



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

JSFC SISTEMA
ANNUAL REPORT
2010



To whom it may concern

April 28, 2011

Responsibility Statement

To the best of my knowledge (a) the financial statements, prepared in accordance with US GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of Sistema JSFC and the undertakings included in the consolidation taken as a whole; and (b) the management report includes a fair review of the development and performance of the business and the financial position of Sistema JSFC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Yours sincerely,

Mikhail Shamolin
President and Chief Executive Officer

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1. Key 2010 events and events after the end of reporting period

Key events of 2010

December 2010

- Federal Agency for Subsoil Use recommended Bashneft as the preferred bidder for Trebs and Titov oil fields to the Russian Government.
- The Bashneft EGM of shareholders elected a new Board of Directors and the Audit Commission.
- The Bashneft EGM of shareholders approved the dividend payment for the first nine months of 2010.
- Sistema completed the sale of its 27.6% stake in Sistema-Hals to Blairwood Limited and Stoneflower Limited (each acquired the stake of 13.8%) for a total cash consideration of US\$ 70 million.
- OJSC Detskiy Mir-Center increased the company's share capital through an additional share issue offered to Sberbank in a private placement. Detskiy Mir-Center issued 743 shares with a par value of RUB 100, representing 25%+1 share of the company's share capital after the additional issue. Sberbank acquired the stake in Detskiy Mir-Center for a total consideration of approximately RUB 3.4 billion.
- Sistema signed a framework agreement with the Indian national oil and energy holding company ONCG Videsh. Within the agreement, the parties agreed to consider opportunities for a potential transaction involving Sistema's majority stake in JSC Bashneft and 49% stake in RussNeft, each of which owns and operates numerous fields and refining assets, and ONCG Videsh's 100% stake in Imperial Energy Corp., which owns and operates fields in Russia, along with any other oil and gas assets which the aforesaid companies may acquire before definitive agreements are signed, plus possible cash investments. The parties further agree to consider joint investments in each other's existing and future exploratory assets in key countries.

November 2010

- OJSC Intourist and Thomas Cook Group Plc have agreed to establish a joint venture for Intourist's tour operating and retail businesses and a sale of a 50.1% stake in the newly formed entity to Thomas Cook for a total stock and cash consideration of US\$ 45 million. The new joint venture will include Intourist's tour operating and retail businesses. Intourist will have a 49.9% stake in the joint venture while Thomas Cook will acquire a 50.1% stake in the joint venture for a total consideration of US\$ 45 million of which US\$ 10 million is to be payable in cash and US\$ 35 million due in Thomas Cook's shares. Intourist will retain its hotel business. In addition, Thomas Cook and Intourist entered into an option agreement exercisable over the next five years under which Thomas Cook may call, and Intourist may put, Intourist's remaining shares in the new company.
- Sistema has completed the acquisition of 51% of JSC NIS, including 25.5% from the Concern RTI Systems and 25.5% from JSC SITRONICS.
- The Extraordinary General Meeting of SITRONICS' shareholders approved a number of related party transactions with regard to guaranteeing obligations of Mikron JSC and Sitronics-Nano, LLC.

October 2010

- Comstar completed a series of transactions with OJSC Rostelecom involving the sale of Comstar's 25%+1 share stake in Svyazinvest to Rostelecom for RUB 26 billion. The proceeds from the sale were used by Comstar to pay off its debt to Sberbank. A share swap in Skylink and MGTS was also a part of the transaction.
- Comstar announced the reorganization of its wholly-owned subsidiary CJSC Comstar-Regions, through the integration of sixteen regional incorporated subsidiaries into the company.
- Each of Bashneft's five subsidiaries held Extraordinary General Meetings of shareholders. The EGMs approved a new edition of the Charter and the regulations for General Meetings of shareholders, as well as bylaws relating to the Board of Directors, the General Director and the Audit Commission.
- The Board of Directors of Bashneft adopted a Code of Business Conduct and Ethics and approved a Regulation on the Corporate Secretary of Bashneft.

- RTI Systems signed an investment agreement with the Russian Corporation of Nanotechnologies (RUSNANO), the Joint Institute for Nuclear Research, IT Co. Ltd. and JSC Special Economic Zones, to establish International Innovative Nanotechnology Center in Dubna, Russia.
- Sistema completed the transactions described in the Memorandum of Understanding signed between OJSC Comstar-UTS, JSFC Sistema and OJSC Svyazinvest on November 23, 2009. Svyazinvest transferred its 28% ordinary share stake in MGTS (23.3% of the share capital of MGTS) to the Group in exchange for Group's 50% ordinary share stake in CJSC Sky Link to Svyazinvest. In addition, Sistema sold Sky Link's shareholders debt to subsidiaries of Svyazinvest. Comstar-UTS and its subsidiary MGTS Finance S.A. transferred a 25% + 1 share in Svyazinvest to OJSC Rostelecom in return for a cash payment of RUB 26 billion, with OJSC Comstar-UTS using these funds to pay off its debt obligations to Sberbank.

September 2010

- Comstar-UTS sold its stake in Svyazinvest to Rostelecom and repaid a RUB 26 billion loan to Sberbank.
- MTS announced that a Voluntary Tender Offer to acquire approximately 9% of the issued share capital of Comstar expired on September 21, 2010 and MTS' shareholding in Comstar consequently increased from 61.97% to 70.97% (or 73.33% when excluding treasury shares).
- The Government of the Russian Federation approved an equity investment in SSTL. It is expected that the Russian Government will participate in an issuance of additional shares of SSTL, paying an equivalent of US\$ 600 million in the form of Indian rupees held in accounts representing Indian governmental debt to the Russian Federation.
- The Board of Directors of Bashneft set the date for the Extraordinary General Meeting of shareholders for December 8, 2010.
- Sitronics redeemed its RUB denominated 3 billion bonds.

August 2010

- MTS acquired a 95% stake in Metro-Telecom CJSC from Invest-Svyaz CJSC, a wholly owned subsidiary of Sistema, for RUB 339 million (approximately US\$ 11.01 million). Metro-Telecom has an optical fibre network in the Moscow Metro.
- Bashkirenergo constructed a sixty kilometer-long double circuit high voltage transmission line to supply energy to Asha metallurgical plant in the Chelyabinsk region of Russia.
- Detsky Mir-Centre completed a secondary share offering amounting to RUB 1.6 billion. The shares were placed with Sistema.

July 2010

- MTS acquired a 100% stake in CJSC Multiregion, one of the leading regional broadband and cable TV providers in Russia, from Cavolo Trading Limited (Cyprus) for US\$ 123.5 million and assumed debt amounting to approximately US\$ 94.4 million.
- Bashneft transferred 100% of its oil products trading to the B2B-Bashneft e-platform.
- Bashneft acquired 49.99% of ASPEK holding company (owns an oil and petrochemicals trading business) as part of Bashneft's retail marketing strategy in the Udmurt Republic of Russia.
- Following the allocation of shares under the share option program, Sitronics introduced changes to the Management Board's shareholdings in the company and repurchased their shares in accordance with the existing share repurchase agreement.
- Sistema acquired a 51% stake in OJSC M2M Telematics, the leader in the Russian market of transport monitoring, navigation and telematics based on GLONASS/GPS technologies. Sistema has a right to acquire the remaining 49% stake in the next two to five years in accordance with the agreement between the companies.

June 2010

- MTS' Annual General Meeting of shareholders approved the recommended dividend payment of RUB 30.7 billion (approximately US\$ 999.3 million) or RUB 15.4 per ordinary share (US\$ 1.0 per ADR¹) for the full year of 2009.
- The Annual General Meeting ("AGM") of shareholders approved the payment of a dividend of RUB 0.055 per share (approximately US\$ 0.035² per Global Depository Receipt), which amounted to RUB 530,750,000 (approximately US\$ 17.0 million³) in total.

May 2010

- Comstar-UTS, MGTS Finance S.A. and Rostelecom signed agreements involving the sale of the 25% plus 1 share of Svyazinvest to Rostelecom for RUB 26 billion.
- Comstar-UTS acquired the remaining 25% minus 1 share stake in CallNet Enterprises Ltd., which owns 100% of the Armenian operator Cornet.
- Comstar-UTS and MTS announced the launch of rebranding for Comstar-UTS products and services. By the end of 2011, MTS expects to have two brands in Russia: MTS and MGTS for the whole range of communication services.
- ANK Bashneft launched its e-commerce operations via trading platform B2B-Bashneft in order to procure goods and services for the management company ANK Bashneft and its enterprises.

