JSFC SISTEMA AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2008 and 2007 and
For the Years Then Ended

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSFC Sistema:

We have audited the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries ("the Group") as of December 31, 2008 and 2007 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Group changed its accounting policy with respect to the accounting for and presentation of acquisitions in the statement of operations in the year acquired, effective January 1, 2008. All comparative historic information in the consolidated statements of operations and cash flows, as well as the respective disclosures for the year ended December 31, 2007, have been restated to conform to the new accounting policy.

Further, as described in Note 16 to the consolidated financial statements, the Group has determined that its investment in the shares of OJSC "Telecommunication Investment Company" ("Svyazinvest"), amounted to $1,241 million as of December 31, 2008 is not other that temporarily impaired. In the absence of readily ascertainable market information related to the value of the investment in Svyazinvest, management reached its conclusion based on the use of estimates incorporating various unobservable market inputs as discussed in Note 16. Because of the uncertainty inherent in such analysis, the value the Group could realize had a disposal of this investment been made between a willing buyer and seller may differ materially from its carrying amount.

April 24, 2009
Moscow, Russia

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JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2008	2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 1,991,325	$ 1,061,733
Short-term investments	6	617,424	909,224
Loans to customers and banks, net	7	3,176,376	2,764,763
Accounts receivable, net	8	1,197,644	1,383,731
Prepaid expenses, other receivables and other current assets, net	9	1,342,473	950,104
VAT receivable		222,356	435,245
Inventories and spare parts	10	880,198	780,193
Deferred tax assets, current portion	23	262,989	213,633
Assets of discontinued operations	4	-	545,863
Total current assets		9,690,785	9,044,489
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	10,327,971	10,412,636
Advance payments for non-current assets		219,119	284,396
Goodwill	12	1,351,202	860,019
Licenses, net	13	1,174,521	730,636
Other intangible assets, net	14	1,723,835	1,665,969
Investments in affiliates	15	1,427,068	1,336,520
Investments in shares of Svyazinvest	16	1,240,977	1,485,378
Loans to customers and banks, net of current portion	7	1,402,298	1,468,088
Debt issuance costs, net		42,315	101,904
Deferred tax assets, net of current portion	23	181,317	108,637
Other non-current assets	17	377,419	897,986
Total non-current assets		19,468,042	19,352,169
TOTAL ASSETS		$ 29,158,827	$ 28,396,658

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
AS OF DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 1,654,035	$ 1,273,487
Bank deposits and notes issued, current portion	18	3,538,255	1,966,539
Taxes payable		207,366	223,791
Deferred tax liabilities, current portion	23	70,903	77,893
Subscriber prepayments, current portion	22	496,775	598,014
Derivative financial instruments	26	-	140,563
Accrued expenses and other current liabilities	19	1,430,933	1,491,822
Short-term loans payable	20	1,465,647	724,905
Current portion of long-term debt	21	2,234,507	1,517,902
Liabilities of discontinued operations	4	-	396,132
Total current liabilities		11,098,421	8,411,048
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	21	6,961,551	6,106,937
Subscriber prepayments, net of current portion	22	119,722	134,280
Bank deposits and notes issued, net of current portion	18	803,112	1,401,925
Deferred tax liabilities, net of current portion	23	505,259	428,030
Postretirement benefits obligation	24	35,464	42,370
Deferred revenue	25	115,732	139,984
Total long-term liabilities		8,540,840	8,253,526
TOTAL LIABILITIES		19,639,261	16,664,574
Minority interests in equity of subsidiaries		3,869,499	4,987,220
Commitments and contingencies	32	-	-
Puttable shares of SITRONICS	27	92,200	86,100
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,278,981,940 and 9,276,092,868 shares outstanding as of December 31, 2008 and 2007, respectively, with par value of 0.09 Russian Rubles)	28	30,057	30,057
Treasury stock (371,018,060 and 373,907,132 shares as of December 31, 2008 and 2007, respectively, with par value of 0.09 Russian Rubles)	28	(466,345)	(469,365)
Additional paid-in capital		2,456,140	2,439,069
Retained earnings		3,998,247	4,035,157
Accumulated other comprehensive (loss)/income		(460,232)	623,846
TOTAL SHAREHOLDERS' EQUITY		5,557,867	6,658,764
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 29,158,827	$ 28,396,658

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2008	2007
Sales		$ 15,979,898	$ 13,016,488
Revenues from financial services		690,912	394,167
TOTAL REVENUES		16,670,810	13,410,655
Cost of sales, exclusive of depreciation and amortization shown separately below		(6,614,527)	(5,771,416)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(385,457)	(174,378)
Selling, general and administrative expenses		(3,435,934)	(2,368,554)
Depreciation and amortization		(2,316,295)	(1,747,171)
Provision for doubtful accounts		(270,069)	(122,995)
Loss from impairment of goodwill and other long-lived assets		(240,780)	(20,719)
Other operating expenses, net		(269,341)	(231,625)
Equity in net income of investees		4,925	66,076
Gain on disposal of interests in subsidiaries and affiliates		29,960	155,069
OPERATING INCOME		3,173,292	3,194,942
Interest income		72,487	80,405
Change in fair value of derivative instruments	26	(47,559)	(145,800)
Interest expense, net of amounts capitalized		(554,912)	(409,826)
Currency exchange and translation (loss)/gain		(894,539)	289,833
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		1,748,769	3,009,554
Income tax expense	23	(857,462)	(971,766)
Minority interests		(1,019,870)	$ (1,093,095)
Equity in net income of energy companies in the Republic of Bashkortostan, net of minority interest of $49,019 and $14,001, respectively		192,680	109,855
Income from continuing operations		$ 64,117	$ 1,054,548

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2008	2007
Loss from discontinued operations, net of income tax benefit/(expense) of $222 and $(2,136), respectively	4	(4,194)	(4,612)
Gain from disposal of discontinued operations, net of income tax effect of $280 and $148,809, respectively	4	2,053	521,963
NET INCOME		$ 61,976	$ 1,571,899
Other comprehensive (loss)/income:			
Change in fair value of interest rate swaps, net of income tax effect of $(3,826) and ($352), respectively		(16,359)	(1,114)
Effect of disposal of discontinued operations, net of minority interest of $13,125 and income tax effect of nil		-	(11,380)
Unrecognized actuarial gains/(losses), net of minority interest of $(1,400) and $11,491 and income tax of $nil and $nil, respectively		704	(4,817)
Effect of change in functional currency, net of minority interests of $13,125 and $173,296, respectively		52,499	197,811
Translation adjustment, net of minority interests of $471,723 and $(124,408), respectively, and income tax effect of nil	2	(1,120,922)	301,402
Comprehensive (loss)/income		$ (1,022,102)	$ 2,053,801
Weighted average number of common shares outstanding		9,278,547,603	9,311,126,854
Income per share, basic and diluted, US cent			
Income from continuing operations		$ 0.69	$ 11.34
Income from discontinued operations		(0.02)	5.55
Net income		0.67	16.89

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 61,976	$ 1,571,899
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	2,316,295	1,747,171
Gain from disposal of discontinued operations	(2,053)	(521,963)
Loss from discontinued operations	4,194	4,612
Minority interests	1,019,870	1,093,095
Equity in net income of investees	(197,605)	(175,874)
Dividends received from affiliates	26,693	95,033
Deferred income tax benefit	(237,006)	(107,501)
Change in fair value of derivative financial instruments	47,559	145,800
Foreign currency transactions gain on non-operating activities	894,539	(289,833)
Debt issuance cost amortization	53,831	26,425
Non-cash compensation to employees of subsidiaries	10,897	155,732
Non-cash expenses associated with asset retirement obligation	6,026	-
Gain on disposal of interests in subsidiaries and affiliates	(29,960)	(155,069)
Gain on sale of real estate investments	(20,530)	(157,989)
Gain on disposal of long-term investments	(30,091)	-
Loss from impairment of goodwill and other long-lived assets	240,780	20,719
(Gain)/loss on disposal of property, plant and equipment	(4,193)	20,070
Gain on change in fair value of trading securities	(9,525)	-
Amortization of connection fees	(56,719)	(81,536)
Provision for doubtful accounts receivable	237,963	122,995
Provision for irrecoverable VAT receivable	48,374	-
Provision for post-retirement benefits	3,119	-
Allowance for loan losses	41,246	66,107
Inventory provision expense	47,434	53,714
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(44,209)	(48,767)
Loans to banks issued by the banking division	(189,192)	(847,891)
Accounts receivable	(95,550)	(184,139)
VAT receivable	164,515	16,476
Prepaid expenses, other receivables and other current assets	(200,480)	(80,998)
Inventories	(137,152)	(250,313)
Accounts payable	142,813	75,467
Subscriber prepayments	(59,709)	116,421
Taxes payable	(17,303)	(75,240)
Accrued expenses, subscriber prepayments and other liabilities	(202,505)	342,540
Postretirement benefit obligation	(8,581)	25,979
Net cash provided by operations	$ 3,825,761	$ 2,723,142

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

		2008		2007
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment		(3,171,719)		(2,753,186)
Payments for purchases of intangible assets		(1,099,181)		(309,300)
Payments for purchases of businesses, net of cash acquired		(1,940,700)		(1,459,149)
Proceeds from sale of subsidiaries, net of cash disposed		224,784		636,683
Payments for purchases of long-term investments		(24,369)		(154,000)
Payments for purchases of short-term investments		(178,532)		(693,340)
Payments for purchases of other non-current assets		(155,090)		(247,676)
Proceeds from sale of other non-current assets		282,370		203,442
Decrease/(increase) in restricted cash		343,218		(242,761)
Proceeds from sale of property, plant and equipment		232,743		58,440
Proceeds from sale of long-term investments		30,091		20,000
Proceeds from sale of short-term investments		529,157		328,600
Net increase in loans to customers of the banking division		(947,605)		(1,141,701)
Net cash used in investing activities	$	(5,874,833)	$	(5,753,948)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from/(principal payments on) short-term borrowings, net		667,214		(621,820)
Net increase in deposits from customers of the banking division		1,224,980		1,932,427
Net decrease in promissory notes issued by the banking division		256,223		(69,237)
Proceeds from long-term borrowings, net of debt issuance costs		4,353,464		2,448,502
Debt issuance costs		(7,883)		(43,173)
Principal payments on long-term borrowings		(2,651,447)		(396,304)
Principal payments on capital lease obligations		(7,849)		(7,870)
Proceeds from capital transactions of subsidiaries		131,000		678,841
Proceeds from issuance of stock options		-		5,554
Proceeds from sale of treasury shares		3,020		16,383
Payments to purchase treasury stock		-		(161,709)
Payments to shareholders of subsidiaries		(600,314)		(385,374)
Dividends paid		(98,795)		(17,942)
Net cash provided by financing activities	$	3,269,613	$	3,378,278
Effects of foreign currency translation on cash and cash equivalents	$	(290,949)	$	115,880
INCREASE IN CASH AND CASH EQUIVALENTS	$	929,592	$	463,352
CASH AND CASH EQUIVALENTS, beginning of the period		1,061,733		598,381
CASH AND CASH EQUIVALENTS, end of the period	$	1,991,325	$	1,061,733
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	(451,448)	$	(422,656)
Income taxes		(1,088,312)		(1,189,487)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	3,194	$	6,299
Equipment acquired through vendor financing		810		2,770
Equipment acquired under capital leases		5,733		6,577
Amounts owed for capital expenditures		600,442		373,002
Debt issued in the course of exercise of the put option		363,552		-

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Share capital		Treasury stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amount	Shares	Amount				
Balances at January 1, 2007	**9,650,000,000 $**	**30,057**	**(284,243,000)$**	**(347,068)$**	**2,196,475 $**	**2,481,198 $**	**141,944 $**	**4,502,606**
Capital transactions of subsidiaries (Note 4)	-	-	-	-	232,497	-	-	**232,497**
Repurchase of common stock	-	-	(120,751,000)	(161,180)	-	-	-	**(161,180)**
Sale of treasury stock	-	-	31,086,868	38,883	-	-	-	**38,883**
Early termination and change in fair value of interest rate swaps, net of income tax effect of $352	-	-	-	-	-	-	(1,114)	**(1,114)**
Share based compensation	-	-	-	-	10,097	-	-	**10,097**
Effect of change in functional currency	-	-	-	-	-	-	197,811	**197,811**
Unrecognized actuarial losses, net of income tax effect of $nil	-	-	-	-	-	-	(4,817)	**(4,817)**
Translation adjustment, net of income tax effect of $nil	-	-	-	-	-	-	301,402	**301,402**
Effect of disposal of discontinued operations	-	-	-	-	-	-	(11,380)	**(11,380)**
Dividends declared (Note 28)	-	-	-	-	-	(17,940)	-	**(17,940)**
Net income	-	-	-	-	-	1,571,899	-	**1,571,899**
Balances at December 31, 2007	**9,650,000,000 $**	**30,057**	**(373,907,132)$**	**(469,365)$**	**2,439,069 $**	**4,035,157 $**	**623,846 $**	**6,658,764**
Balances at January 1, 2008	**9,650,000,000 $**	**30,057**	**(373,907,132)$**	**(469,365)$**	**2,439,069 $**	**4,035,157 $**	**623,846 $**	**6,658,764**
Sale of treasury stock	-	-	2,889,072	3,020	-	-	-	**3,020**
Share based compensation	-	-	-	-	17,071	-	-	**17,071**
Change in fair value of interest rate swaps, net of income tax effect of $3,826	-	-	-	-	-	-	(16,359)	**(16,359)**
Effect of change in functional currency (Note 2)	-	-	-	-	-	-	52,499	**52,499**
Unrecognized actuarial losses, net of income tax effect of $nil	-	-	-	-	-	-	704	**704**
Translation adjustment, net of income tax effect of $nil	-	-	-	-	-	-	(1,120,922)	**(1,120,922)**
Dividends declared (Note 28)	-	-	-	-	-	(98,886)	-	**(98,886)**
Net income	-	-	-	-	-	61,976	-	**61,976**
Balances at December 31, 2008	**9,650,000,000**	**30,057**	**(371,018,060)**	**(466,345)**	**2,456,140**	**3,998,247**	**(460,232)**	**5,557,867**

See notes to consolidated financial statements.

1. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

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

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

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

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Sistema Shyam TeleServices Limited	SSTL	Wireless telecommunication services
Sistema Mass Media and subsidiaries	Sistema Mass Media	Cable television, advertising, production and distribution of periodicals, movie production
Consumer Assets Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries Dalkombank	MBRD DKB	Banking activities, securities transactions and foreign currency transactions
Detsky Mir and subsidiaries Detsky Mir-Center and subsidiaries	Detsky Mir DM-Center	Retail and wholesale trading
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Medsi and subsidiaries	Medsi	Healthcare services
Technology and Industry Segment:		
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
SITRONICS and subsidiaries	SITRONICS	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development, IT and systems integration, computer hardware and software distribution
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals

Operating Environment – Since late 2008, major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. This has resulted in a significant economic downturn. The ongoing financial crisis has resulted in capital markets instability, significant deterioration of liquidity and tighter credit conditions both globally and within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the economy, general business conditions, access to capital and the marginal cost of such capital for the Group and its counterparties and as well as consumer purchase patterns, which could affect the Group's financial position, results of operations and business prospects.

To date, the majority of the Group's operations have not been directly impacted by the economic downturn and credit tightening, other than recognition of losses on revaluation of borrowings denominated in foreign currencies and increase in interest rates on certain of the Group's borrowings. During the year ended December 31, 2008, the Group incurred foreign exchange losses of $894.5 million and interest expenses of $554.9 million.

