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia, Moscow Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT: SABRRUMM

For the Bank:

The Client:

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel.: (495) 223 21 64
Fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124, KPP 770901001, OKPO 52686811

Account details for payments in rubles:
Curr. acc. #40702810100020008293 with the Transaction Department of Sberbank of Russia, corr. acc. #30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225

Account details for payments in foreign currencies:
Curr. foreign-currency acc. #40702840400020008293 with the Transaction Department of Sberbank of Russia, Bank of New York, New York, acc. #8900057610

For the Client:

Signatures of the Parties

For the Bank:

A.V. Bazarov
Vice President and Director of the Key Accounts
Department, Sberbank of Russia OJSC

Seal here

For the Client:

M.V. Shamolin
President, Mobile TeleSystems OJSC

Seal here

I.R. Borisenkova
Chief Accountant, Mobile TeleSystems OJSC

Seal here

For the Bank:

For the Client:

**Amendment Agreement No. 1
to Non-Revolving Credit Facility Agreement Agreement No. 9662 dated August 28, 2009**

City of Moscow

September , 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by Mr. Alexander Vladimirovich Bazarov, Vice-President and Director of the Major Clients Department, acting on the basis of the Charter and Power of Attorney No. 01-1/480 dated June 15, 2009, as one party, and Mobile TeleSystems Open Joint Stock Company, hereinafter referred to as the "Borrower", represented by Mr. Mikhail Valerievich Shamolin, its President, acting on the basis of the Charter, as the other party, hereinafter collectively referred to as the "Parties" and individually the "Party" have made this Amendment Agreement No. 1 (hereinafter, "Amendment Agreement") to Non-Revolving Credit Facility Agreement No. 9662 dated August 28, 2009 (hereinafter, the "Loan Agreement") as follows:

1. To amend Clause 2.3.1 of the Loan Agreement as follows:

"2.3.1. Provision to the Lender of documents in form satisfactory to the Lender, confirming the intended use of the facility, and/or any documents containing the relevant information on the principal proposed applications of the facility proceeds.

The documents confirming the intended use of the facility shall be deemed satisfactory to the Lender, unless the Lender informs the Borrower otherwise in writing within Five (5) business days from the date of submission by the Borrower of such documents."

2. To amend Clause 5.1.6 (c) of the Loan Agreement as follows:

"c) the Borrower uses the facility other than in accordance with its designated purpose;"

3. To amend Clause 5.1.6 (g) of the Loan Agreement as follows:

"g) a claim or claims have been filed against the Borrower seeking payment of a cash amount or recovery of assets the amount of which exceeds in the aggregate Thirty Million US Dollars (US\$30,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date the claims were filed, or in another currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claims were filed (provided that the amount of at least one of such claims exceeds Five Million US Dollars (US\$5,000,000) or an equivalent thereof in the currency of the Russian Federation at the rate of the Bank of Russia as of the date such claim was filed, or an equivalent amount in any other currency recalculated into US Dollars through the currency exchange rates to the Russian Rubles established by the Bank of Russia as of the date the claim was filed) and the judgment to grant such claim(s) entered into legal force;"

4. To amend Clause 5.1.6 (h) of the Loan Agreement as follows:

"h) a decision is made on reorganization (other than reorganization in the form of a merger of subsidiaries into the Borrower), liquidation or reduction of the charter capital of the Borrower without prior consent of the Lender;"

5. To amend Clause 5.2.2 of the Loan Agreement as follows:

"5.2.2. fully or partially prepay the outstanding facility before the maturity dates set forth in Clause 2.11. hereof, and pay the interest, all fees hereunder and penalties accrued as of the prepayment date by giving a written notice to the Lender at least Five (5) business days before the prepayment date of the facility (or a portion thereof) (inclusive). The date of receipt of the notice by the Lender shall be not be included in the notice period.

The Borrower shall notify the Lender of its intention to prepay the facility (or a portion thereof) as provided for in Clause 9.3. hereof and such notice shall specify the amount and the date of such prepayment.

In the event of a prepayment of the facility (or a portion thereof) without a prior written notice to the Lender or notice to the Lender given less than Five (5) business days prior to the prepayment date of the facility (or a portion thereof) the Borrower shall pay to the Lender a prepayment fee for prepayment of the facility (or a portion thereof) in the amount of Three percent (3%) of the amount so prepaid.

The prepayment fee for prepayment of the facility (or a portion thereof) shall be paid by the Borrower simultaneously with the prepayment hereunder."

6. To amend Clause 6.2.6 of the Loan Agreement as follows:

Lender

Borrower

“6.2.6. In case of reorganization (other than reorganization in form of the subsidiaries’ merger into to the Borrower) or liquidation, reduction of the charter capital, to inform the Lender accordingly, at least Ten (10) business days prior to any of the abovementioned events, and upon the Lender’s demand, to repay the facility irrespective of the due date specified in the Agreement, to pay the interest due, the commitment fee, and other payments as provided by the Agreement.”

7. To amend Clause 6.2.8 of the Loan Agreement as follows:

“6.2.8. Beginning from January 1, 2010 and up to the date of full repayment of the facility, specified in Clause 1.1 hereof, to ensure that Ukrainian Mobile Communications CJSC (Registered address: 15 Leipzig Str., Kiev, 01015, Ukraine, EGRPOU (enterprise identification code) 14333937) maintain the credit turnover on all accounts opened with the Subsidiary Bank of Sberbank of Russia OJSC (Registered address: 46 Vladimirska Street, Kiev, 01034 Ukraine, hereinafter the “Subsidiary Bank”) and specified in Annex 2 hereto, in the amount of no less than Five Hundred Million (UAH 500,000,000) hryvnas in each calendar quarter, however, no loans, issue proceeds, conversions of own funds, or transfers of the same, no borrowings or repayments of the loans extended shall be taken into account in the abovementioned overall amount.

Quarterly credit turnover in foreign currencies on current currency accounts shall be converted into hryvnas at the average exchange rate of the relevant currency as quoted by the National Bank of Ukraine. The average exchange rate is calculated as the simple average of exchange rates of foreign currencies to hryvna quoted by the National Bank of Ukraine, in a given calendar quarter.

For the purposes of Clause 6.2.8 hereof the Borrower shall provide to the Lender properly certified bank statements of all the settlement and currency accounts of the Borrower opened with the Subsidiary Bank and specified in Annex 2 hereto, for each full calendar quarter within Twenty (20) business days from the last day of the calendar quarter.

Failure to provide the abovementioned information within the timing set forth herein shall constitute a default to maintain the credit turnover on the accounts, referred to in the first paragraph of this clause.”

8. To add Article 6 of the Loan Agreement with Clause 6.2.11 as follows:

“6.2.11. In case of use of the facility proceeds in accordance with the information on proposed principal applications of the facility proceeds, provided to the Lender under Clause 2.3.1 hereof, to provide to the Lender not later than December 31, 2009, any relevant documents in form satisfactory to the Lender, including agreements, contracts, invoices, payment documents and/or other documents as demanded by the Lender, confirming the intended use of the facility.

The documents provided by the Borrower and confirming the intended use of the facility shall be deemed satisfactory to the Lender, unless the Lender informs the Borrower otherwise in writing within Ten (10) business days from the date of submission by the Borrower of the documents referred to in this clause.”

9. To amend Clause 7.3 of the Loan Agreement as follows:

“7.3. The ratio of OIBDA to the value of the Income Expenses determined for the given Reporting Period, shall not exceed five (5) during the whole term hereof.

The following term shall be used herein for the abovementioned purposes:

“Interest Expenses” shall mean in respect of each Reporting Period, the aggregate expenses to pay any interest, commissions and other financial charges (irrespective of whether they have been paid, are due or to be capitalized) accrued as payable by MTS Group of Companies in the relevant Reporting Period, reduced by the interest income of the MTS Group of Companies in such Reporting Period, payable in cash, determined on the basis of the Financial Statements and multiplied by two (2).

The value of the Interest Expenses will be calculated on the basis of the Financial Statements of the MTS Group of Companies and will be denominated in US Dollars.”

10. All other clauses and terms of the Loan Agreement not amended by this Amendment Agreement shall remain in force.

Lender

Borrower

11. The Amendment Agreement becomes effective from the date of its execution and constitutes an integral part of the Loan Agreement.

12. The Amendment Agreement is made in 2 counterparts having equal legal force: one counterpart shall be kept by the Lender, the other — by the Borrower.

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel: (495) 957 57 75, fax: (495) 957 55 61
Account details for payments in rubles: corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893
Account details for payments in foreign currencies: #30301840800001000014 with Sberbank of Russia, Moscow Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT: SABRRUMM

Borrower

Mobile TeleSystems Open Joint Stock Company

Registered/mailing address:
4 Marksistskaya Str., Moscow 109147, Russian Federation
Tel: (495) 223 21 64, fax: (495) 223 21 68
INN 7740000076, OGRN 1027700149124, KPP 770901001, OKPO 52686811
Account details for payments in rubles: s/a. #40702810100020008293 with the Transaction Department of Sberbank of Russia, corr. acc. #30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225,
Account details for payments in foreign currencies: Curr. foreign-currency acc. #40702840400020008293 with the Transaction Department of Sberbank of Russia, Bank of New York, New York, acc. #8900057610

Signatures of the Parties

Lender

Vice-President - Head of the Major Clients Department of Sberbank of Russia OJSC

_____ **A.V. Bazarov**

Seal here

Borrower

President of Mobile TeleSystems OJSC

_____ **M.V. Shamolin**

Seal here

Lender

Borrower

[THE BANK LOGO]
Founded in 1848

THE JOINT STOCK COMMERCIAL
 SAVINGS BANK OF THE RUSSIAN FEDERATION
 (OPEN JOINT STOCK COMPANY)

**Non-Revolving Credit Facility
 AGREEMENT No. 9463**

City of Moscow

08 June 2007

The Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as “Sberbank of Russia”, hereinafter referred to as the “Lender”, represented by Ms Alla Konstantinovna Aleshkina, First Deputy Chairman of the Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/501, dated 28 July 2009, on the one part, and OAO “COMSTAR — Integrated TeleSystems”, hereinafter referred to as the “Borrower”, represented by Mr. Nikolai Vladimirovich Tokarev, Acting President, who is acting pursuant to its Charter and OAO “COMSTAR — Integrated TeleSystems” Board of Directors Decision No. 26-07/108, dated 16 May 2007, on the other part, hereinafter collectively referred to as the “Parties”, made this agreement, hereinafter referred to as the Agreement, on the following:

Article 1. Scope of the Agreement

1.1 The Lender agrees to open for the Borrower a non-revolving Credit Facility with a limit of Twenty-six Billion Rubles (RUR 26,000,000,000) to finance the Borrower’s costs of communications network development, including the previous cost refinancing, and for repayment of its current liabilities, for the period ending on 07 June 2012, at an annual interest rate of seven point six per cent (7.6%), and the Borrower agrees to repay the obtained loan to the Lender and to pay the interest on the loan at the time and under the terms of this Agreement.

Article 2. Terms of the Loan Extended

2.1 The Lender will open for the Borrower credit account No. 45208810000140029463.

2.2 The Borrower shall pay a Credit Facility set-up fee in the amount of to zero point fifteen per cent (0.15%) of the Credit Facility limit as specified in Section 1.1 of this Agreement, which equals to Thirty-nine Million Rubles (RUR 39,000,000). This amount shall be transferred by the Borrower to the Lender as a lump sum within eight (8) business days of the signature date of this Agreement.

2.3 The loan shall be extended to the Borrower after:

2.3.1 The documents confirming the loan purpose (agreements, contracts, invoices, payment documents and/or other documents) are submitted to the Lender in the form satisfying the Lender.

2.3.2 Addenda to bank account agreements, entitling the Lender to direct debiting the Borrower’s transaction and current foreign currency accounts No. 40702810300000001500, No. 40702810100000000057, No. 40702840600000001500, and No. 40702978000000000057 held in the Moscow Bank for Reconstruction and Development, Joint Stock Commercial Bank (Open Joint Stock Company), transaction accounts No. 40702810738000110285, No. 40702810138360105954 and current foreign currency account No. 40702840038000110285 held in the Sberbank of Russia Central Office No. 8641, are concluded and submitted to the Lender.

2.3.3 The Credit Facility set-up fee specified in Section 2.2 of this Agreement is paid.

2.3.4 A share pledge agreement is made and the pledge of shares specified in Section 6.2.4.2 of this Agreement is executed in accordance with the applicable laws of the Russian Federation and

For the Lender:
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For the Borrower:
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Non-revolving Line of Credit Agreement No. 9463, dated 08 June 2007

statements of the pledger's account held in the Savings Bank of Russia Depository (located at 19 Vavilov St., Moscow, 117997, Russian Federation) confirming the pledge of shares are submitted.

2.3.5 A share pledge agreement is made and the pledge of shares specified in Section 6.2.4.3 of this Agreement is executed in accordance with the applicable laws of the Russian Federation and statements of the pledger's account held in the Savings Bank of Russia Depository (located at 19 Vavilov St., Moscow, 117997, Russian Federation) confirming the pledge of shares are submitted.

2.3.6 A suretyship agreement is made, as well as addenda to bank account agreements, entitling the Lender to direct debiting in accordance with Section 6.2.4.1 of this Agreement are concluded and submitted to the Lender.

2.3.7 A suretyship agreement is made, as well as addenda to bank account agreements, entitling the Lender to direct debiting in accordance with Section 6.2.4.4 of this Agreement are concluded and submitted to the Lender.

2.3.8 The documentation in accordance with Section 6.2.13 of this Agreement is submitted to the Lender in the form satisfying the Lender.

2.4 The loan shall be drawn down by transfer of loan funds to the Borrower's transaction account No. 40702810738000110285 in the Savings Bank of Russia Central Office No. 8641 under payment orders to be issued by the Borrower.

The transfer of loan funds shall be made if there is no past due debt under this Agreement and under all other credit agreements (including any non-revolving Credit Facility agreements), which are made (or can be made) between the Lender and the Borrower.

2.5 The Borrower shall pay the Lender a drawdown fee at an annual interest rate of seven point six per cent (7.6%).

2.6 The interest shall be payable for the period during which the loan has been actually drawn down on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on 07 June 2012.

2.7 Any loan funds shall be extended within the available credit limit in accordance with the following schedule:

Tranche No.	Drawdown Period	Amount (in words), Rubles
1	From 08 June 2007 to 30 June 2007	Seventeen Billion Five Hundred Fifty Million (17,550,000,000)
2	From 08 June 2007 to 31 December 2007	Two Billion Four Hundred Fifty Million (2,450,000,000)
3	From 08 June 2007 to 30 June 2008	Six Billion (6,000,000,000)

Repayment of any loan funds shall not increase the available credit limit.

Any open tranche funds shall be extended after all previous tranches opened under this Agreement are fully utilized.

Any funds of the first tranche shall be extended after fulfillment of the terms specified in Sections 2.3.1 – 2.3.4 of this Agreement.

Any funds of the second tranche shall be extended after fulfillment of the terms specified in Sections 2.3.1 – 2.3.7 of this Agreement.

Any funds of the third tranche shall be extended after fulfillment of the terms specified in Sections 2.3.1 – 2.3.8 of this Agreement.

2.8 The Borrower shall pay the Lender a drawdown fee at an annual interest rate of zero per cent (0%). Such drawdown fee shall be accrued on the undrawn funds of each tranche for the period from the drawdown start date of such a tranche (excluding that date) as specified by Section 2.7 of this Agreement through the drawdown end date of such a tranche as specified by Section 2.7 of this Agreement.

2.9 The drawdown fee shall be payable on _____ of the third month of each calendar quarter and on the end date of the credit resource availability period on _____.

2.10 The Borrower shall have the right to use the loan funds after the drawdown dates specified in Section 2.7 of this Agreement, but no later than the date specified in Section 2.12 of this Agreement.

For the Lender:
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For the Borrower:
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For granting such a right, the Borrower shall pay the Lender a credit resource reservation fee at an annual interest rate of zero point twenty-five per cent (0.25%) of the amount of tranche undrawn by the due date for the period from the drawdown end date of such a tranche (excluding that date) as specified by Section 2.7 of this Agreement through the date when the tranche has been actually drawn down.

2.11 The credit resource reservation fee shall be payable by the Borrower on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the end date of the credit resource availability period on 31 December 2008.

2.12 The loan shall be drawn down by 31 December 2008. Should the Borrower not fully utilize the Credit Facility by 31 December 2008, any available credit limit shall be cancelled.

2.13 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the outstanding debt as of the end date of the availability period (31 December 2008)
1	27 September 2009	One twelfth (1/12)
2	27 December 2009	One twelfth (1/12)
3	27 March 2010	One twelfth (1/12)
4	27 June 2010	One twelfth (1/12)
5	27 September 2010	One twelfth (1/12)
6	27 December 2010	One twelfth (1/12)
7	27 March 2011	One twelfth (1/12)
8	27 June 2011	One twelfth (1/12)
9	27 September 2011	One twelfth (1/12)
10	27 December 2011	One twelfth (1/12)
11	27 March 2012	One twelfth (1/12)
12	07 June 2012	One twelfth (1/12)

Article 3. Liability of the Parties

3.1 The Parties shall be held liable under the applicable laws of the Russian Federation for non-fulfillment or improper fulfillment of any of their respective obligations hereunder.

3.2 Should the Borrower delay in transfer any payment to repay the loan or pay any interest, drawdown fee, Credit Facility set-up fee, or credit resource reservation fee, the Borrower shall pay the Lender a penalty in the amount of one point five (1.5) times the Bank of Russia annual refinancing rate to be applied to the amount of the overdue payment for each day of such delay for the period from the date when the past due debt emerges (excluding that date) through the date when such past due debt is repaid in full.

Article 4. Payments Terms

4.1 The repayment of loan, payments of interest and any other fees under this Agreement shall be made by the Borrower’s payment orders to be issued from its transaction account No. 40702810738000110285 held in the Savings Bank of Russia Central Office No. 8641, as well as from other Borrower’s accounts.

In such payment orders, the loan principal amount, any amounts of interest, Credit Facility set-up fee, drawdown fee, credit resource reservation fee, compensation for early repayment of loan and penalties shall be listed separately.

4.2 Loan origination date shall be the Borrower’s credit account No. 45208810000140029463 draw down date.

4.3 Loan repayment, interest payment, penalty payment, Credit Facility set-up fee, drawdown fee, credit resource reservation fee or other payment dates shall be the dates when the Borrower’s

For the Lender:
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For the Borrower:
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transaction account held with the Lender is debited or the date when funds are credited to the Lender's correspondent account, if such payments are made from accounts held in other banks.

4.4 Loan interest accrual period shall start from the date when a debt on the credit account emerges (excluding that date) and shall end on the date when the debt is repaid (inclusive), and in case of delay in making any payment to repay the debt (late payment), the loan repayment date as set by this Agreement (inclusive). In addition, if the loan repayment date falls on a non-business day, then, in case of delay in making any payment to repay the debt (late payment), such loan interest accrual period shall end on the first business day (including that day) following the non-business day, on which the loan repayment date falls.

Drawdown fee shall be charged in accordance with Section 2.8 of this Agreement.

Credit resource reservation fee shall be charged in accordance with Section 2.10 of this Agreement.

Credit Facility set-up fee shall be charged in accordance with Section 2.2 of this Agreement.

Compensation for early repayment of loan shall be charged in accordance with Section 5.2.2 of this Agreement.

4.5 When calculating amounts of interest, Credit Facility set-up fee, drawdown fee, credit resource reservation fee, and penalties, the actual number of calendar days in a month and a year shall be used.

4.6 Any funds received to repay the debt under this Agreement, including those directly debited on the Borrower's accounts and transferred by third parties, including any guarantors, shall be applied, as a first priority, irrespective of the purpose of payment stated in the relevant payment order, to cover any legal or other costs as may be incurred by the Lender to collect debt, and afterwards shall be applied in the following order of priority:

- 1) to pay penalties for failure to timely fulfill obligations under this Agreement (excluding the penalty payable under Section 9.2 of this Agreement);
- 2) to pay Credit Facility set-up fee past due;
- 3) to pay drawdown past due;
- 4) to pay credit resource reservation fee past due;
- 5) to pay interest past due;
- 6) to pay credit resource reservation fee due;
- 7) to pay drawdown fee due;
- 8) to pay interest due;
- 9) to repay loan debt past due;
- 10) to pay compensation for early repayment of loan;
- 11) to repay loan debt due;
- 12) to pay penalty payable under Section 9.2 of this Agreement.

4.7 Payments made by the Borrower to early repay the loan shall be counted towards the closest by time payments to repay the loan specified in Section 2.13 of this Agreement, in accordance with the order of priority set in Section 4.6 hereunder.

Article 3. Rights of the Parties

5.1 The Lender may:

5.1.1 Unilaterally increase the interest rate under this Agreement, upon notice to the Borrower of such increase, but without the need to execute any addendum to this Agreement, if any of the following should occur:

- (a) any decision made by the Bank of Russia to increase its requirement criteria for obligatory reserves of credit organizations deposited in the Bank of Russia, for more than ten per cent (10%) of the values set as of the date of this Agreement or as of the date when the last change in interest rate became effective, made in accordance with this Section, both one time and cumulatively;

- (b) any decision made by the Bank of Russia to increase its discount (refinancing) rate for more than ten per cent (10%) of the values set as of the date of this Agreement or as of the date

For the Lender:
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For the Borrower:
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when the last change in interest rate became effective, made in accordance with this Section, both one time and cumulatively;

- (c) any decision made by the Government of the Russian Federation, its agencies, or by the Bank of Russia, substantially changing positions of the Parties under this Agreement.

In this case, such unilaterally increased interest rate may not exceed the Lender's maximum interest rate on two (2) year fixed-term deposits for individuals (or should the types of deposits change, with respect to those in effect as of the signature date of this Agreement, for a term of two (2) years or more), the interest increased by one point two (1.5) times.

If the Lender unilaterally increases the interest rate, such increase shall become effective sixty (60) calendar days after the date when the corresponding notice was given to the Borrower, unless a later effective date is stated in such notice.

The Lender shall notify the Borrower of any such change to this Agreement in accordance with the procedure established by Section 9.3 hereunder.

5.1.2 Unilaterally decrease the interest rate under this Agreement, including, but not limited to, providing any decision made by the Bank of Russia to decrease its discount (refinancing) rate, upon notice to the Borrower of such decrease, but without the need to execute any addendum to this Agreement. If the Lender unilaterally decreases the interest rate, such decrease shall become effective thirty (30) calendar days after the date when the corresponding notice was given to the Borrower, unless a different effective date is stated in such notice.

The Lender may unilaterally decrease amount of any penalty and/or set a period of time when such a penalty is not collected, upon notice to the Borrower of such a change, but without the need to execute any addendum to this Agreement.

The decreased amount of penalty and/or the period of time when the penalty is not collected shall become effective thirty (30) calendar days after the date when the corresponding notice was given to the Borrower, unless a different effective date is stated in such a notice.

The Lender shall notify the Borrower of any such change to this Agreement in accordance with the procedure established by Section 9.3 hereunder.

5.1.3 Request from the Borrower to submit any information and documents confirming the authorized use of loan.

5.1.4 If there is a past due debt on the loan and/or interest or other payments under this Agreement, directly debit, as funds become available, the Borrower's accounts (including any accounts held in the Lender's branches and other banks) towards any past due payments and penalties.

The Lender shall notify the Borrower in writing of any such direct debit in accordance with the procedure established by Section 9.3 of this Agreement.

5.1.5 If the Borrower's transaction accounts held with the Lender have insufficient funds to repay any past due debt under this Agreement, sell foreign currency from the Borrower's current foreign currency accounts opened with the Lender and other banks, at the exchange rate and under the terms set by the Lender and other banks for foreign exchange transactions as of the date of such a transaction, and credit the proceeds to the Borrowers transaction accounts held with the Lender and other banks.

The Lender shall notify the Borrower in writing of any such foreign currency sale in accordance with the procedure established by Section 9.3 of this Agreement.

5.1.6 Cease disbursement of the loan and/or demand from the Borrower to early repay the entire amount of loan and pay interest due for its utilization, Credit Facility set-up fee, drawdown fee, credit resource reservation fee, any penalties and make other payments due under this Agreement, and the Lender may extend the similar demands to the Guarantors, as well as recover the pledged property in case of:

- (a) non-fulfillment or improper fulfillment by the Borrower of any of its obligations under this Agreement to repay the loan and/or to pay interest due, and/or Credit Facility set-up fee, and/or drawdown fee, and/or credit resource reservation fee, if such non-fulfillment or improper fulfillment continues for a period of more than five (5) calendar days;
- (b) non-fulfillment or improper fulfillment by the Borrower of any of its obligations under other credit agreements (including any non-revolving Credit Facility agreements), which are made (or can be made during the term of this Agreement) between the Borrower and

For the Lender:

For the Borrower:

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the Lender, resulting in demand to the Borrower to early repay the loan amount and to make other payments due under such agreements;

- (c) loss of security or deterioration of its conditions under circumstances beyond the Lender's control, subject to the terms set forth in Section 6.2.11 of this Agreement;
- (d) unauthorized use of the loan;
- (e) non-fulfillment by the Borrower of its obligations to submit reports as specified in Sections 6.2.5, 6.2.7 of this Agreement, if such violation has not been rectified within ten (10) days of the date the Lender's written demand thereof was received;
- (f) a statement made by arbitration court adjudging the Borrower insolvent (bankrupt) in accordance with the procedure established by law;
- (g) a claim(s) was (were) made against the Borrower to pay money or to reclaim any property for the aggregate amount of Fifteen Million US Dollars (USED 15,000,000) or more, or an equivalent amount in the currency of the Russian Federation at the exchange rate of the Bank of Russia on the day such a claim was made, or an equivalent amount in any other currency translated into US Dollars using the exchange rates to the Russian Federation Rubles as set by the Bank of Russia on the day the claim was made, and such a claim(s) has (have) been granted by a court of first instance;
- (h) a decision on reorganization, liquidation or downsizing of the Borrower's authorized capital without written endorsement by the Lender;
- (i) declaring the Borrower insolvent (bankrupt) in accordance with the procedure established by law;
- (j) non-fulfillment by the Borrower of its obligations as specified in Sections 6.2.4.1, 6.2.4.4 of this Agreement;
- (k) non-fulfillment by the Borrower of its obligations as specified in Sections 6.2.4.2, 6.2.4.3 of this Agreement, to maintain its interest in pledged securities of OAO "Svyazinvest";
- (l) non-fulfillment by the Borrower of its obligations as specified in Section 6.2.8 of this Agreement;
- (m) non-fulfillment by the Borrower of its obligations as specified in Section 6.2.10 of this Agreement;
- (n) non-fulfillment by the Borrower of its obligations as specified in Section 6.2.12 of this Agreement;
- (o) non-fulfillment by the Borrower of its obligations as specified in Section 6.2.14 of this Agreement;
- (p) non-fulfillment by the Borrower of its obligations as specified in Section 7.2 of this Agreement;
- (q) non-fulfillment by the Borrower of its obligations as specified in Sections 6.2.15 and 6.2.16 of this Agreement.

The above violations of the Agreement terms and changes in circumstances shall be material for the Lender.

In addition, the Lender shall notify the Borrower of its demands in accordance with the procedure established by Section 9.3 of this Agreement.

5.1.7 Unilaterally close any available credit limit under this Agreement, in case the loan disbursement has been ceased on the grounds specified in Section 5.1.6 above, of which the Lender shall notify the Borrower in accordance with the procedure established by Section 9.3 hereunder.

5.1.8 Cancel its obligation to extend the loan in full or in part, if circumstances exist, which apparently indicate that the amount of debt will not be repaid by the Borrower in due time under this Agreement.

5.1.9 Validate in a convenient to the Lender way the business and financial activities accounting data reported by the Borrower for accuracy and request other data relevant to the loan funds utilization.

5.1.10 The Lender may, upon the Borrower's request made no later than sixty (60) calendar days before the loan repayment date, extend the loan repayment period.

5.2 The Borrower may:

For the Lender:

For the Borrower:

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5.2.1 Upon increase of the interest rate by the Lender in accordance with Section 5.1.1 of this Agreement, repay any part or the entire amount of loan along with paying interest, penalties and other fees accrued by the repayment date, under the old terms, within sixty (60) calendar days of the date the written notice of a change in loan terms was given by the Lender to the Borrower.

In doing so, the Borrower shall not pay the compensation specified in Section 5.2.2 hereunder.

5.2.2 Early repay in full or in part any amounts of the drawn down loan before the dates specified in Section 2.13 of this Agreement along with payment of interest, all fees under this Agreement, as well as any penalties assessed by the repayment date, upon giving prior written notice to the Lender at least thirty (30) days before the loan or any part thereof repayment date (inclusive).

The Borrower shall notify the Lender of its intent to early repay the loan in accordance with the procedure established by Section 9.3 of this Agreement, indicating the amount and date of such early repayment.

In this case, the repayment of loan debt shall be done in chronological order starting with the debt, which would have been repaid on the date specified in Section 2.13 of this Agreement closest to the early repayment date.

In case of early repayment of loan without a prior written notice to the Lender or with a notice given to the Lender less than thirty (30) days before the loan or any part thereof repayment date, the Borrower shall pay to the Lender compensation for early repayment of loan in the amount of zero point one per cent (0.1%) of the amount of loan being early repaid.

Such compensation for early repayment of loan shall be paid by the Borrower at the time the early repayment of the debt under this Agreement is made.

Compensation for early repayment of loan shall not be collected, if the early repayments of loan funds are made less than five (5) calendar days before the scheduled repayment date of the corresponding amount of loan as specified in Section 2.13 of this Agreement (inclusive) and/or in case of the Lender's written consent for such early repayment of loan given to the Borrower in accordance with the procedure established by Section 9.3 hereunder.

5.2.3 If there is a need to extend the loan repayment period, send the corresponding request to the Lender no later than sixty (60) calendar days before the loan repayment date.

Article 6. Obligations of the Parties

6.1 The Lender shall be obligated as follows:

6.1.1 The Lender shall, subject to the provisions of Sections 2.3, 2.4 and 2.7 of this Agreement and provided that at the time of the loan disbursement no conditions exist, under which the Lender may cease the loan disbursement and demand to early repay the loan, transfer of the loan funds within the available credit limit to the Borrower's transaction account under payment orders to be issued by the Borrower.

6.2 The Borrower shall be obligated as follows:

6.2.1 The Borrower shall, within five (5) days of the date when the Lender's demand for early repayment is received in accordance with Section 5.1.6 of this Agreement, repay the principal amount of debt outstanding and pay any interest on the loan, drawdown fee, credit resource reservation fee, as well as any penalties assessed by the repayment date.

6.2.2 The Borrower shall use the loan strictly in accordance with its authorized use as specified in Article 1 of this Agreement.

6.2.3 The Borrower shall submit to the Lender properly executed payment documents in accordance with the authorized use of the loan.

6.2.4 The Borrower shall ensure timely and complete fulfillment of its obligations under this Agreement, including repayment of the loan, payment of interest, drawdown fee, credit resource reservation fee:

6.2.4.1 The Borrower shall, within sixty (60) days of the signature date of this Agreement, have the ZAO "COMSTAR-Direct" (located at 27, bld. 2, Smolenskaya-Sennaya Sq., Moscow, 119121, Russian Federation; OGRN [Primary State Registration Number]: 1027700288076) Guarantee with liability limit of Four Billion Two Hundred Million Rubles (RUR 4,200,000,000) to be submitted and addenda to bank account agreements, entitling the Lender to direct debiting the guarantor's transaction

For the Lender:
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For the Borrower:
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and current foreign currency accounts No. 40702810200000000795, No. 40702810400000001552, No. 40702840500000000795, held in the Moscow Bank for Reconstruction and Development, Joint Stock Commercial Bank (Open Joint Stock Company), concluded and submitted by the guarantor to the Lender.

6.2.4.2 The Borrower shall pledge to the Lender ordinary shares of stock of OAO "Investitsionnaya Kompaniya Svyazi" (located at 55, bld. 2, Plyushchikha St., Moscow, 119121, Russian Federation; OGRN: 1027739875998), hereinafter referred to as the OAO "Svyazinvest", with nominal value of One Ruble (RUR 1), in quantity of Three Billion Three Hundred Seventy-eight Million One Hundred Seventy-three Thousand Seven Hundred and Fifty (3,378,173,750) shares, which constitutes seventeen point 30769231 per cent (17.30769231%) of the OAO "Svyazinvest" authorized capital as of the date of this Agreement. The pledge value shall be set in the amount of Seven Hundred Twenty Million and One point 82 US Dollars (USED 720,000,001.82) translated into Rubles at the exchange rate of the Bank of Russia as of the date of the Property Pledge Agreement. The OAO "Svyazinvest" shares hereunder pledged shall be posted on the Pledger's deposit account, held in the Savings Bank of Russia Depository (located at 19 Vavilov St., Moscow, 117997, Russian Federation). The Pledger shall bear all costs related to the pledge registration.

In the future, should any additional OAO "Svyazinvest" shares be issued and placed with the public, the Borrower shall agree, within ten (10) business days of the time of the share placement report registration with competent government authorities, to ensure transfer to the Lender such quantity of OAO "Svyazinvest" shares so that the OAO "Svyazinvest" shares held by the Lender under pledge constitute, after such placement of additional shares, no less than seventeen point 30769231 per cent (17.30769231%) plus one share of the OAO "Svyazinvest" authorized capital, and the ordinary shares held under pledge constitute no less than seventeen point 30769231 per cent (17.30769231%) of all ordinary shares of stock placed.

6.2.4.3 The Borrower shall ensure that the OAO "Svyazinvest" ordinary shares of stock with nominal value of One Ruble (RUR 1), in quantity of One Billion Five Hundred One Million Four Hundred Ten Thousand Five Hundred and Fifty-six (1,501,410,556) shares, which constitutes seven point 6923077 per cent (7.6923077%) of the OAO "Svyazinvest" authorized capital as of the date of this Agreement are pledged to the Lender by the owner of such shares. The pledge value shall be set in the amount of Three Hundred Twenty Million point 90 US Dollars (USED 320,000,000.90) translated into Rubles at the exchange rate of the Bank of Russia as of the date of the Property Pledge Agreement. The OAO "Svyazinvest" shares hereunder pledged shall be posted on the Pledger's deposit account, held in the Savings Bank of Russia Depository. The Pledger shall bear all costs related to the pledge registration.

Should the Borrower ensure the pledge as specified in the first paragraph of Section 6.4.2.3 hereunder, the total quantity of OAO "Svyazinvest" shares pledged under Sections 6.2.4.2 and 6.2.4.3 of this Agreement should constitute no less than twenty five per cent (25%) plus one share of the OAO "Svyazinvest" authorized capital, which as of the date of this Agreement represents Four Billion Eight Hundred Seventy-nine Million Five Hundred Eighty-four Thousand Three Hundred and Six (4,878,584,306) shares.

In the future, should any additional OAO "Svyazinvest" shares be issued and placed with the public, the Borrower shall agree, within ten (10) business days of the time of the share placement report registration with competent government authorities, to ensure transfer to the Lender such quantity of OAO "Svyazinvest" shares so that the OAO "Svyazinvest" shares held by the Lender under pledge constitute, after such placement of additional shares, no less than twenty-five per cent (25%) plus one share of the OAO "Svyazinvest" authorized capital, and the ordinary shares held under pledge constitute no less than twenty-five per cent (25%) of all ordinary shares of stock placed.

6.2.4.4 The Borrower shall, within sixty (60) days of the signature date of this Agreement, have the Moscow City Telephone Network, Open Joint Stock Company (located at 12, bld. 3, Petrovsky Boulevard, Moscow, 127994, Russian Federation; OGRN: 1027739285265) Guarantee with liability limit of Nine Hundred Million Rubles (RUR 900,000,000) to be submitted and addenda to bank account agreements, entitling the Lender to direct debiting the guarantor's transaction and current foreign currency accounts No. 40702810900000001900, No. 40702810300000000640, No. 40702840600000000640, No. 40702978200000000640 held in the Moscow Bank for Reconstruction

For the Lender:
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and Development, Joint Stock Commercial Bank (Open Joint Stock Company) and transaction account No. 40702810800020106631 held in the Transaction Department of Sberbank of Russia, concluded and submitted by the guarantor to the Lender.

6.2.5 The Borrower must submit to the Lender, on a quarterly basis, within ten (10) business days following the ending date of the period set for submitting accounting statements to tax authorities the following documentation:

- full accounting statements using the forms established by the Ministry of Finance of Russia and other ministries and departments with a note indicating the method of submitting the document to the Federal Tax Service of Russia, certified by the Borrower's chief executive officer and seal, with attached explanation note (for year-end accounts) and audit report (or its summary) showing results of the year-end accounts audit as required by the Russian Federation laws;
- breakdowns of any accounts payable and receivable, listing names of creditors, debtors, amounts outstanding and dates when the debt emerged, with the tax liabilities, debts to extra-budgetary funds highlighted, and indicating the debt status (past due/ due);
- breakdowns of any short-term and long-term financial investments;
- breakdowns of any debts under long-term and short-term credits and loans (including paper and bond ones), listing creditors, amounts outstanding, dates when the loan was received and repaid, interest rates (coupon yield), loan repayment and interest payment schedules, amounts of interest past due, pledges;
- statements of account turnover and balances for transaction and current foreign currency, and of any claims on accounts;
- breakdowns of any pledges received and made, with names of entities, in whose favor such pledges were issued, as well as names of principals or entities, under whose obligations a pledge was made, and dates when obligations under securities emerged and were fulfilled.