April 2010

- MTS announced a change in its ratio of ADRs to ordinary shares from 1:5 to 1:2 effective May 3, 2010.
- The Group's stake in Sky Link increased from 50.0% to 100.0% following number of transactions.
- ANK Bashneft completed an international audit of its 34 major oil fields, which account for 70% of ABC1 category recoverable reserves and 80% of the daily production of the company. The audit, carried out by Miller & Lents, showed that ANK Bashneft's 3P reserves (proven, probable and possible) totalled 2,132 million barrels.
- The Group acquired a 49% stake in OJSC Oil and Gas Company RussNeft ("RussNeft").
- ANK Bashneft acquired a 25% stake in Sistema-Invest for US\$ 202 million.
- Sitronics acquired the remaining 35% stake in Sitronics Smart Technologies LLC (SST) from Giesecke & Devrient GmbH (G&D) in Germany, for a total consideration of RUR 101.9 million.

March 2010

- ANK Bashneft became an accredited member of St Petersburg International Mercantile Exchange in the Oil Products section.
- Bashkirenergo successfully installed the lower turbine K-50-1.6 at the Thermal Power Plant-4 (TPP) of the Ufa branch.
- Moscow Bank for Reconstruction and Development (MBRD), National Reserve Bank (NRB), and Federal Mortgage Agency (FMA) signed an agreement to issue mortgage-backed securities, secured by a joint pool of MBRD and NRB mortgage loans, and an FMA guarantee. The planned transaction is the first securitisation of two Banks' (MBRD and NRB) mortgage portfolios in the Russian market.
- Sitronics signed a three-party agreement with RUSNANO and STMicroelectronics for licensing STM's manufacturing technology for 90 nanometre integrated circuits. Technology transfer is a key phase in the Sitronics/RUSNANO joint project and a new step in Sitronics' developing cooperation with strategic international partners.

¹ According to the Russian Central Bank exchange rate of 30.7193 RUR/USD as of May 11, 2010. The dividend amount is set in Russian rubles by the Board of Directors; U.S. dollar amounts provided for reference using the foreign exchange rates as of May 11, 2010.

² Based on the Russian Central Bank exchange rate as at June 30, 2010

³ Based on the Russian Central Bank exchange rate as at June 30, 2010

February 2010

- Comstar-UTS completed the acquisition of 100% of Tenzor Telecom LLC in Yaroslavl in Central Russia for RUB 220 million. Tenzor Telecom has over 23,000 subscribers, of which approximately 22,000 are residential customers and 1,100 are corporate clients.
- Comstar-UTS' subsidiary Comstar-Regions acquired for cash the outstanding 20% minority stake in Yekaterinburg-based cable-TV and communications operator EuroTel LLC and a 25% minority stake in 'Management and Leasing' LLC, which owns the communication infrastructure in Yekaterinburg. Comstar-UTS now owns 100% of the issued share capital in both companies.

January 2010

- The Extraordinary General Meeting ("EGM") of shareholders of Bashkirenergo elected a new Board of Directors, comprising 13 members.
- A Glonass-M satellite system on a heavy booster rocket Proton-M was launched into orbit from the Baikonur Cosmodrome. The satellite transponder is manufactured by the Yaroslavl Radio Plant, part of Sistema's Radar and Aerospace business.

Events after the reporting period

April 2011

- Sistema announced that the Board of Directors of ANK Bashneft JSC has approved changes to the organizational structure of Bashneft and appointed Alexander Korsik as President of the company. Prior to his appointment, Mr. Korsik has held the position of Senior Vice-President of Sistema and Head of its Oil and Energy Business Unit.
- Binnofarm and UCB Pharma signed a strategic partnership memorandum aimed at developing local production and import substitution of drugs in Russia in accordance with the government programme "Pharma – 2020".

March 2011

- Appointment of Andrey Dubovskov as Chief Executive Officer of MTS
- Sistema announced an increase in the share capital of Sistema Shyam TeleServices Ltd., by means of an additional share issue. Following the placement, SSTL increased its share capital by INR 28,894.5 million (approximately US\$ 647 million). The Russian government, represented by Rosimushchestvo (the Federal Agency for State Property Management), acquired a 17.14% stake in SSTL for INR 26,988 million (approximately US\$ 600 million). The Russian Federation's portion of the transaction was financed with funds held in Indian rupees, which represented Indian government debt to the Russian Federation. Following the completion of the secondary share issue, Sistema's stake in SSTL amounts to 56.68%, while Indian investors own 26.05%.
- In accordance with the agreement between Rosimushchestvo and Sistema, Rosimushchestvo has a put option to sell its stake in SSTL to Sistema during a one year period beginning five years after the purchase of shares in SSTL. Sistema has an obligation to purchase SSTL shares from the Russian government for the higher of US\$ 777 million or market value determined by an independent valuator. Under the terms of the agreement, until the put has been exercised or expires, Sistema has agreed not to reduce its stake in MTS below 50%+1 share.
- Sistema approved the sale of its stake in OJSC SITRONICS to OJSC RTI. Sergey Boyev, previously Vice President of Sistema and the Head of "High Technologies and Industry" business unit, was earlier appointed as General Director of OJSC RTI.
- The EGM of Sistema approved the creation of OJSC RTI, the company founded with the participation of the Bank of Moscow. The EGM was held by proxy with 78.87% of shareholders' votes received in favour of the transaction. The deal was closed on February 24, 2011, following the receipt of the Federal Antimonopoly Services permission and issuance of 84.6% of the share capital in the newly established company to Sistema and 15.4% to the Bank of Moscow. As previously announced, Sistema established OJSC RTI with the Bank of Moscow, which invested RUB 3 billion (approximately US\$ 100 million) of cash into the new entity. Sistema contributed its 97% stake in OJSC Concern RTI Systems and RUB 2.88 billion (approximately US\$ 97 million) in cash to the new entity's charter capital.

- Sistema appointed Mikhail Shamolin, the former President and CEO of Mobile TeleSystems (MTS), as President of Sistema.
- Sistema completed the purchase of non-convertible amortizing Series 02 and Series 03 bonds with a par value of RUB 1,000 each in accordance with the tender announced on March 9, 2011. Following the tender, 8,641,660 Series 02 bonds and 10,858,340 Series 03 bonds were acquired at nominal value for the total amount of RUB 19.5 billion.
- Sistema successfully placed RUB 19.5 billion of non-convertible amortizing Series 04 five-year bonds with a coupon rate of 7.65% for the ten semi-annual coupon payments. The bonds' amortization schedule provides for the repayment of 30.769% of the principal amount after a period of six months, a 15.385% repayment after three years, a 30.769% repayment after three and a half years, and a 15.385% repayment after four years. The remaining principal amount of 7.692% will be repaid on the bonds' redemption date, which is March 15, 2016.

February 2011

- CJSC Sistema-Inventure, a wholly-owned subsidiary of Sistema, acquired more than 1% of MGTS ordinary shares at RUB 436.2 per share, for a total cash consideration of RUB 370 million (approximately US\$ 12.3 million). The purchase was made in accordance with the mandatory tender offer announced by Sistema on November 13, 2010.
- Sistema received an official notice from the Government of the Russian Federation that the Prime Minister of the Russian Federation signed Decree No 152-r granting the licence for the development of the Trebs and Titov oil fields to ANK Bashneft, Sistema's oil subsidiary. According to the decree, Bashneft should receive the licence for subsoil deposits, which includes oil fields named after Roman Trebs and Anatoly Titov located in the Nenets autonomous district of Russia. Bashneft was granted the licence to explore and produce crude oil following a tender, held in accordance with government decree No 1232-r dated July 20, 2010. In accordance with the tender, Bashneft will pay approx. RUB 18.5 billion for the license. According to the tender documents, total recoverable oil reserves (C1+C2) of both fields amount to 140.1 million tonnes.
- Sistema's Board of Directors has convened an EGM of shareholders to approve a related party transaction involving the acquisition of shares in OJSC RTI, a new company established with the participation of the Bank of Moscow. The EGM will be called by proxy with the final date for the receipt of ballots set for March 18, 2011.

January 2011

- Medsi appointed Galina Talanova as new President of the company.

2. MANAGEMENT REPORT

The following is a discussion of our financial condition and results of operations as of and for the years ended December 31, 2010 and 2009, and of the material factors that we believe are likely to affect our consolidated financial condition. You should read this section together with our audited consolidated financial statements for the years ended December 31, 2010 and 2009, including the notes to those financial statements. In addition, this discussion contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors. Our reporting currency is the U.S. dollar and our consolidated financial statements have been prepared in accordance with U.S. GAAP.

2.1. Overview

We are the largest private sector consumer services group of companies in Russia and the CIS with a combined customer base of over 100 million customers in Russia and the CIS. Our business is developing, managing and realizing the value of market-leading businesses in fast-growing service-based industries. We operate in a select number of service-based industries offering the potential for rapid growth of our businesses. In our consolidated financial statements, we report our results in the following Business Units: Telecommunications; Technology and Industry; Consumer Assets; Oil and Energy. Our Corporate and Other Businesses category comprises our miscellaneous businesses together with our other operations and central corporate functions. Given the scale, scope and market position of our existing operations, we are uniquely positioned to exploit the growth in consumer and corporate purchasing power in the countries in which we operate. Our consolidated revenues reached US\$ 28,098.4 million for the year ended December 31, 2010 and US\$ 18,749.8 million for the year ended December 31, 2009. Net income attributable to JSFC Sistema for the year ended December 31, 2010 amounted to US\$ 918.7 million as compared to US\$ 1,643.4 million in the year ended December 31, 2009. Our total assets have grown to US\$ 44,109.1 million as of December 31, 2010, as compared to US\$ 42,011.0 million as of December 31, 2009.