As of December 31, 2008, the Group had a working capital deficit of $1,407.6 million, which was primarily attributable to the borrowings to be repaid within the next twelve months. During 2009, management expects to finance this deficit using the Group's operating cash flows and by obtaining external financing to the extent necessary (see also Note 33). While access to such financing has become more difficult with the tightened credit markets, management believes they will be able to obtain such financing due to reasonable gearing and good credit standing of the Group, however expects the associated financing costs to increase. In addition, capital expenditures, such as acquisition of property, plant and equipment can be deferred to meet short-term liquidity requirements. Accordingly, management believes that its existing cash, cash flows from operating and financing activities, along with reductions in spending they are able to make, will be sufficient for the Group to meet its obligations as they become due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The beneficial ownership interest and voting interest of JSFC Sistema in the significant subsidiaries as of December 31, 2008 and 2007 are as follows:

	Ownership interest		Voting interest	
Significant entities	**2008**	**2007**	**2008**	**2007**
MTS	56%	53%	56%	53%
Comstar UTS	59%	53%	59%	53%
Sistema Shyam TeleServices Limited	74%	10%	74%	10%
SITRONICS	70%	71%	70%	71%
MBRD	97%	95%	100%	99%
EWUB	99%	51%	100%	51%
DKB	100%	48%	100%	100%
Sistema-Hals	80%	80%	80%	80%
Intourist	66%	66%	66%	66%
DM-Center	100%	100%	100%	100%
Detsky Mir	100%	75%	100%	75%
Concern RTI	97%	100%	97%	100%
Medsi	100%	83%	100%	83%
Binnofarm	100%	100%	100%	100%

Change in accounting policy – Effective January 1, 2008, the Group has changed its accounting policy with respect to the presentation of acquisitions in the statement of operations in the year acquired. Previously, the Group adopted a policy permitted by Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB No. 51") to include revenues and expenses of newly acquired subsidiaries in the consolidated statement of operations as if they had been acquired at the beginning of the year in which control is obtained. Accordingly, the pre-acquisition earnings were included as a deduction in the statements of operations to arrive at net income for the period.

The Group's change in accounting policy was to another acceptable method as permitted under ARB No. 51. According to the new accounting policy, revenues and expenses of newly acquired subsidiaries are consolidated in the statements of operations from the acquisition date instead of the beginning of the year when control was acquired.

Management believes that new policy better reflects the manner in which the performance of the Group is reported and managed internally. Further, as the new policy is consistent with common accounting practice both globally and in Russia, management believes that the change in accounting policy will result in a greater understanding of the Group's financial statements by the investment community and improved comparability with the financial statements of the Group's peers.

All comparative historic information in the statement of operations and statement of cash flows, as well as respective disclosures, has been restated to conform to the new accounting policy. The change had the following effects on the statement of operations for the year ended December 31, 2007:

	2007 amounts previously reported	**Adjustments**	**2007 restated**
Revenues	$ 13,700,955	$ (290,300)	$ 13,410,655
Operating income	3,274,704	(79,762)	3,194,942
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	3,092,483	(82,929)	3,009,554
Minority interest	(1,156,158)	63,063	(1,093,095)
Income from continuing operations	1,054,548	-	1,054,548

The change had no impact on net income and earnings per share for amounts previously reported in the statement of operations for the year ended December 31, 2007. There were no changes to the balance sheets as at January 1, 2007 and December 31, 2007 or to the net cash inflows and outflows for the year ended December 31, 2007.

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

Significant estimates include the allowance for doubtful accounts, valuation of assets acquired and liabilities assumed in business combinations, the recoverability of intangible assets and other long-lived assets and valuation allowances on deferred tax assets.

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

Foreign Currency Translation **–** The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation".

Management has determined that the functional currencies of the Group's significant subsidiaries for the year ended December 31, 2008 are the currencies of the countries of their domicile, with the exception of foreign subsidiaries of Intourist, a company incorporated in the RF, Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, and Uzdunrobita, MTS subsidiary in Uzbekistan, whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations.

Until December 31, 2007 the functional currency of the substantial majority of the Sistema-Hals operations was the USD because the majority of revenues, costs and real estate investments, debt and trade liabilities was either priced, incurred payable or otherwise measured in USD.

Beginning 2008, the subsidiaries of Sistema-Hals domiciled in Russia introduced a policy to contract sales in Russian rubles ("RUB") or where this was not the case to contract at a fixed exchange rate for residential and commercial real estate sale contracts which are denominated in USD or unit equivalents and undertook certain other measures to ensure business is transacted in Russian rubles. As a result of this change in policy, there was a significant shift in the currency in which sales were denominated from USD to RUB. Further, during the year, the Group refinanced its USD borrowings with VTB to rubles. Accordingly, the Group's subsidiaries in the Russian Federation changed their functional currency from USD to RUB beginning January 1, 2008. Pursuant to the provisions of FAS No. 52 the effect of this change in functional currency has been accounted for prospectively. All non-monetary assets and liabilities were retranslated at the date of the change, resulting in approximately $59.7 million net of income taxes of $2.0 million, of the translation adjustment recorded in the statement of changes in shareholder's equity as part of other comprehensive income at the date of the change.

The Group has selected the USD as its reporting currency. Therefore, the financial statements were translated into the reporting currency in accordance with SFAS No. 52 using the current rate method.

Under the current rate method, assets and liabilities are translated into USD at exchange rates prevailing on the balance sheet date. Revenues, expenses, gains and losses are translated into U.S. dollars at exchange rates prevailing at the time those elements are recognized or close approximations of such rates. Shareholders' equity is translated at the applicable historical rates. The resulting translation gain/(loss) is recorded as a separate component of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF, between RUB and USD as of December 31, 2008 was 29.38 RUB to 1 USD (24.55 RUB to 1 USD as of December 31, 2007).

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting period.

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

Telecommunications business

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

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

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

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

(iv) Revenues from prepaid phone cards are recognized in the period when the customer uses time under the phone card. Unused time on sold cards is not recognized as revenues until the related services have been provided to the customer or the card has expired.
(v) Revenues derived from value-added telecommunication services are recognized in the period when the services are provided to customers.
(vi) The segment charges roaming per-minute fees to other wireless operators for their subscribers utilizing the segment's networks. Revenues derived from roaming services are recognized as services are provided.
(vii) The segment sells handsets and accessories to customers who enter into contracts for service and as separate distinct transactions. Revenues from the handsets and accessories are recognized when the products are delivered to and accepted by the customer, as it is considered to be a separate earnings process from the sale of wireless services in accordance with EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". 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.

The Group evaluates the criteria outlined in Emerging Issues Task Force ("EITF") Issue No. 99-19 "Reporting Revenue Gross as a Principal Versus Net as an Agent" in determining whether it is appropriate to record the gross amount of services provided and related costs or the net amount earned as commissions. Revenue is recorded gross when companies of the Group are primary obligors in a transaction, have latitude in establishing prices and selecting suppliers of services, or have several but not all of these indicators.

Regulated tariff services, consisting of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by Comstar UTS, totaled approximately 5.5% and 6.7% of the consolidated revenues for the years ended for the year ended December 31, 2008 and 2007, respectively. Changes in rate structure are subject to the Federal Tariff Service approval.

Technology business

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

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

Telecommunication Solutions division:

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

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; (c) the division can be expected to perform its contractual obligations. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages. At SITRONICS Telecom Solutions Czech Republic ("SITRONICS TS CR") the extent of progress is measured by the ratio of hours performed to date to estimated total hours at completion. Intracom Telecom calculates the extent of progress based on the ratio of costs incurred to total estimated costs. A contract is considered as substantially completed when (a) the product is delivered, and (b) the product is accepted by the customer.

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

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

Information Technologies Solutions division:

Because of frequent sales price reductions and rapid technology obsolescence, revenues from the division's computer hardware sales to dealers under agreements allowing price protection are deferred until the dealers sell the merchandise.

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

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

Revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for

work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions, Consumer Services and Products divisions:

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

The Consumer Services and Products division enters into arrangements with certain manufacturers and distributors of consumer electronics products to assemble such products at its facilities. In those cases where the division's responsibility to the customer is limited solely to assembly services or where the division buys components from and subsequently sells the assembled devices to the same counterparty, the division records only the net amount retained as its revenues.

<u>Real estate business</u>

Real estate revenues are principally derived from (i) the provision of property construction services; (ii) the sale of completed development projects, both commercial and residential, as well as the sale of rights for land; (iii) rental income from completed development projects held as investments; and (iv) facility management services. The Group records revenues as follows:

(i) The Group provides project construction services to mid-size and large corporates. When the Group acts as a contractor under construction contracts, the Group recognizes contract revenue in accordance with American Institute of Certified Public Accountants Statement of Position ("SOP") No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1").

    In accordance with SOP 81-1, the Group recognizes revenue on fixed-price contracts using the percentage-of-completion method. Under this method for revenue recognition, the Group estimates the progress towards completion to determine the amount of revenue and profit to recognize on all significant contracts. The Group generally utilizes an efforts-expended, cost-to-cost approach in applying the percentage-of-completion method under which revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred.

    Once contract performance is underway, the Group may experience changes in the conditions, client requirements, specifications, designs, materials and/or work schedule ("change orders"). Generally a change order will be negotiated with the customer to modify the original contract to approve both the scope and the pricing of the change. When a change order becomes a point of dispute between the Group and its customer, the Group then considers it as a claim. Costs related to change orders and claims are recognized when they are incurred. Change orders are included in total estimated contract revenues when it is probable that the change order will result in a bona fide addition to the relevant contract value and can be reliably estimated. Claims are included in total estimated contract revenue only to the extent that contract costs related to the claim have been incurred and when it is probable that the claim will result in a bona fide addition to contract value and can be reliably estimated.

    The Group provides for estimated losses on uncompleted contracts in the periods in which such losses are identified. The cumulative effects of revisions to contract revenue and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions may include such items as the effects of change orders and claims, warranty claims, other contractual penalties and contract closeout settlements.

Costs related to the Group’s performance under construction contracts (including estimated earnings from uncompleted contracts) is recorded net of billings on those contracts. Billings when in excess of costs and estimated earnings on uncompleted contracts are recorded as liabilities.

(ii) The Group derives revenue through the sale of completed commercial and residential properties. Revenues from the sale of completed real estate development activities are recognized in accordance with the provisions of FAS No. 66 “Accounting for Sales of Real Estate”.

When the Group undertakes real estate development projects, it recognizes revenues from sales of real estate when a) a sale is consummated; b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; c) the Group's receivable is not subject to future subordination; d) the Group has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the project. Revenue is recognized when (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) any permanent financing for which the Group is responsible has been arranged; and (d) all conditions precedent to closing have been performed.

Revenues from development of office buildings, apartments, condominiums, shopping centers and similar structures are recognized, in accordance with SFAS 66, prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for nondelivery of the property; (c) sales prices are collectible; (d) aggregate sales proceeds and costs can be reasonably estimated. The application of the percentage-of-completion method with regards to these development properties is consistent with the method applied for property construction services as described above.

The Group also sells completed commercial buildings through the sale of the Group’s equity interest in the companies which holds such property. Revenue from the sale of equity interests in the properties developed by the Group are recognized when (a) the buyer is independent of the Group, (b) collection of the sales price is reasonably assured, (c) the Group will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

Other investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method in accordance with FAS No. 66.

(iii) The Group has a number of developments where it generates income through retaining title to or lease rights for the property and receiving rental revenues. Such properties primarily consist of residential and commercial buildings and land which is, or will be, leased on either a short-term or long-term basis. Rental revenues are recognized over the lease term on a straight-line basis.

(iv) Revenues from service contracts for facility management are recognized on the accrual basis over the periods when services are provided.

Other activities

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

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

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

Financial Instruments – The Group’s financial instruments include cash, short-term investments, receivables, derivative financial instruments, bank deposits and notes, payables and short-term and long term debt. Except as disclosed elsewhere in the consolidated financial statements, the estimated fair value of such financial instruments as of for the year ended December 31, 2008 approximated their carrying value as reflected in the consolidated balance sheet due to the short term nature of these amounts.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, the Group entered into several variable-to-fixed interest rate and cross currency interest rate swap agreements to manage its exposure to changes in the fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate and currency fluctuations (Note 26). The Group does not use derivatives for trading purposes.

The derivatives are initially recognized at fair values at the date the contracts were entered into. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Such financial assets and liabilities are remeasured to their fair values at each balance sheet date. The resulting gain or loss is recognized in net income immediately.

MTS's enters into interest rate swap agreements to limit its exposure to changes interest rate movements. To the extent that they meet the requirement for hedge accounting, these arrangements are designated as cash flow hedges under FAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". To qualify for hedge accounting, the hedge relationship must be formally documented at inception, detailing the particular risk management objective and strategy for the hedge, which includes the item and risk that is being hedged and the derivative that is being used, as well as how effectiveness will be assessed and ineffectiveness measured. Further, the interest rate swap must be highly effective in offsetting the changes in cash flows of the hedged debt.

Where the hedge is considered effective, the effective portion of the change in fair value of interest rate swap agreements is recorded in other comprehensive income and reclassified to interest expense in the same period that the related cash flows of the hedged transaction affect the interest expense. Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges. The ineffective portion of the change in fair value of the interest rate swap agreement is recognised immediately in net income.

If at any time the correlation assessment will indicate that the interest rate swap agreements are no longer effective as a hedge, the Group discontinues hedge accounting and all subsequent changes in fair value are recorded in net income.

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

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

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

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

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

Loans subject to individual reviews are analyzed and segregated by risk according to the Group's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions and performance trends within specific portfolio segments, and any other pertinent information (including individual valuations on non-performing loans in accordance with FAS No. 114 "Accounting by Creditors for Impairment of a Loan" result in the estimation allowances for loan losses. If necessary, an allowance for loan losses is established for individually impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Once a loan has been identified as individually impaired, management measures impairment in accordance with FAS No. 114. Individually impaired loans are measured based on the present value of payments expected to be received, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the measure of estimated fair value, a specific allowance is established as a component of the allowance for loan losses.

Non-Accrual Loans – In general, the accrual of interest on commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual, or written-off at an earlier date, if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or written-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis, in accordance with FAS No. 118, "Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures", until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame and when the borrower has demonstrated payment performance of cash or equivalents for a minimum of six months.

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

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

The cost of inventories of SITRONICS' entities is computed on a weighted average cost basis, except for its Information Technologies Solutions division, which accounts for its inventories using the first-in, first-out ("FIFO") cost method.

The cost of MTS's and Comstar UTS's inventories (including mostly spare parts) is computed on a weighted average cost basis.

Other subsidiaries of the Group account for their inventories using the FIFO method.

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

Vendor Programs – Funds received by SITRONICS from its vendors for price protection, vendor rebates, marketing, training, product returns and promotion programs are recorded when earned as adjustments to product costs, revenue, or selling, general and administrative expenses according to the nature of the program.

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

Assets held for sale – In accordance with the provisions of FAS No. 144, "Accounting for the Impairment and or Disposal of Long-Lived Assets", the Group classified a long-lived asset as held for sale when all the following conditions have been met: (i) management has approved a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition (iii) an active program to locate a buy has been initiated (iv) the sale is probable (v) the asset is being marketed at a reasonable price and (vi) it is unlikely that the plan will changed significantly or withdrawn. Held for sale assets are measured at the lower of its carrying amount or fair value less cost to sell.

MTS' management decided to discontinue use of certain telecommunication equipment in MTS Russia in accordance with MTS' network development strategy. The Group recorded the equipment at the lower of its carrying amount or fair value less costs to sell. The equipment had a fair value less costs to sell of approximately $46.4 million and $67.4 million as of December 31, 2008 and 2007 respectively.

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

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

Depreciation is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

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

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

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

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

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations" and Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" ("FIN No. 47"), the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The adoption of FIN No. 47 did not have material impact on the Group's financial position or results of operations. The Group's obligations under FAS No. 143 relate primarily to the cost of removing its equipment from sites (Note 19).

Business Combinations – Acquisition of businesses from third parties is accounted for using the purchase method. On acquisition, the assets and liabilities of an entity are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the book values of the assets and liabilities recognized if applicable. Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. Any difference between the purchase price and the net assets acquired is reflected in equity.

In accordance with FAS No. 141, the Group accounted for the acquisition of the minority interests by the purchase method. As a result of each step acquisition, the then historical cost basis of the minority interest balance was reduced to the extent of the percentage interest sold, and the increased ownership obtained was accounted for by increasing the entity's basis from historical cost to fair value for the portion of the assets acquired and liabilities assumed based on the additional ownership acquired.