The Borrower must submit to the Lender, on a quarterly basis, within ninety (90) calendar days of the calendar quarter ending date, its consolidated statements (balance sheet, profit and loss statement and cash flow statement) prepared in accordance with the generally accepted in the USA accounting principles (US GAAP), and on an annual basis, within one hundred eighty (180) calendar days of the calendar year ending date, its year-end consolidated statements prepared in accordance with the generally accepted in the USA accounting principles (US GAAP), with attached Notes to consolidated statements and audit report showing results of the year-end consolidated accounts audit.

If during the previous calendar quarter any amendments were made in the Borrower's statutory documents, the Borrower must submit to the Lender, within the deadlines set for submitting accounting statements to tax authorities, copies of such amendments in statutory documents, notarized or certified by registration body in accordance with the procedure established by law, and Certificate of record in the Uniform State Register of Legal Entities about registration of amendments in constituent documents, notarized or certified by registration body.

If during the previous calendar quarter any changes occurred in executive and/or collegiate management body, the Borrower must submit to the Lender, within the deadlines set for submitting accounting statements to tax authorities, information on personal composition of the collegiate and executive management bodies (Board of Directors / President) (indicating the positions held, and in case of additional duties, other places of job).

If during the previous calendar quarter any changes occurred in the composition of shareholders owning twenty (20.0) or more per cent of the Borrower's shares, the Borrower must submit to the Lender, within the deadlines set for submitting accounting statements to tax authorities, information on personal composition of shareholders owning twenty (20.0) or more per cent of the Borrower's shares, including information on any shareholders on whose behalf other persons act as stockholders of record.

In addition, the Borrower must submit any other financial documents as may be requested by the Lender, within ten (10) days of the date such a request was received.

6.2.6 In case of any reorganization, liquidation or downsizing of the authorized capital, the Borrower shall notify the Lender at least ten (10) business days before any of such events occur and, upon the Lender's demand, promptly repay the principal amount of debt outstanding, irrespective of

For the Lender:
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For the Borrower:
[illegible signature]

its due date hereunder specified, and pay any interest on the loan, drawdown fee, credit resource reservation fee, and make any other payments under this Agreement.

6.2.7 The Borrower must ensure that ZAO "COMSTAR-Direct" and OAO "Moscow City Telephone Network" submit their financial statements listed in Section 6.2.5 of this Agreement, prepared in accordance with the Russian accounting standards, on a quarterly basis, within ten (10) business days following the ending date of the period set for submitting accounting statements to tax authorities.

6.2.8 Starting 01 January 2008, the Borrower shall ensure posting of quarterly credit turnovers (crediting of funds) in the amount of no less than Four Billion Rubles (RUR 4,000,000,000) for each calendar quarter to transaction and current foreign currency accounts, listed in Annex 1, which constitutes an integral part of this Agreement, opened with the Lender by the Borrower and the companies listed in Annex 1 (hereinafter referred to as the "Group of Companies"), as well as to any new accounts opened by the Borrower and the Group of Companies with the Lender during the term of this Agreement (provided they are included in Annex 1). In so doing, in credit turnover calculations, no credit turnovers reflecting raising loans, seigniorage revenues, equity capital conversion, debt financing and attracting investments, as well as loan repayments shall be included.

For the purposes of this Section of the Agreement, the Borrower must submit (ensure submission of) to the Lender duly certified bank statements containing data on the Borrower's and Group of Companies' turnovers, excluding turnovers reflecting raising loans, seigniorage revenues, equity capital conversion, debt financing and attracting investments, as well as loan repayments, of all transaction and current foreign currency accounts, listed in Annex 1, for each full calendar quarter within fifteen (15) business days of the calendar quarter ending date.

Any quarterly credit turnovers in foreign currencies on current accounts shall be translated into Rubles at an average exchange rate of the Bank of Russia. In doing so, the average exchange rate shall be determined as a mean value of exchange rates on the starting and ending dates of the quarter, for which the quarterly credit turnovers are calculated.

Quarterly credit turnovers on any new transaction and/or current foreign currency accounts, opened with the Lender (the Lender's branches) by the Borrower and/or any of the businesses included in the Group of Companies, shall be discounted by the Lender from the quarter, in which addendum to Agreement on entering new account into Annex 1 was made.

If the Borrower fails to submit to the Lender, within fifteen (15) business days of the calendar quarter ending date, bank statements containing data on the Borrower's and Group of Companies' turnovers, excluding turnovers reflecting raising loans, seigniorage revenues, equity capital conversion, debt financing and attracting investments, as well as loan repayments, on all transaction and current foreign currency accounts, listed in Annex 1, the Lender itself shall determine such credit turnovers on the accounts, listed in Annex 1, for the corresponding calendar quarter, provided the Borrower fulfilled the provisions of Section 6.2.9 hereunder.

6.2.9 Before 31 December 2007, the Borrower shall have the Group of Companies to make and submit to the Lender addenda to bank account agreements, providing for use by the Lender of information on transactions and data on credit turnover volumes on the accounts, opened with the Lender (the Lender's branches) and listed in Annex 1, for credit turnover calculations in accordance with Section 6.2.8 of this Agreement, including the right to disclose such information and data to the Borrower.

6.2.10 During the term of this Agreement, the Borrower shall ensure that ratio of the Borrower's obligations under credits, loans, leasing agreements, inventory credits and other obligations, on which use-of-money interest is accrued (financial liability) to OIBDA (Operating Income Before Depreciation and Amortization), as calculated based on the Borrower's consolidated statements, prepared in accordance with the generally accepted in the USA accounting principles (US GAAP), does not exceed three point five per cent (3.5%).

Furthermore, for the purposes of Section 6.2.10 hereunder, the OIBDA value calculated based on the consolidated statements for three (3) months shall be adjusted to an annual basis by multiplying this value by four (4).

The Borrower must submit to the Lender, within ninety (90) calendar days of the calendar quarter ending date, statements of ratio of the Borrower's obligations to OIBDA, as calculated based

For the Lender:
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For the Borrower:
[illegible signature]

on the Borrower's consolidated statements, prepared in accordance with the generally accepted in the USA accounting principles (US GAAP), in the form agreed with the Lender, as of the first (1) day of the first month of the corresponding calendar quarter.

In case the ratio of the Borrower's obligations to OIBDA, as calculated based on the Borrower's consolidated statements, prepared in accordance with the generally accepted in the USA accounting principles (US GAAP), exceeds three point five per cent (3.5%) or if the Borrower fails to submit such a statement of ratio of the Borrower's obligations to OIBDA in due time as specified in Section 6.2.10 of this Agreement, then the Borrower's obligations to ensure such a ratio shall be deemed unfulfilled.

6.2.11 Upon request of the Lender, the Borrower shall replace any properties pledged under Sections 6.2.4.2 – 6.2.4.3 of this Agreement with any property of equal value and acceptable for the Lender, within sixty (60) calendar days of the date the Lender's written request to replace such pledged property was received by the Borrower, in the following cases:

- the pledged property is lost through no fault of the Lender;
- title to the pledged property is terminated for any ground provided for by law.

6.2.12 The Borrower shall ensure that, from the signature date of this Agreement and throughout its term, that the Borrower's shareholders fulfill the following condition: "Sistema" Joint Stock Financial Corporation, Open Joint Stock Company interest in the Borrower's voting shares must be maintained at a level of fifty per cent (50%) or higher plus one share of the total number of the Borrower's voting shares.

6.2.13 Before 31 December 2007, the Borrower shall submit to the Lender satisfactory documentation on approval of the authorized use of the third tranche funds by the Borrower's management bodies.

6.2.14 The Borrower must maintain, from the signature date of this Agreement and throughout its term, the Borrower's interest in the OAO "Moscow City Telephone Network" voting shares at a level of fifty per cent (50%) or higher plus one share of the total number of the OAO "Moscow City Telephone Network" voting shares.

6.2.15 In case a claim(s), specified in Section 5.1.6 (g) of this Agreement was (were) made against the Borrower, the latter shall, within five (5) business days, notify the Lender of such a claim and provide an opportunity to review (on a confidential basis) all documents relevant to the subject-matter of the claim(s) and available to the Borrower and, upon the Lender's request, within five (5) business days of the date the Lender's request to grant power of attorney, shall grant such power of attorney to the person, specified by the Lender, to attend court sessions and review materials of the case being heard by the court, including to make notes and take copies of the case materials, participate in investigation of evidence, but without the right to act on behalf of the Borrower (in particular, without the right to file counterclaims, admit the claim or settle amicably).

6.2.16 The Borrower shall not revoke any power of attorney granted pursuant Section 6.2.15 of this Agreement.

Article 7. Special Terms

7.1 The Lender may not provide to credit bureaus (registered in accordance with the laws of Russian Federation) any information on the Borrower as specified in Article 4 of the Federal Law "On Credit Histories" No. 218-F3, dated 30 December 2004.

7.2 Taking into account the dependence of collateral value of the shares listed in Sections 6.2.4.2 and 6.2.4.3 of this Agreement on OAO "Svyazinvest" majority interest in voting shares (constituting fifty per cent (50%) or higher plus one share of the total number of ordinary shares as of the signature date of this Agreement) of OAO "Tsentralnaya Telekommunikatsionnaya Kompaniya" (located at 23, Proletarskaya St. Khimki, Moscow Region, 141400, Russian Federation; OGRN: 1025006174710), OAO "Severo-Zapadnyj Telekom" (located at 14/26, Gorokhovaya St., St. Petersburg, 191186, Russian Federation; OGRN: 1027809169849), OAO "VolgaTelekom" (located at Dom Svyazi, M. Gorki Sq., Nizhny Novgorod, 603000, Russian Federation; OGRN: 1025203014781), OAO "Yuzhnaya Telekommunikatsionnaya Kompaniya" (located at 66, Karasunskaya St., Krasnodar, 350000, Russian Federation; OGRN: 1022301172112), OAO "Uralsvyazinform" (located at 11, Moskovskaya St., Yekaterinburg, 620014, Russian Federation; OGRN: 1025900510349), OAO

For the Lender:
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For the Borrower:
[illegible signature]

“Sibirtelekom” (located at 53, M. Gorki St., Novosibirsk, 630099, Russian Federation; OGRN: 1025403189778), OAO “Dalnevostochnaya Kompaniya Elektrosvyazi” (located at 57, Svetlanskaya St., GSP, Vladivostok, 690950, Russian Federation; OGRN: 1022501276159) and International and Long-distance Electrical Communications OAO “Rostelekom” (located at 15, Dostoyevski St., St. Petersburg, 191002, Russian Federation; OGRN: 1027700198767), the Parties made this agreement on the following:

7.2.1 Starting from the date when OAO “Svyazinvest” interest in voting shares of OAO “Tsentrlnaya Telekomunikatsionnaya Kompaniya” and/or OAO “Severo-Zapadnyj Telekom”, and/or OAO “VolgaTelekom”, and/or OAO “Yuzhnaya Telekomunikatsionnaya Kompaniya”, and/or OAO “Uralsvyazinform”, and/or OAO “Sibirtelekom”, and/or OAO “Dalnevostochnaya Kompaniya Elektrosvyazi”, and/or International and Long-distance Electrical Communications OAO “Rostelekom” becomes less than fifty per cent (50%) plus one share, the Borrower must, within fifteen (15) business days notify thereof the Lender in accordance with the procedure established by Section 9.3 hereunder.

7.2.2 Within forty-five (45) calendar days of the date when the Lender sent notice (in accordance with the procedure established by Section 9.3 hereunder) requiring to perform an independent valuation of the OAO “Svyazinvest” shares held by the Lender under pledge in accordance with Sections 6.2.4.2 and 6.2.4.3 of this Agreement, the Borrower must involve an independent valuer to value the OAO “Svyazinvest” shares. The Borrower shall bear all costs of valuation company services.

7.2.3 Should the value of liabilities under this Agreement exceed the current value of pledged property executed in accordance with Sections 6.2.4.2 and 6.2.4.3 of this Agreement, the Borrower must, within thirty (30) calendar days of the date of independent valuation of the OAO “Svyazinvest” shares, pledge and/or have to be pledged to the Lender ordinary shares of OAO “Svyazinvest” and/or other security in the amount of the value of liabilities under this Agreement exceeds the current value of the pledged property executed in accordance with Sections 6.2.4.2 and 6.2.4.3 of this Agreement (unsecured loan amount) or repay such an unsecured loan amount.

7.2.4 For the purposes of Section 7.2.3 hereunder, current value of pledged property executed in accordance with Sections 6.2.4.2 and 6.2.4.3 of this Agreement shall be understood as assessed value of pledged property, as determined by the valuation company, multiplied by security factor of zero point eight (0.8); value of liabilities under this Agreement shall be understood as current principal amount of debt outstanding and any interest accrued on such current amount of debt outstanding for at least than three (3) months of loan use.

7.2.5 List and collateral value of any other properties pledged under Section 7.2.3 hereunder shall be determined by agreement between the Parties through signing an addendum to this Agreement.

Article 8. Term of Agreement

8.1 This Agreement shall become effective on the date of its signature and remain in full force and effect until the Parties fulfill their obligations under this Agreement.

Article 9. Other Provisions

9.1 Any amendments to this Agreement, except as specified in Sections 5.1.1 and 5.1.2 hereunder, shall be effective only if they are executed in writing and signed by authorized persons.

9.2 In the event of any change in the registered or mailing address of either Party, such a Party shall notify the other Party of such change before the amendment made to its constituent documents to reflect such change is officially registered.

In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change before such change takes effect.

The Borrower must notify the Lender of any changes in composition and powers of officials authorized to make any transactions on the Borrower’s behalf, in the seal impression or other data required by the Lender to properly perform its obligations under this Agreement, no later than such

For the Lender:
[illegible signature]

For the Borrower:
[illegible signature]

changed become effective and with submission, within three (3) business days, of duly certified copies of supporting documents. In case of failure to fulfill or timely fulfill that condition:

(a) the Borrower shall pay penalty in the amount of Ten Thousand Rubles (RUR 10,000). Such a penalty have to be paid within five (5) business days of the date the Lender’s notice of penalty was received (including the date of receipt);

(b) the Lender shall not be liable for any implications of execution of the Borrower’s payment orders to transfer loan funds from the loan account to transaction account, signed by unauthorized persons.

9.3 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 8.5 above) and signed by a duly authorized representative of the giving or sending Party.

9.4 Any and all disputes arising out of or related to this Agreement shall be resolved by the Moscow Arbitration Court under the applicable laws of the Russian Federation.

9.5 This Agreement was made in three (3) counterparts of equal legal effect, two for the Lender and one for the Borrower.

Article 10. Addresses and Bank Account Details of the Parties

The Lender:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered address: 19 Vavilov St., Moscow 117997, Russian Federation
Tel.: (495) 957 56 07, fax: (495) 957 55 61
For payments in foreign currencies: Bank of New York, New York, acc. 8900057610, acc. 30301810500001000014;
for payments in rubles:
acc. No. 30301810500001000014,
corr. acc. No. 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

The Borrower:

COMSTAR — Integrated TeleSystems, Open Joint Stock Company

Registered address: 27, bld. 2, Smolenskaya-Sennaya Sq., Moscow, 119121, Russian Federation
Tel.: (495) 956 00 00, fax: (495) 956 07 07
For payments in rubles:
acc. No. 40702810738000110285 and
for payments in foreign currencies:
acc. No. 40702840038000110285
in the Sberbank of Russia Central Office No. 8641
BIC 044525225, INN 7740000069.

Signatures of the Parties

For the Lender:

A. K. Aleshkina
First Deputy Chairman of the Board,
Sberbank of Russia

Seal here

For the Borrower:

N. V. Tokarev
Acting President
OAO “COMSTAR — Integrated TeleSystems”

Seal here

For the Lender:
[illegible signature]

For the Borrower:
[illegible signature]

**Amendment Agreement No. 4
to Non-Revolving Credit Facility Agreement No. 9463 dated June 8, 2007**

City of Moscow

October 12, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by Ms. Tatyana Gennadievna Sakharova, Head of the Financing Unit of the Major Clients Department, acting on the basis of the Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and COMSTAR-United TeleSystems Open Joint Stock Company, hereinafter referred to as the "Borrower", represented by Mr. Sergey Vladimirovich Pridantsev, its President acting on the basis of the Charter, as the other party, hereinafter collectively referred to as the "Parties", have made this Amendment Agreement No. 4 (hereinafter, the "Amendment Agreement") to Agreement No. 9463 for Non-Revolving Credit Facility dated August 28, 2009 (hereinafter, the "Loan Agreement") as follows:

1. To delete subclause 6.2.12 of the Loan Agreement and all references thereto, however the numbering order of other subclauses of Article 6 of the Loan Agreement shall remain intact.
2. To delete subclause n) of Clause 5.1.6 of the Loan Agreement and all references thereto, however the numbering order of other subclauses of Clause 5.1.6 of the Loan Agreement shall remain intact.
3. All other clauses and terms of the Loan Agreement not amended by this Amendment Agreement shall remain in force.
4. The Amendment Agreement becomes effective from the date of its execution and constitutes an integral part of the Loan Agreement.
5. The Amendment Agreement is made in 2 counterparts having equal legal force: one counterpart shall be kept by the Lender, the other — by the Borrower.

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address: 19 Vavilov Str., Moscow 117997, Russian Federation

Tel: (495) 957 57 75, fax: (495) 957 55 61

Account details for payments in rubles:

corr. acc. # 3010181040000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of

Borrower

COMSTAR United TeleSystems Open Joint Stock Company

Registered/mailling address: 27, Smolenskaya-Sennaya Sq., build 2, Moscow, 119121.

Tel: (495) 956-00-00, Fax: (495) 956 07 07

Account details for payments in rubles: acc. # 40702810738000110285

Russia, BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow Bank of New York: New York, NY, SWIFT
IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow,
Russia, SWIFT: SABRRUMM

Account details for payments in foreign currencies: acc. #
40702840038000110285 in Central Branch No. 8641 of
Sberbank of Russia, Moscow. BIC 044525225, INN
7740000069. corr. acc. # 30101810400000000225

Signatures of the Parties

Lender

Borrower

**Head of the Crediting Unit, Major Clients Department
of Sberbank of Russia OJSC**

President of COMSTAR-UTS OJSC

_____ **T.G. Sakharova**

_____ **S.V. Pridantsev**

[Seal]

[Seal]

**Amendment Agreement No. 5
to Non-Revolving Credit Facility Agreement No. 9463 dated June 8, 2007**

City of Moscow

March 26, 2010

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by Ms. Tatyana Gennadievna Sakharova, Head of the Financing Unit of the Major Clients Department, acting on the basis of the Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and

COMSTAR - United TeleSystems Open Joint Stock Company, hereinafter referred to as the "Surety", represented by Sergey Vladimirovich Pridantsev, its President acting on the basis of the Charter, as the other party, hereinafter collectively referred to as the "Parties",

have entered into this Amendment Agreement No. 5 (hereinafter, the "Amendment Agreement") to Non-Revolving Credit Facility Agreement No. 9463 dated June 8, 2007 (hereinafter, the "Loan Agreement") as follows:

1. To add Clause 2.5 of the Loan Agreement with the following:

Beginning from March 1, 2010 to September 27, 2010 (inclusively), the Borrower shall pay to the Lender interest on the facility at the rate of Ten Point Five (10.5%) per cent per annum.

Beginning from September 28, 2010 and up to the date of the final repayment specified in Clause 1.1 of the Loan Agreement, the Borrower shall pay to the Lender interest on the facility at the rate of Eleven Point Seventy-Five (11.75%) per cent per annum."

2. To amend Clause 2.1.3 of the Loan Agreement as follows:

«2.13. The outstanding facility shall be repaid in accordance with the following repayment schedule:

No	Repayment Date	Payment in percentage of the outstanding facility as of the final availability date (December 31, 2008)
1	September 27, 2010	One eighth (1/8)
2	December 27, 2010	One eighth (1/8)
3	March 27, 2011	One eighth (1/8)
4	June 27, 2011	One eighth (1/8)
5	September 27, 2011	One eighth (1/8)
6	December 27, 2011	One eighth (1/8)
7	March 27, 2012	One eighth (1/8)
8	June 7, 2012	One eighth (1/8)

3. All other clauses and terms of the Loan Agreement not amended by this Amendment Agreement shall remain in force.

4. The Amendment Agreement becomes effective from the date of its execution by the Parties and constitutes an integral part of the Loan Agreement. The terms hereof shall apply to the relations between the Parties thereto, arising from March 1, 2010 (inclusively).

5. The Amendment Agreement is made in 2 counterparts having equal legal force: one counterpart shall be kept by the Lender, the other — by the Borrower.

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address: 19 Vavilov Str., Moscow 117997, Russian Federation

Tel: (495) 957 57 75, fax: (495) 957 55 61

Account details for payments in rubles:

corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:

#30301840800001000014 with Sberbank of Russia, Moscow Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT: SABRRUMM

Borrower

COMSTAR United TeleSystems Open Joint Stock Company

Registered/mailling address: 27, Smolenskaya-Sennnaya Sq., build 2, Moscow, 119121. INN 774000069

Tel: (495) 956-00-00, Fax: (495) 956 07 07

Account details for payments in rubles:

acc. # 40702810738000110285

Account details for payments in foreign currencies:

acc. # 40702840038000110285 in Central Branch No. 8641 of Sberbank of Russia, Moscow. BIC 044525225, INN 7740000069. corr. acc. # 30101810400000000225

Signatures of the Parties

Lender

Head of the Crediting Unit, Major Clients Department of Sberbank of Russia OJSC

_____ **T.G. Sakharova**

[Seal]

Borrower

President of COMSTAR-UTS OJSC

_____ **S.V. Pridantsev**

[Seal]

SECURITIES PLEDGE AGREEMENT
No. Z-9463/1

City of Moscow

June 8, 2007

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Alla Konstantinovna Aleshkina, First Deputy Chair of its Management Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/501 dated July 28, 2006, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Nikolay Vladimirovich Tokarev, its Acting President, who is acting pursuant to its Charter and its Board of Directors Resolution No. 26-07/108 dated May 16, 2007, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

Article 1. Scope of Agreement

- 1.1 Under this Agreement, the Pledger shall pledge to the Pledgee the three billion three hundred and seventy-eight million one hundred and seventy-three thousand seven hundred and fifty (3,378,173,750) ordinary registered uncertificated shares in Communications Investment Company OJSC (located at 55 Plyuschikha Str., bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027739875998) (the "**Issuer**"), which are beneficially owned by the Pledger (the "**Pledged Securities**") and represent seventeen point thirty million seven hundred and sixty-nine thousand two hundred and thirty-one percent (17.30769231%) of the Issuer's charter capital. The par value of each of the Pledged Securities amounts to one ruble (RUR 1) each.
- 1.2 The Pledged Securities have not been pledged, assigned or subjected to any dispute or seizure as of the effective date of this Agreement.
- 1.3 The Pledger's title to the Pledged Securities specified in Article 1.1 above shall be proved by Statement of Account No. 0002/510046 dated June 7, 2007 issued in respect of custody account #000201760501 maintained by the Pledger with the Depository of Sberbank of Russia (located at 19 Vavilov Str., Moscow 117997, Russian Federation).
- 1.4 The Pledged Securities shall be placed on custody account #000201767901 maintained by the Pledger with the Depository of Sberbank of Russia.

Throughout the term of this Agreement, the Pledged Securities shall be frozen on the Pledger's custody account, with the Pledger retaining all of its shareholder rights, including the right to vote, the right to receive dividends or any other distributions and any other rights arising out of the Pledger's title to the Pledged Securities subject to the limitations imposed hereby.

Article 2. Obligations Secured by the Pledge

- 2.1 The Pledged Securities shall secure the obligations of Comstar United TeleSystems OJSC (located at 27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027700003946) (the "**Borrower**") under Non-revolving Credit facility Agreement No. 9463 made by and between the Borrower and the Pledgee (as the "Lender") on June 8, 2007 (the "**Loan Agreement**").

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007

2.2 The Borrower's obligations secured by this Agreement shall include, but not limited to, those to repay the amount of the loan and pay the loan interest, penalties and commitment fee payable under the Loan Agreement.

2.3 The Pledger hereby agrees to be liable for the Borrower's obligations under the Loan Agreement to the extent of the Pledged Securities, in particular on the following terms:

2.3.1 Under the Loan Agreement, a non-revolving credit facility has been provided to the Borrower with a limit amounting to twenty-six billion rubles (RUR 26,000,000,000) for the period ending on June 7, 2012 to fund the costs incurred or to be incurred by the Borrower to develop its communications network and meet its current liabilities.

2.3.2 The Borrower shall be entitled to draw down loan amounts later than on those dates specified in Article 2.7 of the Loan Agreement but no later than on that date specified in Article 2.12 thereof.

For such entitlement, the Borrower shall pay the Lender a commitment fee amounting to naught point twenty-five percent (0.25%) per annum of the amount of any tranche not drawn down in due time for the period beginning from the last drawdown date of such tranche as specified in Article 2.7 of the Loan Agreement (excluding that date) through the actual drawdown date thereof.

2.3.3 The Borrower shall pay the commitment fee on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the end date of the availability period on December 31, 2008.

2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2009	One twelfth (1/12)
2	December 27, 2009	One twelfth (1/12)
3	March 27, 2010	One twelfth (1/12)
4	June 27, 2010	One twelfth (1/12)
5	September 27, 2010	One twelfth (1/12)
6	December 27, 2010	One twelfth (1/12)
7	March 27, 2011	One twelfth (1/12)
8	June 27, 2011	One twelfth (1/12)
9	September 27, 2011	One twelfth (1/12)
10	December 27, 2011	One twelfth (1/12)
11	March 27, 2012	One twelfth (1/12)
12	June 7, 2012	One twelfth (1/12)

2.3.5 The Borrower shall pay the Lender a loan interest amounting to seven point six percent (7.6%) per annum.

2.3.6 The interest shall be payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on June 7, 2012.

2.3.7 The Lender may unilaterally increase the interest rate specified by the Loan Agreement upon notice to the Borrower but without the need to execute any addendum to the Loan Agreement for such increase to become effective if any of the following events occurs:

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- (a) The Bank of Russia makes any decision to increase the amount of the mandatory reserves to be deposited by the lending organizations with the Bank of Russia by more than ten percent (10%) of that prescribed as of the execution date of the Loan Agreement or the effective date of the most recent change of the interest rate made in accordance with Article 5.1.1 of the Loan Agreement, whether on a single occasion or cumulatively; or
- (b) The Bank of Russia makes any decision to increase its discount (refinancing) rate by more than ten percent (10%) of its level prescribed as of the execution date of the Loan Agreement or the effective date of the most recent change of the interest rate made in accordance with Article 5.1.1 of the Loan Agreement, whether on a single occasion or cumulatively; or
- (c) The Russian Federation Government or any of its agencies or the Bank of Russia takes any measures considerably changing the positions of the Lender and the Borrower under the Loan Agreement.

The unilaterally increased interest rate may not exceed one point two (1.2) times the maximum interest rate offered by the Lender for individual deposits for a term of (or, if the types of deposit are changed from those existing as of the execution date of the Loan Agreement, for a term of at least) two (2) years.

If the Lender unilaterally increases the interest rate, such increase shall become effective sixty (60) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated in such notice.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof.

- 2.3.8 If the Borrower delays in paying any amount in repayment of the loan or in payment of the interest or commitment fee, the Borrower shall pay the Lender a penalty amounting to one point five (1.5) times the refinancing rate set by the Bank of Russia in percent per annum to be applied to the amount of the overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

Article 3. Pledged Securities

3.1 The Pledger shall pledge to the Pledgee the ordinary shares in the Issuer described as follows:

- State registration number: 73-1«P»-8400;
- Par value of one share: one ruble (RUR 1);
- Quantity: three billion three hundred and seventy-eight million one hundred and seventy-three thousand seven hundred and fifty (3,378,173,750);
- Total par value of the shares: three billion three hundred and seventy-eight million one hundred and seventy-three thousand seven hundred and fifty rubles (RUR 3,378,173,750); and
- Form of issue: uncertificated.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

3.2 The Pledger shall undertake to pledge to the Pledgee any shares in the Issuer which may be obtained by the Pledger as a result of any issue accompanying any re-appraisal of the Issuer's assets, within ten (10) business days of the registration date of the report on the results of such issue, in such quantity as may be necessary to maintain the share of the shares initially pledged by the Pledger to the Pledgee in percent of the Issuer's charter capital as of the execution date hereof.

The class, state registration number, par value and quantity of the shares to be pledged by the Pledger to the Pledgee shall be specified by a resolution approving such issue passed by the Issuer's general shareholders meeting and the report on the results of such issue.

Article 4. Appraisal of the Pledged Securities

4.1 The Parties hereby agree that, as of the execution date hereof, the ordinary shares in the Issuer shall be pledged at a per-share price of naught point twenty-one million three hundred and thirteen thousand two hundred and ninety-one U.S. dollars (USD 0.21313291), which is equal to five point fifty million seven hundred and ninety-five thousand one hundred and seventeen rubles (RUR 5.50795117) at the exchange rate set by the Bank of Russia for the execution date hereof.

4.2 The pledge value of the Pledged Securities shall amount to seven hundred and twenty million U.S. dollars and eighty-two U.S. cents (USD 720,000,000.82), which is equal to eighteen billion six hundred and six million eight hundred and sixteen thousand forty-seven rubles and three kopecks (RUR 18,606,816,047.03) at the exchange rate set by the Bank of Russia for the execution date hereof.

Article 5. Rights and Obligations of the Parties

5.1 The Pledger shall be obligated as follows:

5.1.1 Once the Pledged Securities are placed on the Pledger's custody account with the Depository of Sberbank of Russia, the Pledger shall deliver to the Pledgee a statement of such custody account proving the availability of the Pledged Securities beneficially owned by the Pledger as specified in Article 3.1 above.

No later than on June 8, 2007, the Pledger shall deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer the Pledged Securities specified in Article 3.1 above to the pledge section of the Pledger's custody account with the Depository of Sberbank of Russia.

After the Borrower has fully performed all of its obligations under the Loan Agreement, including those to pay any penalties or other costs, the Pledger shall issue and deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer/release the Pledged Securities specified in Article 3.1 above from the pledge section of the Pledger's custody account with the Depository of Sberbank of Russia.

The Pledger shall pay any costs to cause the pledge with the Depository of Sberbank of Russia to be registered and terminated in accordance with the "Sberbank of Russia Terms of Depository Operations."

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- 5.1.2 The Pledger's obligations to pledge the Pledged Securities specified in Article 3.1 above shall be deemed duly discharged on the date on which the Pledged Securities are frozen by the Depository of Sberbank of Russia.
- 5.1.3 Upon written request of the Pledgee, the Pledger shall replace the Pledged Securities with any property of equal value within sixty (60) calendar days of the date of such request if any of the following events occurs:
- the Pledged Securities get lost not through the Pledgee's fault; or
 - the Pledger's title to the Pledged Securities is terminated for any reason stipulated by law.
- 5.1.4 If the Issuer's general shareholders meeting passes any resolution to split or consolidate the shares, the Pledger shall replace the Pledged Securities with shares of the new par value for the amount equal to the total par value of the Pledged Securities as specified in Article 3.1 above within twenty (20) business days of the date on which the report on the results of the share issue is registered with competent governmental authorities.
- 5.1.5 The Pledger shall undertake to pledge to the Pledgee any share in the Issuer which may be acquired by the Pledger as a result of any additional share issue(s), within twenty (20) business days of the date on which the report on the results of such additional share issue is registered with competent governmental authorities, in such quantity as may be necessary to maintain the share of the shares initially pledged by the Pledger to the Pledgee in percent of the Issuer's charter capital as of the execution date hereof.

The classes and state registration numbers of such additionally issued shares to be pledged by the Pledger to the Pledgee shall be determined based on the report on the results of such additional share issue and an extract from the register of shareholders.

- 5.2 The Pledger hereby confirms that the Pledged Securities have not been sold, pledged or subjected to any dispute, seizure or third-party rights as of the execution date hereof. The Pledger hereby acknowledges its obligation to take any lawful steps practicable to prevent the Pledged Securities from being seized by any competent authorities and to protect the same against any third-party claims throughout the term of the Loan Agreement.
- 5.3 The Pledger may not sell, exchange, present, grant on lease, financial lease or in trust, invest, re-pledge, assign, alienate or otherwise dispose of the Pledged Securities without prior written consent of the Pledgee until the Borrower fully performs all of its obligations under the Loan Agreement.
- 5.4 After the obligations secured by the pledge are fully discharged, the Pledgee shall sign a pledge order to release the Pledged Securities from the Depository and deliver the Pledged Securities so released to the Pledger within ten (10) business days of the date of receipt of such pledge order from the Pledger.

Article 6. Liability of the Parties

- 6.1 The Parties may be held liable under the applicable laws of the Russian Federation for any failure to perform or duly perform any of their respective obligations hereunder.
- 6.2 If the Pledger fails to perform any of its obligations under Articles 3.2, 5.1.1, 5.1.3, 5.1.4 and 5.1.5 above, the Pledger shall pay the Pledgee a penalty amounting to naught point naught five

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

percent (0.05%) of the pledge value of the Pledged Securities as stated in Article 4.2 above for each day of such failure.

- 6.3 If the Pledger fails to perform any of its obligations under Article 5.3 above, the Pledger shall pay the Pledgee a penalty amounting to naught point five percent (0.5%) of the pledge value of the Pledged Securities as stated in Article 4.2 above within five (5) business days of the date of receipt of a written request to pay such penalty from the Pledgee.
- 6.4 If the Borrower violates any of the terms of the Loan Agreement, the Pledgee may recover the Pledged Securities before any of the obligations secured by the pledge becomes mature in accordance with the procedure established by Article 7 below.

Article 7. Terms of Recovery of and Transactions with the Pledged Securities

- 7.1 The Parties have agreed that the Pledged Securities described in Article 3 above, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the applicable laws.
- 7.2 All proceeds from the sale of the Pledged Securities to repay the debt owed by the Borrower to the Lender under the Loan Agreement shall be applied to cover any legal or other costs as may be incurred by the Lender to collect such debt.

Any proceeds remaining after such legal or other costs incurred by the Lender to collect such debt are covered shall be applied in the following order of priority, irrespective of the purpose of payment stated in the relevant payment order:

- (1) to repay the debt owed by the Borrower to the Lender under the Loan Agreement in accordance with the payment schedule specified by the Loan Agreement; and
- (2) to pay the penalties payable by the Pledger hereunder.

Article 8. Dispute Resolution

- 8.1 Any and all disputes, disagreements or claims arising out of or related to this Agreement, including those concerning its performance, violation, termination or invalidity, shall be resolved by the Moscow Arbitration Court. At the option of the Pledgee, any such dispute, disagreement or claim may be referred for resolution by the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation in accordance with its Rules.

Article 9. Amendments

- 9.1 Any amendment to this Agreement shall only be valid if made in writing and signed by duly authorized representatives of both Parties. Any amendment to this Agreement shall be executed as an addendum hereto and constitute an integral part hereof.
- 9.2 In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change within three (3) business days after such change takes effect. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change within five (5) business days after the date on which the amendment made to its constituent documents to reflect such change is officially registered.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Article 10. Term

- 10.1 This Agreement shall become effective on the date of its signing by both Parties.
- 10.2 This Agreement shall terminate as soon as the Borrower fully performs all of its obligations under the Loan Agreement or as soon as the Pledger fully performs all of its obligations hereunder.

Article 11. Miscellaneous

- 11.1 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 9.2 above) and signed by a duly authorized representative of the giving or sending Party.
- 11.2 The terms of this Agreement shall be confidential and may not be disclosed.
- 11.3 This Agreement is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

Article 12. Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc. #30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Signatures of the Parties:

For the Pledgee:

[Signed]
A.K. Aleshkina
First Deputy Chair of the Management Board,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
N.V. Tokarev
Acting President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

For the Pledgee:

[Signed]

For the Pledger:

[Signed]

**Addendum No. 1
to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007**

City of Moscow

July 31, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Anton Alexandrovich Karamzin, Deputy Chair of its Management Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/125 dated February 26, 2008, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 1 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007 (the "**Agreement**") on the following:

1. The first paragraph of Article 2.3.5 of the Agreement shall be amended to read as follows:
"2.3.5 The Borrower shall pay the Lender a loan interest amounting to nine point five percent (9.5%) per annum beginning from June 28, 2008."
2. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
3. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
4. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Signatures of the Parties:

For the Pledgee:

[Signed]
A.A. Karamzin
Deputy Chair of the Management Board,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

**Addendum No. 2
to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007**

City of Moscow

December 30, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Soloviyov, Director of its Project Financing Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/1150 dated December 4, 2008, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 2 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007 as amended as of July 31, 2008 (the "**Agreement**") on the following:

1. Article 2.1 of the Agreement shall be amended to read as follows:

"The Pledged Securities shall secure the obligations of Comstar United TeleSystems OJSC (located at 27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027700003946) (the "**Borrower**") under Non-revolving Credit facility Agreement No. 9463 made by and between the Borrower and the Pledgee (as the "Lender") on June 8, 2007 and amended as of December 30, 2008 (the "**Loan Agreement**")."