Our revenues and total assets have increased during year ended December 31, 2010. The increase in our consolidated revenues was attributable to our Oil and Energy Business Unit which significantly increased oil production and volumes of oil products sold, increase of oil prices also contributed to the growth. Decrease of US dollar to ruble exchange rate resulted in significant revenue growth for all our businesses. The Telecommunications Business Unit's share of our total revenues from sales to external customers decreased, from 53.1% in the year ended December 31, 2009 to 40.8% in the year ended December 31, 2010.

We require substantial funds to support our operations, primarily for increasing network capacity and developing networks in our Telecommunications business and to increase oil production in our Oil and Energy business. Our cash outlays for capital expenditures in 2010 and 2009 were US\$ 4,174.6 million and US\$ 3,434.4 million, respectively. In addition, in the years ended December 31, 2010 and 2009 we paid US\$ 364.5 million and US\$ 1,729.1 million, respectively, for purchases of businesses. We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities in 2010 and 2009 was US\$ 4,056.8 million and US\$ 3,684.6 million, respectively. The proceeds from long-term borrowings, net of debt issuance costs, for the years ended December 31, 2010 and 2009 amounted to US\$ 5,459.4 million and US\$ 11,639.0 million, respectively. As of December 31, 2010, we had indebtedness of US\$ 15,402.5 million, including capital lease obligations, and our interest expense for 2010 was US\$ 1,597.2 million, net of amounts capitalized.

We continue to capitalize on our competitive advantages to build market-leading businesses in select sectors which exploit the growth in consumer and corporate purchasing power in the Russian, CIS markets and other countries. We employ a disciplined approach to our investment decisions with the aim of maximizing returns for our shareholders. Our internal performance benchmarks require that our businesses achieve certain operational, revenue and profitability targets, which also reflect the nature of these individual businesses. Progress against these targets is monitored and used to develop annual budgets, long-term business plans and capital allocation strategies.

We still consider our natural prime markets to be Russia and CIS countries, in addition we expand our export sales in our Oil and Energy Business Unit. In order to support our positions in such a highly competitive market we strive to become global players, which requires international expansion to achieve scale and to provide access to new clients and technologies. Additionally, following our strategy to concentrate on businesses with a high technology component, we accelerated our development in business lines requiring significant know-how. A number of strategic alliances were put in place which should provide us access to cutting edge global technologies.

In the year ended December 31, 2010, we have reiterated our positioning as a diversified business focused on the consumer sector though a significant portion of our sales in the Oil and Energy Business Unit was from wholesales of oil and oil products. With ongoing growth across our portfolio, we remain committed to investing in market-leading businesses in the service sector, where growth continues to be driven by the improving macro picture resulting in increasing spending power of our customers. We believe that through our geographical and sectoral diversification we are best positioned to capture this growth. Our fundamental goal remains unchanged - we plan to

continue to invest in profitable growth in the areas of our expertise, and grow both organically and through mergers and acquisitions, as well as ensure the most efficient use of our available resources.

The following table illustrates our ownership interests in our principal consolidated subsidiaries and affiliates as of December 31, 2010 and 2009.

Significant entities	Ownership interest		Voting interest	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
MTS	55%	55%	55%	55%
SSTL	74%	74%	74%	74%
SITRONICS	70%	70%	70%	70%
MBRD	99%	96%	100%	100%
Intourist	66%	66%	66%	66%
DM-Center	75%	100%	75%	100%
Concern RTI	97%	97%	97%	97%
Medsi	100%	100%	100%	100%
Binnofarm	100%	100%	100%	100%
Bashneft	73%	73%	86%	86%
Bashkirenergo	31%	31%	50%	50%

Macroeconomic Factors Affecting Our Results of Operations

Most of our operations are based in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance. Below is a summary of several key macroeconomic factors that may have a substantial impact on our business:

	Years ended December 31,	
	2009	2010
Consumer price index	8,8%	8,8%
Change of the average invert exchange rate (RUB/U.S. dollar) compared to the previous period	(21.6)%	4.4%
U.S. dollar/RUB exchange rate at the end of the period	30.24	30.48
Average U.S. dollar/RUB exchange rate for the period	31.72	30.37
Real appreciation/(depreciation) of the RUB against the U.S. dollar compared to the previous period	(12.5)%	11.6%

A significant portion of our expenditures and liabilities, including capital expenditures and borrowings are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially 78.5% of our revenues are denominated in local currencies of the countries where we operate and 21.5% of revenue are denominated in the U.S. dollar in connection with the sale of oil and oil products for export. As a result, the devaluation of local currencies against the U.S. dollar and/or euro can adversely affect our revenues reported in U.S. dollars and increase our costs in terms of local currencies. If local currencies decline against the U.S. dollar and/or euro and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. In addition, local regulatory restrictions on the sale of hard currency in Uzbekistan may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in those countries. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

2.2. Acquisitions and Divestitures

During the years under review, we have completed a number of acquisitions and divestitures, several of which have had a significant impact on our results of operations and financial condition. We consolidate revenues and expenses of newly acquired entities from the date of acquisition. Due to the number of significant transactions completed during the periods under review, period-to-period comparisons of our results of operations need to be considered in the light of the impact of such transactions.

In April 2010, the Group acquired a noncontrolling 49% stake in Oil Company RussNeft for a total cash consideration of US\$ 20 million.

The investment in noncontrolled entity is accounted for using the equity method. As a result of the final measurement of the equity stake in RussNeft, the Group recognized an impairment in the amount of US\$ 20 million in 2010.

As a result of acquisition of 49% stake in Russneft we acquired a significant influence in Bashneft's production subsidiary Belkamneft. The Group recognized gain in the amount of US\$ 477.4 million from the transaction.

In February-April 2010, Bashneft made mandatory offers to acquire noncontrolling interests in Ufimsky Refinery, Ufaorgsintez, Ufaneftekhim, Novoil and Bashkirnefteproduct. As a result of subsequent purchases of noncontrolling interests the Group's ownership in these entities increased by 0.51%, 3.67%, 5.64%, 0.51% and 0.15% respectively for a total cash consideration of \$128.1 million. These transactions were accounted for directly in equity and resulted in the decrease in noncontrolling interests by US\$ 119.1 million.

In July 2010, Bashneft acquired 49.9% of OJSC Aspek ("Aspek") for a cash consideration of RUB 3.7 billion (approximately US\$ 121.4 million as of December 31, 2010). Aspek is a holding company with ownership in different businesses, including an oil and petrochemicals trading business and a petrol stations network. In accordance with the Shareholders agreement, Aspek will be restructured in 2011 when certain assets will be distributed to the existing controlling shareholder. After completion of the restructuring, Bashneft's stake in oil distribution segment will increase to 100%. As a result of the final measurement of the equity stake in OJSC Aspek the Group recognized loss in the amount of US\$ 16.8 million.

In September 2010, through Voluntary Tender Offer MTS acquired 37,614,087 ordinary Comstar shares, or approximately 9.0% of Comstar's issued share capital, for a total cost of RUB 8.28 billion (approximately US\$ 271.9 million as of October 6, 2010). This brings MTS' total ownership stake in Comstar to 70.97% of Comstar's issued share capital (or 73.33% excluding treasury shares). The transaction was accounted for directly in equity.

Sky Link

In November 2009, the Group and Svyazinvest ("the Parties") signed a non-binding memorandum of understanding ("MOU"), under which the Parties agreed to enter in a series of transactions which would ultimately result in (i) the disposal of the Group's investment in Svyazinvest to a state-controlled enterprise; (ii) non-cash extinguishment of the Group's indebtedness to Sberbank; (iii) an increase in the Group's ownership in Sky Link from 50.0% to 100.0% and disposal of this 100% investment to Svyazinvest; and (iv) the disposal of 28% of MGTS' common stock previously owned by Svyazinvest to the Group.

In April 2010 the Group raised its effective equity stake in Sky Link by 50.0% to 100.0%. This 100% stake had previously been agreed to be disposed of as a part of the transaction with Svyazinvest (see above), and was therefore classified as an asset held for sale upon the date of the Group acquiring 100% ownership. The purchase price allocation for the acquisition was as follows:

Current assets	47,640
Non-current assets	541,267
Current liabilities	(135,248)
Non-current liabilities	(136,873)
Fair value of the Group's investments as of the date of acquisition	(148,263)
Consideration paid	<u>168,523</u>

In July 2010, the Group and Svyazinvest signed an exchange agreement where the parties agreed to exchange their stakes in MGTS and Sky Link under certain conditions.