Goodwill – Goodwill arising on acquisitions is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is allocated on a pro-rata basis to decrease the value of certain long term assets.

Goodwill is reviewed annually for impairment or whenever it is determined that impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill (Note 12).

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

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

Other intangible assets represent acquired customer bases, trademarks, telephone numbering capacity, radio frequencies and various purchased software costs. Trademarks and telephone numbering capacity with unlimited contractual life are not amortized, but are reviewed, at least annually, for impairment in accordance with the provisions of FAS No. 142.

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

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

Investments in equity securities where the Group does not have the ability to control or exercise significant influence over operating and financial policies or where they have no readily determinable fair values, are accounted for at cost of acquisition.

Trading securities held by the Group are stated at market value. Unrealized holding gains and losses for trading securities are included in earnings.

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

Investments in marketable securities classified as available-for-sale are stated at fair value based on market quotes. Unrealized gains/(losses), net of deferred taxes, are recorded as a component of other comprehensive income.

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans.

Impairment of Long-lived Assets Other Than Goodwill and Investments – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets.

The Group has performed test for impairment of the long-lived assets as of December 31, 2008, and recognized an impairment charge relating to its investments in real estate developed for sale and income producing property in the amount of $37.2 million and $4.7 million, respectively.

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

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

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF was 24% in 2008. Starting January 1, 2009, the income tax rate has been reduced to 20% in Russia. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. As of December 31, 2008, the corporate income tax rate in Ukraine was 25%.

The Group provides for income taxes in accordance with Statement FAS No.109, "Accounting for Income Taxes" and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48").

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

Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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

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

Stock-based Compensation – The Group accounts for stock-based compensation plans in accordance with the provisions of FAS No. 123R "Share Based Payment". Under FAS No. 123R, the Group calculates and records the fair value of equity instruments, such as stock options or restricted stock, awarded to employees for services received and recognizes such amounts in the consolidated statement of operations. The fair value of the equity instruments is measured on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments (Note 31). Stock-based compensation expense includes the estimated effects of forfeitures. Such estimates are adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and also impact the amount of expense to be recognized in future periods.

Retirement and Post-Retirement Benefits – The Group accounts for pension plans following the requirements of FAS No. 87, "Employers' Accounting for Pensions", as amended by FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and FAS No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106".

Subsidiaries of the Group contribute to the local state pension funds and social funds, on behalf of all their employees.

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

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

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

In accordance with FAS No. 158, the Group records on the balance sheet the funded status of its pension plans based on the projected benefit obligation.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the year ended December 31, 2008 and 2007 amounted to $144.0 million and $66.4 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2008 and 2007 were $479.2 million and $393.7 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Research and Development Costs – Research and development ("R&D") costs are fully charged to the consolidated statements of operations when incurred and for the year ended December 31, 2008 and 2007, equaled $41.2 million and $50.6 million, respectively. Such costs were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

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

Redeemable Shares Outstanding – Shares of SITRONICS that can be put by the investor to the Group are subject to EITF Topic D-98, "Classification and Measurement of Redeemable Securities", and are accounted for as redeemable minority interest at the greater of their redemption value or amount that would result from applying ARB No. 51 "Consolidated Financial Statements" consolidation and accounting. The Company recognized the redeemable minority interest at fair value and, as the put option is currently redeemable, subsequently adjusted the carrying value of the redeemable minority interest for redemption value changes at the end of each reporting period as a reduction of net income available to common stockholders within the consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the year ended December 31, 2008 and 2007.

Diluted EPS reflect the potential dilution related stock options granted to employees. The diluted weighted average number of shares and diluted EPS are not materially different from basic for the years ended December 31, 2008 and 2007.

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

Comprehensive Income – Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Recent Accounting Pronouncements – In September 2006, the FASB issued FAS No. 157, "Fair value measurements" FAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements of fair value measurement. FAS No. 157 is applicable to other accounting pronouncements that require or permit fair value measurement, and accordingly, does not specify when fair value is required as a basis for measurement. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group adopted FAS No. 157 as of January 1, 2008. The adoption of FAS No. 157 did not have a material impact on the Group's financial position, results of operations and cash flows.

FAS No. 157 also established a hierarchy that prioritizes the inputs used to measure fair value into three levels based on observable and unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Group. Unobservable inputs, which require more judgment, are those inputs described above that reflect management's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy is broken down into three levels based on the reliability of inputs:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – significant other observable inputs; and
- Level 3 – significant unobservable inputs.

In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delays the application of SFAS No. 157 for all non-financial assets and liabilities that are measured at fair value on a non-recurring basis to fiscal years beginning after November 15, 2008. Therefore, in accordance with the aforementioned FSP, the Group has only partially applied SFAS No. 157. Beginning January 1, 2009, the Group will also apply SFAS No. 157 to all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis as required by FAS No. 157. The Group is currently evaluating the impact of FSP FAS 157-2 and the adoption of this statement is not expected to have material effect on the Group's financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments". The FSP amends the other-than-temporary impairment criteria associated with marketable debt securities and beneficial interests in securitized financial assets. It requires that an entity evaluate for and record an other-than-temporary impairment when it concludes that it does not intend to sell an impaired security and does not believe it likely that it will be required to sell the security before recovery of the amortized cost basis, regardless of the entity's positive intent and ability to hold the asset to maturity. Once an entity has determined that an other-than-temporary impairment has occurred, it is required to record the credit loss component of the difference between the security's amortized cost basis and the estimated fair value in earnings, whereas the remaining difference is to be recognized as a component of other comprehensive income and amortized over the remaining life of the security. The FSP is effective for interim and annual reporting periods ending after June 15, 2009 and the Group is currently evaluating the potential effect adoption may have on its financial position and results of operations.

In April 2009, the FASB issued FSP No. 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significant Decreased and Identifying Transactions That Are Not Orderly". The FSP requires entities to evaluate the significance and relevance of market factors for Level 2 fair value inputs to determine if, due to reduced volume and market activity, the factors are still relevant and substantive measures of fair value. The FSP is effective for interim and annual reporting periods ending after June 15, 2009 and the Group does not believe the adoption will have a material effect on its financial position or results of operations.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued, and therefore was effective for the financial statements for the year ended December 31, 2008. The adoption of FSP FAS 157-3 had no material effect on the Group's financial statements.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" – including an amendment of FASB Statement No. 115", which permits an entity to measure certain financial assets and financial liabilities at fair value. FAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or FVO). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. FAS No.159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Group does not expect the adoption of FAS No. 159 will have a material impact on the Group's consolidated financial statements.

In December 2007, the FASB issued FAS No. 141(R), "Business Combinations", and FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". These statements substantially change the way companies account for business combinations and noncontrolling interests (minority interests in current GAAP). Compared with their predecessors, FAS No. 141(R) and FAS No.160 will require among other changes: (a) more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; (b) liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period; (c) an acquirer to expense acquisition-related costs (e.g., deal fees for attorneys, accountants, investment bankers); and (d) noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Both Statements are to be applied prospectively (with one exception related to income taxes) for fiscal years beginning on or after December 15, 2008. However, FAS No.160 requires entities to apply the presentation and disclosure requirements retrospectively (e.g., by reclassifying noncontrolling interests to appear in equity) to comparative financial statements, if presented. Both standards prohibit early adoption. Management believes that FAS 141(R) will have an impact on the accounting for future business combinations once adopted but the effect cannot be quantified at the moment.

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

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The objective of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141R. FSP No. 142-3 applies to all intangible assets, whether acquired in a business combination or otherwise, and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The statement should be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. The Group expects FSP No. 142-3 will have an impact on its accounting for future acquisitions of intangible assets once adopted, but is unable to quantify the effect as it is subject to acquisitions that are made in the future.

In May 2008, the FASB issued FAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with US GAAP for nongovernmental entities. FAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.

In November 2008, the FASB issued EITF Issue No. 08-6, “Equity Method Investment Accounting Considerations” (“EITF Issue No. 08-6”). EITF Issue No. 08-6 considers the effects of the issuances of SFAS No. 141R and SFAS No. 160 on an entity’s application of the equity method under Opinion 18, “The Equity Method of Accounting for Investments in Common Stock,” i.e. 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. EITF No. 08-6 is effective for transactions occurring in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted. The Group does not expect the adoption of EITF No. 08-6 to have a significant impact on its financial position, results of operations and cash flows.

In November 2008, the FASB issued EITF Issue No. 08-7, “Accounting for Defensive Intangible Assets” (“EITF Issue No. 08-7”). EITF Issue No. 08-7 applies to all acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent others from obtaining access to the asset (a defensive intangible asset), except for intangible assets that are used in research and development activities. The EITF reached a consensus that a defensive intangible asset should be accounted for as a separate unit of accounting and should be assigned a useful life that reflects the entity's consumption of the expected benefits related to the asset, noting that it would be rare for a defensive intangible asset to have an indefinite life. This EITF Issue No. 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Group expects EITF Issue No. 08-7 will have an impact on its accounting for future acquisitions of intangible assets once adopted, but the effect is dependent upon the acquisitions that are made in the future.

Reclassifications – Certain reclassifications of prior years’ amounts have been made to conform to the presentation adopted for the year ended December 31, 2008.

3. ACQUISITIONS

Sistema Shyam TeleServices Limited

In September 2007, the Group entered into a purchase agreement with the shareholders of Shyam Telelink Ltd. (renamed to Sistema Shyam TeleServices Limited – “SSTL”), a mobile operator in Indian circle of Rajastan, to acquire 10.0% stake in SSTL in exchange for a total cash consideration of $11.4 million.

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

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

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

Associated with the additional acquisition of interest in Shayam Telelink in June 2008, an agreement was entered into by the Group and Shayam Telelink which requires the Group to make additional payments to the former shareholders of SSTL based on the SSTL’s fair value, as determined by an independent investment bank as at June 30, 2008, December 31, 2009 and 2010. The Group paid additional $156.0 million based on SSTL’s fair value as of June 2008 and the amount was included in the purchase price of SSTL. As of December 31, 2008 the fair value of future payments can not be reliably defined.

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

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

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

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

Dalcombank

In October – November 2007, the Group acquired 48.2% stake in Dalcombank, for a total cash consideration of $20.0 million. After acquisition of this stake, the Group made an unconditional offer to purchase the remaining shares in Dalcombank from the existing shareholders and guaranteed payment for these shares. As of December 31, 2007, the offer was irrevocably accepted by the holders of 50.5% share in Dalcombank and the Group obtained control over its operations for an additional consideration of $109.6 million. The settlement of the liability was completed in March 2008 by a combination of cash and shares of MBRD. During 2008 year the Group consolidated 100% stake of Dalcombank for a total consideration of $130.3 million.

This acquisition was accounted for using the purchase method of accounting. The allocation of purchase price was as follows:

Current assets	$	235,812
Non-current assets		345,828
Goodwill		63,560
Current liabilities		(188,409)
Non-current liabilities		(326,485)
Purchase price	**$**	**130,306**

Goodwill was mainly attributable to the expected growth opportunities of business. As of December 31, 2008, the Group performed a test for impairment of initially recognized goodwill and recognized a $63.6 million impairment loss as a result of global economic crisis and changes in economic conditions (Note 2).

Digital Telephone Networks South

In November 2007, Comstar UTS acquired a 100% stake in Digital Telephone Networks South ("DTN"), the largest alternative telecommunications operator in the Southern Federal District of Russia.

DTN owns a digital telephone network which operates under a zonal license in Rostov-on-Don and the Rostov region. DTN provides a full range of telecommunication services, including digital telephony, leased channels and Internet access, to residential and corporate subscribers. DTN services over 155,000 telephone numbers, including more than 125,000 numbers for residential subscribers and around 30,000 numbers for corporate clients, in Rostov-on-Don, Taganrog, Shakhty, Azov, Belaya Kalitva, Kamensk-Shakhtinsky and Gukovo, as at the date of acquisition.

This acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

Current assets	$	10,977
Non-current assets		196,164
Current liabilities		(6,873)
Non-current liabilities		(33,112)
Purchase price	**$**	**167,156**

K-Telecom

In September 2007, MTS acquired 80% stake in International Cell Holding Ltd ("ICHL"), 100% indirect owner of K-Telecom CJSC, Armenia's wireless telecommunication operator. 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. 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 of the options shall be fair value of ICHL shares at the date the option is exercised, as determined by an independent investment bank at the date the option is exercised subject to a cap of €200.0 million (equivalent of $281.9 million as of December 31, 2008). Accordingly, the fair values of the put and call options are deemed to approximate nil.

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. Based on K-Telekom's financial results for the year ended December 31, 2007, €10.0 million ($14.7 million as of December 31, 2007) was recognized as a liability in the accompanying consolidated balance sheet as of December 31, 2007 and included in the purchase price of 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-Telekom'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. In addition, the terms of the sale and purchase agreement require additional payments to be made if certain future financial targets based on K-Telecom's results are met.

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 taxes		(59,722)
Minority interest		(10,772)
Purchase price	**$**	**402,558**

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 recoginized as a liability in the accompanying consolidated balance sheet as of December 31, 2008.

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.

The customer base is amortized on a straight-line basis over the estimated average subscriber's life of approximately 46 months.

Acquisitions of minority interests

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

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

In March 2008, SITRONICS purchased a 49.0% stake in its subsidiary, Kvazar-Micro Corporation B.V. for a total consideration of $174.8 million increasing its stake to 100.0%. During the first stage of transaction, 36.0% of shares were acquired from Melrose Holding, a company related to former management of Kvazar-Micro, for a cash consideration of $116.9 million. In June 2008, SITRONICS acquired the remaining 13.0% of the shares from Melrose Holding for $57.9 million. As of December 31, 2008, $67.5 million outstanding was recorded as liability. The allocation of purchase price increased the recorded cost of customer base by $17.3 million and $123.4 was recognized as goodwill. The customer base is amortised over the remaining term of contractual relationships of approximately three years. Goodwill is not deductible for income tax purposes and is attributable to economic potential of the system integration market in CIS and synergies realized by the Group.

In December 2007, MBRD purchased 49.0% share in East-West United Bank ("EWUB") from VTB for a total cash consideration of $42.9 million (equivalent of EUR 29.7 million), increasing the Group's ownership to 100.0%. Allocation of the purchase price increased the property, plant and equipment cost by $5.9 million. An additional $10.3 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 EWUB operates.

In June 2007, MTS purchased an additional 26% stake in JV Uzdunrobita ("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.

Other acquisitions

Below are the lists of other acquisitions for the years ended December 31, 2008 and 2007:

For the year ended December 31, 2008

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

The purchase price allocation of Intersvyazservice and Inter-TV Media (collectively referred to as "Interlink Group") and Strategia has not been finalized as of the date of these financial statements, as the Group has not completed valuation of individual assets of these companies. As a result of purchase price allocation related to other acquisitions the Group assigned $70.2 million to the acquired customer base and related customer relationship, $9.0 million to the licenses cost and $84.6 to the cost of fixed assets. Subscriber base is amortized over the weighted average period of 10 years. License costs are amortized over the remaining contractual terms of the license of approximately 3 years.

For the year ended December 31, 2007

Acquiree	Principal activity	Date of acquisition	Ownership interest Before acquisition	Ownership interest After acquisition	Acquiring segment	Purchase price (in millions)
Bashcell	Mobile operator	December 2007	0.0%	100.0%	Telecom-munications	$ 6.7
SITRONICS	Holding company of the Group's technology business	January 2007	84.5%	87.6%	Technology and Industry	36.0
Mikron	Microelectronic producer	January 2007	69.4%	77.0%	Technology and Industry	7.6
Medexpress	Voluntary medical insurance services provider	May and June 2007	0.0%	100.0%	Consumer Business	10.0
Digital TV Broadcasting	Digital TV provider	March 2007	74.0%	100.0%	Telecom-munications	3.0
RTC	Fixed line operator	December 2007	0.0%	88.0%	Telecom-munications	26.4
Sochitelecomservice	Fixed line operator	August 2007	0.0%	100.0%	Telecom-munications	0.8
VZPP-Micron	Producer of electronic power supply components	March 2007	97.0%	100.0%	Technology and Industry	0.5
Total						**$ 91.0**

As a result of the purchase price allocation the Group assigned approximately $41.1 million to the acquired fixed assets and $9.7 million to the acquired customer base. The excess of purchase price over the fair value of the net assets acquired of approximately $27.1 million has been assigned to goodwill which is not deductible for tax purposes. Subscriber base components are amortized over the periods ranging from 13 to 24 years, depending on the type of subscribers.