2. Article 2.3.5 of the Agreement shall be supplemented by the following paragraph:

"Beginning from January 1, 2009, the Borrower shall pay the Lender a loan interest amounting to thirteen point thirty-five percent (13.35%) per annum."

3. Article 2.3.7 of the Agreement shall be amended to read as follows:

"2.3.7 The Lender may unilaterally, at its sole discretion, increase the interest rate specified by the Loan Agreement, including, but not limited to, in the event that the Bank of Russia decides to increase its discount (refinancing) rate, upon notice to the Borrower of such increase but without the need to execute any addendum to the Loan Agreement for such increase to become effective.

If the Lender unilaterally increases the interest rate, such increase shall become effective thirty (30) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated by the Lender.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof."

4. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
5. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
6. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc.
#30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Signatures of the Parties:

For the Pledgee:

[Signed]
A.V. Soloviyov
Director, Project Financing Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

**Addendum No. 3
to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007**

City of Moscow

February 17, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Soloviyov, Director of its Project Financing Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/1150 dated December 4, 2008, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 3 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007 as amended as of December 30, 2008 (the "**Agreement**") on the following:

1. Article 11.2 of the Agreement shall be stricken out.
2. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
3. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
4. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc. #30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Signatures of the Parties:

For the Pledgee:

[Signed]
A.V. Soloviyov
Director, Project Financing Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

Addendum No. 4
to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007

City of Moscow

September 24, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 4 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007 (the "**Agreement**") on the following:

1. Article 2.3.4 of the Agreement shall be amended to read as follows:

"2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	March 27, 2010	One sixth (1/6)
2	June 27, 2010	One sixth (1/6)
3	September 27, 2010	One twelfth (1/12)
4	December 27, 2010	One twelfth (1/12)
5	March 27, 2011	One twelfth (1/12)
6	June 27, 2011	One twelfth (1/12)
7	September 27, 2011	One twelfth (1/12)
8	December 27, 2011	One twelfth (1/12)
9	March 27, 2012	One twelfth (1/12)
10	June 7, 2012	One twelfth (1/12) "

2. Article 7.1 of the Agreement shall be amended to read as follows:

"The Parties hereby agree that the Pledged Securities described in Article 3 above, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the Extrajudicial Recovery Agreement made in respect of the Pledged Securities."

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

Addendum No. 5
to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007

City of Moscow

March 26, 2010

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 5 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/1 dated June 8, 2007 (the "**Agreement**") on the following:

1. Article 2.3.5 of the Agreement shall be supplemented by the following paragraph:

"In the period from March 1, 2010 through September 27, 2010, the Borrower shall pay the Lender a loan interest amounting to ten point five percent (10.5%) per annum.

In the period from September 28, 2010 through the final repayment date stated in Article 1.1 of the Loan Agreement, the Borrower shall pay the Lender a loan interest amounting to eleven point seventy-five percent (11.75%) per annum."

2. Article 2.3.4 of the Agreement shall be amended to read as follows:

"2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2010	One eighth (1/8)
2	December 27, 2010	One eighth (1/8)
3	March 27, 2011	One eighth (1/8)
4	June 27, 2011	One eighth (1/8)
5	September 27, 2011	One eighth (1/8)
6	December 27, 2011	One eighth (1/8)
7	March 27, 2012	One eighth (1/8)
8	June 7, 2012	One eighth (1/8)

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement. This Addendum shall apply to those relations emerging between the Parties under the Agreement beginning from March 1, 2010 (inclusive).
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
INN 7740000069
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank of Russia OJSC, Moscow, BIC 044525225, corr.
acc. #30101810400000000225

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank of Russia OJSC, Moscow, BIC 044525225, corr.
acc. #30101810400000000225

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

SECURITIES PLEDGE AGREEMENT
No. Z-9463/2

City of Moscow

November 6, 2007

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Alla Konstantinovna Aleshkina, First Deputy Chair of its Management Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/501 dated July 28, 2006, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Shamil Kurmashov and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter and the Resolution of its Board of Directors dated October 17, 2007, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

Article 1. Scope of Agreement

- 1.1 Under this Agreement, the Pledger shall pledge to the Pledgee the one billion five hundred and one million four hundred and ten thousand five hundred and fifty-six (1,501,410,556) ordinary registered uncertificated shares in Communications Investment Company OJSC (located at 55 Plyuschikha Str., bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027739875998) (the "**Issuer**"), which are beneficially owned by the Pledger (the "**Pledged Securities**") and represent seven point six million nine hundred and twenty-three thousand seventy-seven percent (7.6923077%) of the Issuer's charter capital. The par value of each of the Pledged Securities amounts to one ruble (RUR 1) each.
- 1.2 The Pledged Securities have not been pledged, assigned or subjected to any dispute or seizure as of the effective date of this Agreement.
- 1.3 The Pledger's title to the Pledged Securities specified in Article 1.1 above shall be proved by Statement of Account No. 0002/546740 dated October 29, 2007 issued in respect of custody account #000201767901 maintained by the Pledger with the Depository of Sberbank of Russia (located at 19 Vavilov Str., Moscow 117997, Russian Federation).
- 1.4 The Pledged Securities shall be placed on custody account #000201767901 maintained by the Pledger with the Depository of Sberbank of Russia.

Throughout the term of this Agreement, the Pledged Securities shall be frozen on the Pledger's custody account, with the Pledger retaining all of its shareholder rights, including the right to vote, the right to receive dividends or any other distributions and any other rights arising out of the Pledger's title to the Pledged Securities subject to the limitations imposed hereby.

Article 2. Obligations Secured by the Pledge

- 2.1 The Pledged Securities shall secure the obligations of Comstar United TeleSystems OJSC (located at 27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027700003946) (the "**Borrower**") under Non-revolving Credit facility Agreement No. 9463 made by and between the Borrower and the Pledgee (as the "**Lender**") on June 8, 2007 (the "**Loan Agreement**").
- 2.2 The Borrower's obligations secured by this Agreement shall include, but not limited to, those to repay the amount of the loan and pay the loan interest, penalties and commitment fee payable under the Loan Agreement.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007

2.3 The Pledger hereby agrees to be liable for the Borrower's obligations under the Loan Agreement to the extent of the Pledged Securities, in particular on the following terms:

- 2.3.1 Under the Loan Agreement, a non-revolving credit facility has been provided to the Borrower with a limit amounting to twenty-six billion rubles (RUR 26,000,000,000) for the period ending on June 7, 2012 to fund the costs incurred or to be incurred by the Borrower to develop its communications network and meet its current liabilities.
- 2.3.2 The Borrower shall be entitled to draw down loan amounts later than on those dates specified in Article 2.7 of the Loan Agreement but no later than on that date specified in Article 2.12 thereof.

For such entitlement, the Borrower shall pay the Lender a commitment fee amounting to naught point twenty-five percent (0.25%) per annum of the amount of any tranche not drawn down in due time for the period beginning from the last drawdown date of such tranche as specified in Article 2.7 of the Loan Agreement (excluding that date) through the actual drawdown date thereof.

- 2.3.3 The Borrower shall pay the commitment fee on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the end date of the availability period on December 31, 2008.
- 2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2009	One twelfth (1/12)
2	December 27, 2009	One twelfth (1/12)
3	March 27, 2010	One twelfth (1/12)
4	June 27, 2010	One twelfth (1/12)
5	September 27, 2010	One twelfth (1/12)
6	December 27, 2010	One twelfth (1/12)
7	March 27, 2011	One twelfth (1/12)
8	June 27, 2011	One twelfth (1/12)
9	September 27, 2011	One twelfth (1/12)
10	December 27, 2011	One twelfth (1/12)
11	March 27, 2012	One twelfth (1/12)
12	June 7, 2012	One twelfth (1/12)

- 2.3.5 The Borrower shall pay the Lender a loan interest amounting to seven point six percent (7.6%) per annum.
- 2.3.6 The interest shall be payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on June 7, 2012.
- 2.3.7 The Lender may unilaterally increase the interest rate specified by the Loan Agreement upon notice to the Borrower but without the need to execute any addendum to the Loan Agreement for such increase to become effective if any of the following events occurs:
- (a) The Bank of Russia makes any decision to increase the amount of the mandatory reserves to be deposited by the lending organizations with the Bank of Russia by more than ten percent (10%) of that prescribed as of the execution date of the

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Loan Agreement or the effective date of the most recent change of the interest rate made in accordance with Article 5.1.1 of the Loan Agreement, whether on a single occasion or cumulatively; or

- (b) The Bank of Russia makes any decision to increase its discount (refinancing) rate by more than ten percent (10%) of its level prescribed as of the execution date of the Loan Agreement or the effective date of the most recent change of the interest rate made in accordance with Article 5.1.1 of the Loan Agreement, whether on a single occasion or cumulatively; or
- (c) The Russian Federation Government or any of its agencies or the Bank of Russia takes any measures considerably changing the positions of the Lender and the Borrower under the Loan Agreement.

The unilaterally increased interest rate may not exceed one point two (1.2) times the maximum interest rate offered by the Lender for individual deposits for a term of (or, if the types of deposit are changed from those existing as of the execution date of the Loan Agreement, for a term of at least) two (2) years.

If the Lender unilaterally increases the interest rate, such increase shall become effective sixty (60) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated in such notice.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof.

- 2.3.8 If the Borrower delays in paying any amount in repayment of the loan or in payment of the interest or commitment fee, the Borrower shall pay the Lender a penalty amounting to one point five (1.5) times the refinancing rate set by the Bank of Russia in percent per annum to be applied to the amount of the overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

Article 3. Pledged Securities

- 3.1 The Pledger shall pledge to the Pledgee the ordinary shares in the Issuer described as follows:

- State registration number: 73-1«P»-8400;
- Par value of one share: one ruble (RUR 1);
- Quantity: one billion five hundred and one million four hundred and ten thousand five hundred and fifty-six (1,501,410,556);
- Total par value of the shares: one billion five hundred and one million four hundred and ten thousand five hundred and fifty-six rubles (RUR 1,501,410,556); and
- Form of issue: uncertificated.

- 3.2 The Pledger shall undertake to pledge to the Pledgee any shares in the Issuer which may be obtained by the Pledger as a result of any issue accompanying any re-appraisal of the Issuer's assets, within ten (10) business days of the registration date of the report on the results of such issue, in such quantity as may be necessary to maintain the share of the shares initially pledged

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

by the Pledger to the Pledgee in percent of the Issuer's charter capital as of the execution date hereof.

The class, state registration number, par value and quantity of the shares to be pledged by the Pledger to the Pledgee shall be specified by a resolution approving such issue passed by the Issuer's general shareholders meeting and the report on the results of such issue.

Article 4. Appraisal of the Pledged Securities

- 4.1 The Parties hereby agree that, as of the execution date hereof, the ordinary shares in the Issuer shall be pledged at a per-share price of naught point twenty-one million three hundred and thirteen thousand two hundred and ninety-one U.S. dollars (USD 0.21313291), which is equal to five point twenty-five million seven hundred and forty-three thousand four hundred and seventy-four rubles (RUR 5.25743474) at the exchange rate set by the Bank of Russia for the execution date hereof.
- 4.2 The pledge value of the Pledged Securities shall amount to three hundred and twenty million U.S. dollars and ninety U.S. cents (USD 320,000,000.90), which is equal to seven billion eight hundred and ninety-three million five hundred and sixty-eight thousand twenty-two rubles and twenty kopecks (RUR 7,893,568,022.20) at the exchange rate set by the Bank of Russia for the execution date hereof.

Article 5. Rights and Obligations of the Parties

- 5.1 The Pledger shall be obligated as follows:
- 5.1.1 Once the Pledged Securities are placed on the Pledger's custody account with the Depository of Sberbank of Russia, the Pledger shall deliver to the Pledgee a statement of such custody account proving the availability of the Pledged Securities beneficially owned by the Pledger as specified in Article 3.1 above.
- No later than on November 9, 2007, the Pledger shall deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer the Pledged Securities specified in Article 3.1 above to the pledge section of the Pledger's custody account with the Depository of Sberbank of Russia.
- After the Borrower has fully performed all of its obligations under the Loan Agreement, including those to pay any penalties or other costs, the Pledger shall issue and deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer/release the Pledged Securities specified in Article 3.1 above from the pledge section of the Pledger's custody account with the Depository of Sberbank of Russia.
- The Pledger shall pay any costs to cause the pledge with the Depository of Sberbank of Russia to be registered and terminated in accordance with the "Sberbank of Russia Terms of Depository Operations."
- 5.1.2 The Pledger's obligations to pledge the Pledged Securities specified in Article 3.1 above shall be deemed duly discharged on the date on which the Pledged Securities are frozen by the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- 5.1.3 Upon written request of the Pledgee, the Pledger shall replace the Pledged Securities with any property of equal value within sixty (60) calendar days of the date of such request if any of the following events occurs:
- the Pledged Securities get lost not through the Pledgee's fault; or
 - the Pledger's title to the Pledged Securities is terminated for any reason stipulated by law.
- 5.1.4 If the Issuer's general shareholders meeting passes any resolution to split or consolidate the shares, the Pledger shall replace the Pledged Securities with shares of the new par value for the amount equal to the total par value of the Pledged Securities as specified in Article 3.1 above within twenty (20) business days of the date on which the report on the results of the share issue is registered with competent governmental authorities.
- 5.1.5 The Pledger shall undertake to pledge to the Pledgee any share in the Issuer which may be acquired by the Pledger as a result of any additional share issue(s), within twenty (20) business days of the date on which the report on the results of such additional share issue is registered with competent governmental authorities, in such quantity as may be necessary to maintain the share of the shares initially pledged by the Pledger to the Pledgee in percent of the Issuer's charter capital as of the execution date hereof.

If any additional share issue results in the Pledger's share in the Issuer's charter capital becoming less than that of the shares pledged by the Pledger to the Pledgee in percent of the Issuer's charter capital as of the execution date hereof, the Pledger shall pledge to the Pledgee all of those shares obtained by the Pledger as a result of such additional share issue within twenty (20) business days of the registration date of the report on the results of such additional share issue.

The classes and state registration numbers of such additionally issued shares to be pledged by the Pledger to the Pledgee shall be determined based on the report on the results of such additional share issue and an extract from the register of shareholders.

- 5.2 The Pledger hereby confirms that the Pledged Securities have not been sold, pledged or subjected to any dispute, seizure or third-party rights as of the execution date hereof. The Pledger hereby acknowledges its obligation to take any lawful steps practicable to prevent the Pledged Securities from being seized by any competent authorities and to protect the same against any third-party claims throughout the term of the Loan Agreement.
- 5.3 The Pledger may not sell, exchange, present, grant on lease, financial lease or in trust, invest, re-pledge, assign, alienate or otherwise dispose of the Pledged Securities without prior written consent of the Pledgee until the Borrower fully performs all of its obligations under the Loan Agreement.
- 5.4 After the obligations secured by the pledge are fully discharged, the Pledgee shall sign a pledge order to release the Pledged Securities from the Depository and deliver the Pledged Securities so released to the Pledger within ten (10) business days of the date of receipt of such pledge order from the Pledger.
- 5.5 The Pledger shall submit to the Pledgee on an annual basis, within one hundred and eighty (180) calendar days of the end date of each calendar year, its annual financial statements prepared in accordance with the financial reporting standards adopted in the Grand Duchy of Luxembourg along with the Notes thereto as required by the laws of the Grand Duchy of Luxembourg and an audit report in respect of such annual financial statements.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Furthermore, the Pledger shall submit to the Lender any other financial statements as may be requested by the Lender within thirty (30) business days of the receipt date of such request.

- 5.6 Any income from the Pledged Securities shall be transferred to the Pledger until the Borrower fully performs all of its obligations under the Loan Agreement.
- 5.7 The Pledger shall warn the Pledgee on any potential risks to which the Pledged Securities may be exposed, including those arising out of the Pledger's business operations or any other events affecting the marketability of the Pledged Securities.
- 5.8 The Pledger may be held liable under the applicable laws for the authenticity and validity of the Pledged Securities transferred to the Pledgee.
- 5.9 The Pledger may exercise all of its shareholder rights arising out of its title to the Pledged Securities, which are vested in the Pledger by the applicable laws, including:
- the right to participate in the management of the Issuer, *inter alia* by exercising its voting right at any general shareholders meeting on any matters within the competence of such meeting; and
 - the right to obtain part of the Issuer's profits in the form of dividends.

Article 6. Liability of the Parties

- 6.1 The Parties may be held liable under the applicable laws of the Russian Federation for any failure to perform or duly perform any of their respective obligations hereunder.
- 6.2 If the Pledger fails to perform any of its obligations under Articles 3.2, 5.1.1, 5.1.3, 5.1.4 and 5.1.5 above, the Pledger shall pay the Pledgee a penalty amounting to naught point naught five percent (0.05%) of the pledge value of the Pledged Securities as stated in Article 4.2 above for each day of such failure.
- 6.3 If the Pledger fails to perform any of its obligations under Articles 5.3, 5.7 and 5.8 above, the Pledger shall pay the Pledgee a penalty amounting to naught point five percent (0.5%) of the pledge value of the Pledged Securities as stated in Article 4.2 above within five (5) business days of the date of receipt of a written request to pay such penalty from the Pledgee.
- 6.4 No payment of any penalty payable hereunder shall release the Pledger from any of its obligations hereunder.
- 6.5 If the Borrower violates any of the terms of the Loan Agreement, the Pledgee may recover the Pledged Securities before any of the obligations secured by the pledge becomes mature in accordance with the procedure established by Article 7 below.

Article 7. Terms of Recovery of and Transactions with the Pledged Securities

- 7.1 The Parties have agreed that the Pledged Securities described in Article 3 above, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the applicable laws.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

7.2 All proceeds from the sale of the Pledged Securities to repay the debt owed by the Borrower to the Lender under the Loan Agreement shall be applied to cover any legal or other costs as may be incurred by the Lender to collect such debt.

Any proceeds remaining after such legal or other costs incurred by the Lender to collect such debt are covered shall be applied in the following order of priority, irrespective of the purpose of payment stated in the relevant payment order:

- (1) to repay the debt owed by the Borrower to the Lender under the Loan Agreement in accordance with the payment schedule specified by the Loan Agreement; and
- (2) to pay the penalties payable by the Pledger hereunder.

Article 8. Dispute Resolution

8.1 Any and all disputes, disagreements or claims arising out of or related to this Agreement, including those concerning its performance, violation, termination or invalidity, shall be resolved by the Moscow Arbitration Court. At the option of the Pledgee, any such dispute, disagreement or claim may be referred for resolution by the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation in accordance with its Rules.

8.2 This Agreement, including the rights or obligations of the Parties hereunder, shall be governed by the law of the Russian Federation.

Article 9. Amendments

9.1 Any amendment to this Agreement shall only be valid if made in writing and signed by duly authorized representatives of both Parties. Any amendment to this Agreement shall be executed as an addendum hereto and constitute an integral part hereof.

9.2 In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change within three (3) business days after such change takes effect. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change within five (5) business days after the date on which the amendment made to its constituent documents to reflect such change is officially registered.

Article 10. Term

10.1 This Agreement shall become effective on the date of its signing by both Parties.

10.2 This Agreement shall terminate as soon as the Borrower fully performs all of its obligations under the Loan Agreement or as soon as the Pledger fully performs all of its obligations hereunder.

Article 11. Miscellaneous

11.1 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 9.2 above) and signed by a duly authorized representative of the giving or sending Party.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- 11.2 The terms of this Agreement shall be confidential and may not be disclosed.
- 11.3 This Agreement is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

Article 12. Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc. #30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank LLC, corr. acc. #30101810100000000101 with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
A.K. Aleshkina
First Deputy Chair of the Management Board,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S. Kurmashov
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

**Addendum No. 1
to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007**

City of Moscow

July 31, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Anton Alexandrovich Karamzin, Deputy Chair of its Management Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/225 dated February 26, 2008, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Shamil Kurmashov and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter and the Resolution of its Board of Directors dated July 1, 2008, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 1 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007 (the "**Agreement**") on the following:

1. The first paragraph of Article 2.3.5 of the Agreement shall be amended to read as follows:
"2.3.5 The Borrower shall pay the Lender a loan interest amounting to nine point five percent (9.5%) per annum beginning from June 28, 2008."
2. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
3. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
4. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg
L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company
Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank
LLC, corr. acc. #30101810100000000101 with the
Transaction Department of the Moscow Principal Territorial
Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
A.A. Karamzin
Deputy Chair of the Management Board,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S. Kurmashov
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

Addendum No. 2
to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007

City of Moscow

December 30, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Soloviyov, Director of its Project Financing Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/2150 dated December 4, 2008, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Shamil Kurmashov and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter and the Resolution of its Board of Directors dated November 9, 2008, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 2 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007 as amended as of July 31, 2008 (the "**Agreement**") on the following:

1. Article 2.1 of the Agreement shall be amended to read as follows:

"The Pledged Securities shall secure the obligations of Comstar United TeleSystems OJSC (located at 27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121, Russian Federation and registered under Principal State Registration Number (OGRN) 1027700003946) (the "**Borrower**") under Non-revolving Credit facility Agreement No. 9463 made by and between the Borrower and the Pledgee (as the "Lender") on June 8, 2007 and amended as of December 30, 2008 (the "**Loan Agreement**")."

2. Article 2.3.5 of the Agreement shall be supplemented by the following paragraph:

"Beginning from January 1, 2009, the Borrower shall pay the Lender a loan interest amounting to thirteen point thirty-five percent (13.35%) per annum."

3. Article 2.3.7 of the Agreement shall be amended to read as follows:

"2.3.7 The Lender may unilaterally, at its sole discretion, increase the interest rate specified by the Loan Agreement, including, but not limited to, in the event that the Bank of Russia decides to increase its discount (refinancing) rate, upon notice to the Borrower of such increase but without the need to execute any addendum to the Loan Agreement for such increase to become effective.

If the Lender unilaterally increases the interest rate, such increase shall become effective thirty (30) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated by the Lender.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof."

4. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
5. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
6. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg
L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company
Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank
LLC, corr. acc. #30101810100000000101 with the
Transaction Department of the Moscow Principal Territorial
Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
A.V. Soloviyov
Director, Project Financing Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S. Kurmashov
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

**Addendum No. 3
to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007**

City of Moscow

February 17, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Mr. Alexander Vladimirovich Soloviyov, Director of its Project Financing Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/2150 dated December 4, 2008, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Shamil Kurmashov and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 3 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007 as amended as of December 30, 2008 (the "**Agreement**") on the following:

1. Article 11.2 of the Agreement shall be stricken out.
2. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
3. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
4. This Addendum is made in four (4) counterparts of equal legal effect, two for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg
L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company
Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank
LLC, corr. acc. #30101810100000000101 with the
Transaction Department of the Moscow Principal Territorial
Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
A.V. Soloviyov
Director, Project Financing Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S. Kurmashov
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

Addendum No. 4
to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007

City of Moscow

September 24, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Dmitry Sharovarov and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 4 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007 (the "**Agreement**") on the following:

1. Article 2.3.4 of the Agreement shall be amended to read as follows:

"2.3.4 The loan shall be repayable in accordance with the following schedule:

<u>No.</u>	<u>Repayment date</u>	<u>Amount of payment as a share of the total debt as of the end date of the availability period</u>
1	March 27, 2010	One sixth (1/6)
2	June 27, 2010	One sixth (1/6)
3	September 27, 2010	One twelfth (1/22)
4	December 27, 2010	One twelfth (1/22)
5	March 27, 2011	One twelfth (1/22)
6	June 27, 2011	One twelfth (1/22)
7	September 27, 2011	One twelfth (1/22)
8	December 27, 2011	One twelfth (1/22)
9	March 27, 2012	One twelfth (1/22)
10	June 7, 2012	One twelfth (1/22) "

2. Article 7.1 of the Agreement shall be amended to read as follows:

"The Parties hereby agree that the Pledged Securities described in Article 3 above, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the Extrajudicial Recovery Agreement made in respect of the Pledged Securities."

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement.
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg
L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company
Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank
LLC, corr. acc. #30101810100000000101 with the
Transaction Department of the Moscow Principal Territorial
Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
D. Sharovатов
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

**Addendum No. 5
to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007**

City of Moscow

March 26, 2010

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **MGTS Finance S.A.** hereinafter referred to as the "**Pledger**," represented by Mr. Dmitry Sharovатов and Ms. Irina Matveyeva, its Directors, who are acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Addendum No. 5 ("**this Addendum**") to Securities Pledge Agreement No. Z-9463/2 dated November 6, 2007 (the "**Agreement**") on the following:

1. Article 2.3.5 of the Agreement shall be supplemented by the following paragraph:

"In the period from March 1, 2010 through September 27, 2010, the Borrower shall pay the Lender a loan interest amounting to ten point five percent (10.5%) per annum.

In the period from September 28, 2010 through the final repayment date stated in Article 1.1 of the Loan Agreement, the Borrower shall pay the Lender a loan interest amounting to eleven point seventy-five percent (11.75%) per annum."

2. Article 2.3.4 of the Agreement shall be amended to read as follows:

"2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2010	One eighth (1/8)
2	December 27, 2010	One eighth (1/8)
3	March 27, 2011	One eighth (1/8)
4	June 27, 2011	One eighth (1/8)
5	September 27, 2011	One eighth (1/8)
6	December 27, 2011	One eighth (1/8)
7	March 27, 2012	One eighth (1/8)
8	June 7, 2012	One eighth (1/8) "

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement. This Addendum shall apply to those relations emerging between the Parties under the Agreement beginning from March 1, 2010 (inclusive).
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/ mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

MGTS Finance S.A.

Registered address: 5, rue Eugene Ruppert, Luxembourg
L-2453
Tel.: (495) 950 02 42
Fax: (495) 950 07 84

Account details for payments in USD:
Acc. #04411202 with Deutsche Bank Trust Company
Americas, curr. acc. #40807840200000000126

Account details for payments in rubles:
Curr. acc. #40807810300000000124 with Deutsche Bank
LLC, corr. acc. #30101810100000000101 with the
Transaction Department of the Moscow Principal Territorial
Branch of the Bank of Russia
BIC 044525101
INN/KPP 7702216772 / 997950001

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
D. Sharovатов
Director, MGTS Finance S.A.

[Signed]
I. Matveyeva
Director, MGTS Finance S.A.

SECURITIES PLEDGE AGREEMENT
No. Z-9463/3

City of Moscow

September 24, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

Article 1. Scope of Agreement

- 1.1 Under this Agreement, the Pledger shall pledge to the Pledgee a certain promissory note issued by Sberbank of Russia OJSC which is beneficially owned by the Pledger as described in Annex 1 hereto (the "**Pledged Securities**").
- 1.2 The Pledged Securities shall be kept with the Pledgee's Depository (the "**Depository**").

Article 2. Obligations Secured by the Pledge

- 2.1 The Pledged Securities shall secure the Pledger's obligations under Non-revolving Credit facility Agreement No. 9463 made by and between the Pledger (as the "Borrower") and the Pledgee (as the "Lender") on June 8, 2007 (the "**Loan Agreement**").
- 2.2 The Borrower's obligations secured by this Agreement shall include, but not limited to, those to repay the amount of the loan and pay the loan interest and penalties payable under the Loan Agreement.
- 2.3 The Pledger is aware of all of the terms of the Loan Agreement and hereby agrees to be liable for the Borrower's obligations under the Loan Agreement to the extent of the Pledged Securities, in particular on the following terms:
 - 2.3.1 Under the Loan Agreement, a non-revolving credit facility has been provided to the Borrower with a limit amounting to twenty-six billion rubles (RUR 26,000,000,000) for the period ending on June 7, 2012 to fund the costs incurred or to be incurred by the Borrower to develop its communications network, including those to re-finance the earlier incurred costs, and meet its current liabilities.
 - 2.3.2 The Borrower shall pay the Lender a loan interest amounting to thirteen point thirty-five percent (13.35%) per annum.
 - 2.3.3 The loan interest shall be payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on June 7, 2012.
 - 2.3.4 The loan shall be repayable in accordance with the following schedule:

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Securities Pledge Agreement No. Z-9463/3 dated September 24, 2009

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	March 27, 2010	One sixth (1/6)
2	June 27, 2010	One sixth (1/6)
3	September 27, 2010	One twelfth (1/12)
4	December 27, 2010	One twelfth (1/12)
5	March 27, 2011	One twelfth (1/12)
6	June 27, 2011	One twelfth (1/12)
7	September 27, 2011	One twelfth (1/12)
8	December 27, 2011	One twelfth (1/12)
9	March 27, 2012	One twelfth (1/12)
10	June 7, 2012	One twelfth (1/12)

2.3.5 If the Borrower delays in paying any amount in repayment of the loan or in payment of the interest or commitment fee, the Borrower shall pay the Lender a penalty amounting to one point five (1.5) times the refinancing rate set by the Bank of Russia in percent per annum to be applied to the amount of the overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

2.3.6 The Lender may unilaterally, at its sole discretion, increase the interest rate specified by the Loan Agreement, including, but not limited to, in the event that the Bank of Russia decides to increase its discount (refinancing) rate, upon notice to the Borrower of such increase but without the need to execute any addendum to the Loan Agreement for such increase to become effective.

If the Lender unilaterally increases the interest rate, such increase shall become effective thirty (30) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated by the Lender.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof.

Article 3. Pledged Securities

- 3.1 The Pledger shall pledge to the Pledgee those securities as listed and having the par value, quantity and qualitative characteristics as described in the List attached hereto as Annex 1 and constituting an integral part hereof.
- 3.2 The par value of the Pledged Securities shall amount to two billion one hundred and sixty-seven million rubles (RUR 2,167,000,000) as of the execution date hereof.
- 3.3 The Parties hereby agree that the Pledged Securities are appraised at two billion one hundred and sixty-seven million rubles (RUR 2,167,000,000) as of the execution date hereof.
- 3.4 The note pledged hereunder shall become mature on demand, but in no case earlier than on March 25, 2010 or later than on March 26, 2010.

Article 4. Rights and Obligations of the Parties

- 4.1 The Pledger shall be obligated as follows:
 - 4.1.1 When signing this Agreement, the Pledger shall deliver to the Pledgee a statement of its custody account with the Depository proving the availability of the Pledged Securities

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

beneficially owned by the Pledger as specified in Article 3 above; provided, however, that the note pledged hereunder shall be issued with a blank endorsement which may be accompanied by the following inscription: "without recourse to Comstar United TeleSystems Open Joint Stock Company."

4.1.2 No later than on September 25, 2009, the Pledger shall deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer the Pledged Securities specified in Article 3 above to the pledge section of the Pledger's custody account with the Depository.

4.1.3 After the Borrower has fully performed all of its obligations under the Loan Agreement, including those to pay any penalties or other costs, the Pledger shall issue and deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer/release the Pledged Securities specified in Article 3 above from the pledge section of the Pledger's custody account with the Depository.

The Pledger shall pay any costs to cause the pledge with the Depository of Sberbank of Russia to be registered and terminated in accordance with the "Sberbank of Russia Terms of Depository Operations."

4.1.4 The Pledger shall warn the Pledgee on any potential risks to which the Pledged Securities may be exposed, including those arising out of the Pledger's business operations or any other events affecting the marketability of the Pledged Securities.

4.1.5 Upon request of the Pledgee, the Pledger shall replace the Pledged Securities with any property of equal value within ten (10) calendar days of the date of such request if the Pledger's title thereto is terminated for any ground provided for by the applicable laws of the Russian Federation.

4.2 The Pledger hereby confirms that the Pledged Securities have not been sold, pledged or subjected to any dispute, seizure or third-party rights as of the execution date hereof. The Pledger hereby acknowledges its obligation to take any lawful steps practicable to prevent the Pledged Securities from being seized by any competent authorities and to protect the same against any third-party claims throughout the term of the Loan Agreement.

4.3 The Pledger may not sell, exchange, present, grant on lease, financial lease or in trust, invest, re-pledge, assign, alienate or otherwise dispose of the Pledged Securities until the Borrower fully performs all of its obligations under the Loan Agreement.

4.4 The Pledgee shall be obligated as follows:

4.4.1 The Pledgee shall take whatever measures may be needed to preserve the Pledged Securities.

4.4.2 The Pledgee shall immediately notify the Pledger of any threat of loss of or damage to the Pledged Securities.

4.4.3 After the obligations secured by the pledge are fully discharged or this Agreement terminated, the Pledgee shall sign the pledge order issued by the Pledger in accordance with the "Sberbank of Russia Terms of Depository Operations" to release the Pledged Securities from the Depository and return such pledge order to the Pledger within one (1) business day of the date of receipt of thereof from the Pledger.

4.4.4 On the date of acceptance by the Depository of such pledge order signed by both the Pledger and the Pledgee, the Pledgee shall terminate the pledge and release the Pledged Securities from the pledge section to the main section of the Pledger's custody account.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- 4.5 The Pledged Securities will not to be insured.
- 4.6 If the Borrower violates any of the terms of the Loan Agreement, the Pledgee may recover the Pledged Securities before any of the obligations secured by the pledge becomes mature in accordance with the procedure established by Article 7 below.

Article 5. Liability of the Parties

- 5.1 The Parties may be held liable under the applicable laws of the Russian Federation for any failure to perform or duly perform any of their respective obligations hereunder.
- 5.2 The Pledgee shall be liable for any loss or shortage if or damage to the Pledged Securities, unless the Pledgee proves that such loss, shortage or damage occurred not through its fault. The Pledgee's liability for any loss or shortage of or damage to the Pledged Securities in the period during which they are pledged shall be limited to the replacement cost thereof.
- 5.3 If the Pledger fails to perform any of its obligations under Article 4.1.5, the Pledger shall pay the Pledgee a penalty amounting to naught point naught one percent (0.01%) of the pledge value of the Pledged Securities as stated in Article 3.3 above for each day of such failure.
- 5.4 If the Pledger fails to perform any of its obligations under Articles 4.1.2 and 4.1.3 above, the Pledger shall pay the Pledgee a penalty amounting to one percent (1%) of the pledge value of the Pledged Securities as stated in Article 3.3 above.
- 5.5 The Pledger shall pay the penalty specified in Article 5.4 above within ten (10) business days of the date of receipt of a written request to pay such penalty from the Pledgee.
- 5.6 No payment of any penalty shall release the Pledger from any of its obligations hereunder.

Article 6. Terms of Recovery of and Transactions with the Pledged Securities

- 6.1 The Parties hereby agree that the Pledged Securities described in Annex 1 hereto, which constitute the security of the Borrower's obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the Extrajudicial Recovery Agreement made in respect of the Pledged Securities.

All proceeds from the sale of the Pledged Securities shall be applied to repay the debts in the following order of priority:

- to cover any legal or other costs incurred by the Lender to collect such debts;
- to perform the Borrower's obligations under the Loan Agreement in the order of priority prescribed thereby; and
- to pay the penalties payable by the Pledger hereunder.

Article 7. Dispute Resolution

- 7.1 This Agreement, including the rights and obligations of the Parties hereunder, shall be governed by the law of the Russian Federation. Any and all disputes, disagreements or claims arising out of or related to this Agreement, including those concerning its performance, violation, termination or invalidity, shall be resolved by the Moscow Arbitration Court.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Article 8. Amendments

- 8.1 Any amendment to this Agreement shall only be valid if made in writing and signed by duly authorized representatives of both Parties. Any amendment to this Agreement shall be executed as an addendum hereto and constitute an integral part hereof.
- 8.2 In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change before such change takes effect, but in no case later than five (5) business days after the date on which such change actually occurs. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change before the amendment made to its constituent documents to reflect such change is officially registered, but in no case later than five (5) business days after the date on which such change actually occurs.

In the event of any change in the Pledger’s address for notices and communications, the Pledger shall notify the Pledgee of such change before such change takes effect.

Article 9. Term

- 9.1 This Agreement shall become effective on the date of its signing by both Parties and remain in full force and effect until March 26, 2010 (inclusive).
- 9.2 If the Lender assigns its rights of claim under the Loan Agreement to any third party, the Lender shall terminate this Agreement no later than on the execution date of the relevant assignment agreement.

Article 10. Miscellaneous

- 10.1 The pledge hereunder shall remain in full force and effect if the Pledgee duly assigns its claims secured by the Pledged Securities to any third party; provided, however, that:
 - the Pledgee may assign any of its rights hereunder without the Pledger’s consent in accordance with the applicable claim assignment rules; and
 - the Pledger may not assign, whether in whole or in part, any of its rights hereunder without the Pledgee’s written consent.
- 10.2 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 8.2 above) and signed by a duly authorized representative of the giving or sending Party.
- 10.3 This Agreement is made in three (3) counterparts of equal legal effect, two for the Pledgee and one for the Pledger.