According to the share exchange agreement, Svyazinvest agreed to transfer to the Group 28.0% of ordinary shares in MGTS (23.3% of the share capital of MGTS), in exchange for Group's 100% stake in Sky Link. Furthermore, the Group was to make an additional cash payment of RUB 450 million to Svyazinvest to cover the difference in value of MGTS and Sky Link shares, and the new shareholders of Sky Link agreed to settle its obligations to the Group in the total amount of approximately US\$ 307.4 million. As a result of the transaction the Group recognized a gain on disposal amounting to US\$ 324.7 million.

Upon completion of the transaction, the Group's stake in MGTS increased to 93.3% and the noncontrolling interests attributable to MGTS decreased by US\$ 410.3 million, with corresponding increase in additional paid-in capital of US\$ 86.0 million.

Other acquisitions

Below are the other acquisitions for the years ended December 31, 2010 and 2009:

In April 2009, the Group increased its share in oil and energy companies in the Republic of Bashkortostan to controlling stakes for a total cash consideration of \$2.0 billion. As a result of this and other transaction within Oil and Energy business unit, the Group increased its stakes to 73% stake in ANK Bashneft, a 53% stake in Ufaneftekhim, a 71% stake in Novoil, a 59% stake in Ufaorgsintez, a 63% stake in Ufimskiy NPZ and a 74% stake in Bashkirnefteproduct as of December 31, 2010 and acquired control over Bashkirenergo since ANK Bashneft, Ufaneftekhim, Novoil and Ufimskiy NPZ's common stake in ordinary shares of Bashkirenergo was more than 50%.

Company	Principal activity	Date of acquisition	Stake acquired	Acquiring entity	Purchase price ⁽¹⁾ (in millions)
Year ended December 31, 2010					
Tenzor Telecom	Fixed line and Internet services	February 2010	100%	MTS	6.2
Penza Telecom	Fixed line and Internet services	May 2010	100%	MTS	19.3
Serebryany Bor LLC	Rent	October 2010	100%	Medsi-Fitness	5.9
Sweet-com	Telematic communication	June 2010	25.1%	MTS	8.5
Lank Telecom	Fixed line and Internet services	December 2010	100%	MTS	17.8
M2M Telematics		July 2010	51%	Sistema	20.0
NMSK	Fixed line and Internet services	December 2010	100%	MTS	23.2
Sistema-Invest	Holding	April 2010	25%	Bashneft	205.0
Sistema-Invest	Holding	December 2010	10%	Sistema-Invest	120.0
Multiregion	Broadband and cable TV provider	July 2010	100%	MTS	123.6
Smart Technology	Information Technologies Solutions	April 2010	35%	Sitronics	3.5
Year ended December 31, 2009					
Telefon.ru	Mobile retailer	February 2009	100%	MTS	60.0
Dagtelecom	Mobile operator	February 2009	25%	MTS	51.3
Eldorado	Mobile retailer	March 2009	100%	MTS	17.8
Bashneft	Oil production	December 2009	1.2%	Sistema	23.0
Energy companies of republic of Bashkortostan	Oil and Energy	April 2009	Variuos	JSFKSistema	2,000.0
Kolorit Dizayn Inc	Outdoor advertising services	September 2009	100%	MTS	39.7
Eurotel	Fixed line services	December 2009	100%	MTS	90.0
Teleforum	Mobile retailer	October 2009	100%	MTS	2.2

⁽¹⁾ Excluding acquisition-related costs.

In June 2009, we increased our 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 US\$ 470.0 million with our contribution being US\$ 348 million, including US\$ 11.8 million paid for a stake acquired.

Divestitures

Transactions within Oil and Energy segment

In order to create a vertically integrated oil group, the Group has undergone a number of intergroup restructuring initiatives. In January 2010, JSFC Sistema sold its stakes in Bashnefteproduct to Bashneft, a Group subsidiary. Upon completion of transaction, the Group's effective ownership in Bashnefteproduct has decreased resulting in an increase in noncontrolling interests and decrease in additional paid-in capital by US\$ 53.0 million. In December 2009, JSFC Sistema sold its stakes in Ufaneftekhim, Novoil, Ufaorgsintez and UNPZ to Bashneft, a Group subsidiary. Upon completion of these transactions, the Group's effective ownership in these subsidiaries has decreased resulting in an increase in noncontrolling interests by US\$ 671.0 million.

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

Issuance of common shares of Detskiy Mir

In December 2010, OJSC Detskiy Mir-Center, a subsidiary of the Group, increased its share capital through an additional share issue offered to Sberbank in a private placement. Detskiy Mir-Center issued 743 shares with a par value of RUB 100, representing 25%+1 share of the company's share capital after the additional issue. Sberbank

acquired the stake in Detskiy Mir-Center for a total consideration of approximately RUB 3.4 billion (approximately US\$ 111.6 million as of December 31, 2010). The strategic objective of the shareholders is to attract a strategic investor or achieving a similar event. If such event for Detskiy Mir-Center is not achieved within three years, and under certain other conditions, Sberbank will have the right to sell its stake in Detskiy Mir-Center to Sistema. The parties also agreed to certain pre-emptive and tag-along and drag-along rights in relation to their respective stakes in Detskiy Mir-Center. As a 25%+1 shareholder of Detskiy Mir-Center, Sberbank is able to elect two out of eight board members. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by US\$ 12.7 million and corresponding increase in additional paid-in capital by US\$ 96.5 million.

Transactions within Telecommunications segment

In December 2010, MTS acquired 100% of Sistema Telecom LLC (“Sistema Telecom”) from JSFC Sistema for RUB 11.6 billion (US\$ 379.0 million as of December 27, 2010). Sistema Telecom’s key assets consist of property rights in respect of the group of trademarks, including the distinctive “egg” trademarks of MTS, Comstar-UTS and MGTS, certain promissory notes previously issued by MTS in the amount of RUB 2.0 billion (US\$ 65.5 million) and a 45% stake in TS-Retail, a 100% subsidiary of the Group. The acquisition was accounted for as a common control transaction directly in equity and resulted in the decrease in noncontrolling interests by US\$ 198.7 million.

In December 2009, through a series of transactions, a group of investment funds have exchanged their joint 14.2% stake in OJSC Moscow City Networks (MGTS) for 1.6% of the outstanding shares of MTS, previously held in treasury and US\$ 7.3 million in cash. Simultaneously, MTS received 11.06% of the total shares outstanding of Comstar UTS from MGTS Finance S.A., a wholly owned subsidiary of MGTS. As a result of the transactions, the Group’s effective ownership in MTS decreased from 55.7% to 54.8% and its effective ownership in Comstar UTS increased from 33.1% to 35.1%. The transaction was accounted for directly in equity and resulted in an increase of noncontrolling interests by US\$ 135.1 million.

In October 2009, JSFC Sistema and Sistema Telecom, a Sistema subsidiary, sold their stakes in Comstar-UTS to MTS. As a result of above transactions, the Group’s effective ownership in Comstar-UTS decreased. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by US\$ 154.6 million.

Issuance of common shares of SMM

In October 2009, SMM issued additional share capital which in exchange for noncontrolling interest in Russian World Studios (RWS), a SMM subsidiary. As a result of the transaction, SMM acquired a 100% stake in RWS and the Group share in SMM decreased from 100.0% to 75.0%. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by \$38.0 million.

Disposal of Sistema-Hals

In a series of transactions in April – October 2009, the Group sold its controlling stake in Sistema-Hals for a total consideration of RUB 60.0. As a result of the transactions the Group’s share in Sistema-Hals decreased from 80.0% to 28.2%. The transactions resulted in recognition of a loss on disposal of US\$ 364.9 million and the decrease in noncontrolling interests of US\$ 50.5.

In December 2010, the Group completed the sale of its 27.6% ownership share of Sistema-Hals to Blairwood Limited and Stoneflower Limited (each acquired the stake of 13.8%) for a total cash consideration of \$70.0 million.