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES AND AFFILIATES

In December 2007, the Group committed to a plan to sell its 81.2% stake in CJSC Sahles, a controlling shareholder of the entities constituting the Perm Motor Group ("PMG"), to an unrelated party within the next six months. Accordingly, the Group has recorded the effects of PMG's operations in its consolidated statement of operations and comprehensive income as results from discontinued operations, while the assets and liabilities of PMG were classified as assets and liabilities of discontinued operations in the consolidated balance sheets.

In February 2008, the Group acquired an additional 18.8% of PMG from an unrelated party for $51.1 million in cash. As a result of this transaction, the Group's ownership has increased to 100%. In March 2008, the Group completed the sale of 100% PMG to CJSC Saturn, a subsidiary of OPK Oboronprom, for a total cash consideration of $190.0 million. The transaction resulted in a loss from disposal of $2.1 million.

The assets and liabilities of discontinued operations of PMG as of December 31, 2007 consisted of the following:

		December 31, 2007
Current assets	$	349,223
Non-current assets		196,640
Total assets of discontinued operations	**$**	**545,863**
Current liabilities	$	107,778
Non-current liabilities		288,354
Total liabilities of discontinued operations	**$**	**396,132**

The results of operations of discontinued operations for the years ended December 31, 2007 and 2008 were as follows:

		2008		2007
Total revenues	$	97,728	$	250,761
Total expenses		(102,144)		(253,237)
Loss from discontinued operations before income tax	**$**	**(4,416)**	**$**	**(2,476)**
Income tax benefit/(expense)	$	222		(2,136)
Loss from discontinued operations, net of income tax	**$**	**(4,194)**		**(4,612)**

In February 2007, the Group sold its 51% stake in ROSNO for a cash consideration of $750.0 million to Allianz AG. The transaction resulted in a gain from disposal of $522.0 million. In connection with the sale of ROSNO, the Group purchased a minority interest in ROSNO of 2.8% from ROSNO's managers for a cash consideration of $42.6 million and subsequently sold it to Alianz AG for the same consideration.

In February 2007, SITRONICS completed its initial public offering of 1,675,000,000 common shares, with a par value of 1 RUB per share, comprising 125,160,800 ordinary shares and 30,996,784 global depositary receipts ("GDRs"), with each GDR representing 50 shares of common stock. Proceeds from the offering, net of the underwriters' discount and other direct costs, comprised of $356.4 million. As a result of the IPO, the Group's effective ownership in SITRONICS decreased from 87.6% to 71.4%. The excess between the cash proceeds received and the increase in minority interest of $232.5 million is recorded as additional paid in capital.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $1,039.7 million and $205.4 million as of December 31, 2008 and 2007, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities of less than 90 days.

Also included in cash as of December 31, 2008 and 2007, are $4.7 million and $230.0 million, respectively, which represent the MBRD's minimum reserve deposit, required by the Central Bank of the RF.

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2008 and 2007 consisted of the following:

		2008		2007
Trading securities:				
RF Eurobonds	$	36,488	$	73,590
Corporate bonds		150,043		121,734
Government and municipal bonds		23,059		63,856
Corporate shares		2,676		5,496
Other trading securities		1,321		-
		213,587		264,676
Other short-term investments:				
Promissory notes and deposit certificates from third parties		293,519		400,385
Promissory notes from and loans to related parties		90,503		111,250
Bank deposits with original maturities exceeding 90 days		7,338		12,640
Advance made to investment broker		11,977		96,608
Other short-term investments		500		23,665
		403,837		644,548
Total	**$**	**617,424**	**$**	**909,224**

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

Promissory notes from third parties, mostly denominated in RUB, bear interest rates varying from 5.5% to 7.0% as of December 31, 2008. The promissory notes from related parties denominated in RUB bear 12-14% interest rates, while USD denominated notes bear an interest rate of 3-5% as of December 31, 2008.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2008 are 5.3-7.6% for RUB and USD denominated deposits. As of December 31, 2007, the effective interest rates on bank deposits with original maturities exceeding 90 days were 7% for RUB denominated deposits and 7% on deposits in USD.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of December 31, 2008 and 2007 consisted of the following:

		2008		2007
Loans to customers	$	3,273,049	$	2,945,540
Loans to banks		1,499,019		1,491,224
		4,772,068		4,436,764
Less: allowance for loan losses		(193,394)		(203,913)
Less: amounts maturing after one year		(1,402,298)		(1,468,088)
Loans to customers and banks, current portion	**$**	**3,176,376**	**$**	**2,764,763**

Loans to customers as of December 31, 2008 and 2007 included loans to affiliates and other related parties of $53.4 million and $35.5 million, respectively. Management anticipates no losses in respect of these amounts.

The following table presents the effective average interest rates by categories of loans as of December 31, 2008 and 2007:

	2008			2007		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Loans to customers						
- corporate customers	15.1%	8,4%	11.9%	13.7%	12.7%	12.9%
- individuals	16.9%	12.3%	5.5%	17.0%	14.1%	12.6%
Loans to banks	10.0%	6.0%	2.8%	7.8%	5.7%	3.0%

The movement in the allowance for loan losses for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
Allowance for loan losses, beginning of the year	$ 203,913	$ 170,969
Additions charged to the results of operations	41,246	29,919
Write-downs charged against the allowance	(7,403)	(51)
Currency translation adjustment	(44,362)	3,076
Allowance for loan losses, end of the year	**$ 193,394**	**$ 203,913**

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Trade receivables	$ 1,320,326	$ 1,490,740
Less: provision for doubtful accounts	(122,682)	(107,009)
Total	**$ 1,197,644**	**$ 1,383,731**

Trade receivables as of December 31, 2008 and 2007 include receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $81.6 million and $162.6 million, respectively. Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

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

Prepaid expenses, other receivables and other current assets, net of provision for doubtful accounts, as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Prepaid expenses and advances to suppliers	$ 736,738	$ 632,510
Prepaid taxes	141,273	103,144
Interest receivables	40,565	47,272
Assets held for sale	46,426	35,354
Dividends receivable from energy companies in the Republic of Bashkortostan	111,533	-
Receivables for sale of Glorerly shares	79,000	-
Net investments in leases (Note 17)	57,966	54,545
Other	157,583	86,954
Less: provision for doubtful accounts	(28,611)	(9,675)
Total	**$ 1,342,473**	**$ 950,104**

10. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Finished goods and goods for resale	$ 369,917	$ 372,697
Raw materials and spare parts	237,338	286,688
Work-in-progress	127,147	96,858
Costs and estimated earnings in excess of billings on uncompleted contracts	176,564	87,084
	910,966	843,327
Less: long-term portion (Note 17)	(30,768)	(63,134)
Total	**$ 880,198**	**$ 780,193**

11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Land	$ 308,525	$ 344,063
Buildings and leasehold improvements	1,643,781	1,481,717
Switches, transmission devices, network and base station equipment	8,228,558	7,943,556
Other plant, machinery and equipment	1,693,454	1,560,830
Construction in-progress and equipment for installation	1,467,577	1,831,282
Telecommunication equipment for installation	688,151	778,446
Real estate construction projects	781,072	661,488
	14,811,118	14,601,382
Less: accumulated depreciation	(4,483,147)	(4,188,746)
Total	**$ 10,327,971**	**$ 10,412,636**

Depreciation expense for the year ended December 31, 2008 and 2007 amounted to $1,682.5 million and $1,241.9 million, respectively.

12. GOODWILL

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

	Telecom-munications	Technology and Industry	Consumer business	Total
Balance as of January 1, 2007	$ 503,238	$ 198	$ 730	$ 504,166
Purchase price allocation	274,251	-	15,755	290,006
Currency translation adjustment	65,847	-	-	65,847
Balance as of December 31, 2007	$ 843,336	$ 198	$ 16,485	$ 860,019
Adjustments to preliminary allocations	37,716	-	(15,755)	21,961
Purchase price allocations	499,640	124,351	63,560	687,551
Impairment losses	(49,891)	-	(63,560)	(113,451)
Currency translation adjustment	(104,867)	-	(11)	(104,878)
Balance as of December 31, 2008	**$ 1,225,934**	**$ 124,549**	**$ 719**	**$ 1,351,202**

Amounts of goodwill in Telecommunications segment are attributable to the following reporting units: MTS, SSTL and Sistema Mass Media. Goodwill in Technology and Industry segment is attributable to SITRONICS and goodwill in Consumer Assets segment is attributable to Dalcombank.

The Group performed its annual goodwill impairment testing as of December 31, 2008 and applied the following key management assumptions in their fair value calculation:

- For all reporting units apart from SSTL cash flow projections cover a period of five years, cash flows beyond that five year period have been extrapolated taking into account business cycles. Cash flow projections for SSTL cover a period of ten years.

- Consumer price inflation expectations (in local currency) during the forecast period are as follows:

Russia	14.0%
Ukraine	17.0%
India	6.5%

- Discount rates for each of the reporting units were estimated in nominal terms on the weighted average cost of capital basis as follows:

Telecommunications segment:	
Russia	13.3-17.8%
Ukraine	15.8%
India	13.7%
Technology and Industry segment	14.0%
Consumer Assets segment	18.4%

Based on the goodwill impairment testing, the Group recorded an impairment loss of $113.5 million, of which $63.6 million was related to acquisition of Dalcombank and $49.9 million was related to acquisition of “United Cable Networks” by Sistema Mass Media.

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

13. LICENSES, NET

Licenses, net of accumulated amortization, as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Operating licenses	$ 1,450,278	$ 1,348,376
Less: accumulated amortization	(275,757)	(617,740)
Total	**$ 1,174,521**	**$ 730,636**

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2008, all MTS' licenses covering the territories of 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.

Amortization expense for licenses for the year ended December 31, 2008 and 2007 amounted to $149.4 million and $201.8 million, respectively.

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

Year ended December 31,	
2009	$ 357,101
2010	330,049
2011	207,798
2012	87,980
2013	77,817
Thereafter	113,776
	$ 1,174,521

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

14. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses as of December 31, 2008 and 2007 consisted of the following:

	2008			2007		
	Gross carrying value	**Accumu-lated amorti-zation**	**Net carrying value**	**Gross carrying value**	**Accumu-lated amorti-zation**	**Net carrying value**
Amortized intangible assets:						
Acquired customer base	$ 771,952	$ (235,005)	$ 536,947	$ 601,250	$ (208,127)	$ 393,123
Radio frequencies	205,922	(48,622)	157,300	199,981	(69,398)	130,583
Numbering capacity with finite contractual life, software and other	1,803,254	(1,033,524)	769,730	1,855,837	(937,974)	974,363
	2,781,128	(1,317,151)	1,463,977	2,657,068	(1,215,499)	1,441,569
Unamortized intangible assets:						
Trademarks	230,170	-	230,170	195,864	-	195,864
Numbering capacity with indefinite contractual life	29,688	-	29,688	28,536	-	28,536
Total intangible assets	**$ 3,040,986**	**$ (1,317,151)**	**$ 1,723,835**	**$ 2,881,468**	**$ (1,215,499)**	**$ 1,665,969**

As of December 31, 2008, the Group performed its annual review of impairment of the unamortized intangible assets in accordance with the provisions of FAS No. 142 and determined that no impairment exists.

Amortization expense recorded on other intangible assets for the years ended December 31, 2008 and 2007 amounted to $484.4 million and $332.0 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,		
2009	$	442,586
2010		366,342
2011		302,420
2012		193,981
2013		57,597
Thereafter		101,051
	$	**1,463,977**

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

15. INVESTMENTS IN AND LOANS TO AFFILIATES

Investments in affiliates as of December 31, 2008 and 2007 consisted of the following:

	2008			**2007**		
	Voting power, %		**Carrying value**	**Voting power, %**		**Carrying Value**
Shares of energy companies in the Republic of Bashkortostan	Various	$	975,097	Various	$	844,712
MTT	50%		48,906	50%		127,965
MTS Belarus	49%		235,756	49%		188,621
Loans to MTS Belarus	-		1,000	-		-
Loans to Skylink	-		77,541	-		114,696
Construction joint venture with Apsys	50%		46,880	50%		27,371
Construction joint venture with Saraya	50%		19,518	50%		5,824
Other investments and loans to investees	Various		22,370	Various		27,331
Total			**1,427,068**			**1,336,520**

Investments in shares of energy companies in the Republic of Bashkortostan represent investments in several oil and oil-refining companies. As of December 31, 2008 and 2007, these investments included:

	Ownership interest
ANK Bashneft	25.8%
Novoil	29.6%
Ufimsky NPZ	27.7%
Ufaneftekhim	28.5%
Ufaorgsintez	26.3%
Bashnefteproduct	27.5%

As discussed in Note 33, in April 2009, the Group acquired controlling stakes in the above listed companies for a total cash consideration of $2.5 billion.

The most recent financial information available for the energy companies in the Republic of Bashkortostan are as of September 30, 2008. The aggregate financial position and results of operations of these companies as of and for the year ended September 30, 2008 (unaudited) are as follows:

As of September 30, 2008

Current assets	$	2,072,324
Non-current assets	$	3,460,667
Current liabilities	$	(1,395,250)
Non-current liabilities	$	(612,693)

For the year ended September 30, 2008

Revenues	$	7,853,770
Operating income	$	1,315,772
Net income	$	969,445

The aggregate financial position and results of operations of MTT, MTS Belarus and SkyLink as of and for the year ended December 31, 2008 (unaudited) are as follows:

As of December 31, 2008

Current assets	$	391,104
Non-current assets	$	1,007,712
Current liabilities	$	(458,116)
Non-current liabilities	$	(733,272)

For the year ended December 31, 2008

Revenues	$	1,913,040
Operating income	$	258,090
Net income	$	51,951

As of December 31, 2008, the Group recorded a $75.0 million impairment loss with respect to MTT resulting from the decrease in fair value of the stake as indicated by the selling price of the stake in the transaction in March 2009 (see Note 33).

Construction joint ventures represent partnership agreements of Sistema-Hals with Apsys and Saraya to develop certain construction projects.

16. INVESTMENT IN SHARES OF SVYAZINVEST

In December 2006, as a part of its program of regional expansion, Comstar UTS acquired a 25% stake plus one share in OJSC "Telecommunication Investment Company" ("Svyazinvest") from Mustcom Limited for a total consideration of approximately $1,390.0 million, including cash of $1,300.0 million and the fair value of the call and put option of $90.0 million (see Note 26). In a series of transactions, Comstar UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest. Svyazinvest is a holding company that holds controlling stakes in seven publicly traded incumbent fixed-line operators ("MRKs") based in all seven Federal districts of Russia, Rostelecom, a publicly traded long-distance fixed-line operator operating a Russia-wide network, and several other entities, the majority of which are non-public.

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

At December 31, 2008, the carrying value of the investment was $1,241.0 million (RUR 36,460.4 million). Given the economic downturn in Russia and the global economy and the volatility in the markets described in Note 1, management determined that as of December 31, 2008 there were potential indicators of impairment of this investment. As management does not have access to underlying financial data of Svyazinvest, it does not believe it is able to accurately determine the fair value of the investment. In order to assess the investment for a potential impairment, the Group aggregated market value of Svyazinvest's holdings in its publicly traded subsidiaries which totaled $823.4 million (RUB 24,190.9 million) at December 31, 2008 and $1,021.6 million (RUB 34,514.5 million) at April 24, 2009. These amounts exclude the value of Svyazinvest's non-public holdings, as well as any control premium or the effect of bringing the assets together under Svyazinvest. In addition, management has reviewed relevant publicly available information relating to Svyazinvest, including Svyazinvest and its subsidiaries' news releases, analyst reports and share price data for its publicly-traded subsidiaries. On the basis of this information and the significant increase in value of the public entities subsequent to December 31, 2008, management has determined that its investment is not other than temporarily impaired.