Article 11. Annexes

- 11.1 Annex 1 (*List of Securities*) containing one (1) page shall constitute an integral part hereof.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc. #30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central
Branch Office No. 8641 of Sberbank of Russia,
Moscow, BIC 044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

List of Securities Pledged under Securities Pledge Agreement No. Z-9463/3 dated September 24, 2009

No.	Issuer name	Name and type of securities	Interest rate, p.a.	Series and number	Q-ty	Par value, RUR	Pledge value, RUR	Maturity
1	Sberbank of Russia OJSC	Interest-bearing promissory note	6	HB 0076882	1	Two billion one hundred and sixty-seven million (2,167,000,000)	Two billion one hundred and sixty-seven million (2,167,000,000)	On demand, but in no case earlier than on March 25, 2010 or later than on March 26, 2010
TOTAL					1	Two billion one hundred and sixty-seven million (2,167,000,000)	Two billion one hundred and sixty-seven million (2,167,000,000)	

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts
Department, Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

**Addendum No. 1
to Securities Pledge Agreement No. Z-9463/3 dated September 24, 2009**

City of Moscow

March 26, 2010

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as “Sberbank of Russia,” hereinafter referred to as the “**Pledgee**,” represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the “**Pledger**,” represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the “**Parties**” and each individually, a “**Party**,” have made this Addendum No. 1 (“**this Addendum**”) to Securities Pledge Agreement No. Z-9463/3 dated September 24, 2007 (the “**Agreement**”) on the following:

1. Article 2.3.2 of the Agreement shall be supplemented by the following paragraph:

“In the period from March 1, 2010 through September 27, 2010, the Borrower shall pay the Lender a loan interest amounting to ten point five percent (10.5%) per annum.

In the period from September 28, 2010 through the final repayment date stated in Article 1.1 of the Loan Agreement, the Borrower shall pay the Lender a loan interest amounting to eleven point seventy-five percent (11.75%) per annum.”

2. Article 2.3.4 of the Agreement shall be amended to read as follows:

“2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2010	One eighth (1/8)
2	December 27, 2010	One eighth (1/8)
3	March 27, 2011	One eighth (1/8)
4	June 27, 2011	One eighth (1/8)
5	September 27, 2011	One eighth (1/8)
6	December 27, 2011	One eighth (1/8)
7	March 27, 2012	One eighth (1/8)
8	June 7, 2012	One eighth (1/8) ”

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement. This Addendum shall apply to those relations emerging between the Parties under the Agreement beginning from March 1, 2010 (inclusive).
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.
-

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/ mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow Bank of New York: New York, NY, SWIFT IRVT
US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia,
SWIFT: SABRRUMM

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
INN 7740000069
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank of Russia OJSC, Moscow, BIC 044525225, corr.
acc. #30101810400000000225

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank
of Russia OJSC, Moscow, BIC 044525225, corr. acc.
#30101810400000000225

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

SECURITIES PLEDGE AGREEMENT
No. Z-9463/4

City of Moscow

December 25, 2009

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank of Russia," hereinafter referred to as the "**Pledgee**," represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the "**Pledger**," represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**" and each individually, a "**Party**," have made this Agreement ("**this Agreement**") on the following:

Article 1. Scope of Agreement

- 1.1 Under this Agreement, the Pledger shall pledge to the Pledgee a certain promissory note issued by Sberbank of Russia OJSC which is beneficially owned by the Pledger as described in Annex 1 hereto (the "**Pledged Securities**").
- 1.2 The Pledged Securities shall be kept with the Pledgee's Depository (the "**Depository**").

Article 2. Obligations Secured by the Pledge

- 2.1 The Pledged Securities shall secure the Pledger's obligations under Non-revolving Credit facility Agreement No. 9463 made by and between the Pledger (as the "Borrower") and the Pledgee (as the "Lender") on June 8, 2007 (the "**Loan Agreement**").
- 2.2 The Borrower's obligations secured by this Agreement shall include, but not limited to, those to repay the amount of the loan and pay the loan interest and penalties payable under the Loan Agreement.
- 2.3 The Pledger is aware of all of the terms of the Loan Agreement and hereby agrees to be liable for the Borrower's obligations under the Loan Agreement to the extent of the Pledged Securities, in particular on the following terms:
 - 2.3.1 Under the Loan Agreement, a non-revolving credit facility has been provided to the Borrower with a limit amounting to twenty-six billion rubles (RUR 26,000,000,000) for the period ending on June 7, 2012 to fund the costs incurred or to be incurred by the Borrower to develop its communications network, including those to re-finance the earlier incurred costs, and meet its current liabilities.
 - 2.3.2 The Borrower shall pay the Lender a loan interest amounting to thirteen point thirty-five percent (13.35%) per annum.
 - 2.3.3 The loan interest shall be payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on June 7, 2012.
 - 2.3.4 The loan shall be repayable in accordance with the following schedule:

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Securities Pledge Agreement No. Z-9463/4 dated December 25, 2009

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	March 27, 2010	One sixth (1/6)
2	June 27, 2010	One sixth (1/6)
3	September 27, 2010	One twelfth (1/12)
4	December 27, 2010	One twelfth (1/12)
5	March 27, 2011	One twelfth (1/12)
6	June 27, 2011	One twelfth (1/12)
7	September 27, 2011	One twelfth (1/12)
8	December 27, 2011	One twelfth (1/12)
9	March 27, 2012	One twelfth (1/12)
10	June 7, 2012	One twelfth (1/12)

2.3.5 If the Borrower delays in paying any amount in repayment of the loan or in payment of the interest or commitment fee, the Borrower shall pay the Lender a penalty amounting to one point five (1.5) times the refinancing rate set by the Bank of Russia in percent per annum to be applied to the amount of the overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

2.3.6 The Lender may unilaterally, at its sole discretion, increase the interest rate specified by the Loan Agreement, including, but not limited to, in the event that the Bank of Russia decides to increase its discount (refinancing) rate, upon notice to the Borrower of such increase but without the need to execute any addendum to the Loan Agreement for such increase to become effective.

If the Lender unilaterally increases the interest rate, such increase shall become effective thirty (30) calendar days after the date of the notice of such increase sent by the Lender to the Borrower, unless a later effective date is stated by the Lender.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Article 9.3 thereof.

Article 3. Pledged Securities

- 3.1 The Pledger shall pledge to the Pledgee those securities as listed and having the par value, quantity and qualitative characteristics as described in the List attached hereto as Annex 1 and constituting an integral part hereof.
- 3.2 The par value of the Pledged Securities shall amount to two billion one hundred and sixty-seven million rubles (RUR 2,167,000,000) as of the execution date hereof.
- 3.3 The Parties hereby agree that the Pledged Securities are appraised at two billion one hundred and sixty-seven million rubles (RUR 2,167,000,000) as of the execution date hereof.
- 3.4 The note pledged hereunder shall become mature on demand, but in no case earlier than on June 25, 2010 or later than on June 26, 2010.

Article 4. Rights and Obligations of the Parties

- 4.1 The Pledger shall be obligated as follows:
 - 4.1.1 When signing this Agreement, the Pledger shall deliver to the Pledgee a statement of its custody account with the Depository proving the availability of the Pledged Securities

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

beneficially owned by the Pledger as specified in Article 3 above; provided, however, that the note pledged hereunder shall be issued with a blank endorsement which may be accompanied by the following inscription: "without recourse to Comstar United TeleSystems Open Joint Stock Company."

4.1.2 No later than on December 31, 2009, the Pledger shall deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer the Pledged Securities specified in Article 3 above to the pledge section of the Pledger's custody account with the Depository.

4.1.3 After the Borrower has fully performed all of its obligations under the Loan Agreement, including those to pay any penalties or other costs, the Pledger shall issue and deliver to the Pledgee a pledge order in accordance with the "Sberbank of Russia Terms of Depository Operations" to transfer/release the Pledged Securities specified in Article 3 above from the pledge section of the Pledger's custody account with the Depository.

The Pledger shall pay any costs to cause the pledge with the Depository of Sberbank of Russia to be registered and terminated in accordance with the "Sberbank of Russia Terms of Depository Operations."

4.1.4 The Pledger shall warn the Pledgee on any potential risks to which the Pledged Securities may be exposed, including those arising out of the Pledger's business operations or any other events affecting the marketability of the Pledged Securities.

4.1.5 Upon request of the Pledgee, the Pledger shall replace the Pledged Securities with any property of equal value within ten (10) calendar days of the date of such request if the Pledger's title thereto is terminated for any ground provided for by the applicable laws of the Russian Federation.

4.2 The Pledger hereby confirms that the Pledged Securities have not been sold, pledged or subjected to any dispute, seizure or third-party rights as of the execution date hereof. The Pledger hereby acknowledges its obligation to take any lawful steps practicable to prevent the Pledged Securities from being seized by any competent authorities and to protect the same against any third-party claims throughout the term of the Loan Agreement.

4.3 The Pledger may not sell, exchange, present, grant on lease, financial lease or in trust, invest, re-pledge, assign, alienate or otherwise dispose of the Pledged Securities until the Borrower fully performs all of its obligations under the Loan Agreement.

4.4 The Pledgee shall be obligated as follows:

4.4.1 The Pledgee shall take whatever measures may be needed to preserve the Pledged Securities.

4.4.2 The Pledgee shall immediately notify the Pledger of any threat of loss of or damage to the Pledged Securities.

4.4.3 After the obligations secured by the pledge are fully discharged or this Agreement terminated, the Pledgee shall sign the pledge order issued by the Pledger in accordance with the "Sberbank of Russia Terms of Depository Operations" to release the Pledged Securities from the Depository and return such pledge order to the Pledger within one (1) business day of the date of receipt of thereof from the Pledger.

4.4.4 On the date of acceptance by the Depository of such pledge order signed by both the Pledger and the Pledgee, the Pledgee shall terminate the pledge and release the Pledged Securities from the pledge section to the main section of the Pledger's custody account.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

- 4.5 The Pledged Securities will not to be insured.
- 4.6 If the Borrower violates any of the terms of the Loan Agreement, the Pledgee may recover the Pledged Securities before any of the obligations secured by the pledge becomes mature in accordance with the procedure established by Article 7 below.

Article 5. Liability of the Parties

- 5.1 The Parties may be held liable under the applicable laws of the Russian Federation for any failure to perform or duly perform any of their respective obligations hereunder.
- 5.2 The Pledgee shall be liable for any loss or shortage if or damage to the Pledged Securities, unless the Pledgee proves that such loss, shortage or damage occurred not through its fault. The Pledgee’s liability for any loss or shortage of or damage to the Pledged Securities in the period during which they are pledged shall be limited to the replacement cost thereof.
- 5.3 If the Pledger fails to perform any of its obligations under Article 4.1.5, the Pledger shall pay the Pledgee a penalty amounting to naught point naught one percent (0.01%) of the pledge value of the Pledged Securities as stated in Article 3.3 above for each day of such failure.
- 5.4 If the Pledger fails to perform any of its obligations under Articles 4.1.2 and 4.1.3 above, the Pledger shall pay the Pledgee a penalty amounting to one percent (1%) of the pledge value of the Pledged Securities as stated in Article 3.3 above.
- 5.5 The Pledger shall pay the penalty specified in Article 5.4 above within ten (10) business days of the date of receipt of a written request to pay such penalty from the Pledgee.
- 5.6 No payment of any penalty shall release the Pledger from any of its obligations hereunder.

Article 6. Terms of Recovery of and Transactions with the Pledged Securities

- 6.1 The Parties hereby agree that the Pledged Securities described in Annex 1 hereto, which constitute the security of the Borrower’s obligations under the Loan Agreement, may be recovered in accordance with the procedure established by the Extrajudicial Recovery Agreement made in respect of the Pledged Securities.

All proceeds from the sale of the Pledged Securities shall be applied to repay the debts in the following order of priority:

- to cover any legal or other costs incurred by the Lender to collect such debts;
- to perform the Borrower’s obligations under the Loan Agreement in the order of priority prescribed thereby; and
- to pay the penalties payable by the Pledger hereunder.

Article 7. Dispute Resolution

- 7.1 This Agreement, including the rights and obligations of the Parties hereunder, shall be governed by the law of the Russian Federation. Any and all disputes, disagreements or claims arising out of or related to this Agreement, including those concerning its performance, violation, termination or invalidity, shall be resolved by the Moscow Arbitration Court.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Article 8. Amendments

- 8.1 Any amendment to this Agreement shall only be valid if made in writing and signed by duly authorized representatives of both Parties. Any amendment to this Agreement shall be executed as an addendum hereto and constitute an integral part hereof.
- 8.2 In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change before such change takes effect, but in no case later than five (5) business days after the date on which such change actually occurs. In the event of any change in the registered or mailing address of either Party, such Party shall notify the other Party of such change before the amendment made to its constituent documents to reflect such change is officially registered, but in no case later than five (5) business days after the date on which such change actually occurs.

In the event of any change in the Pledger's address for notices and communications, the Pledger shall notify the Pledgee of such change before such change takes effect.

Article 9. Term

- 9.1 This Agreement shall become effective on the date of its signing by both Parties and remain in full force and effect until June 26, 2010 (inclusive).
- 9.2 If the Lender assigns its rights of claim under the Loan Agreement to any third party, the Lender shall terminate this Agreement no later than on the execution date of the relevant assignment agreement.

Article 10. Miscellaneous

- 10.1 The pledge hereunder shall remain in full force and effect if the Pledgee duly assigns its claims secured by the Pledged Securities to any third party; provided, however, that:
- the Pledgee may assign any of its rights hereunder without the Pledger's consent in accordance with the applicable claim assignment rules; and
 - the Pledger may not assign, whether in whole or in part, any of its rights hereunder without the Pledgee's written consent.
- 10.2 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with Article 8.2 above) and signed by a duly authorized representative of the giving or sending Party.
- 10.3 This Agreement is made in three (3) counterparts of equal legal effect, two for the Pledgee and one for the Pledger.

For the Pledgee:
[Signed]

For the Pledger:
[Signed]

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/ mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in foreign currencies:
Bank of New York, New York, acc. #890-0057-610, acc.
#30301840800001000014

Account details for payments in rubles:
#30301810500001000014,
corr. acc. # 30101810400000000225 maintained by
Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Central Branch
Office No. 8641 of Sberbank of Russia, Moscow, BIC
044525225, INN 7740000069

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

**Annex 1 to
Securities Pledge
Agreement
No. Z-9463/4
dated
December 25,
2009**

List of Securities Pledged under Securities Pledge Agreement No. Z-9463/4 dated December 25, 2009

No.	Issuer name	Name and type of securities	Interest rate, p.a.	Series and number	Q-ty	Par value, RUR	Pledge value, RUR	Maturity
1	Sberbank of Russia OJSC	Interest-bearing promissory note	6	HB 0076711	1	Two billion one hundred and sixty-seven million (2,167,000,000)	Two billion one hundred and sixty-seven million (2,167,000,000)	On demand, but in no case earlier than on June 25, 2010 or later than on June 26, 2010
TOTAL					1	Two billion one hundred and sixty-seven million (2,167,000,000)	Two billion one hundred and sixty-seven million (2,167,000,000)	

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts
Department, Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

**Addendum No. 1
to Securities Pledge Agreement No. Z-9463/4 dated December 25, 2009**

City of Moscow

March 26, 2010

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as “Sberbank of Russia,” hereinafter referred to as the “**Pledgee**,” represented by Ms. Tatiana Gennadievna Sakharova, Head of the Lending Office of its Key Accounts Department, who is acting pursuant to its Charter and Power of Attorney No. 01-1/776 dated September 7, 2009, on the one part, and **Comstar United TeleSystems Open Joint Stock Company** hereinafter referred to as the “**Pledger**,” represented by Mr. Sergey Vladimirovich Pridantsev, its President, who is acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the “**Parties**” and each individually, a “**Party**,” have made this Addendum No. 1 (“**this Addendum**”) to Securities Pledge Agreement No. Z-9463/4 dated December 25, 2009 (the “**Agreement**”) on the following:

1. Article 2.3.2 of the Agreement shall be supplemented by the following paragraph:

“In the period from March 1, 2010 through September 27, 2010, the Borrower shall pay the Lender a loan interest amounting to ten point five percent (10.5%) per annum.

In the period from September 28, 2010 through the final repayment date stated in Article 1.1 of the Loan Agreement, the Borrower shall pay the Lender a loan interest amounting to eleven point seventy-five percent (11.75%) per annum.”

2. Article 2.3.4 of the Agreement shall be amended to read as follows:

“2.3.4 The loan shall be repayable in accordance with the following schedule:

No.	Repayment date	Amount of payment as a share of the total debt as of the end date of the availability period
1	September 27, 2010	One eighth (1/8)
2	December 27, 2010	One eighth (1/8)
3	March 27, 2011	One eighth (1/8)
4	June 27, 2011	One eighth (1/8)
5	September 27, 2011	One eighth (1/8)
6	December 27, 2011	One eighth (1/8)
7	March 27, 2012	One eighth (1/8)
8	June 7, 2012	One eighth (1/8) ”

3. Any other provisions of the Agreement which are not amended by this Addendum shall remain in full force and effect.
4. This Addendum shall become effective on its signature date and constitute an integral part of the Agreement. This Addendum shall apply to those relations emerging between the Parties under the Agreement beginning from March 1, 2010 (inclusive).
5. This Addendum is made in three (3) counterparts of equal legal effect, one for the Pledgee, one for the Pledger and one for the Depository of Sberbank of Russia.
-

Addresses and Bank Account Details of the Parties

The Pledgee:

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/ mailing address:
19 Vavilov Str., Moscow 117997, Russian Federation
Tel.: (495) 957 57 75
Fax: (495) 957 55 61

Account details for payments in rubles:
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Sberbank of Russia with the Transaction Department of the
Moscow Principal Territorial Branch of the Bank of Russia,
BIC 044525225, INN 7707083893

Account details for payments in foreign currencies:
#30301840800001000014 with Sberbank of Russia,
Moscow
Bank of New York: New York, NY, SWIFT IRVT US 3N,
acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT:
SABRRUMM

The Pledger:

Comstar United TeleSystems OJSC

27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121,
Russian Federation
INN 7740000069
Tel.: (495) 956 00 00
Fax: (495) 956 07 07

Account details for payments in rubles:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank of Russia OJSC, Moscow, BIC 044525225, corr.
acc. #30101810400000000225

Account details for payments in foreign currencies:
Acc. #407028107380000110285 with Moscow Bank of
Sberbank
of Russia OJSC, Moscow, BIC 044525225, corr. acc.
#30101810400000000225

Signatures of the Parties:

For the Pledgee:

[Signed]
T.G. Sakharova
Head of the Lending Office, Key Accounts Department,
Sberbank of Russia

[Sberbank's corporate seal affixed]

For the Pledger:

[Signed]
S.V. Pridantsev
President, Comstar United TeleSystems OJSC

[Comstar's corporate seal affixed]

SURETYSHIP AGREEMENT NO. P-9463/2

Moscow, June 27, 2007

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), also known as "Sberbank", hereinafter referred to as the "**Lender**", represented by Ms. Alla Aleshkina, its First Deputy Chairman of the Management Board, who is acting pursuant to its Charter and Power of Attorney No. 01-1/501 dated July 28, 2006, on the one part, and **Moscow City Telephone Network**, an open joint stock company hereinafter referred to as the "**Surety**", duly represented by Mr. Alexey Goltsov, its General Director acting pursuant to its Charter, on the other part, hereinafter referred to collectively as the "**Parties**", have made this Agreement ("**Agreement**") as follows:

1. Scope of Agreement

1.1 This agreement regulates the Surety's obligation to guarantee to the Lender that **COMSTAR — United TeleSystems**, an open joint stock company located at 27 Smolenskaya-Sennaya Square, bldg. 2, Moscow 119121 Russia and registered under company number (OGRN): 1027700003946 (the "**Borrower**"), performs its obligations under Non-Revolving Loan Facility Agreement No. 9656 (the "**Loan Agreement**"), which was made between the Lender and the Borrower on June 08, 2007.

1.2 The Surety's aggregate liability to the Borrower in the event of the Lender's default under the Loan Agreement shall be limited to Nine Hundred Million Roubles (RUR 900,000,000).

1.3 The Surety is aware of all of the terms and conditions of the Loan Agreement and hereby agrees to be held liable for the Borrower's obligations under the Loan Agreement, including the following provisions thereof:

1.3.1 Under the Loan Agreement, a Twenty Six Billion Rouble (RUR 26,000,000,000) non-revolving loan facility has been provided to the Borrower for the period ending on June 7, 2012 to cover the anticipated and previous expenditures related to development of its telecom network.

1.3.2 The Borrower must pay a loan interest at the rate of Seven Pont Six Percent (7.6%) per annum.

This interest is payable for the period during which the loan has been actually drawn down, on a quarterly basis, on the 27th day of the third month of each calendar quarter and on the last repayment date on June 7, 2012.

1.3.3 The Borrower has an option to use the facility after the drawdown dates specified in clause 2.7 of the Loan Agreement, but not later than the date specified in clause 2.12 thereof.

In consideration of this option, the Borrower must pay to the Lender a commitment fee based on the annual rate of Zero Point Twenty Five Percent (0.25%) of any tranche amount undrawn by the drawdown date in any period between the last drawdown date of such tranche as specified in clause 2.7 of the Loan Agreement and the actual drawdown date, both inclusive.

The commitment fee is payable on a quarterly basis on the 27th day of the third month of each calendar quarter and on the ending date of the availability period on December 31, 2008.

1.3.4 The loan must be repaid in accordance with the following schedule:

For the Lender:

For the Guarantor:

Guarantee Agreement No. P-9463/2 dated July 27, 2007

No	Repayment date	Amount of payment as a share of the total outstanding loan as of the end date of the availability period
1	September 27, 2009	One twelfth (1/12)
2	December 27, 2009	One twelfth (1/12)
3	March 27, 2010	One twelfth (1/12)
4	June 27, 2010	One twelfth (1/12)
5	September 27, 2010	One twelfth (1/12)
6	December 27, 2010	One twelfth (1/12)
7	March 27, 2011	One twelfth (1/12)
8	June 27, 2011	One twelfth (1/12)
9	September 27, 2011	One twelfth (1/12)
10	December 27, 2011	One twelfth (1/12)
11	March 27, 2012	One twelfth (1/12)
12	June 27, 2011	One twelfth (1/12)

1.3.5 The Lender may unilaterally increase the loan interest rate by a notice to the Borrower and without the need to execute any addendum to the Loan Agreement if any of the following occurs:

- a) the Bank of Russia makes any decision to increase the amount of bank reserves required to be deposited with the Bank of Russia by more than Ten Percent (10%) of the amount applicable on the date of the Loan Agreement or on the date of the latest change in the loan interest rate, if any, made in accordance with clause 5.1.1 of the Loan Agreement, whether on a one-time or accrual basis;
- b) the Bank of Russia makes any decision to increase its interest rate or refinance rate by more than Ten Percent (10%) of the amount applicable on the date of the Loan Agreement or on the date of the latest change in the loan interest rate, if any, made in accordance with clause 5.1.1 of the Loan Agreement, whether on a one-time or accrual basis;
- c) the Russian Government or any of its agencies or the Bank of Russia makes actions that materially affect the position of the Lender and the Borrower under the Loan Agreement;

provided that such unilateral increase in the loan interest rate may not exceed the Lender's maximum interest rate on two-year fixed-term retail deposits (or at least two-year fixed-term deposits, if the deposit product line has become different from the one existing in the date of the Loan Agreement) multiplied by One Point Two (1.2).

If the Lender unilaterally increases the interest rate, such increase becomes effective Sixty (60) calendar days after the date when the Lender sends a notice of such increase, unless a later effective date is stated in such notice.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure provided by clause 9.3 of the Loan Agreement.

1.3.6 Should the Borrower delay any payment of the principal, interest, or commitment fee, the Borrower is subject to a penalty based on the annual rate equal to the Bank of Russia's refinancing rate multiplied by One Point Five (1.5) to be applied to the amount of any overdue payment for each day of such delay during the period from the date on which the past due debt emerges (excluding that date) through the date on which such past due debt is repaid in full.

For the Lender:

For the Guarantor:

2. Rights and Obligations of the Parties

2.1 The Surety undertakes the following obligations:

2.1.1 The Surety shall guarantee, within the limit mentioned in clause 1.2 above, the performance of the Borrower's obligations to the Lender under the Loan Agreement, including the obligations to repay the loan amount and to pay the loan interest, any penalties charged, the commitment fee, any legal expenses related to debt collection, and any other loss that may be incurred by the Lender as a result of non-fulfilment or improper fulfilment by the Borrower of its obligations under the Loan Agreement.

2.1.2 The Surety shall pay any amount delayed by the Borrower plus penalty accrued on the date of actual payment as promptly as possible but not later than the next business day following the receipt of the Lender's respective written notice containing a calculation of the amount payable hereunder.

2.1.3 The Surety shall execute and make available to the Lender, within Ten (10) business days after the date hereof, supplements to Bank Account Agreements #1943 of June 15, 2000, #6261 of December 11, 2006, #1944 of June 15, 2000, #3716 of April 22, 2002, and #40702810800020106631 of November 15, 2001, which regulate the procedure for transactions on the Surety's current accounts #40702810900000001900 and #40702810300000000640 and current foreign currency accounts #40702840600000000640 and #40702978200000000640 held in Moscow Bank for Reconstruction and Development and current account #40702810800020106631 held in Sberbank's Transaction Department, which supplements shall entitle the Lender to directly debit the mentioned accounts with amounts arising under the obligations to repay the loan amount and to pay the loan interest, the commitment fee and penalties if the Borrower defaults on its obligations under the Loan Agreement.

2.1.4 The Surety consents to the Lender's right to demand early repayment of the loan amount from the Borrower or payment of all interest, penalties, and any other amounts due under the Loan Agreement in the circumstances described in the Loan Agreement, and in such circumstances the Lender may claim such amounts from the Surety.

2.1.5 The Surety consents to the Lender's right to unilaterally increase the interest rate specified in clause 2.5 of the Loan Agreement in the manner and circumstances envisaged by clause 5.1.1 thereof.

2.1.6 The Surety agrees to be held liable for the Borrower's obligations under the Loan Agreement within the liability limit specified in clause 1.2 above, as well as for the obligations of any other entity to which the Borrower's debt may be transferred.

2.1.7 The Surety agrees to provide the Lender, within Five (5) business days after the date following the accounts filing deadline, with each of the following:

- the full accounting statements in the form required by the Russian Ministry of Finance or other ministries or departments, with an indication of the means of sending it to the Russian Federal Tax Service, certified and sealed by the Surety's signatory, and with attached explanatory notes (for annual statements) and audit opinion (or summary) based on statutory annual accounts audit;
- a breakdown of accounts payable and receivable with names of creditors and debtors, respective amounts and dates of incurrence, and with highlighted tax and social insurance liabilities and their status (overdue/current);
- a breakdown of short-term and long-term financial investments;
- a breakdown of long-term and short-term loans payable (including notes and bonds payable) with names of creditors, amounts outstanding, drawing and maturity dates, interest / coupon rates, repayment and interest payment schedules, any interest overdue, and security provided;

For the Lender:

For the Guarantor:

- account statements containing the turnover and balance for current domestic and foreign currency accounts and any claims on the accounts;
- breakdown of security received and provided with names of pledgeholders and principals / primary obligor, and incurrence and maturity dates for such security;

Where any changes were made in the documents of incorporation during any calendar quarter, the Surety agrees to provide the Lender, within the accounts filing deadlines, with notarized or registrar-certified copies of such duly registered amendments and of the certificate of registration of such amendments by the National Register of Corporations.

Where any changes occurred in the membership of the Surety's executive or supervisory bodies during any calendar quarter, the Surety agrees to provide the Lender, within the accounts filing deadlines, with information on the members of such bodies (Board of Directors/CEO) specifying the positions held and other concurrent jobs, if any.

Where any changes occurred in the list of holders of at least Twenty (20.0) per cent of the Surety's shares during any calendar quarter, the Surety agrees to provide the Lender, within the accounts filing deadlines, with information on any shareholder owning at least Twenty (20.0) per cent of the Surety's shares, including beneficiaries that own shares through nominees.

Furthermore, at the Lender's request, the Surety shall provide other reporting and financial documents prepared in compliance with Russian law within Ten (10) business days after receipt of any such request.

2.1.8 The Surety shall not make any objections to the Lender's demands that the Borrower could make.

2.1.9 The Surety shall not disclosure in any manner (including but not limited to interviews, publications, or advertising activities) any information related to the terms and conditions of the Loan Agreement without the Bank's written consent.

This provision shall not apply to disclosures required by Russian law and to information that the Surety needs to provide under any existing or new disclosure obligations to other lenders, rating agencies, or financial institutions.

2.2 The Borrower's liabilities under the Loan Agreement must be paid in roubles. Any sums received from the Surety in a currency other than the Loan Agreement currency, shall be converted to roubles at the Lender's conversion rate and on its terms applicable on the date when such sum is received and shall be applied to discharge the Borrower's liabilities regardless of the purpose of payment specified in the payment document, primarily to reimburse the Lender's legal and other debt collection expenses and then in the following order of priority:

(1) to discharge the obligations under the Loan Agreement in accordance with the order of priority established in the Loan Agreement; and

2) to pay any penalties due under clause 3.2 hereof.

Any currency conversion costs shall be borne by the Surety.

2.3 The date of payment of the Borrower's debt by the Surety hereunder shall be the date when the respective sum is debited against the Surety's account held with the Lender or, if such sums are transferred from the Surety's account in another bank, the date when the Surety's remittance intended to redeem any debt outstanding under the Loan Agreement is credited to the Lender's correspondent account.

2.4 The Lender agrees that after termination of the Loan Agreement it shall, within Ten (10) business days upon receipt of a written request, provide the Surety with copies of documents certifying the Lender's claims against the Borrower, provided that all or part of the Borrower's liabilities under the Loan Agreement were paid by the Surety.

2.5 Where the Surety has fulfilled the Borrower's obligation to the Lender under the

For the Lender:

For the Guarantor:

Loan Agreement, the Lender's rights of claim shall devolve on the Surety to the extent the Surety has satisfied the Lender's claim.

2.6 If the Borrower defaults on its obligations under clause 2.1.2 hereof, the Lender shall be entitled to directly debit the Surety's current accounts and current foreign currency accounts numbered 40702810900000001900, 40702810300000000640, 40702840600000000640, and 40702978200000000640 held in Moscow Bank for Reconstruction and Development and current account #40702810800020106631 held in Sberbank's Transaction Department with amounts arising under the obligations to repay the loan amount and to pay the loan interest, the commitment fee and penalties under this Agreement and the Loan Agreement.

The Lender shall notify the Surety in writing of any direct debits against its accounts in the manner prescribed by clause 5.3 below.

3. Liability of the Parties

3.1 The Parties may be held liable under the applicable laws of the Russian Federation for non-fulfilment or improper fulfilment of their respective obligations hereunder.

3.2 In the event that the Surety fails to observe the time period mentioned in clause 2.1.2 above, a penalty shall accrue from the date following the due date hereunder for each day of such delay, including the actual repayment date, at the rate of Three (3) percent per annum of any overdue amount of principal, interest, and/or commitment fee.

The Lender may unilaterally and at its own disposal reduce the penalty rate or establish any penalty-free period by a notice to the Surety and without the need to execute any supplemental agreement for such change to be valid.

Such penalty reduction and/or penalty-free period shall become effective on the date specified in the Lender's notice.

3.3 The payment of a penalty arising out of this Agreement shall not release the Surety from its obligations hereunder.

4. Term

4.1 This Agreement enters into effect upon signature of both Parties.

4.2 This Agreement shall terminate after the Borrower discharges all of its liabilities under the Loan Agreement or after both Parties fulfil their obligations hereunder.

5. Miscellaneous

5.1 No amendments to this Agreement, except for the changes described in clause 3.2 above, shall be valid unless made in writing and signed by authorised signatories of both Parties.

5.2 In the event of any change in the address of either Party, such Party shall notify the other Party of such change before the amendment of its documents of incorporation is officially registered, but no later than Five (2) business days after the date on which such change actually occurs.

In the event of any change in the bank account details of either Party, such Party shall notify the other Party of such change before such change takes effect, but no later than Five (5) business days after the date on which such change actually occurs.

5.3 Any notice or other communication given or sent by either Party to the other Party hereunder shall be made in writing and deemed duly given if delivered to such other Party by

For the Lender:

For the Guarantor:

hand, by registered mail with return receipt requested or by fax to its address stated herein (or to such other address as may be specified by such other Party in accordance with clause 5.2 above) and signed by a duly authorised person.

5.4 Any disputes arising out of or related to this Agreement shall be resolved by the Moscow Arbitration Court under the applicable laws of the Russian Federation.

5.5 In matters not regulated by this Agreement, the Parties shall be governed by applicable law of the Russian Federation.

5.6 This Agreement is made in Three (3) equally valid counterparts, two to be held by the Lender and one by the Surety

6. Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation, Open Joint-Stock Company (Sberbank)
Registered/mailling address:
19 Vavilova Str., Moscow 117997, Russian Federation
tel. (495) 957 56 07, fax (495) 957 55 61
Account details for payments in foreign currencies:
Bank of New York, New York,
acc. 8900057610
acc. 30301840400000100014
Account details for payments in roubles:
acc. no. 30301810100000100014
corr. acc. no. 30101810400000000225
with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia
BIK 044525225, INN 7707083893

Surety

Moscow City Telephone Network, Open Joint-Stock Company (MGTS)
Registered/mailling address:
12 Petrovsky Boulevard, bldg. 3. Moscow 103051 Russia
Telephone: (495) 950 00 00, Fax: (495) 950-06-18
Current account #40702810800020106631 with the Transaction Department of Sberbank of Russia
BIK 044525225
corr. acc. 30101810400000000225 with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia
INN 7710016640, OGRN 1027739285265, KPP 997750001, OKPO 04856548

Signatures of the Parties

For the Lender:

Alla Aleshkina
First Deputy Chairman of the Management Board,
Sberbank

For the Surety:

Alexey Goltsov
General Director,
Moscow City Telephone Network

For the Lender:

For the Guarantor:

**Amendment Agreement No. 1
to Suretyship Agreement No. P-9463/2 dated July 27, 2007**

Moscow

July 31, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender," represented by Mr. Anton Alexandrovich Karamzin, Deputy Chairman of the Board acting on the basis of the Charter and Power of Attorney No. 01-1/125 dated February 26, 2008, on the one part, and Moscow City Telephone Network Open Joint Stock Company hereinafter referred to as the "Surety," represented by Mr. Nikolay Anatolievich Maksimenka, its General Director acting on the basis of the Charter, on the other part, hereinafter collectively referred to as the "Parties" have entered into this Amendment Agreement No. 1, hereinafter the "Amendment Agreement" to Suretyship Agreement No. 9463/2 dated July 27, 2007 (hereinafter the "Suretyship Agreement") as follows:

1. To add the first paragraph of Clause 1.3.2 of the Suretyship Agreement with the following:

"Beginning from June 28, 2008 the Borrower shall pay the Lender interest on the loan at the rate of Nine Point Five (9.5%) per cent per annum."

2. All other clauses of the Suretyship Agreement not amended by this Amendment Agreement shall remain in force.

3. The Amendment Agreement becomes effective from the date of its execution by the Parties and constitutes an integral part of the Suretyship Agreement.

4. The Amendment Agreement is made in 3 counterparts having equal legal force: two of those shall be kept by the Lender, and one — by the Surety.

Addresses and Bank Account Details of the Parties

Lender

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Registered/mailling address: 19 Vavilov Str., Moscow 117997

Tel: (495) 957 56 07, fax: (495) 957 55 61

Account details for payments in rubles:

corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

Surety

Moscow City Telephone Network (OJSC MGTS) Open Joint Stock Company

Registered/mailling address:

25 Bolshaya Ordynka Str., build. 1, Moscow, 119017, Russia
Telephone: (495) 950-00-00, Fax: (495) 950-06-18

Current account # 40702810800020106631 with the Transaction Department of Sberbank of Russia.

BIC: 044525225, corr. acc. 30101810400000000225 with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia.

INN 7710016640, OGRN 1027739285265.

Lender

Surety

KPP 997750001, OKPO 04856548

Account details for payments in foreign currencies:

#30301840800001000014 with Sberbank of Russia,
Moscow Bank of New York: New York, NY, SWIFT IRVT
US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia,
SWIFT: SABRRUMM

Signatures of the Parties

Lender

Surety

Deputy Chairman of the Board of Sberbank of Russia

Acting General Director of MGTS OJSC

_____ **A.A. Karamzin**

_____ **N.A. Maksimenka**

[Seal]

[Seal]

Lender

Surety

**Amendment Agreement No. 2
to Suretyship Agreement No. P-9463/2 dated July 27, 2007**

City of Moscow

December 30, 2008

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company), hereinafter referred to as the "Lender", represented by Mr. Alexander Vladimirovich Soloviev, Director of the Project Finance Department of Sberbank of Russia, OJSC, acting on the basis of the Charter and Power of Attorney No. 01-1/1150 dated December 4, 2008, as the one party, and

Moscow City Telephone Network Open Joint Stock Company, hereinafter referred to as the "Surety", represented by Nikolay Anatolievich Maksimenka, its General Director acting on the basis of the Charter, as the other party,

hereinafter collectively referred to as the "Parties", have entered into this Amendment Agreement No. 2, hereinafter referred to as the "Amendment Agreement", to Suretyship Agreement No. P-9463/2 dated July 27, 2007, amended and restated as of July 31, 2008 (hereinafter referred to as the "Suretyship Agreement") as follows:

1. To amend Clause 1.1 of the Suretyship Agreement as follows:

"1.1. Under this Agreement the Surety shall assume liability to the Lender in respect of the performance of COMSTAR-United TeleSystems Open Joint Stock Company (Registered address: 27 Smolenskaya-Sennaya Sq., build. 2, Moscow 119121, OGRN 1027700003946), hereinafter referred to as the "Borrower", under Agreement No. 9463 for Non-Revolving Facility dated June 8, 2007, amended and restated as of December, 2008, hereinafter referred to as the "Loan Agreement", entered into between the Lender and the Borrower."