Disposal of investment in MTT

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

Discontinued operations of SITRONICS

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

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

2.3. Consolidated Financial Results Overview

The following table sets forth a summary of our financial results for the years ended December 31, 2010 and 2009. This financial information should be read in conjunction with our consolidated financial statements.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
	(Amounts in thousands of USD, except percentages)			
Sales	27 509 526	97,9%	18 052 589	96,3%
Revenues from financial services	588 947	2,1%	697 227	3,7%
TOTAL REVENUES	28 098 473	100,0%	18 749 816	100,0%
Cost of sales	(11 784 763)	(41,9)%	(7 598 159)	(40,5)%
Financial services related costs	(374 037)	(1,3)%	(540 263)	(2,9)%
Selling, general and administrative expenses	(3 838 496)	(13,7)%	(3 068 593)	(16,4)%
Depreciation and amortization	(2 946 382)	(10,5)%	(2 490 514)	(13,3)%
Transportation costs	(535 390)	(1,9)%	(159 001)	(0,8)%
Provision for doubtful accounts	(146 617)	(0,5)%	(261 182)	(1,4)%
Impairment loss	(293 919)	(1,0)%	(362 215)	(1,9)%
Impairment of investment in Svyazinvest	-	-	(349 370)	(1,9)%
Taxes other than income tax	(4 118 603)	(14,7)%	(1 617 547)	(8,6)%
Other operating (expenses)/income, net	(267 711)	(1,0)%	(452 313)	(2,4)%
Equity in net income of investees	92 236	0,3%	(12 758)	(0,1)%
Gain on acquisition	477 400	1,7%	2 782 835	14,8%
Net gain/(loss) on disposal of interest in subsidiaries and affiliates	-	-	(383 978)	(2,0)%
OPERATING INCOME	4 362 191	15,5%	4 236 758	22,6%
Interest income	131 428	0,5%	192 176	1,0%
Change in fair value of derivative instruments	(2 062)	(0,0)%	(35 200)	(0,2)%
Interest expense	(1 597 238)	(5,7)%	(1 246 361)	(6,6)%
Currency exchange and translation (loss)/gain	26 456	0,1%	(92 825)	(0,5)%
Income before income tax	2 920 775	10,4%	3 054 548	16,3%
Income tax expense	(1 088 963)	(3,9)%	(746 668)	(4,0)%
Equity in net income of energy companies in the Republic of Bashkortostan	-	-	4 400	0,0%
Income from continuing operations	1 831 812	6,5%	2 312 280	12,3%
Loss from discontinued information	(39 269)	(0,1)%	(26 194)	(0,1)%
Gain/(loss) from disposal of discontinued operations	324 656	1,2%	-	-
NET INCOME	2 117 199	7,5%	2 286 086	12,2%
Non-controlling interest	(1 198 502)	(4,3)%	(642 645)	(3,4)%
NET INCOME attr to Sistema	918 697	3,3%	1 643 441	8,8%
OIBDA	7 308 573	26,0%	6 727 272	35,9%

OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under U.S. GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under U.S. GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The following tables set forth a summary of revenues and operating income by reporting business and business units for the years ended December 31, 2010 and 2009. In our comparison of period-to-period results of operations, in order to analyze changes, developments and trends in revenues by reference to individual business revenues, we present our revenues on an aggregated basis, which is revenues after elimination of intra-business (between entities in the same business) transactions, but before inter-business (between entities in different business) eliminations. Intra-business dividends are excluded from both revenues and operating income. Amounts attributable to individual companies, where appropriate, are shown prior to both intra-business and inter-business eliminations:

The principal activities of our significant entities are as follows:

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment: MTS and subsidiaries	MTS	Wireless telecommunication services
Sistema Shyam TeleServices Limited Sistema Mass Media and subsidiaries	SSTL SMM	Wireless telecommunication services Cable television, advertising, production and distribution of periodicals, movie production
Consumer Assets Segment: Moscow Bank for Reconstruction and Development and subsidiaries		Banking activities, securities transactions and foreign currency transactions
Detsky Mir-Center and subsidiaries	DM-Center	Retail and wholesale trading
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Medsi and subsidiaries	Medsi	Healthcare services
Technology and Industry Segment: Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
SITRONICS and subsidiaries	SITRONICS	IT and systems integration, telecommunication solutions, microelectronic solutions
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Oil and Energy Segment: ANK Bashneft and subsidiaries Bahskirenergo	Bashneft Bahskirenergo	Oil and gas production Energy production

Revenues by Business unit:

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
	(Amounts in thousands of USD, except percentages)			
Telecommunications	11,476,224	40.8%	9,955,956	53.1%
Oil and Energy	13,318,042	47.4%	5,730,647 ⁽¹⁾	30.6%
Technology and Industry	1,781,630	6.3%	1,508,456	8.0%
Consumer assets	1,978,664	7.0%	1,896,779	10.1%
Corporate and Other	63,313	0.2%	32,867	0.2%
Eliminations	(519,400)	(1.8)%	(374,889)	(2.0)%
Total	28,098,473	100.0%	18,749,816	100.0%

⁽¹⁾ Here and further information for April-May 2009

Operating income by Business unit:

	Years ended December 31,			
	2010	% of operating income	2009	% of operating income
	(Amounts in thousands of USD, except percentages)			
Telecommunications	2,282,378	51.0%	2,016,267	34.7%
Oil and Energy	2,295,295	51.3%	3,370,611 ¹	58.0%
Technology and Industry	37,638	0.8%	(6,408)	(0.1)%
Consumer assets	144,577	3.2%	(236,193)	(4.1)%
Corporate and Other	(288,791)	(6.5)%	670,911	11.5%
Total	4,471,097	100.0%	5,815,188	100.0%

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenues

Our consolidated revenues increased by 49.9% to US\$ 28,098.5 million for the year ended December 31, 2010 from US\$ 18,749.8 million for the year ended December 31, 2009.

The growth in our consolidated revenues was mainly attributable to our Oil and Energy Business Unit which in the end of 2009 completed restructuring of operations and as a result nearly doubled volumes of sales in 2010 and became the largest sales contributor in 2010.

The Telecommunications Business continued to be an important revenue contributor for the year ended December 31, 2010 but its share of the aggregated revenues from sales to external customers decreased to 40.8% for the year ended December 31, 2010 from 53.1% for the year ended December 31, 2009. Revenues of MTS increased to US\$ 11,293.2 million from 9,867.3, or by 14.5% compared to the year ended December 31, 2009. With the completion of our merger with Comstar MTS has transformed itself from a simple mobile operator to a full-fledged telecommunications provider, offering mobile, fixed, internet and content products and services. In our mobile business, growth was driven by subscriber acquisitions, general growth in consumption of voice and data products, and strong handset sales.

The increase of revenues in our Technology and Industry business was attributable to the increased number and volumes of contracts as a result of economy growth in the Russian Federation in 2010.

The Banking provides corporate and retail banking services in Russia and Luxembourg. The business' revenues decreased by 14.8% or US\$ 106.7 million to US\$ 613.7 million, in the year ended December 31, 2010. The loan portfolio, including leases, decreased by 7.4% to US\$ 5,152.7 million as at December 31, 2010, whilst interest income has decreased by 15.1% in the year ended December 31, 2010 and amounted to US\$ 529.7 million.

Revenues from our Retail business increased by 13.2%, or US\$ 76.8 million to US\$ 659.9 million, for the year ended December 31, 2010, compared with the year ended December 31, 2009 due increase in purchasing power of population.

Operating costs

Operating costs include costs of sales, selling, general and administrative expenses, taxes other than income tax, depreciation and amortization, provision for doubtful accounts as well as other operating expenses (net of other operating income).

For the year ended December 31, 2010, our gross margin decreased to 58.1% from 60.0% for the year ended December 31, 2009.

Our tax expenses consist mainly of export tariff, mineral reserve tax, excise and property tax. In 2010 our expenses increased to US\$ 4,118.6 million from US\$ 1,722.5 million. Most of these taxes are related Oil and Energy Unit. The mineral extraction tax of US\$ 1,108.3 million, excise taxes US\$ 671.4 million, export duties US\$ 2,081.3 million were recorded in the year ended December 31, 2010 compared to US\$ 609.1 million, US\$ 193.5 million and US\$ 563.5 million in 2009 respectively, following a respective increase of our oil and petroleum products export and domestic sales and an increase in rates of mineral reserve tax as well as our oil production.

The increase of our transportation expenses was caused by respective export sales increase in our Oil and Energy Business.

Our selling, general and administrative expenses decreased to 13.7% of revenues for the year ended December 31, 2010 as compared to 16.4% for the same period of 2009. Depreciation, depletion and amortization decreased to

10.5% of revenues in the year ended December 31, 2010 from 13.3% in the year ended December 31, 2009 but increase by US\$ 455.9 million following the growth in the depreciable assets.

Operating income

Operating income is revenues less operating costs, plus equity in a income of investees (excluding equity in net income of energy companies in the Republic of Bashkortostan before a acquisition of controlling stake) and a gain on disposal of interests in subsidiaries and affiliates.

Our consolidated operating income margin comprised 15.5% for the year ended December 31, 2010, compared with 22.6% for the year ended December 31, 2009. Gain from acquisition of control over energy companies in the Republic of Bashkortostan contributed 14.8% to the operating income margin for the year ended December 31, 2009. Oil and Energy Unit and Telecommunications Unit were the main contributors to the operating margin with US\$ 2,295.3 million and \$2,282.4 million or 51.3% and 51.0% of aggregated operating income respectively, for the year ended December 31, 2010.

Gain/Loss on aquisition

As of December 31, 2010, we recorded non-cash gain on acquisition of significant influence in the amount of US\$ 477.4 million in our oil subsidiary Belkamneft following the acquisition of 49% stake in its parent company OJSC NK RussNeft. In April 2009 JSFC Sistema purchased controlling stakes in energy companies of the Republic of Bashkortostan. Gain on acquisition for the year ended December 31, 2009 is US\$ 2,782.8 million.