Management continues to consider various options with respect to the Group's stake in Svyazinvest, including but not limited to sale or non-monetary exchange of the stake. Accordingly, there remains an uncertainty as to how the value of Svyazinvest stake will be realized by the Group. Future events, additional information regarding the fair value of the investment or a disposal transaction involving Svyazinvest investment could result in recognition of impairment of the carrying value of the Group's investment in Svyazinvest in future periods.

17. OTHER NON-CURRENT ASSETS

Other non-current assets as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Loans, promissory notes and deposits with third parties	$ 129,463	$ 169,902
Net investments in leases, net of current portion	60,014	70,184
Long-term receivables	40,042	31,054
Loans, promissory notes and deposits with related parties	31,893	11,833
Restricted cash	31,193	350,710
Raw materials and spare parts (Note 10)	30,768	63,134
Other investments	26,388	16,452
Receivables for sale of Glorerly shares	-	79,078
Investments in shares of Rosno	-	42,623
Assets held for sale	-	32,067
Investments in shares of Shyam Telelink	-	11,974
Other	27,658	18,975
Total	**$ 377,419**	**$ 897,986**

Restricted cash as of December 31, 2008 and 2007 includes $23.6 million and $28.6 million, respectively, deposited by Uzdunrobita in a special bank account, which was created to be in compliance with government regulation of local currency conversion into foreign currencies. Restricted cash as of December 31, 2007 includes cash in the amount of $310.0 million deposited by the Group for obtaining radio frequencies in India.

Loans and promissory notes from related parties are mostly RUB denominated and carry interest of 11.8-13.7% per annum. The fair value of loans and promissory notes approximates their carrying value. The majority of such loans and promissory notes mature in 2010.

Long-term receivables represent mainly trade receivables of Intracom Telecom under contracts with extended payment terms, carry interest of EURIBOR+1.5%-2.5% p. a. and mature in 2011-2014.

The components of net investment in finance lease as of December 31, 2008 and 2007 are as follows:

	2008	2007
Minimum lease payments	$ 161,689	$ 166,070
Less: unearned finance income	(43,709)	(41,341)
Net investment in finance lease	**117,980**	**124,729**
Current portion	57,966	54,545
Long-term portion	60,014	70,184
Net investment in finance lease	**$ 117,980**	**$ 124,729**

18. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Term deposits	$ 3,664,004	$ 1,912,605
Promissory notes issued	213,289	17,646
Deposits repayable on demand	464,074	1,438,213
	4,341,367	3,368,464
Less: amounts maturing after one year	(803,112)	(1,401,925)
Total	**$ 3,538,255**	**$ 1,966,539**

Bank deposits and notes issued as of December 31, 2008 and 2007 include deposits from and promissory notes issued to affiliates and other related parties for $88.0 million and $43.0 million, respectively.

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

The following table presents the effective average interest rates by categories of bank deposits and notes issued as of December 31, 2008 and 2007:

	2008			2007		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Term deposits:						
- corporate customers	10.2%	7.1%	6.7%	8.8%	6.2%	5.7%
- individuals	10.8%	9.4%	8.4%	10.9%	8.9%	7.1%
Promissory notes issued	13.6%	6.9%	8.6%	8.1%	9.3%	6.0%
Deposits repayable on demand:						
- corporate customers	1.5%	0.5%	0.5%	1.4%	3.8%	1.7%
- individuals	0.4%	0.5%	0.9%	1.5%	1.3%	0.1%

19. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Payroll and other accrued expenses	$ 403,622	$ 491,602
Customers' advances	234,231	203,548
Bitel liability (Note 32)	170,000	170,000
Accrued interest on loans	121,547	111,107
Payable for purchase of Kvazar-Micro Corporation shares	67,494	-
Asset retirement obligations	62,053	59,527
Liabilities on factoring operations	31,699	-
Tax and legal provisions	17,112	29,550
Dividends payable	3,005	4,336
Payable for purchase of Dalcombank	-	109,639
Accrued liabilities for purchase of K-Telecom shares	-	17,356
Payable for purchase of Intracom Telecom shares	-	7,320
Other	320,170	287,837
Total	**$ 1,430,933**	**$ 1,491,822**

As of December 31, 2008 and 2007, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

	2008	2007
Balance, beginning of the year	$ 59,527	$ 10,821
Liabilities incurred in the current period	3,840	3,115
Accretion expense	6,026	1,138
Revisions in estimated cash flows	3,383	44,453
Currency translation adjustment	(10,723)	-
Balance, end of the year	**$ 62,053**	**$ 59,527**

Revisions in estimated cash flows are attributable to the increase in dismantlement costs.

20. SHORT-TERM LOANS PAYBLE

Short-term loans payable as of December 31, 2008 and 2007 consisted of the following:

	Interest rate (Actual at December 31, 2008)	December 31, 2008	December 31, 2007
USD-denominated:			
Access Telecommunications Cooperatief	16.0%	$ 263,552	$ -
Gazprombank	9.5%	200,000	-
Vnesheconombank	LIBOR+7% (8.8%)	155,000	-
Alfa Bank	LIBOR+5.5%-6.0% (7.5%-8.0%)	90,001	-
Alexandria Capital plc	9.3%	75,000	-
Raiffeisenbank	LIBOR+6.6% (8.4%), 12%	80,091	50,000
Standard Bank	LIBOR+2.3% (4.1%)	50,000	-
HSBC Bank	LIBOR+2.5%-8.5% (4.3%-10.3%)	27,054	
The Royal bank of Scotland	LIBOR+6.0% (7.8%)	15,000	-
Melrose Holdings S.A.	17.0%	7,000	-
Drezdner Bank	-	-	125,000
Other	Various	51,750	67,028
		1,014,448	242,028
EUR-denominated:			
Societe Generale – Geniki Bank	EURIBOR+1.5% (4.5%)	14,105	7,320
ING Bank	EURIBOR+1.3% (4.3%)	6,428	-
Hellenik Bank	LIBOR+4% (5.8%)	4,253	-
Other	-	-	10,470
		24,786	17,790
Borrowings in other currencies:			
Raiffeisen Bank	MosPrime+5.5% (28.3%)	34,036	-
Sberbank	8.0-12.0%	23,206	-
HSBC	MosPrime+2.5% (25.3%)	13,546	53,889
Promsvyazbank	14.0%	8,169	-
Solidarnost Bank	-	-	52,983
National reserve Bank	-	-	40,753
Other	Various	166,617	120,010
		245,574	267,635
Loans from related parties	Various	180,839	197,452
Total		**$ 1,465,647**	**$ 724,905**

Short-term loans and notes payable mature in 2009.

21. LONG-TERM DEBT

Long-term debt as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008	December 31, 2007
Loans from banks and financial institutions	$ 6,373,507	$ 5,076,991
Notes and corporate bonds	2,681,890	2,463,684
Loans from related parties	52,866	17,042
Capital leases	20,492	14,581
Other borrowings	67,303	52,541
	9,196,058	7,624,839
Less amounts maturing within one year	(2,234,507)	(1,517,902)
Total	**$ 6,961,551**	**$ 6,106,937**

Notes and corporate bonds as of December 31, 2008 and 2007 consisted of the following:

	Currency	Interest rate	December 31, 2008	December 31, 2007
MTS Finance Notes due 2012	USD	8.0%	$ 400,000	$ 400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
Sistema Capital Notes due 2011	USD	8.9%	345,000	345,000
MTS Finance Notes due 2018	RUB	8.7%	268,533	-
MTS Finance Notes due 2013	RUB	14.0%	255,272	-
MTS Finance Notes due 2015	RUB	14.0%	255,272	-
MBRD Bonds due 2013	RUB	10%-11.5%	208,226	-
JSFC Sistema Bonds due 2013	RUB	9.5%	204,218	-
SITRONICS Bonds due 2010	RUB	10.0%	102,109	122,219
MBRD Capital Notes due 2009	USD	8.8%	99,694	100,000
MBRD Loan Participation Notes due 2016	USD	8.9%	60,491	60,000
DM-Center Bonds due 2015	RUB	8.5%	39,142	46,850
Intourist Bonds due 2010	RUB	9.0%	34,036	40,732
MGTS Bonds due 2009	RUB	7.1%	5,233	29,338
MGTS Bonds due 2010	RUB	7.1%	5,202	59,903
MTS Finance Notes due 2008	USD	9.8%	-	400,000
Sistema Finance Notes due 2008	USD	10.3%	-	310,328
MBRD Loan Participation Notes due 2008	USD	8.6%	-	150,000
			2,682,428	2,464,370
Less: unamortized discount			(538)	(686)
Total notes and corporate bonds			**$ 2,681,890**	**$ 2,463,684**

The fair values of notes and corporate bonds based on the market quotes as of December 31, 2008 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
MTS Finance Notes due 2012	Luxembourg stock exchange	80.0	$ 320,000
MTS Finance Notes due 2010	Luxembourg stock exchange	90.5	362,000
Sistema Capital Notes due 2011	London stock exchange	71.8	247,710
MTS Finance Notes due 2018	MICEX stock exchange	91.2	244,902
MTS Finance Notes due 2013	MICEX stock exchange	99.3	253,485
MTS Finance Notes due 2015	MICEX stock exchange	99.0	252,719
MBRD Bonds due 2013	MICEX stock exchange	97.3-98.0	203,333
JSFC Sistema Bonds due 2013	MICEX stock exchange	99.5	203,197
SITRONICS Bonds due 2010	MICEX stock exchange	83.0	84,750
MBRD Capital Notes due 2009	London stock exchange	92.0	91,718
MBRD Loan Participation Notes due 2016	London stock exchange	50.3	30,427
DM-Center Bonds due 2015	MICEX stock exchange	56.7	22,194
Intourist Bonds due 2010	MICEX stock exchange	95.8	32,606
MGTS Bonds due 2009	MICEX stock exchange	98.0	5,128
MGTS Bonds due 2010	MICEX stock exchange	99.0	5,150
Total notes and corporate bonds			**$ 2,359,319**

As of December 31, 2008, the fair value of other fixed rate debt is less than its carrying value. The fair value of variable interest rate debt approximates its carrying value as the rates are market.

Subject to certain exceptions and qualifications, the indentures governing MTS Finance Notes contain covenants limiting MTS' ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person; and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at

101.0% of their principal amount plus accrued interest. The notes also have cross default provisions with publicly traded debt issued by JSFC Sistema. If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

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

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

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

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

The principal of DM-Center bonds is fully and unconditionally guaranteed by the Moscow City Government. Concurrently, JSFC Sistema has pledged to Moscow City Government real estate and shareholdings with approximate book value of $62.8 million.

Management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of December 31, 2008.

Loans from banks and financial institutions as of December 31, 2008 and 2007 consisted of the following:

	Maturity	Interest rate (Actual at December 31, 2008)	December 31, 2008	December 31, 2007
USD-denominated:				
Syndicated Loan Facility to MTS	2009	LIBOR+0.8%-1.2% (2.6%-3%)	$ 1,168,462	$ 1,330,000
VTB	2010-2011	6.2%-8.5%	602,271	1,300,000
Sberbank	2010-2013	10.5%	370,000	-
The Royal Bank of Scotland	2010-2014	LIBOR+0.4%-2.7% (2.2%-4.5%)	243,936	37,721
EBRD	2013-2014	LIBOR+1.5%-3.3% (3.3%-5%)	233,333	216,666
Skandinaviska Enskilda Banken AB	2017	LIBOR+0.2% (2.0%)	159,047	-
Vnesheconombank	2009-2014	LIBOR+3.0% (4.8%)	113,320	141,586
Commerzbank AG, ING Bank AG and HSBC Bank plc	2009-2014	LIBOR+0.3% (2.1%)	110,726	103,533
HSBC Bank plc and ING BHF Bank AG	2009-2013	LIBOR+0.4% (2.2%)	108,048	128,185
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2009-2014	LIBOR+0.3% (2.1%)	92,789	100,567
Raiffeisenbank	2009	LIBOR+5.3% (7.0%)	86,560	-
Citibank International plc and ING Bank N.V.	2009-2014	LIBOR+0.3% (2.1%)	81,348	130,467
Barclays Bank plc	2009-2014	LIBOR+0.2% (2.0%)	72,360	85,515
Merrill Lynch International	2011	LIBOR+11.4% (13.2%)	70,000	-
HSBC Bank plc	2011	5.2%	67,000	-
Unicredit	2011-2015	LIBOR+4.2%-7.0% (6.2%-9.0%)	45,938	-
Commerzbank (Eurasia)	2009-2010	LIBOR+3.5% (5.3%)	30,826	38,321
Gazprombank	2011	12.5%	26,000	-
Other	2009-2015	Various	32,463	102,199
			$ 3,714,427	$ 3,714,760
EUR-denominated:				
Gazprombank	2009-2011	12%	423,150	-
Syndicated Loan to SITRONICS	2009-2011	EURIBOR+1.2% (4.2%)	211,575	-
The Royal Bank of Scotland	2009-2013	EURIBOR+0.4% (3.4%)	24,406	30,396
VTB	2010-2012	EURIBOR+3.8%-8.9% (6.8%-11.9%)	7,614	18,984
ING BHF Bank and Commerzbank AG	2009	EURIBOR+0.7% (3.7%)	7,356	22,903
Syndicated Loan to Intracom Telecom	-	-	-	120,253
Deutsche Bank AG	-	-	-	117,768
Other	2009-2010	Various	20,096	26,790
			$ 694,197	$ 337,094
RUB-denominated:				
Sberbank	2012	9.5%	892,167	877,689
VTB	2012	15%-17.5%	801,849	-
RussBank	2010	14.1%	56,787	-
Unicredit	2011	MosPrime+1.8% (24.6%)	25,958	31,070
InvestTorgBank	2011	14.5%	22,819	-
Other	Various	Various	47,057	60,280
			$ 1,846,637	$ 969,039
Other currencies	2009-2018	Various	$ 118,246	$ 56,098
Total			**$ 6,373,507**	**$ 5,076,991**

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

The loan facility of $600.0 million from VTB is collateralized by the pledge of 19.9% of the shares of each of Novoil, Ufimsky NPZ, Ufaneftekhim, ANK Bashneft and Ufaorgsintez and 18.6% of Bashnefteproduct. The facility is subject to certain restrictive covenants, including, but not limited to, any merger, consolidation or disposition of assets, which can deteriorate Sistema-Invest's solvency.

The loan facility of RUB 26 billion (equivalent of $884.9 million as of December 31, 2008) from Sberbank is collateralized by the pledge of 25.0% plus one share of Svyazinvest. The facility is subject to certain restrictive covenants, including, but not limited to certain financial ratios, requirements to maintain ownership of Comstar UTS in MGTS not less than 50% plus one share of voting shares and requirements to maintain ownership of JSFC Sistema in Comstar UTS not less than 50% plus one share of voting shares.

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

The loan facility of $50 million from Barclays Bank plc contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios.