2. To add Clause 1.3.2 of the Suretyship Agreement with the following:

"Beginning from January 01, 2009 the Borrower shall pay the Lender interest on the loan at the rate of Thirteen Point Thirty-Five (13.35%) per cent per annum."

3. To amend Clause 1.3.5 of the Suretyship Agreement as follows:

"1.3.5. The Lender shall have the right to unilaterally increase the interest rate under the Loan Agreement, including, without limitation, in connection with resolution of the Bank of Russia on the increase of its discount (refinancing) rate, and notify the Borrower accordingly, without executing any amendment agreement to this effect.

If the Lender unilaterally increases the interest rate under the Loan Agreement, such increase shall become effective Thirty (30) calendar days after the date of the notice of such increase sent by the Lender, unless a later effective date is stated by the Lender.

The Lender shall notify the Borrower on any such change in the Loan Agreement in accordance with the procedure established by Clause 9.3 of the Loan Agreement."

4. All other clauses of the Suretyship Agreement not amended by this Amendment Agreement shall remain in force.

Lender

Surety

5. The Amendment Agreement becomes effective from the date of its execution by the Parties and constitutes an integral part of the Suretyship Agreement.

6. The Amendment Agreement is made in 3 counterparts having equal legal force: two of those shall be kept by the Lender, and one — by the Surety.

Addresses and Bank Account Details of the Parties

Lender

Surety

Joint Stock Commercial Savings Bank of the Russian Federation (Open Joint Stock Company)

Moscow City Telephone Network Open Joint Stock Company (MGTS OJSC)

Registered/mailling address: 19 Vavilov Str., Moscow 117997

Registered/mailling address:

25, Bolshaya Ordynka Str., build 1, Moscow, 119017.

Tel: (495) 957 56 07, fax: (495) 957 55 61

25, Bolshaya Ordynka Str., build 1, Moscow, 119991.

Account details for payments in rubles:

Telephone: (495) 950-00-00, Fax: (495) 950-06-18
Current account # 40702810800020106631 with the Transaction Department of Sberbank of Russia.

corr. acc. # 30101810400000000225 maintained by Sberbank of Russia with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia, BIC 044525225, INN 7707083893

BIC: 044525225, corr. acc. 30101810400000000225 with the Transaction Department of the Moscow Principal Territorial Branch of the Bank of Russia.

INN 7710016640, OGRN 1027739285265.

KPP 997750001, OKPO 04856548

Account details for payments in foreign currencies:

#30301840800001000014 with Sberbank of Russia, Moscow Bank of New York: New York, NY, SWIFT IRVT US 3N, acc. #890-0057-610 Sberbank, Moscow, Russia, SWIFT: SABRRUMM

Signatures of the Parties

Lender

Surety

Director of the Project Finance Department of Sberbank of Russia OJSC

Acting General Director of MGTS OJSC

_____ **A.V. Soloviev**

_____ **N.A. Maksimenka**

[Seal]

[Seal]

Lender

Surety



DATED October 12, 2009

SISTEMA JOINT STOCK FINANCIAL CORPORATION

and

ECU GEST HOLDING S.A.

and

SISTEMA TELECOM LLC

and

TELEKOMS OPERATOR LLC

AGREEMENT

for the acquisition of 155,310,126 shares of

Joint Stock Company COMSTAR — United TeleSystems

and 6,715,140,080 shares of

Closed Joint Stock Company United TeleSystems

CLEARY GOTTLLIEB STEEN & HAMILTON LLP

City Place House,

55 Basinghall Street,

London EC2V 5EH

THIS AGREEMENT is made on October 12, 2009

BETWEEN:-

- (1) **Sistema Joint Stock Financial Corporation**, a company incorporated in the Russian Federation with the main state registered number 1027700003891, whose registered office is at Mokhovaya Street #13, Bldg 1, Moscow, Russian Federation (“**Sistema**”); and
- (2) **ECU Gest Holding S.A.**, a company incorporated in Luxembourg with the state registered number 199240010730, whose registered office is at L-1628 Luxembourg, 41 rue des Glacis (“**ECU Gest**”); and
- (3) **Sistema Telecom LLC**, a company incorporated in the Russian Federation with the main state registered number 109774606, whose registered office is at 7 Bolshaya Pirogovskaya Street, Moscow, Russian Federation (“**Sistema Telecom**” and together with Sistema and ECU Gest the “**Vendors**”); and
- (4) **TELEKOMS OPERATOR LLC**, a company incorporated in the Russian Federation with the main state registered number 1097746395790, whose registered office is at 8 Presnenskaya Naberezhnaya, bld. 1, 123100 Moscow, Russian Federation (the “**Purchaser**”).

Each of the Vendors and the Purchaser shall hereinafter be referred to individually as a “**Party**” or collectively as the “**Parties**.”

WHEREAS:-

- (A) Joint Stock Company COMSTAR — United TeleSystems (“**Comstar**”) is a company incorporated in the Russian Federation with the main state registered number 1027700003946, whose registered office is at 27/2 Smolenskaya-Sennaya Ploschad, Moscow, Russian Federation. At the Signing Date, Comstar has an authorised share capital of RUR417,940,860 divided into 417,940,860 Comstar Ordinary Shares all of which have been allotted and issued and are fully paid.
- (B) Closed Joint Stock Company United TeleSystems (“**UTS**” and together with Comstar the “**Target Companies**”) is a company incorporated in the Russian Federation with the main state registered number 1047796779535, whose registered office is at 27/2 Smolenskaya-Sennaya Ploschad, Moscow, Russian Federation. At the Signing Date, UTS has an authorised share capital of RUR6,715,140,080 divided into 6,715,140,080 UTS Ordinary Shares all of which have been allotted and issued and are fully paid.
- (C) Sistema is the owner and registered holder of 152,241,100 Comstar Ordinary Shares (the “**Sistema Comstar Shares**”) and 4,654,397,000 UTS Ordinary Shares (the “**Sistema UTS Shares**”).

- (D) ECU Gest is the owner and registered holder of 3,069,126 Comstar Ordinary Shares.
- (E) UTS is the owner and registered holder of 57,446,760 Comstar Ordinary Shares.
- (F) Sistema Telecom is the owner and registered holder of 2,060,743,080 UTS Ordinary Shares.
- (G) The Vendors have agreed to sell and the Purchaser has agreed to purchase all of the Shares upon and subject to the terms and conditions of this Agreement.

1. **INTERPRETATION**

1.1 In this Agreement, the following words and expressions have the meanings set opposite them:-

- “Access Put Payment” means the payments totaling US\$463.6 million made by MGTS Finance S.A. to Access Telecommunications Cooperatief U.A. prior to the date of this Agreement in accordance with an agreement with Access Telecommunications Cooperatief U.A. dated December 6, 2006;
- “Accounts” the audited consolidated financial statements of Comstar for the years ended 31 December 2006, 31 December 2007 and 31 December 2008 prepared in accordance with US GAAP;
- “Affiliate” means with respect to any body corporate, any other body corporate, directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with, such body corporate;
- “Agreement” this Agreement including its recitals and Schedules;
- “Antimonopoly Approvals” meaning given to this term in Clause 4.1(f);
- “Business Day” any day (excluding a Saturday or Sunday) when commercial banks are open for business in Moscow and Luxembourg;
- “CallNet Option” means the put/call options granted under the Share Sale and Purchase Agreement signed on October 27, 2006 between and among Comstar, KOLKOM Limited, and Virtual Technology Limited regarding the purchase/sale of a 24.9% stake in CallNet Enterprises Limited;
- “capital expenditure” means any amounts spent on a cash basis on purchases of property, plant and equipment, or purchases of intangible assets;

“Completion”	completion of the sale and purchase of the Shares pursuant to Clause 7;
“Comstar”	meaning given to this term in recitals;
“Comstar Ordinary Shares”	ordinary shares with a nominal value of one ruble each in the charter capital of Comstar;
“Comstar Regions”	means Closed Joint Stock Company Comstar Regions, a company incorporated in the Russian Federation, with the main state registered number 1097746419913, whose registered office is at 27/2 Smolenskaya-Sennya Square, Moscow, Russian Federation, established through the merger of (i) closed joint stock company Inter-TV Media, (ii) closed joint stock company Stream-TV, (iii) closed joint stock company Intersvyazservis, (iv) closed joint stock company Strategiya, (v) closed joint stock company Tsifroviye Telefonniye Seti Yug, (vi) closed joint stock company Teleradiotekhnika, and (vii) closed joint stock company Sendi Servis;
“Comstar Regions Reorganization”	means the on-going corporate reorganization resulting in the creation of Comstar Regions as indicated in Schedule 6 hereto;
“Comstar Regions Subsidiaries”	the companies Controlled by Comstar Regions, all of which are set forth in Schedule 1;
“Consideration”	the total consideration payable to the Vendors for the purchase of all of the Shares hereunder, as set out in Clause 3;
“Control”	means, with respect to any body corporate, the ability to direct the management or policies of such body corporate, directly or indirectly, whether through the ownership of shares or other securities, by contract or otherwise; provided, however, that in all events the direct or indirect ownership of, or the power to direct the vote of, more than fifty percent (50%) of the voting share capital of a body corporate or the power to appoint majority of the board of directors or majority of the management board or to appoint a general director (chief executive officer) of a body corporate shall be deemed to constitute Control of that body corporate (and “ Controlling ” and “ Controlled ” shall be construed accordingly);
“Disclosed”	fairly and specifically disclosed in this Agreement, the Disclosure Letter or any Post-Signing Disclosure;

“Disclosure Letter”	the letter in the agreed terms and of even date with this Agreement from the Vendors to the Purchaser, together with the bundle of documents annexed thereto;
“Dispute”	meaning given to this term in Clause 28.2;
“Employee Option Program”	means the employee option program adopted by the board of directors of Comstar on 28 March 2008;
“Encumbrance”	<p>(a) any mortgage, charge, lien, pledge or other encumbrance securing any obligation of any person;</p> <p>(b) any option, right to acquire, right of pre-emption, right of set-off or other arrangement under which money or claims to, or for the benefit of, any person may be applied or set off so as to effect discharge of any sum owed or payable to any person; or</p> <p>(c) any equity, assignment, hypothecation, title retention, claim, restriction, power of sale or other type of preferential arrangement the effect of which is to give a creditor in respect of indebtedness a preferential position in relation to any asset of a person on any insolvency proceeding of that person; or</p> <p>(d) any Third Party Right;</p>
“Governmental Entity”	any supra national, national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof) or any quasi governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi governmental authority;
“failure notification”	meaning given to this term in Clause 25.3(d);
“FSMA 2000”	the United Kingdom Financial Services and Markets Act 2000 (as amended);
“Group”	together the Target Companies and the Subsidiaries;
“Group Company”	each of the Target Companies and the Subsidiaries;
“Hardware”	any and all computer, telecommunications and network equipment;

“IFRS”	the standards and interpretations adopted by the International Accounting Standards Board and known as the International Financial Reporting Standards;
“Indebtedness”	with respect to any person, (i) all obligations of such person for borrowed funds or funds in the nature of borrowings, (ii) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments or arising from declared dividends, (iii) all obligations of such person for the subscription price of assets, (iv) all obligations of such person as lessee under leases which shall have been or should be, in accordance with US GAAP, recorded as capital leases, (v) all amounts available to be drawn and the amount of all unpaid drawings, under letters of credit issued for the account of such person, (vi) all receivables sold or discounted (other than to the extent sold on a non-recourse basis), (vii) all obligations for borrowed funds secured by any Encumbrance on any assets of such person whether or not such person has assumed or become liable for payment of such obligations for borrowed funds, (viii) such person’s net exposure pursuant to derivatives or interest rate caps, collar or swap agreements or other contracts or arrangements designed to protect against fluctuations in interest rates or currency exchange rates, (ix) all obligations of such person to pay deferred purchase price of property or services, and (x) all guarantees of such person in respect of Indebtedness of others of the kinds referred to in clauses (i) through (ix) above;
“Intellectual Property”	all rights in and in relation to patents, inventions, trade marks, trade or business names, domain names, utility models, copyrights (including copyright in Software) (and all extensions and renewals thereof), databases, Software, know-how and other confidential information and trade secrets (including, without limitation, customer and supplier lists) and other analogous rights of any description whatsoever, and all other intellectual or industrial property rights and forms of protection of similar nature in any part of the world in each case owned, used under license or otherwise used by the Group;
“Interim Accounts”	means, in respect of Comstar, the consolidated financial statements of Comstar as of and for the quarters ending 31 March 2009 and 30 June 2009 and prepared in accordance with US GAAP, and, in respect of UTS, the financial statements of UTS as of and for the quarters ending 31 March 2009 and 30 June 2009 and prepared in accordance with RAS;

“IP Licence”	any licence, permission or consent in respect of the use or exploitation of any Intellectual Property;
“Key Employees”	means any person who, at the date of this Agreement or Completion, is a general director, chief accountant or any member of the management board of each of the Target Companies or any of the Material Subsidiaries.
“LCIA Rules”	meaning given to this term in Clause 28.2;
“Leased Real Property”	meaning given to this term in Clause 23.3 of Schedule 2;
“Leases”	meaning given to this term in Clause 23.3 of Schedule 2;
“Licenses”	licences (including statutory licences), registrations, consents, authorisations, permits, orders, authorities, warrants, permissions, confirmations, certificates and approvals (public or private);
“Management Accounts”	means, in respect of Comstar, the unaudited, unreviewed US GAAP management accounts prepared by Comstar monthly on a consolidated basis since February 2009;
“Material Adverse Change”	in relation to a Target Company or the Group as a whole, means any event, condition or circumstance that is, or can reasonably be expected to be, materially adverse to the business, financial condition, property, assets, liabilities, or operations of a Target Company or the Group as a whole;

“Material Contract”	each agreement, arrangement, instrument, bond, commitment, indemnity, indenture, lease, license or understanding, including all material amendments and modifications, to which any Group Company is a party or by which the assets held by any Group Company are bound other than any contracts with other Group Companies, MTS, or any subsidiaries of MTS, in the following categories: (i) contracts requiring expenditure or under which a liability would be incurred in any twelve-month period by the Group Companies in excess of US\$5,000,000; (ii) contracts in an amount exceeding US\$5,000,000 each that are not cancellable within 180 calendar days or that are cancellable but cancellation would entail a material penalty, cost or other liability; (iii) promissory notes, loans, agreements, indentures, guarantees, evidences of Indebtedness or other instruments related to Indebtedness, whether as a borrower, lender or guarantor and any currency exchange, interest rate, commodities or other hedging arrangement, in an amount exceeding US\$5,000,000 each; (iv) contracts containing covenants limiting in any material way the freedom of a Target Company or any Material Subsidiary to sell or otherwise dispose of assets, compete with any person, operate at any location, or in any other way restricting the manner and scope of the operations of the Group Company; (v) partnership, joint venture or shareholder agreements entered into by a Target Company or any Material Subsidiary; (vi) contracts relating to previous or planned mergers, consolidations, reorganizations or acquisitions, dispositions or divestitures of assets or otherwise, under which any Target Company or any Material Subsidiary or any other party thereto has material continuing rights or obligations; (vii) any other contract, agreement, arrangement or understanding that is material to a Group Company and the termination, or breach or default of which could, individually or in the aggregate, reasonably be expected to result in a Material Adverse Change;
“Material Indebtedness”	means Indebtedness of any Group Company in an amount exceeding US\$5,000,000;
“Material Licenses”	means those Licences set out in Schedule 5;
“Material Litigation”	means any litigation, actions or proceedings which, if held adverse against the relevant Group Company, would or would be reasonably likely to result in amount payable by such Group Company in excess of US\$ 1,000,000 or any litigation, actions or proceedings which is otherwise material for any Group Company;

“Material Subsidiaries”	means MGTS, Comstar-Direct, MGTS Finance S.A. and Comstar-Regions, each as more fully described in Schedule 1;
“MTS”	means OJSC Mobile Telesystems, 100% beneficial owner of the Purchaser;
“New Century Holdings”	means the investment funds managed by NCH Capital, Inc.;
“notice”	meaning given to this term in Clause 25.1;
“Notice of Dispute”	meaning given to this term in Clause 28.2;
“Ordinary Course”	action that is consistent with the past practices of the person and is taken in the ordinary course of the normal day-to-day operations of the person;
“Organizational Documents”	with respect to any legal entity, the memorandum of association, articles of association, articles of incorporation, certificate of incorporation, bylaws and any charter, partnership agreements, joint venture agreements, trust deed, limited liability company agreement or other organizational documents of such entity and any amendments thereto;
“Owned Real Property”	meaning given to this term in Clause 23.2 of Schedule 2;
“Party”	meaning given to this term in recitals;
“PLTD Rules”	the Prospectus, Listing, and Transparency and Disclosure Rules adopted by the Financial Services Authority of the United Kingdom (as amended);
“Post-Signing Disclosure”	means any fair and specific disclosure made pursuant to Clause 8.5, but only in relation to any fact, matter or thing occurring or having occurred after the Signing Date;
“Purchaser”	meaning given to this term in recitals;
“Purchaser’s Share Accounts”	means separate share accounts at the depository for Comstar Ordinary Shares, the register for Comstar Ordinary Shares and the registrar for the UTS Ordinary Shares which details are set out in Schedule 8; ;
“Purchaser’s Warranties”	the warranties of the Purchaser set out in Schedule 3;

“RAS”	Russian accounting standards as required under Russian law or regulation, consistently applied;
“Real Property”	meaning given to this term in Clause 23.3 of Schedule 2;
“Related Party Transactions”	meaning given to this term in paragraph 26.1 of Schedule 2;
“Rented Real Property”	meaning given to this term in Clause 23.3 of Schedule 2;
“RUR” or “ruble”	the lawful currency of the Russian Federation;
“Russian Securities Regulation”	Federal Law No. 39-FZ on Securities Market, which came into effect on April 22, 1996 and any regulations adopted thereunder (each as amended);
“Sensitive Payments”	meaning given to this term in Clause 22 of Schedule 2;
“Sberbank Loan”	means a loan agreement dated 8 June 2007 between OJSC Sberbank and Comstar relating to a loan facility in the amount of 26,000,000,000 rubles;
“Sberbank Sistema Loan”	means a loan agreement dated 12 March 2009 between OJSC Sberbank and Sistema relating to a loan facility in the amount of 20,000,000,000 rubles;
“Sberbank Sistema Pledge”	means the pledge of a total of 208,970,431 Comstar Ordinary Shares in favour of OJSC Sberbank pursuant to (i) a pledge agreement dated 12 March 2009 between OJSC Sberbank and Sistema (in relation to 151,523,671 Comstar Ordinary Shares) and (ii) a pledge agreement dated 12 March 2009 between OJSC Sberbank and UTS (in relation to 57,446,760 Comstar Ordinary Shares);
“Shares”	means any or all of the following, depending on the context: (i) 152,241,100 Comstar Ordinary Shares and 4,654,397,000 UTS Ordinary Shares to be acquired by the Purchaser from Sistema; (ii) 3,069,126 Comstar Ordinary Shares to be acquired by the Purchaser from ECU Gest; (iii) 2,060,743,080 UTS Ordinary Shares to be acquired by the Purchaser from Sistema Telecom — in each case, upon and subject to the terms and conditions of this Agreement; and (iv) 57,446,760 Comstar Ordinary Shares owned by UTS and being indirectly acquired by the Purchaser by virtue of acquisition of 100% of UTS Ordinary Shares upon and subject to the terms and conditions of this Agreement, which in aggregate constitute approximately 50.91% of issued share capital of Comstar and 100% of issued share capital of UTS;
“Signing Date”	the date of this Agreement;

“Sistema’s Bank Account”	bank account of Sistema set forth in Schedule 7 or as Sistema may otherwise notify the Purchaser in writing at least one Business Days prior to Completion;
“Sistema Comstar Shares”	meaning given to this term in recitals;
“Sistema UTS Shares”	meaning given to this term in recitals;
“Software”	any and all computer programs in source, object and executable form, including all modules, routines and sub-routines thereof and all source and other preparatory materials relating thereto, including user requirements, functional specifications and programming specifications, ideas, principles, programming languages, algorithms, flow charts, logic, logic diagrams, orthographic representations, file structures, coding sheets, coding and including any manuals or other documentation relating thereto and computer generated works;
“Subsidiaries”	the companies Controlled by Comstar, all of which are set forth in Schedule 1 hereto;
“Target Companies”	meaning given to this term in recitals;
“Taxation” or “Tax” or “tax”	<p>(a) all forms of taxation, including any charge, tax, duty, levy, impost, withholding or liability wherever chargeable imposed for support of national, state, federal, municipal or local government or any other person; and</p> <p>(b) any penalty, fine, surcharge, interest, charges or costs payable in connection with any taxation within paragraph (a) above;</p>
“tax authority”	any taxing or other authority competent to impose any tax liability or assess or collect any tax;
“Tax Burden”	any liability to tax, whether such tax is direct or indirect, and whether levied by reference to income, profits, gains, asset values, turnover, or added value, and whether statutory, governmental, state, provincial, local, governmental or municipal impositions, duties, contributions, rate and levies (including any penalties, charges and interest relating thereto);

“Tax Return”	a report, return or other information (including any amendments) supplied or required to be supplied to a Governmental Entity in the Russian Federation or the United States of America with respect to taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes any Target Company or any Material Subsidiary;
“Third Party Rights”	any interest or equity of any person (including any right to acquire an option or right of pre-emption or conversion) or any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention or any other security agreement or arrangement, or any agreement to create any of the above;
“Trade Secrets”	trade secrets, business, technical and know-how information, non-public information and confidential information and rights to limit the use or disclosure thereof by any person;
“UTS”	meaning given to this term in recitals;
“UTS Ordinary Shares”	ordinary shares with a nominal value of 1 (one) ruble each in the charter capital of UTS;
“US GAAP”	means the United States of America generally accepted accounting principles;
“US\$”	the lawful currency of the United States of America;
“VAT”	value added tax under any applicable law;
“Vendors”	meaning given to this term in recitals;
“Vendors’ Bank Accounts”	respective bank accounts of each of the Vendors set forth in Schedule 7 or as the Vendors may otherwise notify the Purchaser in writing at least one Business Days prior to Completion;
“Vendors’ Share Accounts”	meaning given to this term in Clause 7.2(d);
“Vendors’ Tax Warranties”	those warranties set out in paragraph 19 of Schedule 2;
“Vendors’ Warranties”	the warranties of the Vendors set out in Schedule 2;

- 1.2 References in this Agreement to recitals, Schedules and Clauses are to recitals and Schedules to and Clauses of this Agreement, and references in this Agreement to numbered paragraphs are to numbered paragraphs of the Clause in which such reference is made or otherwise of the Schedules to this Agreement, unless specified otherwise.
- 1.3 The headings in this Agreement are inserted for convenience only and shall not affect its construction.
- 1.4 References in this Agreement to any statute or statutory provision include a reference to such statute or statutory provision as from time to time amended, modified, re-enacted, extended, consolidated or replaced (whether before or after the Signing Date) and to any subordinate regulation made from time to time under such statute or statutory provision.
- 1.5 References to this Agreement or to any other document include a reference to this Agreement or such other document as varied, amended, modified, novated or supplemented from time to time.
- 1.6 References to any gender shall include all other genders.
- 1.7 References to persons include individuals, bodies corporate, associations, partnerships, trusts or agencies, whether or not having a separate legal personality.
- 1.8 References to the word “include” or “including” are to be construed without limitation.
- 1.9 References to “true and complete” mean true, accurate, complete, correct and not misleading at the Signing Date or at Completion, as the case may be.
- 1.10 References to “writing” or “written” include any non-transient means of representing or copying words legibly, including by facsimile or electronic mail.
- 1.11 References to times of day are to Moscow times and references to a day are to a period of 24 hours running from midnight.
- 1.12 References to a document in the agreed terms means in the form agreed between the Vendors and the Purchaser signed by or on behalf of each of them for the purposes of identification.
- 1.13 Without prejudice to Clause 14, references in this Agreement to any person shall include, or be deemed to be references to, (as may be appropriate) its respective successors and permitted assignees or transferees.
- 1.14 In this Agreement, any undertaking by a Party not to do or to omit to do any act or thing includes an undertaking not to allow, cause or assist in the doing of or omission of such act or thing.

1.15 Any agreement, covenant, representation, warranty, undertaking or obligation arising under this Agreement on the part of the Vendors shall be deemed to be made or given by the Vendors jointly and severally.

2. **SALE AND PURCHASE OF SHARES**

Sale and Purchase

2.1 Upon and subject to the terms and conditions of this Agreement, the Vendors hereby agree to sell, and the Purchaser agrees to purchase, all of the Shares owned by each of the Vendors free from all Encumbrances and together with all rights and benefits which are at the Signing Date or at any time hereafter attached to, or accruing in respect of, the respective Shares (including the right to receive all dividends and distributions declared, made or paid).

All of the Shares

2.2 The Purchaser shall not be obliged to complete the purchase of any of the Shares unless the purchase by it of all of the Shares from all the Vendors is completed, nor shall the Vendors be obliged to complete the sale of any of the Shares unless the sale of all of the Shares from all of the Vendors is completed.

3. **CONSIDERATION**

3.1 The Consideration (inclusive of VAT and transfer taxes (if applicable) and other applicable taxes) shall be the sum of (a) RUR 20,022,118,912.54, (b) US\$ 9,176,686.74, (c) the cash equivalent in RUR of US\$ 626,966,701.4, to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon of the Business Day immediately prior to the Completion, and (d) the cash equivalent in US\$ of RUR 293,056,573.37, to be calculated based on the RUR / US\$ exchange rate published by the Russian Central Bank at noon of the Business Day immediately prior to the Completion.

3.2 The Consideration shall be paid by the Purchaser to the Vendors on the Completion in accordance with Clauses 7.5 and 7.7 in the following proportions:

- (a) RUR 14,536,794,870.13 plus the cash equivalent in RUR of US\$ 455,200,889 to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion shall be paid to Sistema for the Sistema Comstar Shares; and
- (b) RUR 3,801,987,071.50 plus the cash equivalent in RUR of US\$ 119,054,297.07 to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion shall be paid to Sistema for the Sistema UTS Shares; and

- (c) RUR 1,683,336,970.91 plus the cash equivalent in RUR of US\$ 52,711,515.33 to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion shall be paid to Sistema Telecom; and
- (d) US\$ 9,176,686.74 plus the cash equivalent in US\$ of RUR 293,056,573.37 to be calculated based on the RUR/ US\$ exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion shall be paid to ECU Gest.

4. **CONDITIONS**

Conditions Precedent

- 4.1 The Purchaser's obligations hereunder to purchase the Shares at Completion shall be conditional upon satisfaction or waiver (by notice in writing by the Purchaser to the Vendors, at the sole discretion of the Purchaser) of the following conditions:
 - (a) the accuracy in all material respects of the Vendors' Warranties as at the Signing Date and at Completion (but without taking into account any Post-Signing Disclosure);
 - (b) compliance by the Vendors with their obligations under this Agreement in all material respects;
 - (c) in the period prior to Completion, the business of the Group has been carried on in the Ordinary Course in all material respects (unless the Purchaser has expressly agreed otherwise in writing under Clause 5.1);
 - (d) no action, suit, or proceeding shall have been determined or be pending before any Governmental Entity or arbitrator wherein an unfavourable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by the Agreement, (B) cause any of the transactions contemplated by the Agreement to be rescinded following consummation, (C) affect adversely the right of the Purchaser to own the Shares (or any part thereof) or the right of the Purchaser to own or control (directly or indirectly) any Group Company, or (D) affect adversely the right of any Group Company to own or control its assets or to operate its business (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect), except for any such injunction, judgment, order, decree, ruling, or charge that has been initiated or otherwise caused by the Purchaser;

- (e) no Material Adverse Change having occurred after the Signing Date (and remaining unremedied) in respect of any of the Target Companies or the Group as a whole;
- (f) the Purchaser's receipt of consents granted by (i) the Russian Federal Antimonopoly Service in accordance with the Federal Law No. 135-FZ dated 26 July 2006 (as amended) "On Protection of Competition"; and (ii) Ukrainian antimonopoly authorities, (together referred to herein, the "**Antimonopoly Approvals**") in each case in a form reasonably satisfactory to the Purchaser in respect of the purchase of the Shares in accordance with this Agreement and each of such Antimonopoly Approvals remains in full force and effect and without any material amendment;
- (g) the Vendors have procured written confirmation, in a form reasonably satisfactory to the Purchaser, from OJSC Sberbank that it will not enforce any of its rights to declare a default or otherwise accelerate repayment of the loan (in full or in part) under the Sberbank Loan, triggered by execution, delivery or performance by the Vendors of this Agreement or otherwise in connection with any events having occurred prior to the Completion.

4.2 The Vendors' obligations hereunder to sell the Shares at Completion shall be conditional upon satisfaction or waiver (by notice in writing by the Vendors to the Purchaser, at the sole discretion of the Vendors) of the following conditions:-

- (a) the accuracy of the Purchaser's Warranties as at the Signing Date and at Completion in all material respects;
- (b) compliance by the Purchaser with its respective obligations under this Agreement in all material respects; and
- (c) no action, suit, or proceeding shall have been determined or be pending before any Governmental Entity or arbitrator wherein an unfavourable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by the Agreement, or (B) cause any of the transactions contemplated by the Agreement to be rescinded following consummation, except for any such injunction, judgment, order, decree, ruling, or charge that has been initiated or otherwise caused by the Vendors or any of their Affiliates (other than MTS or its subsidiaries).

Parties' Responsibilities for Conditions

4.3 The Purchaser shall use all reasonable endeavours to procure satisfaction of the conditions set out in Clauses 4.1(d) and 4.1(f). The Vendors shall use all reasonable endeavours to procure satisfaction of the conditions set out in Clauses 4.1(d) and 4.1(g) and 4.2(c). Without prejudice to the foregoing, all requests and enquiries to and from any Governmental Entity shall be dealt with by the Vendors and the Purchaser in consultation

with each other and the Vendors and the Purchaser shall co-operate promptly with and provide all information or assistance reasonably required by such Governmental Entity (including, but not limited, for the purpose of obtaining Antimonopoly Approvals).

Notice of Satisfaction of Conditions

- 4.4 Each Party shall promptly give notice to the other of the satisfaction of any condition set out in Clauses 4.1 and 4.2.

Time Limit for Satisfaction of Conditions

- 4.5 If the conditions set out in Clauses 4.1 and 4.2 have not been satisfied or waived by midnight on 31 December 2009 (or by such later time and/or date as may be agreed in writing between the Vendors and the Purchaser), this Agreement shall terminate and have no further effect and Clause 6.1(a) shall apply.

5. PERIOD BETWEEN SIGNING DATE AND COMPLETION

Conduct of Business etc.

- 5.1 Between the Signing Date and Completion, the Vendors undertake to procure that the businesses of each of the Group Companies are carried on in the Ordinary Course in all material respects (unless the Purchaser otherwise agrees in writing).
- 5.2 Between the Signing Date and Completion, the Vendors shall promptly notify the Purchaser of:
- (a) any events materially and adversely affecting the business, financial position, assets and/or affairs of the Group taken as a whole, providing, so far as the Vendors are able, relevant details of such events;
 - (b) any material assets (being those with a value in excess of US\$5,000,000 (which includes any finance lease arrangements) or otherwise being material for the operation of the business of the Group as a whole) being disposed of or agreed to be disposed of or any grant or termination of any rights in respect thereof;
 - (c) any Material Contracts or Related Party Transactions being entered into, amended in a material and adverse way, terminated (but not expired) or agreed to be entered into, amended in a material and adverse way, or terminated by any Group Company;
 - (d) any Indebtedness or capital expenditure being incurred or agreed to be incurred by any of the Group Companies, which Indebtedness or capital expenditure is in excess of US\$500,000 or which totals in aggregate US\$2,500,000;

- (e) any acquisition of share capital or any assets, properties, businesses in other companies (including, but not limited to, subsidiaries) or purchase of long-term investments which acquisition or purchase is in excess of US\$ 500,000 or which totals in aggregate US\$2,500,000; by any of the Group Company;
 - (f) any Encumbrance being created over any of the assets or undertaking of any of the Group Companies and any guarantee or indemnity is given by any of the Group Companies in each case in excess of US\$1,000,000 or which totals in aggregate US\$5,000,000;
 - (g) any grant, material and adverse modification, or termination or agreement to grant, modify in a material and adverse way, or terminate any rights relating to material Intellectual Property; and
 - (h) any commencement, settlement or agreement to settle any Material Litigation.
- 5.3 Upon reasonable notice, the Purchaser and its directors, officers, employees, agents and advisers shall be allowed reasonable access during business hours to the properties and the directors, officers and Key Employees of each of the Target Companies and of each of the Material Subsidiaries, and to inspect the books and records of each of the Target Companies and each of the Material Subsidiaries (whether held by the Target Companies, the respective Material Subsidiary or their respective agents or advisers and whether stored electronically or otherwise).
- 5.4 Any Management Accounts which have been prepared for the Target Companies or any Material Subsidiary, whether pursuant to US GAAP, IFRS or RAS, shall be promptly delivered to the Purchaser upon its request to the Vendors.
- 5.5 Without prejudice to the undertakings in Clause 5.1, the Vendors shall co-operate and consult fully with the Purchaser in relation to the running of each of the Target Companies and each of the Material Subsidiaries and their respective businesses in the period prior to Completion and shall procure that each of the Target Companies and each of the Material Subsidiaries shall not, without the prior written consent of the Purchaser:
- (a) make any application to materially and adversely amend or modify, or terminate, any of the Material Licenses or rights associated with them other than those Material Licenses being re-registered in connection with the Comstar Regions Reorganization (for the avoidance of doubt, it being understood that all Material Licenses being re-registered in connection with the Comstar Regions Reorganization are being re-registered in the name of either Comstar Regions or Comstar Regions Subsidiaries);
 - (b) create, allot or issue any shares other than as part of the Comstar Regions Reorganization or grant or agree to grant any options over shares or uncalled capital or issue any obligations convertible into shares or modify any rights attached to shares of any of the Group Companies;

- (c) transfer any Shares or any shares in the capital of any Subsidiary or in OJSC Svyazinvest, or as part of the Comstar Regions Reorganization;
- (d) declare, make or pay any dividend or other distribution other than to a 100% parent company (but excluding any such dividend or distribution by UTS);
- (e) amend any Group Company's charter documents other than as part of the Comstar Regions Reorganization;
- (f) initiate or perform any corporate reorganization or liquidation of any Group Company other than as part of the Comstar Regions Reorganization;
- (g) amend or agree to amend the terms and conditions (including remuneration and benefits) of employment or appointment of any of the Key Employees; or
- (h) agree, approve or resolve to do any of the matters referred to in paragraphs (a) to (g) above.

6. TERMINATION

6.1 If any of the matters referred to in Clause 6.2 shall arise and remains un-remedied for 30 (thirty) days, the Purchaser shall be entitled by notice in writing to the Vendors at any time prior to Completion, to elect at their sole discretion to:-

- (a) terminate this Agreement, and this Agreement will, save in relation to any rights accrued prior to such termination and for Clauses 1, 12 - 18 and 20 - 28 (which will continue in full force and effect) terminate and have no further effect and neither Party shall have any claim against the other under this Agreement; or
- (b) select a new date for Completion (being not later than 30 days after the date set for Completion in accordance with Clause 7.1 and in any event prior to 31 December 2009) and the terms of this Agreement shall continue to apply as if such new date were the original date for Completion,

for the avoidance of doubt failure to exercise any such right shall not constitute a waiver of any other rights of the Purchaser arising by reason of any of the matters referred to in Clause 6.2.

6.2 Clause 6.1 shall apply if at any time on or before Completion:-

- (a) a Material Adverse Change has occurred after the Signing Date (and remains un-remedied for 30 days) in respect of any of the Target Companies or the Group as a whole; or
- (b) the Vendors, or any Target Company, or any Material Subsidiary fail to comply with the provisions of Clause 5 in any material respect.

7. **COMPLETION**

Completion

- 7.1 Subject to the satisfaction or waiver of the conditions set out in Clauses 4.1 and 4.2 and to the satisfaction of the obligations set out in this Clause 7, and provided that no Party has elected to terminate this Agreement pursuant to Clause 6, Completion shall take place at the offices of Sberbank on the third (3rd) Business Day after the last of the conditions set out in Clauses 4.1 and 4.2 is satisfied or waived or, if applicable, on such date as is selected in accordance with Clause 6.1(b), or at such other place and/or on such other date as the Parties may agree in writing.