Change in fair value of derivative instruments

An expense of US\$ 35.2 million was recorded in the year ended December 31, 2009 due to an increase in fair value of the call and put option on Comstar UTS shares that we issued in connection with our acquisition of the 25.0%+1 share of Svyazinvest, an expense of US\$ 2.1 million was attributable to the change in fair value of Rosnano put option during year ended December, 31 2010.

Interest expense, net of amounts capitalized

Our consolidated interest expense, net of amounts capitalized, for the year ended December 31, 2010 increased by 28.2% to US\$ 1,597.2 million from US\$ 1,246.4 million for the year ended December 31, 2009, primarily owing to the increase in our indebtedness throughout 2009.

Currency exchange and translation gain

Currency exchange and translation income for the year ended December 31, 2010 amounted to US\$ 26.5 million compared to losses of US\$ 92.8 million for the year ended December 31, 2009 as a result of ruble appreciation in 2010 in comparison with its devaluation in 2009.

Non-controlling interest

Non-controlling interest in net income of our subsidiaries increased from US\$ 642.6 million for the year ended December 31, 2009 to US\$ 1,198.5 million for the year ended December 31, 2010 following the increase of profitability of our Oil and Energy Business Unit.

2.4. Business unit Financial Results Overview

The following analysis concentrates on our five reporting Business units: Telecommunications, Oil & Energy, Technology & Industry, Consumer Assets, Corporate and Other.

Business unit results are presented after elimination of intra-business transactions, but prior to elimination of transactions between businesses.

Telecommunications

We divide our Telecommunications business unit into three divisions: wireless services and fixed line communications (MTS), Sistema Shyam TeleServices Ltd. and Sistema Mass Media.

The following table presents the results of operations of our Telecommunications Business unit for the periods under review:

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	11,476,224	100.0%	9,955,956	100.0%
Cost of sales	(4,068,647)	(35.5)%	(3,336,970)	(33.5)%
Selling, general and administrative expenses	(2,288,329)	(19.9)%	(1,908,921)	(19.2)%
Depreciation and amortization	(2,062,456)	(18.0)%	(1,864,171)	(18.7)%
Provision for doubtful accounts	(111,242)	(1.0)%	(111,037)	(1.1)%
Impairment loss	(175,821)	(1.5)%	(498,239)	(5.0)%
Taxes other than income tax	(145,900)	(1.3)%	(183,727)	(1.8)%
Other operating (expenses)/income, net	(395,995)	(3.5)%	(43,702)	(0.4)%
Equity in net income of investees	54,544	0.5%	20,413	0.2%
Net gain on disposal of subsidiaries	-	-	(13,335)	(0.1)%
OPERATING INCOME	2,282,378	19.9%	2,016,267	20.3%
OIBDA	4,344,834	37.9%	3,880,438	39.0%

OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under U.S. GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under U.S. GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenues

Telecommunications business unit revenues increased by 15.3% to US\$ 11,476.2 million for the year ended December 31, 2010 compared to US\$ 9,956.0 million for the year ended December 31, 2009. MTS contributed US\$ 11,293.2 million and US\$ 9,867.34 million, respectively, to the amount in business unit revenues.

MTS

Revenues of MTS including mobile, retail and fixed businesses increased by 14.5% to US\$ 11,293.2 million. In our mobile business, growth was driven by: subscriber acquisitions, general growth in consumption of voice and data products, and strong handset sales. The increase of handset sales was largely driven by the launch of premium handsets and smartphones sales.

Wireless services

Revenues of MTS from mobile services for the year ended December 31, 2010 were US\$ 8,899.2 million, and increased by 11.0% compared to US\$ 8,017.6 million for the year ended December 31, 2009. This increased was primarily attributable to the recovery of the economy and appreciation of the Russian Rouble. MTS' subscriber base grew by 5.7% to 103.4 million as of December 31, 2010, including 71.4 million in Russia, 18.2 million in Ukraine, 8.8 million in Uzbekistan, 2.4 million in Turkmenistan and 2.5 million in Armenia. The growth was attributable to MTS' acquisitions, sales and marketing efforts and the expansion of its network. Mainly due to appreciation of Russian Rouble against U.S. dollar average monthly service revenue per subscriber in Russia increased from US\$ 7.8 per subscriber for the year ended December 31, 2009 to US\$ 8.3 per subscriber for the year ended December 31, 2010.

⁴ MTS report for 2010 with 2009 comparative information as restated

Fixed line communications

Our revenues from fixed line communications increased by 12.8%, to US\$ 1,686.9 million for the year ended December 31, 2010 mostly as a result of both tariffs and subscriber base increase.

Operating income

The operating income margin of the Telecommunications business unit was 19.9% in the year ended December 31, 2010, compared to 20.3% in the year ended December 31, 2009.

MTS' operating income margin was 25.9% (net of impairment of Svyazinvest) for the year ended December 31, 2010, compared to 24.2% for the year ended December 31, 2010. The margin erosion was based on certain commercial decisions we made to protect our leadership and stabilize the market. Higher gross additions increased our spending on dealer commissions. We plan to reduce our sales through alternative channels and aim to see improvement in 2011. We anticipate margin improvement in 2011 through the optimization of this critical sales channel.

Mass Media

We operate our Mass Media business through Sistema Mass Media, a holding company that is active in main areas: advertising and other media sectors, such as publishing, film production.

Revenues

Mass Media revenue increased by 8.3% year on year revenue for the year 2010 and reached US\$ 94.5 million.

Operating income

Operating income of the business was US\$ 2.2 million in 2010 in comparison to a loss of US\$ 72.1 million in prior year incurred mainly as a result of impairment of assets in the year ended December 31, 2009.

Shyam

We operate our telecommunication business in India through Shyam Telelink

Revenues

Shyam revenues increased by US\$ 78.2 million year on year and amounted US\$ 114.6 million.

Operating losses

Operating losses of the business were US\$ 410.8 million in the year ended December 31, 2010 compared to losses of US\$ 250.8 million in the year ended December 31, 2009. The increase of operating losses was caused by expenses associated with the rollout of mobile networks in new circles.

Oil and Energy

The following table presents the results of operations of our Oil and Energy business unit for the periods under review:

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	13,318,042	100.0%	5,730,647	100.0%
Cost of sales	(5,705,153)	(42.8)%	(2,535,355)	(44.2)%
Selling, general and administrative expenses	(587,733)	(4.4)%	(312,119)	(5.4)%
Depreciation and amortization	(709,033)	(5.3)%	(498,191)	(8.7)%
Transportation costs	(535,206)	(4.0)%	(159,001)	(2.8)%
Provision for doubtful accounts	(6,834)	(0.1)%	(12,693)	(0.2)%
Impairment loss	(39,939)	(0.3)%	(2,727)	(0.0)%
Taxes other than income tax	(3,952,952)	(29.7)%	(1,416,237)	(24.7)%
Other operating (expenses)/income, net	478,029	3.6%	2,576,287	45.0%
Equity in net income of investees	36,074	0.3%	-	-
OPERATING INCOME	2,295,295	17.2%	3,370,611	58.8%
OIBDA	3,004,328	22.6%	3,868,802	67.5%

OIBDA represents operating income before depreciation, depletion and amortization. OIBDA is not a measure of financial performance under U.S. GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and

performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under U.S. GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

The primary activities of Oil and Energy business unit are oil exploration, production, refining, marketing and distribution. ANK Bashneft is the ultimate parent entity of a vertically integrated group of companies.

ANK Bashneft is one of the Russia's largest energy companies in terms of hydrocarbon reserves. The Company's proved reserves of crude oil as of January 1, 2011 amounted to 1,875.9 million BOE (barrels of oil equivalent, to convert tones to barrels a 7.1 ratio is used)

Operations of Oil and Energy business unit are divided into four main business divisions:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and natural gas. These activities are located within Russia.
- **Refining** – which includes crude oil refining and processing of petrochemical products.
- **Marketing and Distribution** – which includes transport operations, marketing and trading of crude oil and refined products.
- **Power and Utilities** – which includes power generation, transmission and distribution businesses.

Each of our four main divisions is dependent on the other, with a portion of the revenues of one division being a part of the costs of the other. In particular, our Refining business receives oil for further processing from our Exploration and Production business and our Marketing and Distribution business purchases refined products from our Exploration and Production business.

Changes in the business in 2010

In 2010 Bashneft acquired 49.9% stake in ASPEK holding and in accordance with the shareholders' agreement got operational control over its oil products distribution network.

Resource base

The table below summarizes the net oil-equivalent of proved reserves of consolidated subsidiaries and has been derived or extracted from the reports of Miller and Lents, Ltd. ("Miller and Lents"), our independent reservoir engineers, dated as December 31, 2009 and 2010.

Changes in 2010					
Thousands of BOE	December 31, 2009	Production	Extensions, discoveries and changes in structure	Revision of previous estimates	December 31, 2010
Proved oil reserves	1,795,100	(100,705)	-	181,505	1,875,900

Operational highlights

Hydrocarbon production

We undertake exploration for, and production of, crude oil and natural gas in Russia. The table below summarizes the results of our exploration and production activities.