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

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

Management believes that the Group is in compliance with all restrictive provisions of loans and credit facilities as of December 31, 2008.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on December 31, 2008 is as follows:

Year ended December 31,		
2009	$	2,234,507
2010		3,208,487
2011		1,635,970
2012		1,517,876
2013		282,171
Thereafter		317,047
Total	**$**	**9,196,058**

22. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Current portion		
Advances and customers' deposits	$ 474,000	$ 519,958
Connection fees	22,775	78,056
	496,775	598,014
Non-current portion		
Connection fees	119,722	134,280
Total	**$ 616,497**	**$ 732,294**

23. INCOME TAX

The Group's provision for income taxes for the year ended December 31, 2008 and 2007 was:

	2008	2007
Current provision	$ 1,094,468	$ 1,079,267
Deferred income tax benefit	(237,006)	(107,501)
Total income tax expense	**$ 857,462**	**$ 971,766**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate of 24% to income from continuing operations before income tax and minority interests. The items causing this difference are as follows:

	2008	2007
Income tax provision computed on income before taxes at statutory rate	$ 465,947	$ 768,561
Adjustments due to:		
Change in valuation allowance	150,631	50,907
Other non-deductible items	137,826	86,213
Stock-based compensation non-deductible for tax purposes	(3,401)	36,961
Put and call option revaluation	9,973	35,006
Non-taxable items	(7,684)	(31,497)
Impairment of goodwill and long-lived assets	57,787	4,972
Additions to unrecognized tax benefits	10,315	29,247
Currency exchange and translation differences	51,554	(9,289)
Effect of tax rate change	(9,789)	-
Effect of rates different from standard	(5,697)	685
Income tax expense	**$ 857,462**	**$ 971,766**

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

	2008	2007
Deferred tax assets		
Property, plant and equipment	$ 201,794	$ 184,615
Accrued expenses	209,280	158,968
Intangible assets	49,786	51,399
Deferred connection fees	35,502	53,755
Allowance for doubtful accounts and loans receivable	44,396	31,415
Deferred revenues	20,265	29,570
Tax losses carried forward	196,553	77,592
Other	61,532	48,702
	819,108	636,016
Less: valuation allowance	(196,716)	(84,051)
Total deferred tax assets	**$ 622,392**	**$ 551,965**
Deferred tax liabilities		
Property, plant and equipment	(201,983)	(261,557)
Intangible assets	(330,634)	(330,550)
Undistributed earnings of subsidiaries and affiliates	(102,238)	(83,631)
Debt issuance costs	(8,463)	(15,609)
Borrowing costs capitalized	(19,854)	(17,474)
Other	(91,076)	(26,797)
Total deferred tax liabilities	**$ (754,248)**	**$ (735,618)**
Net deferred tax assets, current	$ 262,989	$ 213,363
Net deferred tax assets, long-term	$ 181,317	$ 108,637
Net deferred tax liabilities, current	$ (70,903)	$ (77,893)
Net deferred tax liabilities, long-term	$ (505,259)	$ (428,030)

Effective January 1, 2009, the Government of the Russian Federation changed the income tax rate from 24% to 20% which resulted in $9.8 million decrease in deferred income tax expense

As of December 31, 2008, deferred tax assets relating to tax losses carried forward in the amount of $36.5 million expiring in 2018, are attributable to Sistema-Hals. Deferred tax assets in the amount of $35.0 million expiring in 2012, are attributable to SITRONICS. Deferred tax assets in the amount of $57.3 million are attributable to JSFC Sistema. These tax losses can be utilized within 10 years in Russia, till 2011 in Greece and till 2012 in Czech Republic. The remaining amount of deferred tax assets relating to tax losses carried forward is mainly attributable to Retail and Mass Media companies of the Group, and fully expires by 2018.

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

As of December 31, 2008 and 2007, the Group included accruals for uncertain tax positions in the amount of $19.8 million and $42.3 million, respectively, as a component of income tax payable.

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

	2008	2007
Balance, beginning of the year	$ 42,346	$ 16,591
Additions based on tax positions related to the current year	23,330	27,242
Additions based on tax positions related to prior years	-	5,933
Reduction in tax positions related to prior years	(10,204)	(2,517)
Reversal of tax positions from prior years due to expiration of statute of limitations	(3,997)	(1,275)
Settlements with tax authorities	(31,456)	(3,628)
Currency translation adjustment	(221)	-
Balance, end of the year	$ **19,798**	$ **42,346**

As of December 31, 2008 and 2007, the Group also accrued interest and penalties related to unrecognized tax benefits of $12.2 million and $15.8 million, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

24. POSTRETIREMENT BENEFITS

Intracom Telecom

Intracom Telecom's postretirement benefit obligations relate to a defined benefit plan in accordance with the Greek labor legislation, based on which the employees are entitled to indemnity in the event of termination of employment upon dismissal or retirement.

The amount of compensation is based on the number of years of service and the amount of remuneration at the date of dismissal or retirement. If the employees remain in the employment of the Group until normal retirement age, they are entitled to retirement compensation which is equal to 40% of the compensation amount that would be payable if they were dismissed at that time. In addition, Intracom Telecom is required to pay a lump-sum payment equivalent to between 14 and up to 28 monthly salaries, payable upon death of an employee depending on past service.

Intracom Telecom's postretirement benefit liability is unfunded. The following are the key assumptions used in determining the projected benefit obligation and net periodic benefit cost:

Discount rate	5.6%
Future salary increases	4.5%
Long-term inflation	2.0%
Staff turnover for voluntary resignation (up to 30)	11.0%
Staff turnover for voluntary resignation (from 31 to 50)	5.5%
Staff turnover for voluntary resignation (for ages above 50)	2.0%
Staff turnover for dismissal (for ages below 51)	0.2%

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2008 and 2007 are presented in the following table:

	2008	2007
Change in projected benefit obligation	$	
Projected benefit obligation, beginning of the period	7,255	$ 6,790
Service cost	675	680
Interest cost	369	297
Plan amendments	3,054	570
Actuarial gains	(483)	(950)
Benefit payments	(2,343)	(861)
Currency translation effect	$ (312)	729
Projected benefit obligation, end of the period	**8,215**	**$ 7,255**

The components of the net periodic benefit cost for the year ended December 31, 2008 and 2007 are as follows:

	2008	2007
Service cost	$ 675	$ 680
Interest cost	369	297
Net periodic benefit cost	**$ 1,044**	**$ 977**

Amounts recognized in other comprehensive income for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Unrecognized gain	$ 246	$ 484
Total recognized in other comprehensive income	**$ 246**	**$ 484**

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2009 – $2.0 million; 2010 – $0.8 million; 2011 – $0.9 million; 2012 – $1.0 million, 2013 – $1.0 and an aggregate of $2.5 million in 2014 to 2018.

<u>MGTS</u>

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, 2008, there were 10,853 active employees eligible to the program. The pension plan is terminally funded, i.e., upon retirement MGTS transfers all its obligations to a pension fund (NPF "Sistema"), a subsidiary of Group, and from that moment onwards has no more obligations towards the pensioner regarding the pension plan. All other program benefits are financed on a pay-as-you-go basis.

MGTS' pension obligations are measured as of December 31. The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	9.0%
Expected return on plan assets	10.6%
Projected salary growth	10.2%
Discount rate used for annuity contracts calculation	7.0%
Rate at which pension payment are assumed to be indexed	0.0%
Long-term inflation	6.0%
Staff turnover (for ages below 50)	10.0%

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2008 and 2007 are presented in the following table:

	2008			2007		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Change in projected benefit obligation:						
Projected benefit obligation, beginning of the year	$ 17,381	20,909	38,290	$ 7,236	8,706	15,942
Service cost	807	794	1,601	706	850	1,556
Interest cost	1,102	1,083	2,185	440	530	970
Plan amendments losses/(gains)	66	1,844	1,910	(746)	-	(746)
Actuarial (gains)/losses	(2,355)	265	(2,090)	10,404	7,751	18,155
Benefit payments	-	(5,701)	(5,701)	-	(1,395)	(1,395)
Settlement and curtailment gain	(2,689)	-	(2,689)	(1,574)	(1,102)	(2,676)
Termination benefits	-	2,102	2,102	-	4,471	4,471
Foreign currency translation effect	(2,388)	(3,499)	(5,887)	915	1,098	2,013
Projected benefit obligation, end of the year	**11,924**	**17,797**	**29,721**	**17,381**	**20,909**	**38,290**
Change in fair value of plan assets:						
Fair value of plan assets, beginning of the year	2,473	-	2,473	5,760	-	5,760
Actual return on plan assets	187	-	187	103	-	103
Employer contributions	604	5,701	6,305	1,365	1,395	2,760
Benefits paid	-	(5,701)	(5,701)	-	(1,395)	(1,395)
Settlement	(2,689)	-	(2,689)	(1,575)	-	(1,575)
Foreign currency translation effect	(104)	-	(104)	270	-	270
Other	-	-	-	(3,450)	-	(3,450)
Fair value of plan assets, end of the year	**471**	**-**	**471**	**2,473**	**-**	**2,473**
Unfunded status of the plan, end of the year	**$ (11,453)**	**(17,797)**	**(29,250)**	**$ (14,908)**	**(20,909)**	**(35,817)**

The changes in the projected benefit obligation due to actuarial losses for the years ended December 31, 2008 and 2007 relate primarily to the changes in the discount rate and employees turnover assumptions.

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

	2008			2007		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Unfunded status of the plan, beginning of the year	$ 14,908	20,909	35,817	$ 1,476	8,706	10,182
Net periodic benefit cost	2,570	4,576	7,146	1,043	5,851	6,894
Contributions made	(604)	(5,701)	(6,305)	(1,365)	(1,395)	(2,760)
(Credit)/charge to other comprehensive income	(3,136)	1,511	(1,625)	9,659	6,649	16,308
Foreign currency translation effect	(2,285)	(3,498)	(5,783)	645	1,098	1,743
Other	-	-	-	3,450	-	3,450
Unfunded status of the plan, end of the year	**$ 11,453**	**17,797**	**29,250**	**$ 14,908**	**20,909**	**35,817**

The components of the net periodic pension expense for the years ended December 31, 2008 and 2007 are as follows:

	2008			2007		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Service cost	$ 807	794	1,601	$ 706	850	1,556
Interest cost	1,102	1,083	2,185	440	530	970
Return on assets	(187)	-	(187)	(103)	-	(103)
Termination benefits in connection with established staff reduction program	-	2,102	2,102	-	4,471	4,471
Net actuarial loss recognized in the year	933	597	1,530	-	-	-
Amortization of prior service cost	(85)	-	(85)	-	-	-
Net periodic pension expense	**$ 2,570**	**4,576**	**7,146**	**$ 1,043**	**5,851**	**6,894**

Amounts recognized in other comprehensive income for the years ended December 31, 2008 and 2007 are as follows:

	2008			2007		
	Old age pension	**Other benefits**	**Total**	**Old age pension**	**Other benefits**	**Total**
Unrecognized losses	$ (3,289)	(331)	(3,620)	$ 10,423	6,649	17,072
Unrecognized prior service cost/(credit)	152	1,843	1,995	(764)	-	(764)
Total recognized in other comprehensive income	**$ (3,137)**	**1,512**	**(1,625)**	**$ 9,659**	**6,649**	**16,308**

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, 2009 are $1.1 million and $0.1 million, respectively.

The Group's management expects contributions to the plan during the year ended December 31, 2009 to amount to $3.4 million.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2009 – $3.4 million; 2010 – $1.7 million; 2011 – $2.1 million, 2012 – $2.2 million, 2013 – $2.6 and an aggregate of $22.9 million in 2014 to 2018.

In connection with reorganization and headcount reduction program adopted in 2007, management has estimated an additional liability in respect to lump-sum payments upon retirement in the projected benefit obligation ("PBO"), which resulted in an increase in PBO of approximately $9.7 million as of December 31, 2007, and revised estimated staff turnover rate, which was increased to 10% per annum. In addition, due to adoption of new motivation scheme at MGTS, estimated future salary growth was increased to 9.2% per annum, which resulted in a difference of approximately $13.6 million between PBO and accumulated benefit obligation ("ABO") as of December 31, 2007. Accumulated benefit obligation as of December 31, 2008 and 2007 amounted to $18.9 million and $24.7 million, respectively.

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.

25. DEFERRED REVENUE

Deferred revenue is comprised of plant and equipment contributions and grants received by the Group and as of December 31, 2008 and 2007 was as follows:

	2008	2007
Deferred revenue at the beginning of the period	$ 139,980	$ 129,120
Contributions received during the period	2,880	6,344
Currency translation effect	(21,421)	10,128
	121,439	145,592
Deferred revenue amortized	(5,015)	(5,270)
Effect of acquisitions	(692)	(338)
Deferred revenue at the end of the period	**$ 115,732**	**$ 139,984**

26. FAIR VALUE MEASUREMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The following fair value hierarchy table presents information regarding Group's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Trading securities	213,587	-	-	213,587
Available for sale securities	49,539	1,765	-	51,580
Derivative financial instruments	613	-	5,830	6,443
Total assets	**263,739**	**1,765**	**5,830**	**271,610**
Liabilities at fair value:				
Derivative financial instruments	-	(20,892)	-	(20,892)
Total liabilities	**-**	**(20,892)**	**-**	**(20,892)**

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

	Balance as of January 1, 2008	Acquisitions/ settlements	Included in earnings	Included in other compre-hensive income	Balance as of December 31, 2008
Purchased call option	-	19,422	(13,614)	22	5,830
Total assets	**-**	**19,422**	**(13,614)**	**22**	**5,830**
Written call and put option	(88,000)	116,812	(37,315)	8,503	-
Total liabilities	**(88,000)**	**116,812**	**(37,315)**	**8,503**	**-**

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

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

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

On August 25, 2008, Access has initiated the process of exercising the put option, and on November 26, 2008 has sold MGTS Finance S.A. 46,232,000 shares of Comstar UTS for the total of $463.6 million, $100.0 million of which had been paid on November 26, 2008 in cash, and the remaining portion had been restructured in the form of an interest-bearing promissory note repayable in four monthly installments (Note 20).

Comstar UTS Purchased Call Option – In order to hedge the exposure resulting from the employee phantom option program introduced in April 2008 (see Note 31), in the third quarter of 2008 Comstar UTS acquired a phantom call option on its GDRs for $19.4 million from an investment bank. The agreement entitles Comstar UTS to receive in the second quarter of 2010 a payment equal to the difference between the average of daily volume-weighted average trading prices of Comstar GDR on the London Stock Exchange for the period between February 1 and March 31, 2010 and the phantom option exercise price of USD 10.2368, if positive, multiplied by 9,000,000. Subsequent to the acquisition of the instrument, Comstar UTS estimated the fair value of the respective asset using an option pricing model and re-measures it as of each balance sheet date. Respective gains and losses are included in the statement of operations for the period.

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

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

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

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

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

27. PUTTABLE SHARES OF SITRONICS

In September 2006, SITRONICS entered into a subscription agreement with European Bank for Reconstruction and Development ("EBRD") pursuant to which SITRONICS issued 293,476,990 new common shares which were acquired by EBRD for a total cash consideration of $80.0 million. As a result, EBRD became a holder of a 3.67% stake in SITRONICS. In addition, JSFC Sistema and EBRD entered into a shareholders' agreement pursuant to which JSFC Sistema agreed, for the duration of the agreement, not to reduce its ownership interest in SITRONICS to less than 50.0%+1 share without the prior consent of EBRD. Furthermore, if JSFC Sistema decides to sell its controlling interest in SITRONICS, it must offer EBRD the opportunity to sell its shares on the same terms.

In addition, if JSFC Sistema contemplates a purchase of additional shares in SITRONICS, either existing or newly issued, EBRD must be given the opportunity to participate in such a purchase on a pro rata basis, unless such purchase is necessary or desirable for the success of an initial public offering of SITRONICS' shares. The Group has the right of first refusal if EBRD decides to divest its interests in SITRONICS. EBRD also agreed not to sell any of its shares for 180 days following the initial public offering of SITRONICS' shares. The term of the agreement extends up to two years after the date of the offering, except in certain circumstances.

In addition, simultaneously with the subscription agreement and the shareholders' agreement, JSFC Sistema entered into a put option agreement with EBRD pursuant to which EBRD has the right to sell to JSFC Sistema all of its shares in SITRONICS under certain circumstances during the period of up to two years after the date of the public offering. If EBRD exercises its put option, Sistema will pay EBRD approximately $80.0 million plus (1) interest at a rate of 10.0% per annum if the value of SITRONICS' shares is between $1.6 billion and $2.1 billion upon the completion of the offering or; (2) interest at the LIBOR+2.5% (4.5% as of December 31, 2008) per annum if the value of SITRONICS' shares is less than $1.6 billion or more than $2.1 billion upon the completion of the offering.