Delivery of Documents etc. by the Vendors

- 7.2 On or before Completion, the Vendors shall deliver or make available to the Purchaser:-
- (a) certified copies of the minutes of the general shareholders' (participants') meeting of each of the Vendors at which this Agreement and the transactions and documents referred to herein are approved;
 - (b) certified copies of the minutes of the board of directors of the Vendors at which this Agreement and the transactions and documents referred to herein are pre-approved and recommended to the general shareholders' (participants') meetings of the Vendors for approval;
 - (c) originals or certified copies of the up-to-date extracts from the Unified State Register of Legal Entities issued in respect of each Target Company and each of the Material Subsidiaries (and in respect of MGTS Finance S.A., an apostilled extract from the Luxembourg trade register dated August 20, 2009) ;
 - (d) original extracts from the accounts of the Vendors in Comstar's depository or shareholder's register (in respect of ECU Gest only) for the Comstar Ordinary Shares owned by the Vendors and UTS' shareholder registrar for the UTS Ordinary Shares owned by the Vendors (the "**Vendors' Share Accounts**"), confirming each Vendor's title to their respective Shares, free from Encumbrances, dated the date of Completion;
 - (e) original extracts from the account of UTS in Sberbank's depository for the Comstar Ordinary Shares, confirming the UTS' title to 57,446,760 Comstar Ordinary Shares free from Encumbrances, dated the date of Completion;
 - (f) in the case of Material Subsidiaries that are Russian joint stock companies, originals of the extracts from the accounts in the registrars or depositaries, as the

case may be, for such Material Subsidiaries' shares, confirming that Comstar is the registered or beneficial owner of respective number of shares in each of the Material Subsidiaries as set forth in Schedule 1, dated not earlier than five Business Days prior to the Completion;

- (g) in the case of MGTS Finance S.A., an extract from the Luxembourg commercial registry, confirming that Comstar is the registered or beneficial owner of respective number of shares in MGTS Finance S.A. as set forth in Schedule 1, dated not earlier than five Business Days prior to the Completion;
- (h) a copy of the written confirmation, in a form reasonably satisfactory to the Purchaser, from OJSC Sberbank that it will not enforce any of its rights to declare a default or otherwise accelerate repayment of the loan (in full or in part) under the Sberbank Loan, triggered by execution, delivery or performance by the Vendors of this Agreement or otherwise in connection with any events having occurred prior to the Completion);
- (i) each power of attorney under which any document entered into by the Vendors, or to be delivered by the Vendors to the Purchaser has been or will be executed;
- (j) an original power of attorney duly executed by the Vendors in favour of the Purchaser or its nominees as the Purchaser may direct in the form set out in Schedule 4 providing that, in the event that the Shares are registered in the name of the Purchaser after the date of compiling the list of persons entitled to participate in a general shareholders' meeting of the respective Target Company, but before the date of such meeting, the Purchaser shall have the power to exercise the voting and other rights attaching to the Shares of the respective Target Company at any such general shareholders' meeting.

Delivery of Documents etc. by the Purchaser

7.3 On or before Completion, the Purchaser shall deliver or make available to the Vendors:-

- (a) certified copies of the resolutions of the sole shareholder of the Purchaser at which the relevant transactions referred to herein are approved;
- (b) certified copy of the resolution of the board of directors of MTS at which the relevant transactions referred to herein are approved;
- (c) each power of attorney or other document under which any document entered into by the Purchaser, or to be delivered by the Purchaser to the Vendors has been or will be executed.

Purchaser's Share Accounts

7.4 [DELIBERATELY OMITTED]

First tranche payment

- 7.5 Subject to compliance with Clauses 7.2 and 7.4, the Purchaser shall forthwith by electronic transfer for same day value, pay to Sistema in immediately available funds the amounts of (i) RUR18,338,781,941.63 plus (ii) the cash equivalent in RUR of US\$61,888,202.07 to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion via electronic transfer into Sistema's Bank Account or, if so instructed by Sistema no later than two Business Days prior to the Completion, another bank account full details of which are notified by Sistema to the Purchaser no later than at the time such instruction is given, (whose receipt in full thereof shall be an effective discharge of the Purchaser's obligation to pay such amounts) and shall promptly deliver confirmations of such payment and transfer to Sistema.

Release of the Sberbank Sistema Pledge and transfer of Shares

- 7.6 Subject to fulfillment of the provisions of Clause 7.5, Sistema shall deliver to the Purchaser a copy of the written confirmation of full and unconditional release of the Sberbank Sistema Pledge, in a form reasonably satisfactory to the Purchaser, and Vendors shall issue and deliver to the depository for the Comstar Ordinary Shares, the registrar for Comstar Ordinary Shares, and to the registrar for the UTS Ordinary Shares instructions with respect to the transfer of the Shares from the Vendors' Share Accounts to the respective Purchaser's Share Account and shall procure that depository or registrar for the Shares of Comstar or UTS, as appropriate, delivers and transfers the Shares free from any Encumbrance to the respective Purchaser's Share Account and promptly confirms such delivery and transfer to the Purchaser and the Vendors.

Second tranche payment

- 7.7 Subject to compliance with Clauses 7.2, 7.4 to 7.6 (inclusive), the Purchaser shall forthwith by electronic transfer for same day value, pay in immediately available funds the following amounts to the indicated Vendor, into the respective Vendors' Bank Accounts: (i) to Sistema, the cash equivalent in RUR of US\$512,366,984.00 to be calculated based on the US\$/RUR exchange rate published by the Russian Central Bank at noon on the Business Day immediately prior to the Completion; (ii) to Sistema Telecom, the amounts indicated in Clause 3.2(c); and (iii) to ECU Gest, the amounts indicated in Clause 3.2(d), (receipt in full of the amounts indicated in this Clause 7.7 shall be an effective discharge of the Purchaser's obligation to pay the Consideration) and shall promptly deliver confirmations of such payment and transfer to the Vendors.
- 7.8 On receipt of the respective payments into the Vendors' Bank Accounts pursuant to Clause 7.7 in full, the Vendors shall promptly deliver confirmation of such receipt of funds to the Purchaser.

Completion

- 7.9 The delivery and performance of the documents, items and actions provided in Clauses 7.1 - 7.8 shall be required to take place no later than the Completion and the Completion shall not be deemed to have taken place until all such delivery and performance are completed.

8. VENDORS' WARRANTIES

Vendors' Warranties and Repetition of Vendors' Warranties

- 8.1 In relation to themselves, each of the Target Companies and each of the specified Subsidiaries, the Vendors warrant to the Purchaser (for itself and for its successors in title) that, except as Disclosed, the Vendors' Warranties are true and accurate in all material respects at the Signing Date and further that the Vendors' Warranties shall be true and accurate in all material respects at the Completion as if they had been made or given at Completion (on the basis that references in the Vendors' Warranties to any fact, matter or thing existing, occurring or having occurred at or on and/or before or after (and similar terms) the Signing Date shall be construed as references to it having so done at or on and/or before or after (and similar terms) the Completion).
- 8.2 The Purchaser has entered into this Agreement upon the basis of, and in reliance upon, amongst other things, the Vendors' Warranties and indemnities.

Knowledge

- 8.3 Where any Vendors' Warranty is made or given to the best of the Vendors' knowledge or is qualified by reference to the Vendors' awareness (or to some other matter of similar effect), such Warranty shall be deemed to be given to the best of the knowledge, information and belief of the Vendors after making due, diligent and careful enquiry with each of the Key Employees and the general director and each member of the management board of Sistema.

Separate Vendors' Warranties

- 8.4 Each of the Vendors' Warranties set out in Schedule 2 shall be separate and independent and shall not be limited by reference to any other Vendors' Warranty.

Notification of Breach or Non-fulfilment

- 8.5 If at any time on or before Completion any act, matter, thing or circumstance shall, or shall not, occur or be impending or threatened which would or would be reasonably likely to constitute a material breach or non-fulfilment of any of the Vendors' Warranties or mean that any of the Vendors' Warranties is untrue or inaccurate in any material respect at the Signing Date or at the Completion, the Vendors shall promptly upon becoming aware of the same notify the Purchaser in writing thereof, providing sufficient

details to enable the Purchaser accurately to assess the impact of the same. If so requested by the Purchaser, the Vendors shall use reasonable endeavours promptly to prevent or remedy the said occurrence or non-occurrence.

9. **PURCHASER'S WARRANTIES**

Purchaser's Warranties and Repetition of Purchaser's Warranties

9.1 In relation to itself the Purchaser warrants to the Vendors (for themselves and for their successors or any of them or to all) that the Purchaser's Warranties are true and accurate in all material respects at the Signing Date and further that the Purchaser's Warranties shall be true and accurate in all material respects at the Completion as if they had been made or given at Completion (on the basis that references in the Purchaser's Warranties to any fact, matter or thing existing, occurring or having occurred at or on and/or before or after (and similar terms) the Signing Date shall be construed as references to it having so done at or on and/or before or after (and similar terms) the Completion).

9.2 The Vendors have entered into this Agreement upon the basis of, and in reliance upon, amongst other things, the Purchaser's Warranties.

Knowledge

9.3 Where any Purchaser's Warranty is made or given to the best of the Purchaser's knowledge or is qualified by reference to the Purchaser's awareness (or to some other matter of similar effect), such Purchaser's Warranty shall be deemed to be given to the best of the knowledge, information and belief of the Purchaser, as the case may be, after making due, diligent and careful enquiry with each of general director, members of the management board of MTS and the Purchaser.

Separate Purchaser's Warranties

9.4 Each of the Purchaser's Warranties set out in Schedule 3 shall be separate and independent and shall not be limited by reference to any other of them or any other provision in this Agreement.

Notification of Breach or Non-fulfilment

9.5 If at any time on or before Completion any act, matter, thing or circumstance shall, or shall not, occur which would or would be reasonably likely to constitute a material breach or non-fulfilment of any of the Purchaser's Warranties or mean that any of the Purchaser's Warranties is untrue or inaccurate in any material respect at the Signing Date or at the Completion, the Purchaser shall promptly upon becoming aware of the same, notify the Vendors in writing thereof, providing sufficient details to enable the Vendors accurately to assess the impact of the same. If so requested by the Vendors, the Purchaser shall use reasonable endeavours promptly to prevent or remedy the said occurrence or non-occurrence.

10. **LIMITATION OF LIABILITY**

Time Limitations

10.1 The Vendors shall have no liability in respect of any claim under the Vendors' Warranties unless:-

- (a) the Purchaser shall have served on the Vendors a written notice of such claim on or before
 - i) the date falling 15 (fifteen) months after the date of Completion;
 - ii) in the case only of any claim under the Vendors' Tax Warranties, the date falling 30 (thirty) months after the date of Completion,

which notice gives all material details of such claim as are then known to the Purchaser together with the Purchaser's *bona fide* estimate of the amount of such claim; and

- (b) legal proceedings in respect of such claim shall have been commenced against the Vendors within 6 (six) months of such notice, or such claim shall have been satisfied, settled or withdrawn prior to the expiry of such 6 (six) month period, except in the case of a claim based upon a liability which is contingent or otherwise not capable of being quantified, such 6 (six) month period shall commence on the date that the contingent liability becomes an actual liability or the liability is capable of being quantified.

Quantum

10.2 The total aggregate liability of the Vendors under this Agreement shall in all circumstances be limited to the Consideration.

10.3 Notwithstanding clause 10.2 above, the Vendors shall have no liability in respect of any claim under the Vendors' Warranties:-

- (a) unless and until the amount of such claim, when aggregated with the amount of any other claim(s) made by the Purchaser under any of the Vendors' Warranties (which claims are based on essentially the same or similar facts) exceeds US\$1.5 million; and
- (b) unless and until the amount of such claim, when aggregated with the amount of any other permissible claim(s) made by the Purchaser under any of the Vendors' Warranties (or which would have been made but for the provisions of this Clause 10.3(b)) exceeds US\$20 million, in which event the Vendors' liability in respect of such claim(s) shall not be limited to the excess and the whole amount of such claim(s) shall be recoverable in full.

- 10.4 The Vendors will have no liability in respect of any claim under the Vendors' Warranties:
- (a) to the extent that it arises or is increased as a result of the passing of, or a change after the Signing Date in, any law, rule, regulation, interpretation of the law or administrative practice of a Governmental Entity (except where it is already adopted at the Signing Date but came into force after the Signing Date);
 - (b) if it would not have arisen but for any act, omission, transaction or arrangement carried out at the request of the Purchaser before Completion;
 - (c) if it would not have arisen but for any voluntary act, omission, transaction or arrangement carried out after Completion by the Purchaser, any Group Company or any of their respective directors, employees or agents or successors in title, except where such action is required by applicable law;
 - (d) except for matters specifically referred to in Clause 11.1, to the extent that the subject matter of the claim is a matter specifically included as a liability in the Accounts, provided that the scope and the extent of such liability is reasonably clear on the face of the Accounts.
- 10.5 Where the relevant Group Company or the Purchaser is entitled (whether by reason of insurance, indemnity or payment discount or otherwise) to recover from some other person any sum in respect of any liability, loss or damage that is the subject of a claim against the Vendors or for which such a claim could be made (and whether before or after the Vendors, as appropriate, have made payment hereunder), the Purchaser shall (or, as appropriate, co-operate to procure that the relevant Group Company shall):
- (i) promptly notify the Vendors and provide such information as the Vendors may reasonably request relating to such liability or dispute and the steps taken or to be taken by the Purchaser and/or the relevant Group Company in connection with it, provided that any delay or failure in giving such notice to the Vendors shall not prejudice Purchaser's or the relevant Group Company's right to make such claim except to the extent that the Vendors can demonstrate that it has suffered actual damage as a result of such delay or failure;
 - (ii) if so requested by the Vendors, either (1) itself take all steps (whether by way of a claim against its insurers or otherwise including proceedings) as the Vendors may reasonably request to enforce such recovery, in each case subject to the Vendors' current reimbursement of the costs and expenses reasonably incurred by the Purchaser and/or the relevant Group Company in complying with such request by the Vendors, or (2) in relation to such recovery by the Purchaser only (but, for the avoidance of doubt, not by any Group Company), assign such Purchaser's right of recovery to the Vendors or the Vendors' Affiliate and thereafter provide such cooperation

and assistance as Vendors may reasonably request in pursuing such recovery; and

- (iii) shall keep the Vendors informed of the progress of any action taken by the Purchaser or the relevant Group Company;

provided that (i) the possibility of such recovery against a third party in respect of a claim shall not justify delay in the payment of such claim by the Vendors; (ii) in the event of an ultimate recovery against a third party by the Vendors or their Affiliate, the amount of such recovery in excess of the amount already paid in respect of the related claim (and the costs of collection) shall be kept by the Vendors or their respective Affiliate; (iii) in the event of an ultimate recovery by Purchaser, the amount of such recovery up to the amount actually received from the Vendors in respect of the related claim (less the costs of recovery) shall be paid over to the Vendors; and (iv) in the event of an ultimate recovery by the relevant Group Company, the amount of such recovery prorated to the interest directly or indirectly held by the Purchaser in the relevant Group Company as of the date of this Agreement, and up to the amount actually received from the Vendors in respect of the related claim (less the costs of recovery), shall be paid over to the Vendors.

- 10.6 If any potential claim arises as a result of a contingent or unquantifiable liability of any Group Company, the Vendors will not be obliged to pay any sum in respect of the potential claim until the liability either ceases to be contingent or becomes quantifiable.

Disclosure

- 10.7 The Purchaser shall not be entitled to claim that any fact, matter or circumstance causes any of the Vendors' Warranties to be breached if it is Disclosed.

Fraud etc.

- 10.8 The provisions of this Clause 10 shall not apply to any claim under any of the Vendors' Warranties if such claim is in respect of fraud on the part of the Vendors.

11. INDEMNITY

- 11.1 Each of the Vendors, jointly and severally, agrees to indemnify, defend and hold the Purchaser harmless from and, where relevant, covenants to pay the Purchaser amounts in respect of, for itself and as trustee for its directors, officers, and employees and its successors in title to the Shares, all actions, claims, demands and proceedings of any nature made from time to time against such persons or a Group Company and from all losses, damages, payments, awards, diminutions in value, costs or expenses (including, for the avoidance of doubt, but not limited to, any taxes) made, suffered or incurred by or existing in respect of such persons or a Group Company, in each case as a consequence of, or that would not have arisen but for (and such right shall not be limited or affected by

any investigation conducted or notice or knowledge obtained by or on behalf of the indemnified person) any breach of or inaccuracy in any of the Vendors' Warranties or any breach of any covenant or undertaking by the Vendors under Clause 5 of this Agreement or, which would not have been made, suffered, incurred or arisen had the relevant Vendors' Warranty been true.

- 11.2 The Vendors' obligations to the Purchaser under Clause 11.1 in respect of any actions, claims, demands and proceedings of any nature made from time to time against a Group Company and any losses, damages, payments, awards, diminutions in value, costs or expenses made, suffered or incurred by or existing in respect of a Group Company shall be limited to 65% of the relevant amount, representing the effective economic interest in Comstar that is being acquired by the Purchaser from the Vendors hereunder.
- 11.3 Any amount payable by the Vendors under this Clause 11 shall be increased to ensure that the net amount received by the indemnified persons shall, after Taxation, be equal to that which would have been received if such payment (and any increased payment) had not been subject to Taxation.
- 11.4 For the avoidance of doubt, the provisions of Clause 10 shall apply to any right of action the Purchaser (or any of its directors, officers, and employees and its successors in title to the Shares) may have pursuant to Clause 11.1 above.

12. ANNOUNCEMENTS

Restrictions on Announcements

- 12.1 No announcement, statement, press conference or other communication shall be (or be authorised to be) made, released, issued or held by or on behalf of either of the Parties hereto or their respective directors, officers, employees, agents or advisers before, on or after Completion concerning this Agreement, or the subject matter or provisions of, or transactions or matters referred to in or contemplated by, or negotiations leading to, this Agreement, save as provided in Clause 12.2.
- 12.2 Clause 12.1 shall not apply:-
- (a) as may be agreed in writing by the other Party hereto (such agreement not to be unreasonably withheld or delayed); or
 - (b) to any announcement required to be made by any applicable law or regulation or court or governmental, administrative, regulatory or other authority (including any securities exchange to whose rules a Party may be subject) provided that such announcement is only made:-
 - (i) to the extent required by such law or regulation or court or authority or securities exchange; and

- (ii) (unless prohibited by such law or regulation or court, authority or securities exchange) after being discussed and agreed with the non-disclosing Party (such agreement not to be unreasonably withheld or delayed).

Announcements to Employees etc.

- 12.3 Without prejudice to Clauses 12.1 and 12.2, between the date hereof and Completion the Parties hereto shall (subject to the requirements of any applicable law or regulation or court or governmental, administrative, regulatory or other authority) agree the terms and manner of, and the timetable for, any announcement or circular or other communication to shareholders, employees, customers, suppliers, distributors, sub-contractors and other interested parties of the Parties hereto or of any of the Group Companies and to any applicable authorities or other bodies and to the media or otherwise regarding this Agreement and all such announcements or circulars or other communications shall be made in accordance with such agreement.

13. FURTHER ASSURANCE

Further Assurance

- 13.1 At any time after the Signing Date each Party shall, promptly upon being required to do so by the other Party, and at the requesting Party's expense, do or procure that there shall be done all such acts and things and execute or procure the execution of all such documents and instruments in a form reasonably satisfactory to the requesting Party as the requesting Party may from time to time reasonably require (before or after Completion) in order to give full effect to this Agreement and to secure to the requesting Party the full benefit of the rights, powers and remedies conferred upon it in this Agreement.

- 13.2 Management

[INTENTIONALLY OMITTED]Information

- 13.3 At any time after the date hereof the Vendors shall, promptly upon being requested to do so by the Purchaser, make or cause to be made available to the Purchaser all information in their possession or under their control which the Purchaser may from time to time reasonably require (before or after Completion) relating to the business and affairs of any of the Group Companies and shall permit the Purchaser and its directors, officers, employees, agents and advisers to have access to any documents containing such information (whether in written or electronic form or otherwise) and to take copies thereof.
- 13.4 Each of the Parties hereto undertakes to provide all such information as may reasonably be required by the other Party for the purpose of complying with the requirements of law or of applicable regulatory authority.

14. **ASSIGNMENT**

Prohibition on Assignment

14.1 Subject to Clause 14.2, neither Party may, nor purport to, without the prior consent in writing of the other Party hereto assign, transfer, delegate, sub-contract, mortgage, charge, put into trust or otherwise deal with:-

- (a) this Agreement;
- (b) all or any of its rights or obligations arising under or out of this Agreement; or
- (c) the benefit of all or any of the other Party's obligations under this Agreement.

Each Party is entering into this Agreement for its benefit and not for the benefit of another person.

Assignment to Affiliates

14.2 The Purchaser shall not be entitled to assign all or any of its rights arising under or out of this Agreement and the benefit of all or any of the Vendors' obligations hereunder to any of its Affiliates except with the prior written consent of the Vendors, such consent not to be unreasonably withheld.

Successors in Title

14.3 Subject to the other provisions of this Clause 14, this Agreement shall be binding upon and enure to the benefit of the successors in title and permitted assignees and transferees of each of the Parties hereto.

15. **VARIATION**

No variation of this Agreement shall be effective unless made in writing and signed by or on behalf of each of the Parties to this Agreement.

16. **WAIVER**

No Waiver by Omission etc.

16.1 No failure or delay by the Parties hereto to exercise any right, power or remedy provided by law or hereunder shall operate as a waiver of the same or of some other right, power or remedy nor shall any partial exercise thereof preclude any further exercise of the same or of some other right, power or remedy. To the extent permitted by applicable law, the rights and remedies provided under this Agreement are cumulative and are not exclusive of any rights and remedies provided by law or otherwise.

Waiver to be in Writing

16.2 Any waiver of any right (to the extent such waiver may be permitted by applicable law), power or remedy under this Agreement must be in writing and may be given subject to such conditions as the grantor may in its absolute discretion decide. Any such waiver (unless otherwise specified) shall only be a waiver in the particular instance and for the particular purpose for which it was given.

17. **INVALIDITY**

Modification of Provisions

17.1 The Parties hereto confirm that they have each received independent legal advice relating to all the matters provided for in this Agreement and that they consider the provisions of this Agreement to be reasonable and necessary in all the circumstances, but if for any reason one or more of such provisions or undertakings shall be held to be invalid but would have been held to be valid if part of the wording of the same was deleted or the period or scope of the same reduced then the said provisions or undertakings shall apply with such deletion or modification as may be necessary to make them valid and effective.

Illegality of Provisions

17.2 Without prejudice to Clause 17.1, each of the provisions of this Agreement is severable. If any such provision or undertaking or part thereof is or becomes illegal, invalid or unenforceable in any respect, such provision or undertaking or part shall to that extent be deemed not to form part of this Agreement but the legality, validity and enforceability of the remaining provisions and undertakings hereunder shall not in any way be affected or impaired thereby.

18. **REMEDIES**

The Vendors acknowledge and agree that damages alone would not provide an adequate remedy for any breach by them of the provisions of this Agreement and therefore that, without prejudice to any and all other rights and remedies the Purchaser may have (including, but not limited to, damages), the Purchaser shall be entitled to specific performance and other relief to the extent permitted by applicable law for any threatened or actual breach of such provisions.

19. **CONTINUANCE AFTER COMPLETION**

The provisions of this Agreement, including the Vendors' Warranties, and of all other documents referred to herein, shall not (save where the context otherwise requires) be extinguished or otherwise affected by Completion but shall continue to have full force and effect.

20. **TIME OF THE ESSENCE**

Extension of Time

20.1 Any time, date or period mentioned in this Agreement may be extended by agreement in writing between the Parties hereto or otherwise as provided herein.

Time of the Essence

20.2 Save as extended as set out in Clause 20.1, any time, date or period mentioned in this Agreement shall be of the essence and, if such time, date or period is extended as aforesaid then such extended time, date or period shall be of the essence.

21. **ENTIRE AGREEMENT AND THIRD PARTY RIGHTS**

21.1 This Agreement and any documents entered into pursuant hereto constitute the entire agreement between the Parties hereto in relation to the subject matter hereof and supersede and extinguish, and each Party in entering into this Agreement and such other documents agrees that it does not rely on and shall have no remedy in respect of, all prior drafts and all prior agreements, understandings, undertakings, arrangements, representations and warranties (of any nature whatsoever, of any person whether Party to this Agreement or not and whether written or oral) in relation to such subject matter other than as expressly set out in this Agreement as a warranty, save that nothing in this Agreement shall exclude or limit any liability or remedy arising as a result of fraud.

21.2 None of the terms of this Agreement will be enforceable by any person not a party to it by virtue of the Contracts (Rights of Third Parties) Act 1999 or otherwise, provided that the Purchaser's directors, employees and successors in title shall be entitled to enforce their rights under Clause 11.1.

22. **COSTS**

Save as otherwise provided in this Agreement and without application to any arbitration hereunder, each Party shall pay its own costs and expenses in relation to the negotiation, preparation, execution and implementation of this Agreement and the documents referred to herein. For the avoidance of doubt, the Purchaser shall be responsible for the payment of all fees and expenses charged by the relevant registrar or depository, as the case may be, and related to the re-registration of the Shares in accordance with Clause 7.6.

23. **PAYMENTS**

All payments to be made under this Agreement shall be made in full without any set-off or counterclaim and free from any deduction or withholding save as may be required by law in which event such deduction or withholding shall not exceed the minimum amount which it is required by law to deduct or withhold and the payer shall simultaneously pay to the payee such additional amounts as will result in the receipt by the payee of a net

amount equal to the full amount which would otherwise have been receivable had no such deduction or withholding been required.

24. **CONFIDENTIALITY**

- 24.1 Each of the Parties undertakes that it will not at any time hereafter use, divulge or communicate to any person, except to such Party's Affiliates or professional representatives or advisers or as may be required by law or rules and regulations of the relevant stock exchange or any Governmental Authority, any confidential information concerning the business or affairs of the other Parties and all technical, financial and commercial information concerning this Agreement and duly exchanged, in writing or otherwise, by and between the Parties in performing any provision of this Agreement and each of the Parties shall use its reasonable endeavours to prevent the publication or disclosure of any confidential information concerning such matters.

25. **NOTICES**

Addresses etc.

- 25.1 Any notice or other communication (a "**notice**") to be given under this Agreement shall be in writing and shall be sent by inland Russian pre-paid certified mail (or, if overseas, by pre-paid airmail) or by courier, fax or electronic mail to:-

in the case of Sistema:-

Name: Anton Abugov
Address:
13 bld. 1, Mokhovaya st.
Moscow 125009
Russian Federation
Fax no: +7.495.228.1514
e-mail address: abugov@sistema.ru

With a copy to, which shall not constitute notice:

Christopher Allen
Latham & Watkins
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in the case of ECU Gest:-

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in the case of Sistema Telecom:-

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and in the case of the Purchaser:-

«TELEKOMS OPERATOR» LLC

Address

***5, Vorontsovskaya Street,
Moscow, 109147***

Russian Federation

Attn: Michael Hecker, Ilya Kolesnikov, Alexei Kaurov

Fax no: (+7 495) 911-65-69

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or to such other address or fax number as either Party may from time to time notify to the other (to be effective not less than five Business Days from the date of deemed service under Clause 25.2).

Deemed Receipt

25.2 Notices sent as set out in Clause 25.1 shall be deemed to have been received:-

- (a) if sent by inland Russia pre-paid certified mail, on the tenth Business Day after the date of posting;
- (b) if sent by pre-paid airmail, on the fifth Business Day after the date of posting;
- (c) if sent by fax or electronic mail, on the day that they are sent (if sent on a Business Day before 4 p.m.) or otherwise on the next Business Day; and
- (d) if sent by courier, at the time that their receipt is signed for, whether or not the person signing for such receipt has authority so to do.

Proof of Service

25.3 In proving service of the notice it shall be sufficient to show that:-

- (a) delivery by hand was made;
- (b) the envelope containing the notice was correctly addressed and posted;
- (c) in the case of a fax, the fax was properly addressed to the correct number and a transmission report was generated by the sender's fax machine recording a message from the recipient's fax machine confirming that the fax was sent to the number indicated above and that all pages were successfully transmitted; and
- (d) in the case of electronic mail, the electronic mail was correctly addressed and sent and an automatically generated notification of delivery was requested by the sender when sending the electronic mail, even if no such notification was received by the sender, provided that no notification was received by the sender that the electronic mail was undeliverable (a "**failure notification**") and if a failure notification was received the sender shall re-send a copy of the notice by electronic mail and shall also send a copy of the notice by another method of service set out in Clause 25.1, in which case it shall be deemed to have been sent in accordance with Clause 25.2 as it applies to that other method of service.

26. **COUNTERPARTS**

This Agreement may be prepared in English language and executed in any number of counterparts and by the Parties on different counterparts, but shall not be effective until each Party has executed at least one counterpart. Each counterpart shall be deemed an original, but all the counterparts shall together constitute one and the same agreement.

27. **LANGUAGE**

27.1 All notices or formal communications under or in connection with this Agreement shall be in English.

27.2 Schedules to the Disclosure Letter may be made in Russian or English languages.

28. **GOVERNING LAW AND JURISDICTION**

28.1 This Agreement and the transaction documents to be entered into in accordance with the principles set out herein are intended to be legally binding and shall be governed by, and construed in accordance with, English law, other than conflict of laws provisions.

28.2 In the event of any dispute, controversy or claim arising out of, or in connection with, this Agreement, including the breach, termination or invalidity thereof (a "**Dispute**"), any

Party may serve written notice on the other Party that a Dispute has arisen (the “**Notice of Dispute**”).

The Parties shall apply all commercially reasonable efforts to resolve any Dispute on an amicable basis within thirty calendar days from the date on which the Notice of Dispute is served by one Party on the other Party (or such shorter or longer period as may be agreed in writing between the Parties).

If the Parties do not resolve any Dispute by amicable negotiation within the above stated period, such Dispute shall be referred to and finally and exclusively settled by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (the ***LCIA Rules***), which are deemed to be incorporated by reference into this Clause 28. There shall be three arbitrators; the Vendors acting together shall be entitled to nominate one arbitrator, the Purchaser shall be entitled to nominate one arbitrator, and the two arbitrators so appointed shall, within 14 (fourteen) days of the last of their respective appointments, nominate the third arbitrator, who shall serve as chairman (failing which the chairman shall be appointed by the London Court of International Arbitration under the LCIA Rules).

The seat of the arbitration shall be London, England. The language of the arbitration shall be English. The arbitrators’ decision shall be final and binding upon the Parties, and the Parties waive any rights of appeal or to seek a determination of a preliminary point of law from the courts.