	2010	2009
Daily production of crude oil (thousand BOE per day)	275.9	241.7

(millions of US dollars)

Crude oil extraction expenses	623.8.0	347.1
Exploration expenses	8.0	9.7
Mineral extraction tax	1,108.3	609.1

Crude oil production

In 2010, we produced 100.7 million barrels or 14.1 million tonnes compared to 66.5 million barrels, or 9.4 million tonnes for the nine months ended December 31, 2009.

In addition to our production, we purchase crude oil in Russia as our own production is not sufficient for the processing capacity of our refineries. We primarily purchase crude oil from other major Russian oil producers. products. In 2010, we purchased 11.2 million tonnes of crude oil and gas condensate to process at our refineries compared to 3.6 million tonnes in 2009.

Refining, marketing and trading

Refining

We own and operate four refineries located in Russia. The following table summarizes key figures for our refining activities.

	2010	2009
(millions of US dollars)		
Own refining expenses	697.8	505.9

Marketing and trading

Our marketing and trading activities mainly include wholesale and retail operations in Russia.

The Group retails its refined products in Russia through own petrol stations and those under operating control. Most of the stations operate under the Bashkirnefteproduct, or Bashneft brands.

Sales volumes

The table below analyses crude oil and petroleum and petrochemical product sales volumes:

	2010	2009
Crude oil	thousands of bbls	thousands of bbls
Export and sales on international markets other than CIS	22,852	10,294
Domestic sales	6,464	24,261
	29,316	34,556

	thousands of	thousands of
	tones	tonnes
Crude oil	thousands of tones	thousands of tonnes
Export and sales on international markets other than CIS	3,210	1,450
Domestic sales	908	3,417
	4,117	4,867

		thousands of tonnes	thousands of tonnes
Refined products			
Export and sales on international markets other than CIS			
Wholesale	6,515		1,905
Export and sales to CIS			
Wholesale	1,282		781
Domestic sales			
Wholesale	10,413		3,600
Retail	610		397
	18,820		6,683
Total sales volumes of crude oil and refined products	22,937		11,550

Revenues

The table below presents revenues from sales of crude oil, petroleum products and other activities:

	2010	2009
	(thousand of US dollars)	(thousand of US dollars)
Crude oil		
Export and sales on international markets other than CIS	1,782,621	685,953
Domestic sales	212,187	610,800
	1,994,808	1,296,753
Refined products		
Export and sales on international markets other than CIS		
Wholesale	3,526,554	830,380
Export and sales to CIS		
Wholesale	726,396	280,424
Domestic sales		
Wholesale	4,604,018	1,343,177
Retail	484,641	339,336
	9,341,609	2,793,317
Processing	-	534,528
Electricity	1,656,291	904,645
Other	325,335	201,415
Total sales	13,318,042	5,730,658

Exports of crude oil and refined products from Russia

In 2010, we exported 3,210 thousand tonnes or 22.7% of our total domestic crude oil production.

In 2010, we exported from Russia 7,797 thousand tonnes of refined products. We export from Russia primarily diesel fuel, fuel oil and gasoil.

In 2010, our revenue from export from Russia to the third parties amounted to US\$ 1,782.6 million for crude oil and US\$ 4,252.6 million for refined products compared to US\$ 686.0 million and US\$ 1,110.8 million for 2009, respectively.

Below is the summary of capital expenditures by divisions⁵

	(thousand of US dollars)	(thousand of US dollars)
	2010	2009
Exploration and production	818,728	175,299
Refining	128,122	117,140
Marketing	5,555	4,457
Power and utilities	136,338	106,717
Total capital expenditures	1,088,743	403,613

A prepayment for licenses named after Trebs and Titov in the amount of approximately \$598 million contributed to the capital expenditures in 2010.

Taxation

The table below provides information on the average enacted tax rates specific to the Russian oil industry:

		2010	2009
Export tariffs on crude oil	\$/tonne	274	202
Export tariffs on refined products			
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	197	148
Liquid fuels (fuel oil)	\$/tonne	106	80
Excise on refined products			
Straight-run gasoline	RuR/tonne	4,290	3,900
High-octane gasoline	RuR/tonne	3,992	3,629
Low-octane gasoline	RuR/tonne	2,923	2,657
Diesel fuel	RuR/tonne	1,188	1,080
Motor oils	RuR/tonne	3,246	2,951
Mineral extraction tax			

⁵ Net of intercompany eliminations

Crude oil	RuR/tonne	3,074	2,551
Natural gas	RuR/1,000 m ³	147	147

Tax rates translated from RUR to US Dollar at the average exchange rate for the period:

		2010	2009
<hr/>			
Excise on refined products			
Straight-run gasoline	\$/tonne	141	126
High-octane gasoline	\$/tonne	131	117
Low-octane gasoline	\$/tonne	96	86
Diesel fuel	\$/tonne	39	35
Motor oils	\$/tonne	107	95
<hr/>			
Mineral extraction tax			
Crude oil	\$/tonne	101	82
Natural gas	\$/1,000 m ³	5	5
<hr/>			

Below is the summary of actual tax expenses paid by our production, refinery and marketing subsidiaries for 2010 and 2009:

	2010	2009
Mineral extraction taxes	1,108,339	609,051
Social security taxes and contributions ¹	214,229	128,850
Property tax	70,919	38,126
Other taxes	21,000	12,058
Total	1,414,487	788,085
<hr/>		
Excise tax	671,400	193,541
Crude oil export tariffs	874,168	293,164
Refined products export tariffs	1,207,126	270,297
Total	2,752,694	757,002

¹ – not included in separate line taxes other than income tax

Technology and Industry

As of December 31, 2010, our subsidiaries in the Technology and Industry Business unit operated along three main divisions: Technology, Radar and Space and Pharmaceuticals.

The following table presents the operating results of our Technology and Industry Business unit for the periods under review:

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	1,781,630	100.0%	1,508,456	100.0%
Cost of sales	(1,391,153)	(78.1)%	(1,124,054)	(74.5)%
Selling, general and administrative expenses	(204,338)	(11.5)%	(195,316)	(12.9)%
Depreciation and amortization	(106,181)	(6.0)%	(68,027)	(4.5)%
Provision for doubtful accounts	(17,045)	(1.0)%	(56,076)	(3.7)%
Impairment loss	(21,918)	(1.2)%	(47,548)	(3.2)%
Taxes other than income tax	(7,097)	(0.4)%	(5,911)	(0.4)%
Other operating (expenses)/income, net	3,907	0.2%	(17,932)	(1.2)%
OPERATING INCOME	37,638	2.1%	(6,408)	(0.4)%
OIBDA	143,819	8.1%	61,619	4.1%

OIBDA represents operating income before depreciation and amortization. OIBDA is not a measure of financial performance under U.S. GAAP. You should not consider it an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of OIBDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under U.S. GAAP, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenues

The revenues of our Technology and Industry Business Unit increased by US\$ 273.2 million, or by 18.1 %, to US\$ 1,781.6 million for the year ended December 31, 2010 as a result of overall economy growth in 2010.

Operating income

Operating profit amounted to US\$ 37.6 million for the year ended December 31, 2010 compared to an operating loss of US\$ 6.4 million for the year ended December 31, 2009.

Technology

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	1,166,928	100.0%	1,024,220	100.0%
Cost of sales	(882,838)	(75.7)%	(744,540)	(72.7)%
Selling, general and administrative expenses	(164,761)	(14.1)%	(174,338)	(17.0)%
Depreciation and amortization	(90,845)	(7.8)%	(52,801)	(5.2)%
Provision for doubtful accounts	(9,447)	(0.8)%	(54,627)	(5.3)%
Impairment loss	(7,028)	(0.6)%	(47,548)	(4.6)%
Taxes other than income tax	(5,310)	(0.5)%	(5,523)	(0.5)%
Other operating (expenses)/income, net	16,947	1.5%	566	0.1%
OPERATING INCOME	23,644	2.0%	(54,591)	(5.3)%
OIBDA	114,490	9.8%	(1,790)	(0.2)%

Our Technology division is represented by SITRONICS which is a leading provider of telecommunication solutions, including software, equipment and system integration, IT and microelectronic solutions in Russia and the CIS with a strong presence in Central and Eastern Europe and a growing presence in the Middle East and Africa.

Revenues

The revenues of our Technology division increased by US\$ 142.7 million, or by 13.9 %, to US\$ 1,166.9 million for the year ended December 31, 2010, which reflected an improvement in overall market conditions in 2010.

Operating income

Our Technology division has an operating profit of US\$ 23.6 million for the year ended December 31, 2010 compared to an operating loss of US\$ 54.6 million in the year ended December 31, 2009. The decrease in operating

expenses is explained by significant provisions and losses from impairment incurred in 2009. Increase in depreciation expenses was a result of useful lives revision in our Intracom subsidiary.