As of December 31, 2008 and 2007, the redemption values of the puttable shares were $92.2 and $86.1 million, respectively. In February 2009, the Group was informed by EBRD that the option will be exercised. The total amount payable to EBRD on exercise of the option is $93.3 million.

28. SHARE CAPITAL

As of January 1, 2007, JSFC Sistema had 9,650,000 voting common shares issued and outstanding with a par value of RUB 90.0. In September 2007, the Board of Directors of JSFC Sistema approved the split of the nominal value of the Company's ordinary shares by 1,000 times. As a result of the share split, JSFC Sistema's share capital at December 31, 2007, of RUB 868,500,000 comprised 9,650,000,000 ordinary shares with a par value of RUB 0.09 per share.

In May and June 2007, the Group purchased 1.3% of its own outstanding common stock for a total cash consideration of $161.2 million. The acquired shares are intended for the funding of a share option program for Sistema's top management and may also be used in connection with certain future acquisition activities.

In June and August 2007, the Group sold 0.2% of the shares of JSFC Sistema to the Group's top managers for a total cash consideration of $0.03 million. The fair value of the shares amounted to approximately $23.0 million. The Group has recorded compensation costs of $23.0 million as a component of selling, general and administrative expenses.

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

29. SEGMENT INFORMATION

FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group's operating segments are: Telecommunications, Technology and Industry and Consumer Assets. The Group's management evaluates the performance of the segments based on both operating income and income from continuing operations. Prior to third quarter of 2008, the Group's operating segments were: Telecommunications, Technology, Banking, Real Estate, Mass Media, Retail and Corporate and Other. Following the change in the organizational structure the Group revised its segment reporting as required by FAS No. 131 and restated the comparative information for the year ended December 31, 2007.

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2008 and 2007 is as follows:

For the year ended December 31, 2008	Telecommu-nications	Technology and Industry	Consumer Assetss	Corporate and Other	Total
Net sales to external customers [a]	12,069,329	2,076,157	2,500,489	24,835	16,670,810
Intersegment sales	12,184	456,291	96,018	36,138	600,631
Equity in net income of investees	15,876	(3)	(10,948)	241,867	246,792
Interest income	72,707	9,588	10,273	67,702	160,270
Interest expense	258,026	59,540	98,033	172,738	588,337
Net interest revenue [b]	-	-	51,726	-	51,726
Depreciation and amortization	2,158,424	83,904	64,699	9,268	2,316,295
Operating income	3,564,994	96,320	(159,362)	(118,350)	3,383,602
Income tax expense	803,175	22,432	31,439	416	857,462
Investments in affiliates	365,285	814	79,266	980,785	1,426,150
Segment assets	17,478,564	2,584,473	9,113,070	3,444,267	32,620,374
Indebtedness [c]	5,510,790	821,473	2,102,484	2,226,958	10,661,705
Capital expenditures	3,328,370	265,981	588,684	87,865	4,270,900

For the year ended December 31, 2007	Telecommu-nications	Technology and Industry	Consumer Assets	Corporate and Other	Total
Net sales to external customers [a]	9,737,934	1,813,769	1,814,508	44,444	13,410,655
Intersegment sales	10,608	269,027	29,958	16,587	326,180
Equity in net income of investees	78,437	(66)	26	123,856	202,253
Interest income	52,587	21,103	9,862	61,114	144,666
Interest expense	196,601	49,697	31,471	145,879	423,648
Net interest revenue [b]	-	-	51,708	-	51,708
Depreciation and amortization	1,632,350	63,196	43,231	8,394	1,747,171
Operating income	3,260,597	(120,821)	141,549	(163,881)	3,117,444
Income tax expense	896,676	39,555	42,982	(7,447)	971,766
Investments in affiliates	438,198	2,425	50,921	843,465	1,335,009
Segment assets	16,740,266	2,315,437	8,289,191	3,415,018	30,759,912
Indebtedness [c]	4,477,448	617,205	1,779,588	1,600,918	8,475,159
Capital expenditures	1,912,969	260,802	907,823	29,346	3,110,940

[a] – Interest income and expenses of the banking division are presented as revenues from financial services in the Group's consolidated financial statements.
[b] – The banking division derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that division. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt

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

		2008		2007
Total segment operating income	$	3,383,602	$	3,117,444
Intersegment eliminations		(210,310)		77,498
Interest income		72,487		80,405
Change in fair value of derivative financial instruments		(47,559)		(145,800)
Interest expense		(554,912)		(409,826)
Currency exchange and translation gain		(894,539)		289,833
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$**	**1,748,769**	**$**	**3,009,554**

For the years ended December 31, 2008 and 2007, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

		2008		2007
Total segment assets	$	32,620,374	$	30,759,912
Intersegment eliminations		(3,461,547)		(2,363,254)
Consolidated assets	**$**	29,158,827	**$**	28,396,658

For the years ended December 31, 2008 and 2007, the Group's revenues outside of the RF were as follows:

		2008		2007
Ukraine	$	1,838,691	$	1,804,894
Asia and Pacific region		872,103		486,479
Greece		157,997		218,410
Central and Eastern Europe		422,172		962,986
Other		691,701		99,189
Total	**$**	**3,982,664**	**$**	**3,571,958**

As of December 31, 2008 and December 31, 2007, the Group's long-lived assets located outside of the RF were as follows:

		2008		2007
Ukraine	$	1,677,003	$	2,082,501
Asia and Pacific region		1,852,077		1,262,726
Greece		136,039		181,887
Central and Eastern Europe		98,582		41,345
Other		40,444		3,147
Total	**$**	**3,804,145**	**$**	**3,571,606**

30. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the years ended December 31, 2008 and 2007, the Group entered into transactions with related parties as follows:

	2008	2007
Sale of goods and services	$ (32,791)	$ (27,049)
Telecommunication services provided	(224,608)	(180,801)
Revenues from financial services	(23,971)	(5,855)
Telecommunication services purchased	166,412	159,324
Purchases of goods for resale	837	1,058
Other	50,288	15,876

The Group enters into transaction to purchase telecommunication services from and provides telecommunication services to its equity investees, MTT and Skylink, in the normal course of business.

Related party balances as of December 31, 2008 and, 2007 are disclosed in the corresponding notes to the financial statements.

31. STOCK BONUS AND STOCK OPTION PLANS

MTS

The Stock Option Plan – In 2000, MTS established a stock bonus plan and 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 Company. 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 MTS' 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 CIS, in each case in terms of revenue, and cumulative percentage of MTS' market capitalization growth since the grant date exceeds the predetermined threshold of 15%.

A summary of the status of the MTS' stock option plan is presented below:

	Number of shares	Weighted average exercise price, USD per share	Weighted average grant date fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2007	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	$ -

The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was $7.4 million and $0.4 million, respectively.

Stock options outstanding as of December 31, 2008 will vest during the period ended July 1, 2010. None of the stock options outstanding as of December 31, 2008 were exercisable and therefore had a negative intrinsic value.

Compensation cost under stock option plan of $3.5 million and $2.8 million was recognized in consolidated statements of operations during the years ended December 31, 2008 and 2007, respectively.

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

MTS is required to estimate expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of the stock option awards will be achieved and only recognize expense for those awards expected to vest. The effect of the estimated forfeitures on MTS' operations was $2.3 million and $1.7 million in 2008 and 2007, respectively.

As of December 31, 2008, there was $1.8 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 of MTS 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 MTS. Further, the award shall vest only if at the end of the vesting period the cumulative percentage of MTS market capitalization growth since the grant date exceeds the cumulative cost of equity determined by the board of directors for the same period.

In April 2008, the 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 MTS. 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 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 award of Phantom Grant 2008 (I) and (II) will vest in 14 and 24 months, respectively, after the grant date, contingent upon the continuing employment of the Participants.

A summary of the status of MTS' phantom stock plan is presented below:

	Number of ADSs	Weighted average exercise price, USD per ADS	Weighted average fair value of options, USD per ADS	Aggregate intrinsic value
Outstanding at January 1, 2007	-	-	-	-
Granted	720,000	56.79	44.00	
Exercised	-	-	-	
Forfeited	(36,664)	56.79	44.00	
Outstanding at December 31, 2007	683,336	$ 56.79	$ 44.0	$ 30,750
Granted	6,676,716	76.64	0.68	
Exercised	-	-	-	
Forfeited	(1,346,442)	72.02	0.88	
Outstanding at December 31, 2008	6,013,610	$ 75.41	$ 0.78	$ -

All Phantom Shares outstanding as of December 31, 2008 are non-vested and will vest in 2009 and 2010. None of the Phantom Shares were exercisable as of December 31, 2008 and therefore had a negative intrinsic value.

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

	Phantom stock grant 2007	**Phantom stock 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, were estimated using the Monte-Carlo simulation technique based on the following assumptions:

		Phantom stock 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

For the year ended December 31, 2008 a reversal of previously recorded expense in the amount of $8.9 million 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, 2008, there was $3.1 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 1.4 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 $1.5 and $2.0 million for the years ended December 31, 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 approved the grant of stock options to certain members of the Board of Directors and senior management of Comstar UTS. The excersise price for these options is RUB 122.3 per one GDR (approximately USD 4.6 as of the grant date). Theses 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 to repurchase the GDRs issued dunder the 2006 Program from the participants, subject to separate decision of the Board of Directors. Management believes that the possibility of such repurchase is remote; accordingly the 2006 Program was classified as equity.

The following assumptions were used in the option-pricing model:

Risk free rate		4.82%
Expected dividend yield		Nil
Expected volatility		38.1%
Expected life, years		2
Fair value of options (per share), U.S. Dollar	$	3.16

Expected volatilities were based on historical volatility of the Company's GDRs.

The following table summarizes information about non-vested common stock options during the year ended December 31, 2007:

	Quantity		Weighted average exercise price, RUB		Weighted average grant date fair value, USD
Non-vested options as of January 1, 2007	3,343,525	$	122.3	$	3.16
Granted	-		-		-
Vested	-		-		-
Forfeited	(940,366)		122.3		3.16
Non-vested options as of December 31, 2007	**2,403,159**	**$**	**122.3**	**$**	**3.16**

During the year ended December 31, 2007, certain options have been forfeited, as employment of certain members of management and the Board of Directors has been terminated. Accordingly, $0.1 million of costs under the cancelled options recorded during the year ended December 31, 2006 has been reversed in the accompanying consolidated statement of operations for the year ended December 31, 2007.

In March 2008, the Board of Directors of Comstar UTS has granted the participants of the 2006 Program the right to sell the GDRs purchased by the participants at the exercise of the options back to the Group at a price equal to an average price of one GDR for the 60 calendar days preceding the date of exercise weighted by trading volumes of Comstar UTS GDRs on the London Stock Exchange. Accordingly, as of December 31, 2007 the Group re-classified the option program as liability, which resulted in a decrease in net income and basic and diluted earnings per share for the year ended December 31, 2007 by $6.2 million, USD 0.02 and USD 0.02, respectively. The following assumptions were used in the option-pricing model as of December 31, 2007:

Risk free rate		3.34%
Expected dividend yield		Notional
Expected volatility		37.7%
Expected residual option life, months		11
Fair value of options (per share), U.S. Dollar	$	7.76

Expected volatilities were based on historical volatility of the Company's GDRs.

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 the Group.

In November 2008, the participants of the 2006 Program fully exercised their vested options, acquired 2,403,159 GDRs from the Group for USD 4.60 per one GDR. The GDRs were then repurchased by the Group at USD 5.34 per one GDR, and the 2006 Program was closed. Total intrinsic value of the exercised options, taking into account the repurchase feature, amounted to $1.8 million.

	Quantity	Weighted average exercise price, USD	Weighted average grant date fair value, USD
Non-vested options as of January 1, 2008	2,403,159	$ -	$ 3.16
Granted	-	-	-
Vested	(2,403,159)	4.60	3.16
Forfeited	-	-	-
Non-vested options as of December 31, 2008	**-**	**$ -**	**$ -**

The costs recognized in accordance with the 2006 Program for the years ended December 31, 2008 and 2007 approximated ($9.2) million (a reversal) and $10.3 million, respectively.

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 Comstar UTS' estimated or actual outcome of the performance conditions. The phantom options granted during 2008 vest on March 31, 2010. Upon vesting, the participants will be entitled to a cash compensation equal to the difference between weighted average price of one GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, if positive, timed by the number of phantom options granted.

The following table summarizes information about phantom options during the year ended December 31, 2008:

	Quantity	Exercise price, USD	Weighted average grant date fair value, USD
Non-vested options as of January 1, 2008	-	$ -	$ -
Granted	13,065,882	10.24	2.36
Forfeited	(940,000)	10.24	2.36
Non-vested options as of December 31, 2008	**12,125,882**	**$ 10.24**	**$ 2.36**

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

Risk free rate	2.4%
Expected dividend yield	Notional
Expected volatility	82%
Expected residual option life, months	15
Fair value of options (per share), U.S. Dollar	$ 0.36

Expected volatility was based on historical volatility of the Company's GDRs in the fourth quarter of 2008. The costs recognized in accordance with phantom option plan for the year ended December 31, 2008 amounted to $2.3 million. Total expected future compensation cost related to non-vested awards not yet recognized as of December 31, 2008 amounted to $10.4 million, which will be recognized over 15 months ending March 2010.

Sistema-Hals

On May 22, 2007, the Board of Directors of Sistema-Hals approved a stock option and stock bonus program (“the Program”) for senior management of Sistema-Hals. On June 25, 2007, the General Meeting of shareholders approved the stock bonus program (“the Program”) for the Board of Directors of Sistema-Hals.

Within the framework of the Program on June 25, 2007 Sistema-Hals granted stock bonuses of 403,815 common shares (3.6% of total issued shares) to the Group’s top managers (280,427 shares – 2.5% of total issued shares), and directors (123,388 shares – 1.1% of total issued shares). The fair value of the awards as of the grant date approximated USD 68,032 thousand and USD 29,934 thousand, respectively, and was included in operating expenses for the year ended December 31, 2007.

Within the framework of the Program, in July 2007, Sistema-Hals granted stock options of 235,556 shares (2.1% of total issued shares) to certain members of the top management. Stock options entitle participants of the Program to acquire a specific number of shares of Sistema-Hals during the following 4 year period in equal amounts each year at a price determined and agreed in advance. The exercise price for these options is 201 US Dollars (calculated as 10.05 US Dollars for 1 GDR, where 1 share represents 20 GDRs). The stock price as of the grant date amounted to 236 US Dollars.

The Group recognizes expense for stock-based compensation on a straight-line basis over the vesting period.

The following table summarizes information about non-vested common stock options in the years ended December 31, 2008 and 2007:

	Number of shares	**Exercise price (per share), USD**	**Grant date fair value of options (per share), USD**
Outstanding as of January 1, 2007	-	-	-
Granted	235,556	201	47.43
Exercised	-	-	-
Forfeited	(89,736)	201	47.43
Outstanding as of December 31, 2007	145,820	201	47.43
Granted	-	-	-
Exercised	-	-	-
Forfeited	(112,169)	201	47.43
Outstanding as of December 31, 2008	**33,651**	**201**	**47.43**

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

Risk-free rate	4.97%
Expected dividend yield	0%
Expected volatility	26.2%
Expected option life (years)	4 tranches of 1 year each (2007-2010)
Grant date fair value of options (per share), U.S. dollar	$ 47.43

The compensation benefit under the stock option plan of $0.4 million was recognized in the consolidated statements of operations during the year ended December 31, 2008.

As of December 31, 2008, there is $0.7 million of total unrecognized compensation cost related to non-vested stock-based compensation awards under stock option plan. This amount is expected to be recognized over a period of 30 months. The weighted average contractual term of the options is one year. The vesting period is distributed as follows: 2009–11,217 options; 2010–11,217 options; 2011–11,217 options. The stock option plan is out-of-the-money as of December 31, 2008.

SITRONICS

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

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

From the grant date till December 2008, a number of the Program participants left SITRONICS and forfeited options exercisable in future periods.