SCHEDULE 1

Subsidiaries

36

Schedule 1 as of October 5, 2009
Subsidiaries

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
1.	Open Joint Stock Company "COMSTAR-United TeleSystems"	RF	1027700003946 04.07.2002 RF Tax Department for the City of Moscow	835,881,720 RUR	417,940,860 RUR	1. OJSC "AFK SISTEMA" (36.43) 2. United TeleSystems (13.75) 3. MGTS Finance S.A. (11.06) 4. OJSC " MGTS " (2.754) 5. SA ECU GEST HOLDING (0.734)
2.	Limited Liability Company "UNITEL"	RF	1027700449204 21.11.2002 RF Tax Department for the City of Moscow	10,000 RUR	10,000 RUR	1. OJSC "COMSTAR-UTS" (100)
3.	Open Joint Stock Company "M-Telecom Holding"	RF	1057748870431 01.11.2005 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	100,000 RUR	100,000 RUR	1. OJSC "COMSTAR-UTS" (100)
4.	AnTel Metrocom Limited	BVI	643659 24.02.2005 Registrar of Corporate Affairs	75,849,246 USD	75,849,246 USD	1. OJSC "COMSTAR-UTS" (100)
5.	Comstar One Limited	BVI	1052917 22.09.2006 Registrar of Corporate Affairs	75,050,000 USD	75,050,000 USD	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
6.	Limited Liability Company "COMSTAR-UKRAINE"	Ukraine	22449427 tax Inspectorate for Primorsky District for the City of Odessa (Ukraine)	26,045,860 UAH	26,045,860 UAH	1. OJSC "COMSTAR-UTS" (99) 2. CJSC "UNITED TELESYSTEMS MGTS" (1)
7.	Limited Liability Company "Technological Communication Systems"	Ukraine	1069120000000610 21.12.2000 Obolon District State Administration for the City of Kyiv (Ukraine)	816,000.00 UAH	816,000.00 UAH	1. OJSC "COMSTAR-UKRAINE" (100)
8.	Closed Joint Stock Company "COMSTAR-Direct"	RF	1027700288076 07.10.02 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	400,250 RUR	107,285 RUR	1. OJSC "COMSTAR-UTS" (100)
9.	Limited Liability Company "ASTELIT"	RF	1027739233620 23.09.02 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	10,000 RUR	10,000 RUR	1. OJSC "M-TELECOM HOLDING" (100)
10.	MGTS Finance S.A.	Luxembourg	B 114348 02.02.2006 Luxembourg Commercial and Business Register	159,029,290 EUR	159,029,290 EUR	1. CJSC "UNITED TELESYSTEMS MGTS" (99.99)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
11.	Closed Joint Stock Company "ESTEL"	RF	1026201257675 18.09.2002 Interdistrict Inspectorate No. 2 of RF Ministry for Taxes and Charges for the City of Ryazan	9,000 RUR	9,000 RUR	1. CJSC "COMSTAR DIRECT" (51)
12.	Callnet Enterprises Limited	Great Britain	4772230 20.05.2003 Registrar of Companies for England and Wales	1,000 GBP	1,000 GBP	1. OJSC "COMSTAR-UTS" (75.10)
13.	Closed Joint Stock Company "CORNET-AM"	Armenia	286.120.03794 30.12.1999 State Register of the Republic of Armenia	100,000 AMD	100,000 AMD	1. CALLNET ENTERPRISES LIMITED (100)
14.	Closed Joint Stock Company "COMSTAR-Regions"	RF	1097746419913 03.08.09 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	616,183,376 RUR	616,183,376 RUR*	OJSC "COMSTAR-UTS" (100)
15.	Open Joint Stock Company "Investment Communications Company"	RF	1027739875998 25.12.2002 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	19,518,337, 220 RUR	19,518,337, 220 RUR	1. OJSC "COMSTAR-UTS" (17.31) 2. MGTS FINANCE S.A. (7.69 + 1 share)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
16.	Closed Joint Stock Company "City-Telecom"	RF	1037739360735 03.02.2003 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	3,710,600 RUR	3,710,600 RUR	1. COMSTAR-UTS (45) 2. OJSC "MGTS" (5)
17.	Open Joint Stock Company "Moscow Auction House"	RF	1037739768340 06.03.2003 Inspectorate of the Federal Tax Service No. 4 for the City of Moscow	200,000.00 RUR	200,000.00 RUR	1. OJSC "COMSTAR-UTS" (2)
18.	Open Joint Stock Company "Regional Technical Center"	RF	1028600943425 17.09.2002 tax Inspectorate No. for the City of Tyumen	95,162,292 RUR	70,512,292 RUR	OJSC "COMSTAR-UTS" (86.21)
19.	Open Joint Stock Company "TS-Retail"	RF	1087746871453 23.07.2008 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	344,400,000 RUR	344,400,000 RUR	1. OJSC "COMSTAR-UTS" (15)
20.	Closed Joint Stock Company "Urals Telephone Company"	RF	1026604948260 23.10.2002 Tax Inspectorate for Kirovsky District of the City of Yekaterinburg	45,000 RUR	45,000 RUR	1. CJSC "COMSTAR-Regions" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
21.	Open Joint Stock Company "Mass Media System"	RF	1037708003805 23.01.2003 Tax Inspectorate No. 8 for the Central Administrative District of Moscow	614,553,200 RUR	614,553,200 RUR	1. OJSC "COMSTAR-UTS" (3.14)
22.	Open Joint Stock Company "Moscow City Telephone Network"	RF	1027739285265 30.09.02 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	3,831,802,000 RUR	3,831,802,000 RUR	1. OJSC COMSTAR OTC (55.732)
23.	Closed Joint Stock Company "AMT"	RF	1027739033772 01.08.2002 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	41,000,000 RUR	20,500,000 RUR	1. OJSC "MGTS" (100)
24.	Closed Joint Stock Company "Petrodvor"	RF	1027700011240 09.07.2002 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	2,734,236,000 RUR	1,367,118,000 RUR	1. OJSC "MGTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
25.	Open Joint Stock Company "MS-Tel"	RF	1027700011041 09.07.2002 Tax Department of Russia for the City of Moscow	100,000 RUR	100,000 RUR	1. OJSC "MGTS" 100)
26.	Closed Joint Stock Company "United TeleSystems MGTS"	RF	1047796728638 01.10.2004 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	12,998,682 260 RUR	6,499,341,130 RUR	1. OJSC "MGTS" 100)
27.	Joint Stock Commercial Bank "Moscow Bank for Reconstruction and Development"	RF	1027739053704 08.08.2002 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	883,000,000 RUR	883,000,000 RUR	1. OJSC "MGTS" 2.82)
28.	Joint Stock Commercial Bank "LINK-Bank" (Open Joint Stock Company)	RF	1027739064704 13.08.2002 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	9,164,390 RUR	9,164,390 RUR	1. OJSC "MGTS" 16.37)
29.	Closed Joint Stock Company "Rest House "Priazovye"	RF	1022301118663 14.10.2002 Territorial Site for the City of Eisk, Krasnodar Krai	6,080 RUR	4,080 RUR	1. OJSC "MGTS" 67.01)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
30.	Open Joint Stock Company "ESTA"	RF	1022900840346 27.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Severodvinsk, Arkhangelsk Region	1,283,400 RUR	1,283,400 RUR	1. OJSC "COMSTAR-UTS" (100)
31.	Closed Joint Stock Company "Regional Cable Networks"	RF	1022900842194 18.12.2002 Inspectorate of RF Ministry for Taxes and Charges for Severodvinsk, Arkhangelsk Region	6,010,000 RUR	3,010,000 RUR	1. OJSC "COMSTAR-UTS" (100)
32.	Closed Joint Stock Company "ESTA TELECOM"	RF	1024001181225 13.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Leninsky District of Kaluga	3,090,000 RUR	3,090,000 RUR	1. OJSC "COMSTAR-UTS" (100)
33.	Closed Joint Stock Company "ESTA TV"	RF	1022900840357 27.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Severodvinsk, Arkhangelsk Region	8,710,000 RUR	4,355,000 RUR	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
34.	Closed Joint Stock Company "Tversvyazinform"	RF	1026900512330 07.08.2002 Tax Inspectorate No. 1 for Tver Region.	5,010,000 RUR	3,010,000 RUR	1. OJSC "COMSTAR-UTS" (100)
35.	Limited Liability Company "Management and Leasing"	RF	1036603528202 08.08.2003 Tax Inspectorate for Kirovsky District of Yekaterinburg, Sverdlovsk Region	10,000 RUR	10,000 RUR	1. CJSC "COMSTAR-Regions" (75)
36.	Limited Liability Company "EuroTel"	RF	1026602315541 09.09.2002 Tax Inspectorate for Verkh-Isetsk District of Yekaterinburg	50,000 RUR	50,000 RUR	1. LLC "Management & Leasing" (80)
37.	Limited Liability Company "Sendee Info"	RF	1025203016255 15.08.2002 Inspectorate of RF Ministry for Taxes and Charges for Nizhny Novgorod	12,000 RUR	12,000 RUR	1. OJSC "COMSTAR-UTS" (100)
38.	Limited Liability Company "United Cable Net"	RF	1027700095158 07.08.2002 Tax Inspectorate No. 39 for the City of Moscow	10,000 RUR	10,000 RUR	1. JIR Broadcast, Inc. (98,32) 2. JIR Broadcast Management, Inc. (1.68)
39.	Closed Joint Stock Company "Astro-Tel"	RF	1027700551306 19.12.2002 tax Department for the City of Moscow	20,000 RUR	10,000 RUR	1. CJSC "TRUNK" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
40.	Closed Joint Stock Company Information and Marketing Agency "TRUNK-MEDIA"	RF	1023000826683 03.10.2002 Inspectorate of RF Ministry for Taxes and Charges for Kirovsky District of Astrakhan	20,000 RUR	10,000 RUR	1. CJSC "TRUNK" (100)
41.	Closed Joint Stock Company "INFOTEK"	RF	1026604946004 01.10.2002 Inspectorate of RF Ministry for Taxes and Charges for Kirovsky District of Yekaterinburg	7,706,500 RUR	216,500 RUR	1. JIR Broadcast, Inc. (100)
42.	Closed Joint Stock Company "Integral Telecommunication Network"	RF	1025300782154 03.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Velikiy Novgorod	10,000 RUR	10,000 RUR	1. JIR Broadcast, Inc. (70)
43.	Closed Joint Stock Company "Integral Telecommunication Network +"	RF	1025300782165 03.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Velikiy Novgorod	3,500,000 RUR	3,500,000 RUR	1. JIR Broadcast, Inc. (70)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
44.	Closed Joint Stock Company "Canal-7"	RF	1022401628237 15.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Norilsk, Krasnoyarsky Krai	15,062,000 RUR	6,202,000 RUR	1. JIR Broadcast, Inc. (90) 2. CJSC "COMSTAR-Regions" (10)
45.	Closed Joint Stock Company "Canal VT"	RF	1025901372826 22.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Motovilikha District, Perm	2,753,100 RUR	2,709,400 RUR	1. JIR Broadcast, Inc. (83.40) 2. LLC "United Cable Net" (1.60)
46.	Closed Joint Stock Company "Cascade-TV"	RF	1026403340050 09.08.2002 Inspectorate of RF Ministry for Taxes and Charges for Oktyabrsky District, Saratov	10,000 RUR	10,000 RUR	1. JIR Broadcast, Inc. (72.00)
47.	Closed Joint Stock Company "Comtel-Kemerovo"	RF	1024200677599 17.07.2002 Inspectorate of RF Ministry for Taxes and Charges for the City of Kemerovo, Kemerovo Region	20,000 RUR	10,000 RUR	1. LLC "United Cable Net" (95) 2. CJSC "COMSTAR-Regions" (5)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
48.	Closed Joint Stock Company "Cable TeleVision MARK"	RF	1021801146696 10.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Oktyabrsky District of Izhevsk, Republic of Udmurtia	20,000 RUR	10,000 RUR	1. JIR Broadcast, Inc. (90) 2. CJSC "COMSTAR-Regions" (10)
49.	Closed Joint Stock Company "MPC "Canal-7"	RF	1022401628336 15.11.2002 Inspectorate of RF Ministry for Taxes and Charges for Norilsk, Krasnoyarsky Krai	1,014,000 RUR	14,000 RUR	1. JIR Broadcast, Inc. (80)
50.	Closed Joint Stock Company "Scientific and Production Amalgamation "VIDIS"	RF	1025201743445 07.10.2002 Tax Inspectorate No. 2 for Nizhegorodskaya Region	16,800 RUR	8,400 RUR	1. JIR Broadcast, Inc. (60) 2. CJSC "COMSTAR-Regions" (40)
51.	Closed Joint Stock Company "First Perm Internet Center"	RF	1025900887418 21.08.2002 Tax Inspectorate for Sverdlovsky District of the City of Perm	15,000 RUR	15,000 RUR	1. JIR Broadcast, Inc. (100)
52.	Closed Joint Stock Company "RusLan-TV"	RF	1027700139334 20.08.2002 Tax Department for the City of Moscow	7,600 RUR	7,600 RUR	1. LLC "United Cable Net" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
53.	Closed Joint Stock Company "Simbirsk CTV"	RF	1027301570889 26.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Zavolzhsy District of Ulyanovsk	4,510,000 RUR	2,255,000 RUR	1. LLC "United Cable Net" (89) 2. OJSC "COMSTAR-UTS" (11)
54.	Closed Joint Stock Company "Tagilteleseti"	RF	1036601221470 20.01.2003 Inspectorate of RF Ministry for Taxes and Charges for Nizhny Tagil Sverdlovsk Region	30,000 RUR	30,000 RUR	1. CJSC "INFOTEK" (74)
55.	Closed Joint Stock Company "TELEVISION COMPANY TV-MAIDAN"	RF	1026103159202 09.08.2002 Inspectorate of RF Ministry for Taxes and Charges for Kirovsky District of Rostov-upon-Don	7,590 RUR	7,590 RUR	1. JIR Broadcast, Inc. (100)
56.	Closed Joint Stock Company "TV and Radio Broadcasting Astrakhan Independent Company "TRUNK"	RF	1023000826606 03.10.2002 Tax Inspectorate for Kirovsky District of Astrakhan	7,740,000 RUR	5,160,000 RUR	1. JIR Broadcast, Inc. (80) 2. CJSC "COMSTAR-Regions" (20)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
57.	Closed Joint Stock Company "TSN"	RF	1025203724116 02.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Sovetsky District of Nizhny Novgorod	42,508,500 RUR	25,829,970 RUR	1. JIR Broadcast, Inc. (100)
58.	Open Joint Stock Company "Teleservice"	RF	1023601530270 13.08.2002 Tax Inspectorate for Zheleznodorozhny District of Voronezh	1,090,800 RUR	1,090,800 RUR	1. JIR Broadcast, Inc. (49.50) 2. LLC "United Cable Net" (4.785)
59.	Limited Liability Company "SALLAK Group of Companies"	RF	1022301969843 13.08.2002 Tax Inspectorate No. 5 for the City of Krasnodar	10,000 RUR	10,000 RUR	1. LLC "United Cable Net" (91.60) 2. OJSC "COMSTAR-UTS" (8.4)
60.	Limited Liability Company "Dudinka-InterCom"	RF	1038400004488 05.09.2003 Interdistrict Tax Inspectorate No. 2 for Taimyr (Dolgano-Nenetsky) Autonomous Circuit	10,000 RUR	10,000 RUR	1. LLC "Norilsk InterCom" (70)
61.	Closed Joint Stock Company "Canal-7 plus"	RF	1092457001570 14.08.2009 Federal Tax Service Inspectorate for the City of Norilsk, Krasnoyarsky Krai	10,000 RUR	10,000 RUR*	1. CJSC "Canal-7" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
62.	Closed Joint Stock Company "Comtel-Vologda"	RF	1093525012998 25.09.2009 Interdistrict Inspectorate No. 11 of the Federal Tax Service for Vologodskaya region	10,000 RUR	10,000 RUR*	1. LLC "United Cable Net" (100)
63.	Closed Joint Stock Company "COMTEL-TAGANROG"	RF	1096154003329 31.08.2009 Federal Tax Service Inspectorate for the City of Taganrog, Rostov Region	90,000 RUR	10,000 RUR*	1. LLC "United Cable Net" (100)
64.	Limited Liability Company "KUZNETSK-TELEMOST"	RF	1024201754730 30.10.2002 Tax Inspectorate for the Central District of Novokuznetsk, Kemerovo Region	8,400 RUR	8,400 RUR	1. JIR Broadcast, Inc. (85) 2. CJSC "COMSTAR-Regions" (15)
65.	Limited Liability Company "Norilsk-InterCom"	RF	1032401501330 15.08.2003 Tax Inspectorate for the City of Norilsk, Krasnoyarsky Krai	10,000 RUR	10,000 RUR	1. CJSC "Canal-7" (74)
66.	Limited Liability Company "Novgorod Telephone Networks"	RF	1025300782044 02.09.2002 Inspectorate of RF Ministry for Taxes and Charges for Velikiy Novgorod	10,000 RUR	10,000 RUR	1. CJSC "ITS+" (24)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
67.	Limited Liability Company "Production and Commercial Firm "TRUNK-SERVICE"	RF	1023000827134 04.10.2002 Tax Inspectorate of the Kirovsky District of the City of Astrakhan	8,400 RUR	8,400 RUR	1. CJSC "TRUNK" (100)
68.	Closed Joint Stock Company "TV Networks"	RF	1096623007128 01.09.2009 Interdistrict Tax Inspectorate No. 16 for Sverdlovsk Region	416,000 RUR	416,000 RUR*	1. JIR Broadcast, Inc. (100)
69.	Limited Liability Company Telecommunication Company "Elecom-service"	RF	1043600035148 11.05.2004 Interdistrict Tax Inspectorate for Voronezh Region Major Taxpayers	20,000 RUR	20,000 RUR	1. LLC "United Cable Net" (52) 2. CJSC "COMSTAR-Regions" (48)
70.	Limited Liability Company "Elecom-service "	RF	1063667241923 30.06.2006 Interdistrict Tax Inspectorate for Voronezh Region Major Taxpayers	10,000 RUR	10,000 RUR	1. LLC "United Cable Net" (52) 2. CJSC "COMSTAR-Regions" (48)
71.	Closed Joint Stock Company "ELECTRONICS"	RF	1096439001603 23.07.2009 Interdistrict Tax Inspectorate No. 2 for Saratov Region	304,920 RUR	304,920 RUR*	1. LLC "United Cable Net" (55) 2. CJSC "COMSTAR-Regions" (45)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
72.	Closed Joint Stock Company "Telesat"	RF	1096623007139 01.09.2009 Interdistrict Tax Inspectorate No. 16 for Sverdlovsk Region	10,000 RUR	10,000 RUR*	1. LLC "United Cable Net" (100)
73.	Closed Joint Stock Company "Inter TV-Shuya" (CJSC "Inter TV-Shuya")	RF	1093706000805 04.09.2009 Interdistrict Tax Inspectorate No. 3 for Ivanovo Region	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
74.	Limited Liability Company "Inter-Net"	RF	1023700562852 25.12.2002 Tax Inspectorate of the Federal Tax Service for the City of Ivanovo	8,500 RUR	8,500 RUR	1. OJSC "COMSTAR-UTS" (100)
75.	Closed Joint Stock Company "Inter-Telecom"	RF	1093702021610 16.09.2009 Tax Inspectorate of the Federal Tax Service for the City of Ivanovo	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
76.	Closed Joint Stock Company "Cable Networks 'Inter TV'"	RF	1093702021632 16.09.2009 Tax Inspectorate of the Federal Tax Service for the City of Ivanovo	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
77.	Limited Liability Company "TV and Radio Company "Inter TV"	RF	1023700561081 19.12.2002 Inspectorate of RF Ministry for Taxes and Charges for the City of Ivanovo	2,208,400 RUR	2,208,400 RUR	1. OJSC "COMSTAR-UTS" (100)
78.	Limited Liability Company "Teleradiotekhnika"	RF	1026701451303 05.12.2002 Inspectorate of RF Ministry for Taxes and Charges for Industrial District of the City of Smolensk	50,000 RUR	50,000 RUR	1. CJSC "COMSTAR-Regions" (100)
79.	Closed Joint Stock Company "Grazhdan-Service"	RF	1091831004935 27.08.2009 Federal Tax Service Inspectorate for Oktyabsky District of the City of Izhevsk	8,000,000 RUR	8,000,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
80.	Closed Joint Stock Company "Maxima Engineering"	RF	1095321004470 11.09.2009 Interdistrict Tax Inspectorate No. 9 for Novgorod Region	10,000 RUR	10,000 RUR *	1. OJSC "COMSTAR-UTS" (100)
81.	Closed Joint Stock Company "Ivanovo Cable Networks"	RF	1023700557484 06.12.2002 Inspectorate of RF Ministry for Taxes and Charges for the City of Ivanovo	3,938,000 RUR	3,938,000 RUR	1. LLC TRK "Inter TV" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
82.	Closed Joint Stock Company "Curant"	RF	1094632008338 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	500,000 RUR	500,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
83.	Closed Joint Stock Company "TVC-Soyuznaya"	RF	1094632008316 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
84.	Closed Joint Stock Company "TVC-Center"	RF	1094632008327 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
85.	Limited Liability Company "TVC-Kursk"	RF	1074632002411 22.02.2007 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR	1. OJSC "COMSTAR-UTS" (100)
86.	Closed Joint Stock Company "TVC-CeBep"	RF	1094632008294 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
87.	Closed Joint Stock Company "TVC-Same"	RF	1094632008305 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
88.	Closed Joint Stock Company "TVC-Internet"	RF	1094632008283 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
89.	Limited Liability Company "SKIF-ORYOL"	RF	1047796313102 05.05.2004 Interdistrict Tax Inspectorate No. 46 for the City of Moscow	87,500,000 RUR	87,500,000 RUR	1. OJSC "COMSTAR-UTS" (100)
90.	Closed Joint Stock Company "TVC"	RF	1095742001464 01.09.2009 Interdistrict Inspectorate of RF Federal Tax Service No. 2 for Oryol Region	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
91.	Closed Joint Stock Company "CTV"	RF	1095753002531 01.09.2009 Inspectorate of Federal Tax Service for Sovetsky District of the City of Oryol	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
92.	Limited Liability Company "SKIF-TAMBOV"	RF	1067746368140 13.03.2006 Interdistrict Inspectorate of the Federal Tax Service No. 46 for the City of Moscow	27,000,000 RUR	27,000,000 RUR	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
93.	Closed Joint Stock Company "Tambov-Telecom"	RF	1096829005624 02.09.2009 Inspectorate of Federal Tax Service for the City of Tambov	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
94.	Limited Liability Company "Skif-Line"	RF	1037739186980 23.01.2003 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	56,000,000 RUR	56,000,000 RUR	1. OJSC "COMSTAR-UTS" (100)
95.	Closed Joint Stock Company "TVC-Kursk"	RF	1094632008382 27.08.2009 Inspectorate of the Federal Tax Service for the City of Kursk	10,100 RUR	10,100 RUR*	1. LLC "Skif-Line" (100)
96.	Closed Joint Stock Company "Ivanovo Cable Networks"	RF	1093702020598 03.09.2009 Inspectorate of Federal Tax Service for Ivanovo	10,000 RUR	10,000 RUR*	1. OJSC "COMSTAR-UTS" (100)
97.	Limited Liability Company "Informservice"	RF	1025203730925 16.10.2002 Tax Inspectorate for Sovetksy District of Nizhny Novgorod	16,340,000 RUR	16,340,000 RUR	1. JIR Broadcast, Inc. (100)
98.	JIR Broadcast, Inc.	USA	2868291 06.03.1998 Secretary of State, the State of Delaware	148,106 USD	148,106 USD	1. OJSC "COMSTAR-UTS" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
99.	JIR Broadcast Management, Inc.	USA	2873860 19.03.1998 Secretary of State, the State of Delaware	100 USD	100 USD	1. JIR Broadcast, Inc. (100)
100.	JIR, Inc.	USA	2847028 15.01.1998 Secretary of State, the State of Delaware	100,000 USD	100,000 USD	1. OJSC "COMSTAR-UTS" (100)
101.	JIR Management, Inc.	USA	2788530 31.03.1998 Secretary of State, the State of Delaware	100 USD	100 USD	1. JIR, Inc. (100)
102.	Closed Joint Stock Company "RADIOPAGE"***	RF	1027739273990 27.09.2002 Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	100,000 RUR	100,000 RUR	1. OJSC "MGTS" (40)
103.	Closed Joint Stock Company "Expo-Telecom"***	RF	1027739476313 29.10.2002 MHC Interdistrict Inspectorate of the Federal Tax Service No. 39 for the City of Moscow	644,000 RUR	644,000 RUR	1. OJSC "MGTS" (5.43)
104.	Limited Liability Company "PTT-Stroy"***	RF	1027700503291 06.12.2002 Tax Department for the City of Moscow	701,644,37 RUR	701,644,37 RUR	1. CJSC "COMSTAR DIRECT" (100)

No.	Name of Entity	Jurisdiction	Main State Registration Number	Share Capital		Held by (Shareholder/Participant) (Shareholding/Interest)
				Authorized	Issued	
105.	Limited Liability Company "Comtel"***	RF	1022301216057 16.12.2002 Tax Inspectorate No. 1 for the City of Krasnodar	5,000 RUR	5,000 RUR	1. CJSC "COMSTAR-Regions" (99.90)

Note:

* Documents required for the registration of share issuance have been delivered to the FSFM of Russia

** Companies listed under Nos. 102-105 are not carrying out financial and business activities and are subject to dissolution/sale.

SCHEDULE 2

Vendors' Warranties

Each of the Vendors warrants as follows:

1. Title

- 1.1 Sistema is the sole legal and beneficial owner of, and has good and valid title directly to, the Sistema Comstar Shares and the Sistema UTS Shares, free and clear of all Encumbrances (other than as of the Signing Date, and not as of the Completion, such Sistema Comstar Shares are encumbered by the Sberbank Sistema Pledge), all such Sistema Comstar Shares and Sistema UTS Shares being fully paid.
- 1.2 ECU Gest is the sole legal and beneficial owner of, and has good and valid title directly to, the number of the Comstar Ordinary Shares set forth in recital (D) of this Agreement, free and clear of all Encumbrances, all such Comstar Ordinary Shares being fully paid.
- 1.3 UTS is the sole legal and beneficial owner of, and has good and valid title directly to, the number of the Comstar Ordinary Shares set forth in recital (E) of this Agreement, free and clear of all Encumbrances (other than as of the Signing Date only (and not as of the Completion) such Comstar Ordinary Shares are encumbered by the Sberbank Sistema Pledge), all such Comstar Ordinary Shares being fully paid.
- 1.4 Sistema Telecom is the sole legal and beneficial owner of, and has good and valid title directly to, the number of the UTS Ordinary Shares set forth in recital (F) of this Agreement, free and clear of all Encumbrances, all such UTS Ordinary Shares being fully paid.
- 1.5 The Shares to be delivered and transferred to the Purchaser pursuant to this Agreement shall, at and subject to Completion, be delivered and transferred free and clear of any Encumbrances.
- 1.6 The Shares comprise 50.91% of the total authorized and issued share capital of Comstar and 100% of the total authorized and issued share capital of UTS.
- 1.7 Subject to pledges granted to secure the Sberbank Loan, Comstar is the sole legal and beneficial owner of, and has good and valid title to, 3,378,173,750 common shares of OJSC Svyazinvest (approximately 17.3% of outstanding capital), and MGTS Finance is the sole legal and beneficial owner of, and has good and valid title to, 1,501,410,556 common shares of OJSC Svyazinvest (approximately 7.7% of outstanding capital).

2. Information

- 2.1 All information contained herein, in any Schedule hereto and in the Disclosure Letter in relation to the Vendors and the Group Companies was when given and remains now true

and accurate in all material respects and, as far as the Vendors are aware, there is no material fact or matter relevant to the Group which has not been disclosed to the Purchaser, disclosure of which might reasonably be expected to affect the willingness of the Purchaser to purchase the Shares on the terms herein set out.

3. The Vendors

3.1 Each of the Vendors is a company duly incorporated and validly existing under the laws of its jurisdiction of incorporation.

3.2 Each of the Vendors has full requisite legal right, power and authority and has obtained all consents, licences, authorisations, waivers or exemptions required to enable it to enter into and perform its obligations under this Agreement.

3.3 Each person signing this Agreement on behalf of the Vendors is duly authorised to do so.

4. No Conflict

4.1 The execution, delivery and performance by the Vendors of this Agreement:

4.1.1 does not and will not violate any laws or regulations applicable to the Vendors' or Group's business, or result in a breach of any order, judgment or decree of any Governmental Entity to which the Vendors or any Group Company is a party or by which any of them is bound;

4.1.2 does not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) allow any other person to exercise any rights under any of the terms or provisions of the Organizational Documents of the Vendors or any Group Company or create any Encumbrance in respect of the Shares;

4.1.3 does not and will not (or would not with the giving of notice, or lapse of time, or the happening of any other event or condition) constitute or result in a material breach or material violation of, or allow any other person to exercise any rights under, any of the terms or provisions of the Material Contracts (other than of the Sberbank Loan and Sberbank Sistema Loan as of the Signing Date only, and not as of the Completion);

4.1.4 does not and will not result in or cause the termination or revocation of any Material Licenses;

4.1.5 does not and will not result in the creation of any Encumbrance pursuant to, or cause or permit acceleration prior to maturity of any amounts owing under, any mortgage, security agreement, deed of trust or other financing agreement to which any Group Company is, on or prior to the Completion, or to which any of the assets of any Group Company is subject, on or prior to the Completion (other than

of the Sberbank Loan as of the Signing Date only, and not as of the Completion); and

4.1.6 does not require that the Vendors or any of the Group Companies obtain any consent, approval or authorization by any third party or any Governmental Entity approval.

4.2 This Agreement constitutes valid and binding obligations of the Vendors enforceable in accordance with its terms.

5. Dividends

Except as disclosed in Schedule 5 to the Disclosure Letter, since 31 December 2008, none of the Group Companies which is not wholly-owned by another Group Company has, directly or indirectly, declared or paid any dividends or declared or made any other distribution on any of its shares of any class or, as the case may be, participatory interest, or has, directly or indirectly, redeemed, purchased or otherwise acquired any of its shares of any class or participatory interest, or agreed to do so.

6. Corporate Records

Since June 30, 2006 each Target Company and each Material Subsidiary has maintained all corporate records as are required to be kept by applicable law and all corporate proceedings and actions reflected in such corporate records have been conducted or been taken in compliance with all applicable laws and with the relevant Organizational Documents of the Group. The Vendors have delivered to the Purchaser true, correct and complete copies of the Organizational Documents of each Target Company and each Material Subsidiary, as attached in Schedule 6 to the Disclosure Letter.

7. The Target Companies

7.1 Each of the Target Companies is a company duly established and validly existing under the laws of the Russian Federation. Each of the Target Companies has requisite power and authority to own the assets it now owns and conduct its business as is now being conducted.

7.2 All of the issued shares of each of the Target Companies have been properly and validly registered, issued and placed and are fully paid up. No person has the right (exercisable now or in the future and whether contingent or not) to call for the issue of any share capital in the Target Companies. There are no pending or authorized share capital increases or decreases or issues of shares in any Target Company's share capital and no outstanding instrument convertible into or exchangeable for any interest in any of the Target Companies' share capital.

7.3 Each of the Target Companies is the legal and beneficial owner of shares in each of the respective Subsidiaries as are set forth in Schedule 1, free from any Encumbrances, and,

save for the Comstar's direct or indirect ownership of the Subsidiaries, each of the Target Companies:

7.3.1 is not and has not agreed to become the holder or beneficial owner of or have any interest (legal or beneficial) in any class of any shares, debentures or other capital or securities of any other body corporate, firm, association, venture, person or entity (whether in the Russian Federation or elsewhere); and

7.3.2 is not and has not agreed to become a member of any partnership, joint venture, consortium or party to any agreement or arrangement for sharing commissions or other income other than Comstar's participation in the 2007 Coral/Sistema Strategic Fund.

7.4 The only assets held by UTS are 57,446,760 Comstar Ordinary Shares. Except as disclosed in Schedule 7.4 to the Disclosure Letter, UTS has no liabilities or capital commitments whether actual, contingent, quantified, disputed or otherwise.

8. Subsidiaries

8.1 Each Material Subsidiary is a company duly established and validly existing under the laws of its respective jurisdiction as set out in Schedule 1. Each Material Subsidiary has the requisite power and authority to own or lease (as the case may be) its Real Property and own or lease (as the case may be) and operate the assets it now owns or leases and operates, and to carry on its business as it is now being conducted.

8.2 All of the issued shares of each of the Material Subsidiaries have been properly and validly registered, issued and placed and are fully paid up.

8.3 No person has the right (exercisable now or in the future and whether contingent or not) to call for the issue of any share capital in any of the Subsidiaries.

8.4 There are no pending or authorized share capital increases or decreases or issues of shares of any of the Subsidiaries and no outstanding instrument convertible into or exchangeable for shares of any of the Subsidiaries other than the CallNet Option or in connection with the Comstar Regions Reorganization.

9. No Default; Compliance with Applicable Laws

9.1 Neither any Target Company nor any Material Subsidiary is in material default or violation of any term, condition or provision of its Organizational Documents.

9.2 Each Target Company and each Material Subsidiary has complied in all material respects with applicable law, including (where applicable) obligations under Russian Securities Law, FSMA 2000 and PLTD Rules and is not currently delaying the disclosure of any inside information (as defined in such rules).

9.3 None of the Target Companies nor any of the Material Subsidiaries has received any notice in any form that would indicate that any Group Company is not currently in material compliance with all applicable laws or judgments given by Governmental Entity or arbitrator.

9.4 Except as would not cause a Material Adverse Change, each Target Company and each Material Subsidiary has taken all corporate actions required by applicable law and its Organizational Documents with respect to any Material Contract or Related Party Transaction to which it is a party.

10. No Other Agreements or Rights

10.1 Save as set out in the Organizational Documents or on the basis of the Vendors' Control over the Target Companies solely by virtue of the ownership of the Shares and exercise of associated voting rights (including, for the avoidance of doubt, the election of members of the board of directors and such members' performance as board members) , there are no agreements, arrangements or understandings (whether oral or written) of the Vendors or, so far as the Vendors are aware, any Affiliate thereof with any other person with respect to: (i) the holding, voting or transfer of any securities of any Group Company other than to another Group Company; (ii) the right of any person other than a Group Company to nominate members of the board of directors of any Group Company.

10.2 Save as set out in the Organizational Documents or as disclosed under paragraph 10.1, no person has any right of first refusal or pre-emptive rights in connection with the Shares.

11. Conduct of Business in Ordinary Course

11.1 Since 31 December 2008 to the Completion, each Target Company, each Material Subsidiary and the Group as a whole has carried out its business in the Ordinary Course in all material respects, except as disclosed in Schedule 11.1 to the Disclosure Letter. Without limiting the generality of the foregoing, no Group Company has:

11.1.1 sold, transferred or otherwise disposed of or diminished the value of any of its material assets, other than in the Ordinary Course or to other Group Companies;

11.1.2 made any capital expenditure or commitments to do so (regardless of whether the expenditure itself is to be made before or after the Completion) which individually or in the aggregate resulted in the capital expenditure or commitment to do so (regardless of whether the expenditure itself is to be made before or after the Completion) by the Group as a whole exceeding (i) RUR2.525 million in the first six months of 2009; or (ii) RUR826 million in the third quarter of 2009 and until Completion (inclusive);

11.1.3 discharged any secured or unsecured obligation or liability (whether accrued, absolute, contingent or otherwise) other than the Access Put which individually or in the aggregate exceeded US\$5,000,000;

11.1.4 [DELIBERATELY OMITTED]

11.1.5

- (a) created or assumed any material Encumbrance on any of its assets,
- (b) made capital contribution to, or investment in, any other person which individually or in aggregate exceeded US\$5 million;
- (c) or entered into any Material Contract;
- (d) increased its Indebtedness, or assumed, guaranteed or otherwise become liable with respect to the liabilities or obligation of any person and of any nature (whether accrued, absolute, contingent or otherwise) which individually or in the aggregate resulted in the Indebtedness of the Group as a whole exceeding (i) RUR32 billion as of the end of the first quarter of 2009; or (ii) RUR31.2 billion as of the end of the second quarter of 2009; or (iii) RUR31.2 billion plus \$5million as of the end of the third quarter of 2009 and until Completion (inclusive);

11.1.6 made any acquisition of share capital or any assets, properties, businesses in other companies (including, but not limited to, subsidiaries) or any purchase of long-term investments or commitments to do any such acquisition or purchase with a value in excess of US\$5 million;

11.1.7 made any loan or advance (other than to another Group Company in the Ordinary Course) which individually exceeded US\$500,000 or in aggregate exceeded US\$5 million;

11.1.8 made any bonus or profit sharing distribution or similar payment of any kind which individually exceeded US\$1,000,000 or in aggregate exceeded US US\$5,000,000;

11.1.9 removed any auditor or director or terminated any Key Employee;

11.1.10 granted any material increase in the rate of wages, salaries, bonuses or other remuneration of any of its Key Employees;

11.1.11 made any material change in any method of accounting practice;

11.1.12 been subject to a vote in favor of or consented to any merger, reorganization, amalgamation, transfer of Group assets, recapitalization or other transaction which would change the beneficial ownership or control of any Target Company or any Material Subsidiary (excluding, for the avoidance of doubt, any such change resulting from the transaction contemplated by this Agreement or the Comstar Regions Reorganization);

- 11.1.13 failed to make, or materially delayed in making, any Ordinary Course maintenance expenditures in a timely manner;
- 11.1.14 changed or made any tax election, settled or compromised any Tax Burden, consented to any extension of waiver of the statute of limitations period applicable to any taxes, Tax Return or claim for taxes, made any material amendment to any Tax Return or entered into any agreement to do any of the foregoing;
- 11.1.15 entered into any Related Party Transaction;
- 11.1.16 entered into any agreement with New Century Holdings relating to any shares in MGTS;
- 11.1.17 sold, transferred or otherwise disposed of any part of the Comstar's stake in the charter capital of OJSC Svyazinvest; or
- 11.1.18 authorized, agreed or otherwise committed, whether or not in writing, to do any of the foregoing.

11.2 [DELIBERATELY OMITTED]

- 11.3 Since 31 December 2008 to the Signing Date, there has been no Material Adverse Change with respect to any of the Target Companies or the Group as a whole.

12. Licences

- 12.1 All Material Licences have been obtained and are held by the relevant Group Company and are valid and subsisting. True, correct and complete copies of all such Material Licenses are attached to the Disclosure Letter. To the knowledge of the Vendors, there is no reason to believe that any Group Company will not, going forward, be able to obtain any Material License required to be obtained under applicable law in connection with the carrying out of the business of each Group Company as now expected to be carried out.
- 12.2 As far as the Vendors are aware, no event has occurred that would entitle a Governmental Entity to revoke, rescind, avoid, repudiate, amend or terminate any Material License. No written notice has been given to any Group Company by any Governmental Entity of any intention to revoke, rescind, avoid, repudiate, amend or terminate any Material License.
- 12.3 No Group Company is in the course of surrendering any Material License in whole or in part.
- 12.4 All accrued (as of the date of this Agreement and of the Completion) obligations and liabilities imposed by the Material Licenses on any Group Company have been duly fulfilled and discharged or set forth in the Accounts and all compulsory work obligations contained in each of the Licences that are (subject to extensions granted by the relevant

authorities) required to have been performed for commencement of services have been performed in all material respects.

- 12.5 As far as the Vendors are aware, the Group has obtained all the licences required for carrying on its business as currently conducted effectively in the places and in the manner in which it is carried on. The Group has not received any written notice from a Governmental Entity alleging that a Group Company has not obtained any licence required for carrying on its business effectively in the places and in the manner in which it is carried on in accordance with all applicable laws and regulations, where the absence of which would result in a Material Adverse Change.

13. Accounts

- 13.1 The Accounts present a true and fair view of the financial position, results of operations and cash flow of the Group for the period to which they relate. The Accounts and the stand-alone RAS accounts of UTS and each Material Subsidiary for the years ended 31 December 2006, 31 December 2007 and 31 December 2008, true, correct and complete copies of which have been provided to the Purchaser, have been prepared in conformity with US GAAP or RAS, as appropriate, applied consistently throughout the period covered thereby and contain full provisions for or adequate details of all liabilities and capital commitments as at the end date thereof whether actual, contingent, quantified, disputed or otherwise.
- 13.2 The Vendors have delivered to the Purchaser the Interim Accounts and the Interim Accounts present a true and fair view of the financial position, results of operations and cash flow of the respective Target Companies on a consolidated basis as of and for the relevant period and end date, have been prepared in conformity with US GAAP (in case of Comstar) or RAS (in case of UTS) applied consistently throughout the period covered thereby and contain full provisions for or adequate details of all liabilities and capital commitments of the respective Target Companies on a consolidated basis as at the end date thereof whether actual, contingent, quantified, disputed or otherwise.
- 13.3 Prior to the Completion, the Vendors have delivered to the Purchaser the Management Accounts that are not misleading in any material respect, do not materially overstate the trading profit or loss of Comstar in respect of the period to which they relate and were prepared in all material respects, on the same basis and in accordance with the same accounting principles and practices, consistently applied, as the Accounts.

14. Bank Accounts and Powers of Attorney

- 14.1 Schedule 14.1 to the Disclosure Letter sets forth a true, correct and complete list showing the name of each bank in which any Group Company has an account on which the balance is greater than US\$1,000,000 and the names of all persons authorized to draw on the account.

14.2 Save as Disclosed in Schedule 14.2 to the Disclosure Letter, none of the Target Companies or the Material Subsidiaries has any outstanding powers of attorney to any person to enter into any contract or commitment or otherwise to bind or commit any Group Company to any obligations other than Ordinary Course purchases of goods and services in the amount of less than US\$100,000.

15. Material Contracts

15.1 Schedule 15.1 to the Disclosure Letter sets forth a complete and accurate list of all Material Contracts other than contracts among Group Companies or the Related Party Transactions set forth on Schedule 26.1 to the Disclosure Letter.

15.2 Each Material Contract has been duly authorized, is in full force and effect, has not been subject to any material and adverse amendment not specifically disclosed to the Purchaser and is valid, binding and enforceable by the relevant Group Company, in accordance with its terms. No Group Company has breached, or is in default in the observance or the performance of any term or obligation to be performed by it under, any Material Contract, nor has any event occurred or not occurred through a Group Company's or, as far as the Vendors are aware, a third party's action or inaction which, with the giving of notice or the lapse of time or both, would constitute a default by any Group Company under any Material Contract, nor has any Group Company received any notices or claims concerning any of the foregoing, in each case where such breach or default could lead to an acceleration of rights, termination or material liability for damages or other legal or equitable relief under the terms of such Material Contract.

15.3 Except as disclosed in Schedule 15.3 to the Disclosure Letter, no tender, quotation or offer made by any Group Company is capable of giving rise to a Material Contract merely by an order or acceptance by or other action of any third party.

16. Suppliers

16.1 Schedule 16.1 to the Disclosure Letter sets forth a true, correct and complete list of the five (5) largest suppliers of each of the Target Companies and each of the Material Subsidiaries other than other Group Companies (the "**Major Suppliers**") by dollar amount of the supplies or services provided for the eighteen-month period ending 30 June 2009. No such Major Supplier has indicated in writing to any Target Company or Material Subsidiary (as the case may be) that it will cease or substantially reduce its business with such company. The Vendors have no other reason to believe that the benefits of any relationship with any of the major suppliers of any Group Company will not continue in substantially the same manner as prior to the Signing Date.

16.2 There are no material claims pending or threatened by any of the Target Companies or Material Subsidiaries against any of its Major Suppliers or, so far as the Vendors is aware, by any Major Supplier against any of the Target Companies or Material Subsidiaries.

17. Indebtedness

- 17.1 Save as Disclosed in Schedule 17.1 to the Disclosure Letter, as of September 30, 2009 there is no Material Indebtedness to any person or entity other than another Group Company.
- 17.2 No Material Indebtedness is overdue for payment.
- 17.3 No Group Company is a guarantor or otherwise liable to any person which is not a Group Company for any liability or obligation (including Indebtedness) of any other person (other than a Group Company or MTS or its subsidiaries) with a value in excess of US\$1,000,000 (individually or in aggregate), other than those set out in Schedule 17.3 to the Disclosure Letter.
- 17.4 Total Indebtedness of the Group is not in excess of RUR31.2 billion plus US\$5 million.