The compensation cost recorded during the year ended December 31, 2008 and 2007 was $13.6 million and $20.4 million, respectively, and is included in general and administrative expense. The offsetting amount has been credited to additional paid-in capital.

The activity relating to the stock options for the year ended December 31, 2008 was as follows:

	Number of shares	**Exercise price**
Outstanding at December 31, 2007	538,668,491	-
Options granted	-	0.04
Options exercised	(94,636,956)	0.04
Options forfeited	(93,247,912)	-
Outstanding at December 31, 2008	350,783,623	0.04

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

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

Assumptions on the expected volatility have been made on the basis of the average volatility of four different peer companies. The volatility for each of these companies was calculated based on quotes for the 3 years prior to the date of the grant, and volatility was based on daily observations of share prices for each peer company. The aggregate intrinsic value of the options outstanding at December 31, 2008 was $39.3 million.

As of December 31, 2008, there was $7.6 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a 2-year period.

The cost of the Plan for the year ended December 31, 2008 amounts to $13.6 million and is shown within selling, general and administrative expenses in the consolidated statement of operations.

JSFC Sistema

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

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

The following table summarizes information about non-vested JSFC Sistema's phantom common stock options in the year ended December 31, 2008:

	Quantity	**Exercise price, per share, USD**	**Weighted average fair value of options, USD**
Outstanding at January 1, 2007	-	-	-
Granted	13,622,664	1.8	0.48
Forfeited	-	-	-
Outstanding at December 31, 2007 (all non-vested)	13,622,664	1.8	0.48
Granted	1,848,883	1.8	0.31
Forfeited	(3,107,157)	1.8	0.09
Outstanding as of December 31, 2008 (all non-vested)	12,364,390	1.8	0.01

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

Risk-free rate	3.20%
Expected dividend yield	0%
Expected volatility	70.10%
Expected term (years)	2

The total fair value of all the phantom options under JSFC Sistema's long-term incentive program as of December 31, 2008 is $0.8 million. None of the phantom shares outstanding as of December 31, 2008 are vested and will vest in 2010.

For the year ended December 31, 2008 a reversal of previously recorded expense in the amount of $1.8 million 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. Total compensation cost for the year ended December 31, 2008 is $303 thousand.

32. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts which expire in various years through 2057.

Rental expenses under the operating leases amounted to $345.8 million and $277.6 million for the year ended December 31, 2008 and 2007, respectively. Future minimum rental payments under operating leases in effect as of December 31, 2008, are as follows:

Year ended December 31,		
2009	$	309,794
2010		139,692
2011		125,106
2012		118,842
2013		114,588
Thereafter		160,563
Total	**$**	**968,585**

Capital Commitments – As of December 31, 2008, MTS had executed purchase agreements in the amount of approximately $400.7 million to subsequently acquire property, plant and equipment and intangible assets and costs related thereto.

The Group has entered into agreements with third parties for construction of objects which will require capital outlays subsequent to December 31, 2008. A summary of significant commitments under construction contracts as of December 31, 2008 is provided below:

Leningradsky 39 – The Group has contracted for construction works, including foundations, shell and core, utilities and other general construction expenditures. Commitments under these contracts amounted to $181.5 million as of December 31, 2008. In addition, in connection with this project, the Group undertook obligations to provide the Central Army Sports Club ("CSCA") with residential housing in the amount of $43.6 million.

Detsky Mir Lubyanka – The Group entered contractual agreements for reconstruction works under the project. Commitments under the contract amounted to $315.8 million as of December 31, 2008.

Western Kuntsevo properties – The Group has hired a contractor to perform general construction works. Commitments under these contracts amounted to $68.6 million as of December 31, 2008.

MGTS properties – The Group entered contractual agreements for the reconstruction of certain MGTS buildings. Commitments under these contracts amounted to $57.4 million as of December 31, 2008.

Moscow City Government – The Group has obligations to manage a number of construction projects which will be completed subsequent to the balance sheet date. The Moscow City Government has the obligation to finance these construction projects, with the Group generating commissions based on the agreed upon budget cost of the project.

In addition, Sistema-Hals entered into a number of other contractual agreements. Commitments under these contracts amounted to $77.1 million.

As of December 31, 2008, some of the Group companies were limited partners in the "Coral/Sistema Strategic Fund" ("Fund"). The Fund invests in securities of small business concerns primarily in technology driven companies with strategic value to the Group. As of December 31, 2008, the total commitment of the Group to invest in the Fund equaled $43.1 million.

Agreement with Apple – In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy certain quantities of iPhone handsets at list prices at the dates of respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. The aggregate amounts of the Group's commitments under this agreement at list prices as of December 31, 2008 are $847.9 million for the years ended December 31, 2009, 2010 and 2011. The actual amounts paid in the future in connection with these purchases may vary due to changes in prices as well as due to the requirement to maintain a certain market share for iPhones purchased by Russian mobile network operators. Total amount paid for handsets purchased under the agreement for the year ended December 31, 2008 amounted to $65.4 million.

Other Commitments – MBRD guaranteed loans for several companies, including related parties, which totaled $125.2 million as of December 31, 2008. EWUB issued guarantees to several companies and individuals, which totaled $16.2 million as of December 31, 2008.

The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2008, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of $6.5 million as of December 31, 2008) for each newly-founded bank. As of December 31, 2008, MBRD's share capital amounted to 1,360.9 million RUR (equivalent to $46.3 million as of December 31, 2008)

Industry Regulations – The Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. For the years ended December 31, 2008, 2007 and 2006, the Group incurred approximately $82.9 million, $64.8 million and $54.2 million in USF charges, respectively, which are recorded in other operating expenses in the accompanying consolidated statements of operations.

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development. In addition, construction is subject to all applicable environmental, fire safety and sanitary norms and regulations.

The Group is constructing a number of cottages without obtaining the necessary construction permits. However, management is in the process of addressing this issue and does not foresee that this will adversely affect the Group's financial position or results of operations.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with the local regulatory environment including, but not limited to, the sale of hard currency on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is represented by a loss from currency translation transactions in Turkmenistan of $9.2 million, $22.0 million and $24.3 million recognized as other non-operating expense in the Group's consolidated statements of operations for the years ended December 31, 2008, 2007 and 2006, respectively.

Taxation – Russia and Ukraine currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), UST, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2008, tax declarations of the Group for the preceding three fiscal years were open for further review.

In September 2006, the Russian tax authorities audited MTS OJSC's compliance with tax legislation for the years ended December 31, 2003 and 2004. Based on the results of this audit, the Russian tax authorities assessed that 1,283,660 thousand rubles (approximately $43.7 million as of December 31, 2008) of additional taxes, penalties and fines were payable by the Group. The Group has prepared and filed a petition with the Arbitration Court of Moscow to recognize the tax authorities' resolution to be partially invalid. The amount of disputed taxes and fines equals 1,220,096 thousand rubles (approximately $41.5 million as of December 31, 2008). In 2007, a final court hearing considered this matter which resulted in a judgment in favour of the Group. Tax authorities prepared an appeal with Court of Appeal; however the judgment was not changed. No further appeals can be prepared by tax authorities due to expiration of the period for appeals. As of December 31, 2008, no provision in relation to the above tax audit was accrued in the Group's financial statements or paid to tax authorities.

In January 2008, the Russian tax authorities started auditing MTS OJSC's compliance with tax legislation for the years ended December 31, 2005 and 2006. Based on the results of this audit, the Russian tax authorities assessed that 1,129,975 thousand rubles (approximately $38.5 million as of December 31, 2008) of additional taxes, penalties and fines were payable by the Group. As of December 31, 2008 the Group has settled the total amount payable to the Russian tax authorities. However, the Group has prepared and filed a petition with the Arbitration Court of Moscow to recognize the tax authorities' resolution to be partially invalid. The amount of disputed taxes and related fines and penalties equaled to 1,026,164 thousand rubles (approximately $34.9 million as of December 31, 2008). As a result of the hearing on December 22, 2008, the Arbitration Court of Moscow ruled against the tax claims and related fines and penalties in an amount of 981,490 thousand rubles (approximately $33.4 million as of December 31, 2008).

There are regulatory uncertainties in the Ukraine related to the treatment for VAT purposes of contributions payable to the Ukrainian State Pension Fund ("Pension Fund") in respect of the cash paid for the consumption of telecommunication services by customers. This could have an influence on income tax and other taxes paid by the Group. As a result of a tax audit of the period from July 1, 2004 to April 1, 2007, additional VAT charges (including penalties) calculated on the Pension Fund contributions could be up to $7.5 million. In 2005, UMC initiated a litigation case in respect of this issue against the tax authorities, and has received favorable rulings from the courts on three occasions (the most recent from the Highest Administrative Court of Ukraine). Management believes that VAT was not applicable to the Pension Fund contributions during the period under the tax authorities' review. Further, management believes that UMC is in line with industry practice and has previously defended its position in the courts. At December 31, 2008, no VAT charges in relation to the above litigation was accrued in the Group's financial statements or paid to the tax authorities.

In 2008, tax authorities completed audit procedures in Uzdunrobita, BCTI and K-Telekom for the year ended December 31, 2006. According to the local tax legislation of Uzbekistan, Turkmenistan and Armenia tax declarations remain open for further inspection for five, six and three years, respectively.

MTS purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that customs duties are calculated in compliance with the legislation. However there is a risk that the customs authorities may take a different view and impose additional customs duties. As of December 31, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, the provision accrued amounted to $27.6 million and $25.4 million, respectively. In addition, the accrual for unrecognized income tax benefit, potential penalties and interest recorded in accordance with FIN No. 48 totalled $32.0 million and $58.1 million as of December 31, 2008 and 2007, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Legal Disputes – In May 2007, certain minority shareholder won the case against MGTS in respect of non-payment of dividend on preferred shares for 2005 in the court of first instance, which determined such decision of MGTS' general shareholders' meeting in respect of dividends for 2005 null and void. Such dividend, if declared and paid, may amount to RUR 879.0 million (approximately $29.9 million as of December 31, 2008). In February 2008, appeals to the court of the third instance ruled in favor of MGTS. Management believes that the likelihood of ruling against MGTS in case of appeal by the minority shareholders to the Supreme Arbitration Court is remote.

Bitel Liability – In December 2005, MTS Finance acquired a 51% stake in Tarino Limited ("Tarino") for $150.0 million in cash from Nomihold Securities Inc. ("Nomihold"). 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 a 51% stake, the Group entered into a put and call option agreement with Nomihold to acquire the remaining 49% interest in Tarino. The call option was exercisable by the Group from November 22, 2005 to November 17, 2006, and the put option was exercisable by the seller from November 18, 2006 to December 8, 2006. The call and put option price was $170.0 million.

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

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

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

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

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

In addition, three Isle of Man companies affiliated with the Group (the "KFG Companies"), have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately $25.2 million plus compensatory damages, and to recover approximately $3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, the Group may be liable to Bitel for such claims. The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo LLC ("Altimo"), and Altimo Holdings & Investments Limited ("Altimo Holding"), for the wrongful appropriation and control of Bitel. On November 30, 2007 the High Court of Justice of the Isle of Man set aside orders it had previously issued granting leave to serve the non-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 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.

In 2008 the negotiations about the contract price continued. Parties discussed the possibility to increase the contract price by the amount sufficient to cover the cost overruns. Ultimately, no agreement was reached. One of the reasons was the worsening economic environment and turmoil in financial and real estate markets. In October 2008 Siemens drew on the guarantee with Deutsche Bank in the amount of the construction advance received by Sistema-Hals from Siemens (EUR 64,000 thousand). This amount was then repaid by Sistema-Hals to Deutsche Bank using financing from JSFC Sistema.

Siemens Project Liability – In 2003, Sistema-Hals entered into a fixed price contract with Siemens to develop an office building in Moscow. Due to a significant growth in the prices of materials, labor and other construction costs starting in 2006, the Group costs were projected to be in excess of its original budget. In 2007 the Group initiated negotiations with Siemens to reach an agreement that would allow it to recover the increased costs. Based on those negotiations, the Group did not record any estimated loss on the contract at December 31, 2007.

In 2008 the negotiations on the contract price continued. The parties discussed the possibility of increasing the contract price by an amount sufficient to cover the estimated cost overruns.
No agreement was reached, partially due to the worsening economic environment and turmoil in the financial and real estate markets. At the commencement of the project, Siemens paid a construction advance of EUR 64.0 million to the Group, which was backed by the Group with a performance gurantee from Deutsche Bank. In October 2008, Siemens drew on the guarantee from Deutsche Bank in the amount of the construction advance received by Sistema-Hals from Siemens and the amount was repaid using financing from Sistema. In November 2008, the Group suspended construction on the building. The Group was continuing discussions with Siemens, who indicated they would terminate the agreement if the Group did not deliver on its construction agreement. Subsequent to year end, the Group and Siemens have reached an initial agreement that the Group will pay an estimated $25.4 million as a termination payment. This has been treated as an adjusting subsequent event, and the estimated termination payment has been recorded as a liability at December 31, 2008. The cost has been reflected in operating expenses on the consolidated statements of operations.

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

33. SUBSEQUENT EVENTS

Acquisitions

In April 2009, the Group acquired controlling stakes in energy companies in the Republic of Bashkortostan from Agidel-Invest LLC, Ural-Invest LLC, Inzer-Invest LLC and Yuryuzan-Invest LLC for the total cash consideration of $2.5 billion. As a result of this transaction, the Group owns a 76.52% stake in ANK Bashneft JSC, a 65.78% stake in Ufaneftechim JSC, a 87.23% stake in Novoil JSC, a 73.02% stake in Ufaorgsintez JSC, a 78.49% stake in Ufimskiy NPZ JSC and a 73.33% stake in Bashkirnefteproduct JSC. The deal was partially financed from the $2 billion loan provided by VTB.

In April 2009, MTS acquired a 100% stake in the Eldorado mobile phone retail chain for $22.9 million, of which $5.0 million will be paid after twelve months based on a certain performance criteria.

In Febrary 2009, MTS acquired 100% of Telefon.Ru, a Russian mobile retailer. MTS paid cash consideration of $60.0 million. In accordance with sale and purchase agreement, an additional $25.0 million is payable to the sellers during the period from 12 to 18 months should Telefon.Ru satisfy certain performance criteria over this period.

In February 2009, MTS acquired the remaining 25.01% stake in Dagtelecom and increased its ownership to 100% for a total cash consideration of $41.6 million.

Disposals

In April 2009, JSFC Sistema has signed an agreement with JSC VTB Bank ("VTB") to sell a portion of its shares in Sistema-Hals. In accordance with the agreement VTB acquired 19.5% stake in Sistema-Hals for RUB 30 and a call option to acquire a further 31.5% stake in Sistema-Hals for RUB 30. The net assets of Sistema-Hals as of December 31, 2008 totaled $163.0 million. In case the option is executed by VTB this will increase its share in Sistema-Hals up to 51%.

In April 2009, SITRONICS disposed of a component of its IT distribution division, including seven companies engaged in the distribution of hardware and software in Eastern Europe and the CIS, for a total consideration of $50.0 million.

In March 2009, Sistema sold its 50.0% stake in MTT to Synterra Group. In addition, Synterra Group assumed MTT's debt obligations to Sistema. The total consideration received was approximately $54.0 million.

Other

In April 2009, Sistema-Hals completed the placement of two rouble-denominated bonds for RUB 3.0 billion (approximately $102.0 million as of December 31, 2008) and RUB 2.0 billion (approximately $68.0 million), respectively, maturing in 2014 with a coupon rate of 15.0% per annum.

In March 2009, Sistema repaid 75.0% of its bond issue for RUB 4.5 billion (approximately $153.16 million as of December 31, 2008) due in 2013.

In March 2009, SITRONICS repaid 99.0% of its bonds issue for RUB 2.96 billion (approximately $87.9 million).

In January 2009, MTS secured a EUR 300.0 million credit facility with Gazprombank for 2.5 years.

In January 2009, MBRD repaid EUR 40.0 million syndicated loan.