18. Insurance

- 18.1 Each Target Company and each Material Subsidiary other than Comstar Regions has adequate insurance coverage in respect of risks normally insured against by persons carrying on the same business as the relevant company.
- 18.2 Schedule 18.2 to the Disclosure Letter sets forth a list of material insurance policies (identify subject matter of the insurance, scope and amount of the coverage provided thereunder, the identity of the insurer issuing such policies and the particulars of any outstanding claims made thereunder) in force relating to the properties (including Real Property), facilities, equipment and machinery (including equipment) owned and leased, and the operations conducted, by Material Subsidiaries. Such material insurance policies are in full force and effect; all premiums with respect thereto have been paid.
- 18.3 The Group maintains insurance policies that are required by applicable laws or customer contracts. No Group Company is in material default with respect to any of the provisions contained in the material insurance policies and with respect to any outstanding claims, no Group Company has failed to give any notice or to present any claim under any material insurance policy in a due and timely fashion. There are no claims by any Group Company against any of the material insurance policies as to which any insurance company is denying liability or defending under a reservation of rights clause. No Group Company has received notice of, and there are no outstanding requirements or recommendations by any insurance company that issued a material insurance policy, requiring or recommending repairs or other work to be done and requiring or recommending any equipment or facility to be installed or any other action, in each case with respect to the real or personal property of any Group Company.

19. Taxation

- 19.1 Each of the Target Companies, the Material Subsidiaries and the Comstar Regions Subsidiaries has filed (taking into account all available extensions) all Tax Returns concerning taxes (or such Tax Returns have been filed on behalf of such entity) required to be filed by it under applicable law and has paid all amounts due from it in respect of taxes (whether or not actually shown on such Tax Returns).
- 19.2 So far as the Vendors are aware, all such Tax Returns are true, correct and complete and accurately set forth all items to the extent required to be reflected or included in such Tax Returns by any tax laws, regulations or rules of any applicable jurisdiction or Governmental Entity.
- 19.3 Each of the Target Companies, the Material Subsidiaries and the Comstar Regions Subsidiaries has made, without limitation, proper and punctual payments of all Tax which it has become liable to pay; none of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries has deferred the payment of any tax obligation such as would give rise to any obligation after the Completion.
- 19.4 No material tax deficiencies in excess of US\$500,000 are currently being asserted or assessed by a Governmental Entity in writing against any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries. Neither Vendors nor any of the Target Companies, nor any of the Material Subsidiaries, nor any of the Comstar Regions Subsidiaries are aware of any facts or circumstances which could give rise to such assessment or claim.
- 19.5 No tax authority has agreed to operate any special arrangement in relation to any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries other than an arrangement which is in accordance with applicable laws, published statements of practice or published extra-statutory concessions of a relevant tax authority.
- 19.6 None of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries is liable to pay any penalty, fine, surcharge or interest in respect of taxes or is otherwise subject to any outstanding claims by any tax authority for any penalty, fine, surcharge or interest in respect of taxes with a value in excess of US\$500,000.
- 19.7 Each of the Target Companies, the Material Subsidiaries and the Comstar Regions Subsidiaries is resident only in the jurisdiction in which it was formed for all purposes of taxes and no claim is outstanding from any Governmental Entity in a jurisdiction that any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries is subject to a tax in that jurisdiction but with respect to which such Target Company or the Material Subsidiary or the Comstar Regions Subsidiaries, respectively, has not previously filed a Tax Return.

- 19.8 As far as the Vendors are aware, no tax claim with a value in excess of US\$500,000 is outstanding at the date of this Agreement against any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries by any tax authority in any jurisdiction other than the Russian Federation.
- 19.9 None of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries has any outstanding waivers or comparable consents regarding the extension of the statute of limitations with respect to any taxes or Tax Returns.
- 19.10 There are no Encumbrances with respect to any taxes upon any of the assets and properties of any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries.
- 19.11 So far as the Vendor is aware, there are no tax (or foreign currency) audits or administrative or judicial proceedings being conducted with respect to any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries in any jurisdiction by any Governmental Entity in which any of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries has filed Tax Returns (or conducted transactions in foreign currency or foreign currency denominated assets).
- 19.12 No withholding Tax is due on the repayment of existing Indebtedness by any of the Target Companies, the Material Subsidiaries or the Comstar Regions Subsidiaries upon Completion.
- 19.13 No Tax charges payable by any Group Company should arise in relation to compensation/incentives/benefits provided to employees or management as a result of or linked to the Completion and sale of the Shares.
- 19.14 None of the Target Companies or the Material Subsidiaries or the Comstar Regions Subsidiaries has entered into any transactions and is not aware of any other facts or circumstances that may give rise to Tax being assessed after Completion but with respect to the periods prior to Completion.
- 19.15 Each of the Target Companies, the Material Subsidiaries and the Comstar Regions Subsidiaries has maintained complete and up-to-date records in respect of taxation as required by law to deliver correct Tax Returns (either present or future) or to claim Tax Relief and proper and sufficient Tax provisions have been made in the Accounts (including the deferred tax) and the stand-alone RAS accounts of UTS, as the case may be.

20. Litigation

- 20.1 Except as disclosed in Schedule 20.1 to the Disclosure Letter, no Group Company is involved as a party in any Material Litigation and, so far as the Vendors are aware, no such proceedings have been threatened in writing by or against any Group Company.
- 20.2 Except as disclosed in Schedule 20.2 to the Disclosure Letter, so far as the Vendors are aware, there are no material investigations or other circumstances, matters or facts in existence which might reasonably be expected to give rise to material proceedings, and no Group Company has received written notice of any current or pending investigation by a Governmental Entity concerning any Group Company.
- 20.3 No Group Company has given any material undertaking to, nor (so far as the Vendors are aware) is subject to any material order given by, any Governmental Entity or arbitrator arising out of any proceedings which is still extant.
- 20.4 Except as disclosed in Schedule 20.4 to the Disclosure Letter, the Group Company has not received any written notification of any material dispute which, if pursued, may give rise to any Material Litigation.

21. Competition

- 21.1 Except as disclosed in Schedule 21.1 to the Disclosure Letter, so far as the Vendors are aware none of the Group Companies is or has been a party to or directly or indirectly concerned in any agreement, arrangement, understanding or practice (whether legally binding or not, and whether by omission or otherwise) which:-
- 21.1.1 infringes any applicable anti-trust or similar legislation in any jurisdiction in which any of the Group Companies has assets or carries or intends to carry on business or where its activities may have an effect; or
- 21.1.2 is unenforceable or void (whether in whole or in part) or renders any Group Company liable to civil or administrative proceedings by virtue of any anti-trust or similar legislation in any jurisdiction in which any of the Group Companies has assets or carries on or intends to carry on business or where its activities may have an effect.

22. Sensitive Payments

- 22.1 So far as the Vendors are aware, no officer or employee of any Group Company has made or received any Sensitive Payment in connection with any contract or otherwise. For the purposes of this paragraph 22.1 "Sensitive Payments" means:-
- 22.1.1 bribes, influence payments or kickbacks paid to any person, firm or company including central or local government officials or employees;

- 22.1.2 amounts received with an understanding that rebates or refunds will be made in contravention of any laws of any jurisdiction either directly or through a third party;
- 22.1.3 political contributions; or
- 22.1.4 payments or commitments made with the understanding or under circumstances that would indicate that all or part thereof is to be paid by the recipient as a bribe, influence payment or kickback to any person, firm or company including central or local government officials or employees.

23. Assets, Property, Plant and Equipment

- 23.1 (a) Except as set forth in Schedule 23.1 to the Disclosure Letter, all assets which are necessary for the operation of business of the Group Companies in all material respects in the manner in which it is currently operated are legally and beneficially owned by the relevant company, are in the possession and control of the relevant company, or are used by the relevant company pursuant to an enforceable contractual right
 - (b) Each Group Company has full legal and beneficial title to, or has valid leases in respect of, and is in possession and control of, all assets of such Group Company included as assets or investments in the Accounts (in case of Comstar) and the stand-alone RAS accounts (in case of Group Companies, other than Comstar) or which were acquired by such Group Company since 31 December 2008, except for assets disposed of, for the full value or realized, in the Ordinary Course.
 - (c) Save as Disclosed in Schedule 23.1 to the Disclosure Letter, none of the Group Companies has created or agreed to create any Encumbrance over or entered into any factoring arrangement in relation to its interest in any of assets, otherwise than in the Ordinary Course.
- 23.2 Schedule 23.2 to the Disclosure Letter contains a true, correct and complete list of all real property owned by each of the Group Companies with a book value in excess of US\$2,500,000 (the “**Owned Real Property**”) and the following information with respect to each such property: (i) the correct street address of the Owned Real Property; (ii) the owner of the Owned Real Property; (iii) the square meters of the Owned Real Property (both of land plots and buildings thereon); (iv) the date of the primary instrument pursuant to which the Group Company has acquired its title to the Owned Real Property; (v) a brief description of the current use of such Owned Real Property; (vi) a brief description of any Encumbrance on the Owned Real Property. Each Group Company has good title to and ownership of, and is the owner of record of, its Owned Real Property free of all Encumbrances. Each relevant company’s rights to its Owned Real Property are properly registered in accordance with applicable law.

- 23.3 (a) Schedule 23.3 to the Disclosure Letter contains a true, correct and complete (i) list of all leases and subleases involving payments of at least US\$100,000 per year under which the a Group Company has the right to use or occupy any real property other than those with other Group Companies or with subsidiaries of MTS (the “**Leased Real Property**” and, together with the “**Owned Real Property**”, the “**Real Property**”) and (ii) all lease and sublease agreements involving total annual rent payments of at least US\$200,000 under which a Group Company leases or subleases to any third party the use of any of the Real Property other than those with other Group Companies or with subsidiaries of MTS (the “**Rented Real Property**”), to which in either case the relevant company is a party or is bound (including any material ancillary documents, amendments, supplements, modifications or side agreements, if any) (the “**Leases**”); and
- (b) so far as the Vendors are aware, each of the Leases is valid and legally binding and enforceable against the counterparty(ies) thereto in accordance with its terms, and there is no material default or event of default (or any event that with notice or lapse of time or both would become a material default or event of default) that would permit termination, modification or acceleration of a Lease by the relevant Group Company or by any relevant counterparty;
- (c) neither the Vendors nor any Group Company have received written notice from the counterparty to any Lease specifying an intention not to renew such Lease upon its expiration, on substantially the same terms and conditions as the current Lease, aside from the adjustment of rent to levels prevailing in the market(s) concerned.
- 23.4 So far as the Vendors are aware, there exist no unexpired option agreements, rights of first refusal or other unexpired rights benefiting any third parties with respect to the purchase or lease of any Owned Real Property. Other than the Leases, none of the Owned Real Property is subject to any lease, sublease or other agreement granting to any third party any right to the use, occupancy or enjoyment of such Owned Real Property.
- 23.5 So far as the Vendors are aware, each applicable Group Company has obtained all material land and building permits necessary for the present use and operation of each part of the Real Property.

24. Labor Matters; Employees

- 24.1 Each Group Company is in material compliance with all applicable laws relating to labor matters, including those laws respecting terms and conditions of employment and termination of employment.
- 24.2 The execution, delivery or performance of this Agreement nor the consummation of the transactions contemplated hereby will not: (i) entitle any current or former employee, consultant, director or shareholder of any Group Company to any payment; (ii) increase the amount of compensation due to any Key Employee; (iii) accelerate the vesting or funding of any compensation, stock incentive or other benefit due to any current or

former employee, consultant, director or shareholder of any Group Company; or (iv) cause any compensation to fail to be deductible under any applicable laws.

- 24.3 Each Group Company: (i) makes all payments (of any kind) to their respective employees as salary payments pursuant to labor contracts in accordance with their terms; and (ii) all taxes payable by any Group Company in connection with employee compensation have been fully paid.
- 24.4 Except for pension payments required to be paid to the state under applicable law, no Group Company maintains or contributes to, or has any obligation to contribute to, or has any liability under any pension plan, retirement plan, benefit plan, severance or termination plan, or like plan providing benefits to any current or former employee, consultant or director of any Group Company or any current or former employee, consultant or director of any entity with respect to which any Group Company is a successor, or with respect to which any Group Company has any liability, direct or indirect. Each Group Company has timely made full payment of all pension payments required to be paid to the state under the laws of its jurisdiction.
- 24.5 No Group Company has any share incentive, share option or profit sharing scheme other than the Employee Option Program, nor has any Group Company entered into any agreement to establish such scheme.
- 24.6 There are no employees employed by, or directors or officers of, any Group Company with an annual salary in excess of US\$500,000, or who (excluding annual salary) are otherwise eligible pursuant to their employment arrangements (including by virtue of arrangements relating to performance, severance or retirement) to receive potential remuneration on the annual basis in excess of US\$500,000, whether in cash or in kind, other than as provided by the Company's HR department to MTS' head of HR department in writing prior to the date hereof.
- 24.7 Compensation paid to the members of the boards of directors and management boards of the Company, MGTS, and Comstar Regions in 2009 shall not exceed US\$2,500,000.

25. Intellectual Property

- 25.1 Schedule 25.1 to the Disclosure Letter contains a complete and accurate list of all material registered Intellectual Property of the Group.
- 25.2 The Group owns, licenses or otherwise possesses the necessary rights, free and clear of all Encumbrances, to use the Intellectual Property necessary for the conduct of the business of the Group as currently conducted.
- 25.3 The Intellectual Property that is owned by the Group is valid and enforceable. There is no material action, suit, proceeding or investigation, or, to the knowledge of the Vendors, pending or threatened assertion or claim, challenging the validity or enforceability of, or

contesting the Group's rights with respect to, any of the material Intellectual Property that is owned by the Group or any agreements relating thereto.

- 25.4 No material Intellectual Property that is owned by the Group is subject to any order, judgment, determination or award by any Governmental Entity restricting the use of such Intellectual Property or that would impair the validity or enforceability of such Intellectual Property.

26. Related Party Transactions

- 26.1 As far as the Vendors are aware, Schedule 26.1 to the Disclosure Letter is a complete and accurate list and brief description of each shareholder, partner, director, officer, employee, or other Affiliate of any Group Company who or which is, directly or indirectly, a party to, or a beneficiary of, any transaction with any Group Company with a market value in excess of US\$1,000,000 or is otherwise material for any Group Company (other than (i) employment compensation in the Ordinary Course, (ii) any transaction between the Group Companies themselves, (iii) any transaction between any Group Company and MTS, its subsidiaries, Vendors and Vendors' Affiliates in the Ordinary Course), and (iv) any transactions described in Note 26 of the Accounts entered into since 31 December 2008 or effective as of the Signing Date (a "**Related Party Transaction**").

27. Insolvency

- 27.1 Each Group Company owns property and assets having a fair valuation of not less than the aggregate amount of its debts (including Indebtedness and contingent liabilities). As calculated by reference to its quarterly balance sheets prepared under RAS, each of Target Company's and each Material Subsidiary's net assets exceed its charter capital.
- 27.2 No Group Company: (i) has been liquidated or dissolved, or is subject to a resolution to be liquidated or dissolved, and so far as the Vendors are aware, there is no action or request pending to accomplish such liquidation or dissolution; (ii) has been declared bankrupt or insolvent, and so far as the Vendors are aware there is no action or request pending to declare it bankrupt or insolvent; or (iii) so far as the Vendors are aware, is the subject to any order, petition or resolution with respect to insolvency or bankruptcy proceedings, appointment of a receiver or administrator, appointment of a trustee, or any similar actions or proceedings.
- 27.3 There is not, in respect of a Group Company or any part of its business, any unfulfilled or unsatisfied judgment or court order outstanding or any delay in the payment of any obligation due for payment, or any circumstance that might, in each case, lead to any of the foregoing.

SCHEDULE 3

Purchaser's Warranties

The Purchaser warrants as follows:

1. The Purchaser is a company duly incorporated and validly existing under the laws of the Russian Federation.
2. Subject to Clause 4.1 of the Agreement, the Purchaser has full requisite legal right, power and authority and has obtained all consents, licences, authorisations, waivers or exemptions required to enable it to enter into and perform its obligations under this Agreement.
3. The execution, delivery and performance of this Agreement by the Purchaser will:
 - (a) not breach any provision of its charter or other Organizational Documents;
 - (b) not violate any laws or regulations applicable to its business, or result in a breach of any order, judgment or decree of any court or governmental agency to which it is a party or by which it is bound;
 - (c) not result in a breach of, or constitute a default under, any agreement, arrangements or instrument to which it is a party or by which it is bound; and
 - (d) when executed, constitute valid and binding obligations of the Purchaser enforceable in accordance with its respective terms.
4. Each person signing this Agreement on behalf of the Purchaser is duly authorised to do so.
5. The Purchaser has sufficient financial resources, whether as a result of committed third party financing or otherwise, to meet its obligation to pay the Consideration at Completion.
6. As of the Signing Date and Completion, the Purchaser is a wholly-owned (directly and indirectly) subsidiary of MTS, with legal and beneficial title held by MTS and/or its wholly-owned subsidiary free and clear of any Encumbrances.

SCHEDULE 4

Power Of Attorney

[on the letterhead of the respective Target Company]

Power of Attorney

This POWER OF ATTORNEY is made on [•] day of [•] in [•].

[Joint Stock Financial Corporation Sistema, a company incorporated in the Russian Federation with the main state registered number 1027700003891, whose registered office is at 17/8/9/1 Prechistenka Street, Moscow, Russian Federation (the “**Company**”), represented by [•], acting on the basis of [•], OR

[Second vendor], a company incorporated in [•] with the state registered number [·], whose registered office is at [·] (“**Company**”), represented by [•], acting on the basis of [•], OR

[Third vendor], a company incorporated in [•] with the state registered number [·], whose registered office is at [·] (“**Company**”), represented by [•], acting on the basis of [•], OR

IN CONNECTION WITH the transfer by the Company of [•] ordinary shares in the issued share capital of [Joint Stock Company COMSTAR — United TeleSystems] OR [Closed Joint Stock Company United Telesystems] (the “**Shares**”) to [Purchaser] (the “**Purchaser**”), on the terms and conditions set out in the share purchase agreement between the Company, [second vendor], [third vendor] and the Purchaser, dated [•] (the “**SPA**”),

IN CONNECTION WITH any general shareholders’ meeting of [Joint Stock Company COMSTAR — United TeleSystems] OR [Closed Joint Stock Company United Telesystems], where the Company has the right to participate pursuant to the list of persons entitled to participate in a general shareholders’ meeting of [Joint Stock Company COMSTAR — United TeleSystems] OR [Closed Joint Stock Company United Telesystems] compiled prior to the registration of the Shares in the name of the Purchaser pursuant to the SPA, (the “**Meeting**”)

HEREBY AUTHORIZES the Purchaser, to exercise the Company’s voting rights attaching to the Shares, including (but not limited to) the right to attend and vote on the Company’s behalf at the Meeting; to submit items to be placed to the agenda of the Meeting and to propose candidates for appointment to the governing bodies of [Joint Stock Company COMSTAR — United TeleSystems] OR [Closed Joint Stock Company United Telesystems]; to review any and all documents, materials, notices, draft documents, voting ballots and information being provided to persons entitled to participate in the Meeting and to exercise any other rights and privileges in connection with the above.

The Purchaser shall have the right to delegate part or all of the powers listed herein to another person.

This Power of Attorney shall be effective from the date hereof for the period of three years.

_____, represented by _____

[Signatory] [Stamp]

SCHEDULE 5
Material Licenses

56

Schedule 5
Material Licenses

No. 1	Company Name 2	Service 3	Territory 4	License No. 5	Term of Validity 7
1	OJSC "Comstar-UTS"	Communication services for voice data transfers	Moscow Region	37387	10/26/2010
2	OJSC "Comstar-UTS"	Communication services on the assignment of communication channels	Moscow Region	48650	4/28/2012
3	OJSC "Comstar-UTS"	Local telephony services, save for local telephony with the use of coin-box telephones and multi-user access means	Moscow	48595	3/30/2012
4	OJSC "Comstar-UTS"	Local telephony services for communication through coin-box telephones	Moscow	48596	3/30/2012
5	OJSC "Comstar-UTS"	Telematic communication services	Moscow	48594	3/30/2012
6	OJSC "Comstar-UTS"	Communication services for cable broadcasting	Moscow	37279	12/12/2010
7	OJSC "Comstar-UTS"	Intrazone telephony services	Moscow	38981	2/16/2011
8	OJSC "Comstar-UTS"	Data communication services, save for voice data transfers	Moscow	48598	3/30/2012
9	OJSC "Comstar-UTS"	Communication services on the assignment of communication channels	Moscow Region	48650	4/28/2012
10	OJSC "Comstar-UTS"		Moscow Region	48597	3/30/2012
11	OJSC "Comstar-UTS"	Intrazone telephony services	Moscow Region	36516	11/21/2010
12	OJSC "Comstar-UTS"	Communication services for cable broadcasting	Moscow Region	37279	12/12/2010
13	OJSC "Comstar-UTS"	Telematic communication services		37386	10/26/2010
14	OJSC "Comstar-UTS"	Data communication services , save for voice data transfer	Moscow Region	37391	10/26/2010
15	OJSC "Comstar-UTS"	Communication services on voice data transfer	Moscow	48593	12/30/2012
16	OJSC "Comstar-UTS"	Long-distance and international telephony services	RF	39141	2/16/2013

<u>No.</u>	<u>Company Name</u>	<u>Service</u>	<u>Territory</u>	<u>License No.</u>	<u>Term of Validity</u>
17	OJSC "MGTS"	Local telephony services	Moscow and protective park belt	30000	12/11/2013
18	OJSC "MGTS"	Intrazone telephony services	Moscow	33531	7/28/2010
19	OJSC "MGTS"	Lease-out of communication channels	Moscow and protective park belt	29336	12/11/2013
20	OJSC "MGTS"	Data communication services	Moscow	61511	12/11/2013
21	OJSC "MGTS"	Communication services on voice data transfer	Moscow	38994	2/16/2011
22	OJSC "MGTS"	Telematic communication services	Moscow and Moscow Region	44670	12/11/2011
23	CJSC "Comstar-Direct"	Data communication services, save for voice data transfers	St. Petersburg	43498	8/30/2011
24	CJSC "Comstar-Direct"	Communication services for cable broadcasting	Moscow and Moscow Region	44052	9/21/2011
25	CJSC "Comstar-Direct"	Data communication services , save for voice data transfers	Moscow and Moscow Region	34119	8/25/2010
26	CJSC "Comstar-Direct"	Telematic communication services	Moscow	53196	8/1/2012
27	CJSC "Comstar-Direct"	Local telephony services	Moscow	26501	6/5/2013
28	CJSC "Comstar-Direct"	Communication services on the assignment of communication channels	Moscow and Moscow Region	53197	8/29/2012
29	OJSC "ESTA"	Communication services for cable broadcasting	Arkhangelsk Region	38419	40570
30	OJSC "ESTA"	Data communication services, save for voice data transfers	Arkhangelsk Region	43594	40785
31	CJSC "TRUNK"	Communication services for cable broadcasting	Astrakhan	35550	40456
32	CJSC "ITS+"	Data communication services, save for voice data transfers	V. Novgorod	36840	40524
33	CJSC "ITS+"	Communication services for cable broadcasting	V. Novgorod	37282	40524
34	CJSC "ITS+"	Local telephony services	V. Novgorod	16317	40464
35	LLC "Comtel-Vologda"	Data communication services, save for voice data transfers	Vologda	33579	40387
36	LLC "Comtel-Vologda"	Communication services for cable broadcasting	Vologda	44456	40807
37	LLC "Comtel-Vologda"	TV-broadcasting (cable television)	Vologda	8807	40060 expired
38	LLC "Elecom-service"	Communication services for cable broadcasting	Voronezh	44035	40785
39	LLC "Elecom-service"	Data communication services, save for voice data transfers	Voronezh	43919	40785
40	OJSC "Teleservice"	Data communication services, save for voice data transfers	Voronezh	37373	40533

<u>No.</u>	<u>Company Name</u>	<u>Service</u>	<u>Territory</u>	<u>License No.</u>	<u>Term of Validity</u>
41	OJSC "Teleservice"	Communication services for cable broadcasting	Voronezh	38505	40617
42	CJSC "NPO Vidis"	Communication services for cable broadcasting	Dzerzhinsk	34321	40384
43	LLC "Dudinka-InterCom"	Communication services for cable broadcasting	Dudinka	31246	40273
44	LLC "EuroTel"	Data communication services, save for voice data transfers	Ekaterinburg	44565	40799
45	LLC "EuroTel"	Communication services for cable broadcasting	Ekaterinburg	35639	40482
46	LLC "EuroTel"	Local telephony services	Ekaterinburg	19602	40820
47	LLC "TRK 'Inter TV'"	Data communication services, save for voice data transfer services	Ivanovo	43887	40785
48	LLC "TRK 'Inter TV'"	Communication services for cable broadcasting	Ivanovo	36276	40446
49	LLC "TRK 'Inter TV'"	Communication services on voice data transfer	Ivanovo	46973	40904
50	LLC "'InterTelecom'"	Data communication services, save for voice data transfer services	Ivanovo	43147	40782
51	LLC "'InterTV-Shuya'"	Communication services for cable broadcasting	Ivanovo	34977	40435
52	LLC "'InterTV-Shuya'"	Communication services for cable broadcasting	Shuya	34977	40435
53	LLC "'InterTV Cable Networks'"	Communication services for cable broadcasting	Ivanovo	36121	40482
54	CJSC "'Ivanovo Cable Networks'"	Communication services for cable broadcasting	Ivanovo	46078	40926
55	CJSC "'MARK TV'"	Data communication services, save for voice data transfers	Izhevsk	33216	40387
56	CJSC "'MARK TV'"	Communication services for cable broadcasting	Izhevsk	47528	40982
57	CJSC "ESTA TELECOM"	Data communication services, save for voice data transfers	Kaluga	45475	40864
58	CJSC "ESTA TELECOM"	Communication services for cable broadcasting	Kaluga	33858	40510
59	CJSC "Comtel-Kemerovo"	Data communication services, save for voice data transfers	Kemerovo	35237	40456
60	CJSC "Comtel-Kemerovo"	Communication services for cable broadcasting	Kemerovo	53351	41186
61	LLC "TVC-North"	Communication services for cable broadcasting	Kursk	47063	40904
62	LLC "TVC-Soyuznaya"	Communication services for cable broadcasting	Kursk	47066	40904

No.	Company Name	Service	Territory	License No.	Term of Validity
63	LLC "TVC-Same"	Communication services for cable broadcasting	Kursk	47065	40904
64	LLC "TVC-Center"	Communication services for cable broadcasting	Kursk	47064	40904
65	LLC "TVC-Kursk"	Communication services for cable broadcasting	Kursk	35019	40435
66	LLC "TVC-Kursk"	Data communication services, save for voice data transfers	Kursk	35293	40456
67	LLC "TVC-Kursk"	Communication services for cable broadcasting	Kursk	50743	41050
68	LLC "TVC-Internet"	Data communication services, save for voice data transfer services	Kursk	45835	40864
69	LLC "TVC-Internet"	Communication services on voice data transfer	Kursk	45836	40864
70	CJSC "Sendee Service"	Data communication services, save for voice data transfers	Nizhny Novgorod	33783	40386*
71	CJSC "Sendee Service"	Communication services for cable broadcasting	Nizhny Novgorod	40182	40644*
72	CJSC "Sendee Service"	Communication services on voice data transfer	Nizhny Novgorod	39844	40644*
73	CJSC "TSN"	Communication services for cable broadcasting	Nizhny Novgorod	47530	40982
74	LLC "TV Nets"	Data communication services, save for voice data transfers	Nizhny Tagil	34688	40435
75	LLC "TV Nets"	Communication services for cable broadcasting	Nizhny Tagil	35520	40456
76	LLC "Telesat"	Communication services for cable broadcasting	Nizhny Tagil	34190	40415
77	LLC "Kuznetsktelemost"	Communication services for cable broadcasting	Novokuznetsk	40978	40681
78	LLC "Kuznetsktelemost"	Communication services for cable broadcasting	Osinniki	46510	40885
79	CJSC "Canal-7"	Data communication services, save for voice data transfers	Norilsk	40949	40715
80	CJSC "Canal-7"	Communication services for cable broadcasting	Norilsk	40303	40782
81	LLC "TVC"	Communication services for cable broadcasting	Oryol	41447	40688
82	LLC "TVC"	Communication services for cable broadcasting	Oryol	41229	40688
83	LLC "TVC"	Data communication services, save for voice data transfer services	Oryol	45837	40864
		Communication services on voice data transfer	Oryol		

No.	Company Name	Service	Territory	License No.	Term of Validity
84	LLC "TVC"	Communication services for cable broadcasting	Oryol	45338	40878
85	LLC "TVC"	Data communication services, save for voice data transfers	Oryol	32435	40346
86	CJSC "Canal-TV"	Data communication services, save for voice data transfers	Perm	33502	40387
87	CJSC "Canal-TV"	Communication services for cable broadcasting	Perm	36166	40482
88	CJSC "Frist Perm Internet Center"	Data communication services, save for voice data transfers	Perm	35108	40497
89	CJSC "Frist Perm Internet Center"	Communication services for voice data transfers	Perm	36252	40477
90	CJSC "Frist Perm Internet Center"	Communication services for cable broadcasting	Perm	50650	41050
91	CJSC "TV Company TV-Maidan"	Communication services for cable broadcasting	Rostov	41456	40688
92	CJSC "TV Company TV-Maidan"	Data communication services, save for voice data transfer services	Rostov	42698	40752
93	CJSC "Cascade-TV"	Data communication services, save for voice data transfers	Saratov, Engels of Saratov Region	34503	40435
94	CJSC "Cascade-TV"	Communication services for cable broadcasting	Saratov, Engels of Saratov Region	37410	40568
95	CJSC "Teleradiotekhnika"	Data communication services, save for voice data transfers	Smolensk	52820	41170*
96	CJSC "Teleradiotekhnika"	Communication services for cable broadcasting	Smolensk	39078	40590*
97	LLC "Comtel-Taganrog"	Data communication services, save for voice data transfers	Taganrog	38162	40570
98	LLC "Comtel-Taganrog"	Communication services for cable broadcasting	Taganrog	34153	40415
99	Tambov Telecom	Communication services for cable broadcasting	Tambov	40236	40644
100	Tambov Telecom	Data communication services, save for voice data transfers	Tambov	41369	40688
101	CJSC "Simbirsk CTV"	Data communication services, save for voice data transfers	Ulyanovsk	31409	40290
102	CJSC "Simbirsk CTV"	Communication services for cable broadcasting	Ulyanovsk	42532	40736

* - Licenses are being reregistered as part of ZAO "Comstar-Regions" reorganization

SCHEDULE 6

Comstar Regions Reorganization

57

SCHEDULE 6

COMSTAR REGIONS REORGANIZATION

<u>Stage</u>	<u>Timing</u>	<u>Description</u>
Stage I	Aug 2009	The creation of closed joint stock company “Comstar-Regions” via the merger of (i) closed joint stock company Inter-TV Media, (ii) closed joint stock company Stream-TV, (iii) closed joint stock company Intersvyazservis, (iv) closed joint stock company Strategiya, (v) closed joint stock company Tsifroviye Telefonniye Seti Yug, (vi) closed joint stock company Teleradiotekhnika, and (vii) closed joint stock company Sendi Servis (indicated by red boxes on the attached corporate organizational chart labeled “Comstar Regions Reorganization Stage I”).
Stage II	Q1 2010	Merger into CJSC Comstar-Regions of CJSC Ural Telephone Company, CJSC Ivanovskiye Cable Networks, CJSC Cable Networks Inter TV, CJSC Inter-Telecom, CJSC KTV, CJSC TVK, CJSC Inter TV-Shuya, CJSC TVK-North, CJSC TVK-Union, CJSC TVK-Seym, CJSC Tambov-Telecom, CJSC TVK-Kursk, CJSC TVK-Center, CJSC Kurant CJSC TVK-Internet, CJSC Grajdan-Service, CJSC Maxima Engeneering, CJSC TVK-Kursk (indicated by green boxes on the attached corporate organizational chart labeled “Comstar Regions Reorganization Stages II-V”).
Stage III	Q2 2010	Merger into CJSC Comstar-Regions of CJSC Regional Cable Networks, CJSC P.P.I. Center, CJSC Mark-TV, CJSC NPO Vidis, CJSC Electronica (indicated by purple boxes on the attached corporate organizational chart labeled “Comstar Regions Reorganization Stages II-V”).
Stage IV	Q3 2010	Merger into CJSC Comstar-Regions of CJSC Skif-Line, CJSC Skif-Orel, CJSC Skif-Tambov, CJSC Esta-Telecom, CJSC Tversviazinform, CJSC RusLan-TV, CJSC Infotech, CJSC Networks-TV, CJSC Telesat, CJSC Comtel-Taganrog, CJSC TV-Maydan, CJSC Astro-Tel, CJSC Esta, CJSC Esta-TV, CJSC TSN, CJSC Sandy Info, CJSC Channel-7, CJSC Channe-7 Plus, CJSC Kuznetsktelemost (indicated by orange boxes on the attached corporate organizational chart labeled “Comstar Regions Reorganization Stages II-V”).
Stage V	Q4 2010	Merger into CJSC Comstar-Regions of CJSC TRC Inter-TV CJSC United Cable Network, CJSC Elecom-Service, CJSC TKK Elecom-Service, CJSC Inter-Net, CJSC GoC SALLAC, CJSC Trank, CJSC Trank-Media, CJSC Trank-Service, CJSC Comtel-Vologda, CJSC Comtel-Kemerovo, CJSC Simbirsk KTV, OJSC RTC (indicated by blue boxes on the attached corporate organizational chart labeled “Comstar Regions Reorganization Stages II-V”).



SCHEDULE 7

VENDORS BANK ACCOUNTS

Sistema's Bank Account:

Beneficiary: OJSC "Sistema" Joint Stock Financial Corporation
(TIN/KPP 7703104630 / 774850001)
125 009, Moscow, 13 Mokhovaya St., bld. 1
Sett./acc-t No. 40702810100020007951 with OJSC "Sberbank of Russia"
BIC 044525225
Corr./acc-t No. 30101810400000000225

ECU Gest's Bank Account:

Beneficiary: ECU GEST HOLDING S.A.
41 Rue des Glacis, L-1628, Luxembourg
Account No. LU720824100008401001 with East-West United Bank S.A., Luxembourg
SWIFT: EWUBLULL

Sistema Telecom's Bank Account:

RUR Account:
LLC "Sistema Telecom" (TIN 7704721040 KPP 770401001)
Sett./acc-t No. 40702810900020008309
with OJSC "Sberbank of Russia", Moscow
Corr./acc-t No 30101810400000000225
BIC 044525225

SCHEDULE 8

PURCHASER'S SHARE ACCOUNTS

1) Shareholders' Register of OJSC "Comstar-UTS" (Registrar OJSC "Reestr")

Registered entity: **Limited Liability Company "Telekoms Operator"**
Personal Account No.: 10114-B

2) Shareholders' Register of CJSC "United TeleSystems" (Registrar OJSC "Reestr")

Registered entity: **Limited Liability Company "Telekoms Operator"**
Personal Account No.: 4-B

3) Depositary of the Joint Stock Commercial Savings Bank of the Russian Federation (open joint stock company) — "Sberbank"

Account holder: **Limited Liability Company "Telekoms Operator"**
Custody account No.: 00 02 019156 01

Exhibit 8.1

The table below presents our significant subsidiaries, the places of incorporation and our ownership interests therein as of December 31, 2009.

Subsidiary	Accounting Method	Ownership Interest	Place of Incorporation/ Organization
Sibintertelecom	Consolidated	100.0%	Russia
Dagtelecom	Consolidated	100.0%	Russia
RTC	Consolidated	100.0%	Russia
Evrotel	Consolidated	100.0%	Russia
Ukrainian Mobile Communications (MTS-Ukraine)	Consolidated	100.0%	Ukraine
MTS Finance(1)	Consolidated	100.0%	Luxembourg
Uzdunrobita	Consolidated	100.0%	Uzbekistan
BCTI	Consolidated	100.0%	USA
MTS Bermuda(2)	Consolidated	100.0%	Bermuda
K-Telekom	Consolidated	80.0%	Armenia
Comstar	Consolidated	64.0%	Russia
MTS Belarus	Equity	49.0%	Belarus
TS-Retail	Equity	34.6%	Russia

(1) Represents beneficial ownership interest.

(2) A wholly owned subsidiary established to repurchase our ADSs.

See also Note 2 to our audited consolidated financial statements.

I, Mikhail V. Shamolin, certify that:

1. I have reviewed this annual report on Form 20-F of Mobile TeleSystems OJSC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 28, 2010

/s/ MIKHAIL V. SHAMOLIN

Mikhail V. Shamolin
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mobile TeleSystems OJSC (the “Company”) hereby certifies, to such officer’s knowledge, that:

- (i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2010

/s/ MIKHAIL V. SHAMOLIN

Mikhail V. Shamolin
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mobile TeleSystems OJSC (the “Company”) hereby certifies, to such officer’s knowledge, that:

- (i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 28, 2010

/s/ Alexey V. Kornya

Alexey V. Kornya
Chief Financial Officer