Radio and Space

Our Radio and Space division represented by RTI Systems is primarily involved in the design and production of radars and radar systems, space control systems and telecommunications equipment for both governmental agencies and corporate clients.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	505,981	100.0%	409,853	100.0%
Cost of sales	(424,959)	(84.0)%	(332,480)	(81.1)%
Selling, general and administrative expenses	(8,142)	(1.6)%	(10,427)	(2.5)%
Depreciation and amortization	(12,023)	(2.4)%	(12,158)	(3.0)%
Other operating (expenses)/income, net	(3,373)	(0.7)%	(15,612)	(3.8)%
OPERATING INCOME	57,483	11.4%	39,176	9.6%
OIBDA	69,507	13.7%	51,334	12.5%

Revenue

The total operating revenues of our Radio and Space division for the year ended December 31, 2010 were US\$ 506.0 million compared to \$409.9 million for the year ended December 31, 2009, representing growth of 23.5 %. The increase in revenues is explained by an increased demand from governmental authorities.

Operating income

In our Radio and Space division, operating margin increased to 11.4% during the year ended December 31, 2010 from 9.6% in the year ended December 31, 2009.

Pharmaceuticals

Our Pharmaceuticals division is represented by Binnopharm, a vertically integrated pharmaceutical and biotechnology holding. The company's strategy is focused on the development of three areas of its business: R&D, the production of its own high margin drugs, and outsourcing production of generics though the company also performs trade operations, primarily import of pharmaceutical goods and substances.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except percentages)				
Sales	32,132	100.0%	55,704	100.0%
Cost of sales	(22,214)	(69.1)%	(32,963)	(59.2)%
Selling, general and administrative expenses	(10,092)	(31.4)%	(6,225)	(11.2)%
Depreciation and amortization	(6,153)	(19.1)%	(2,629)	(4.7)%
Provision for doubtful accounts	(7,598)	(23.6)%	(2,830)	(5.1)%
Impairment loss	(14,890)	(46.3)%	-	-
Taxes other than income tax	(1,511)	(4.7)%	(261)	(0.5)%
Other operating (expenses)/income, net	(3,736)	(11.6)%	(2,612)	(4.7)%
OPERATING INCOME	(34,062)	(106.0)%	8,184	14.7%
OIBDA	(27,909)	(86.9)%	10,813	19.4%

Revenue

Operating revenues of our Pharmaceuticals division for the year ended December 31, 2010 were US\$ 32.1 million compared to US\$ 55.7 million for the year ended December 31, 2009, representing decrease of 42.3%. Sales in 2009 were higher because our Pharmaceuticals division was contracted to produce significant volumes of vaccine for Hepatitis B. In 2010 we had no similar contracts.

Operating income

Our Pharmaceuticals division had operating losses in 2010 as a result of sales decrease and impairment of intangibles.

Consumer Assets

Our Consumer Assets Business unit is represented by Banking, Retail, Healthcare and Travel Services businesses.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
	(Amounts in thousands of USD, except			
Sales	1,367,538	69.1%	1,179,740	62.2%
Revenues from financial services	611,126	30.9%	717,039	37.8%
Cost of sales	(933,933)	(47.2)%	(834,742)	(44.0)%
Financial services related costs	(413,996)	(20.9)%	(588,887)	(31.0)%
Selling, general and administrative expenses	(496,485)	(25.1)%	(492,418)	(26.0)%
Depreciation and amortization	(61,166)	(3.1)%	(52,414)	(2.8)%
Provision for doubtful accounts	(2,556)	(0.1)%	(2,377)	(0.1)%
Impairment loss	(13,398)	(0.7)%	(19,221)	(1.0)%
Taxes other than income tax	(9,695)	(0.5)%	(8,808)	(0.5)%
Other operating (expenses)/income, net	97,955	5.0%	(69,000)	(3.6)%
Equity in net income of investees	228	0.0%	(33,171)	(1.7)%
Net gain on disposal of subsidiaries	(1,041)	(0.1)%	(31,934)	(1.7)%
 OPERATING INCOME	 144,577	 7.3%	 (236,193)	 (12.5%)
 OIBDA	 205,743	 10.4%	 (183,779)	 (9.7)%

Revenues

The revenues of our Consumer Assets Unit increased by US\$ 81.9 million, or by 4.3 %, to US\$ 1,978.7 million for the year ended December 31, 2010 largely due to growth in the Travel services, the Retail businesses and Medical services, accordingly, by US\$ 118.6 million, by US\$ 76.8 million and of Medical services – by US\$ 30.6 million, while the decrease mainly was connected with the revenue from financial services of Banking business – by US\$ 106.7 million.

Operating income

Our Consumer Assets Unit has operating gain of US\$ 144.6 million for the year ended December 31, 2010 compared to an operating loss of US\$ 236.2 million in the year ended December 31, 2009. Also Consumer Asset Unit has other operating income, net of depreciation, of US\$ 64.5 million mainly due to US\$ 70.0 million of the gain from sale of 27.6% Sistema Hals shares, while in 2009 the operating loss of US\$ 69.0 million was recorded mainly due to additional reserve on contingencies in Banking business. Selling, general and administration expenses and bad debt provisions, represented 25.2% of revenues for the full year, compared to 26.1% for the respective period of 2009.

Banking business

In the year 2010 MBRD's business included 162 points of sales, including 23 points located in Moscow and 138 points in 37 Russian regions, as well as 1 in Luxembourg.

The Banking business' revenues (revenue from financial services) decreased by 14.8% year-on-year due to the reduction in average interest rates charged on loans to corporate and individual customers and decrease in total portfolio of banking assets (loans to customers and banks).

The following table summarizes Banking Business's financial performance for the periods indicated:

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
	(Amounts in thousands of USD, except			
Revenues from financial services	613,745	100.0%	720,429	100.0%
Financial services related costs	(416,275)	(67.8)%	(590,606)	(82.0)%
Selling, general and administrative expenses	(173,027)	(28.2)%	(160,184)	(22.2)%
Depreciation and amortization	(18,571)	(3.0)%	(13,554)	(1.9)%
Taxes other than income tax	(4,630)	(0.8)%	(5,608)	(0.8)%
Other operating (expenses)/income, net	-	-	(27,499)	(3.8)%
Net gain on disposal of subsidiaries	20,316	3.3%	-	-
OPERATING INCOME	21,329	3.5%	(77,022)	(10.7)%
OIBDA	39,899	6.5%	(63,468)	(8.8)%

Year ended December 31, 2010 compared to the year ended December 31, 2009

Revenues

For the year ended December 31, 2010, compared with the year ended December 31, 2009, the business revenues decreased by 14.8%, to US\$613.7 million.

Interest income has decreased by 15.1% in the year ended December 31, 2010 and amounted to \$529.7 million. As of December 31, 2010, loans to customers and banks, gross decreased by 7.6% compared with December 31, 2009 to US\$5,140.9 million, including US\$61.1 million, or 11.8% of total, the inter-company loans and US\$33.1 million, or 6.4% of total, the loans to our related parties. As of December 31, 2010, the weighted average interest on MBRD's inter-company loans was 17.9% for ruble-denominated loans and 12.3% on non-ruble-denominated loans. The weighted average interest rate on ruble-denominated loans to related parties was 11.9% and 13.4% for non-ruble-denominated loans.

Loans to third-party customers decreased by \$939.8 million to US\$4,675.2 million as of December 31, 2010 as compared to US\$5,615.0 million as of December 31, 2009. The weighted average interest rate on loans to third-party customers was 11.5% for ruble-denominated loans and 7.6% for non-ruble-denominated loans as of December 31, 2010.

MBRD's non-interest income increased to US\$105.7 million in the year ended December 31, 2010, from US\$76.8 million in the year ended December 31, 2009 million due to increasing fee and commission incomes and the net gains on available-for-sale investments.

Operating income

The Banking Business's operating income amounted to US\$21.3 million gain in the year ended December 31, 2010, compared to US\$77.0 million of loss for the year ended December 31, 2009. The increase in operating income is primarily explained by the gain from the sale of the subsidiary of US\$20.3 million in 2010.

Total assets

Total assets of the Banking Business increased to US\$7,879.7 million as of December 31, 2010 from US\$7,400.7 million as of December 31, 2009 primarily owing to the increase in loans and advances to banks.

Retail business

We operate our retail business through Detsky Mir, the largest retailer of children's goods in Russia and the CIS. Detsky Mir, through its subsidiary, S-Toys, is also the leading Russian children's goods importer and exclusive distributor of world-class children's brands.

As of December 31, 2010 Detsky Mir operated 131 stores in 67 cities of the Russian Federation. Company's retail space increased immaterially from 213.5 thousand sq.m in 2009 to 214.5 thousand sq.m in 2010. During the year 3 new stores were added to the retail chain.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except				
Sales	659,891	100.0%	583,137	100.0%
Cost of sales	(365,583)	(55.4)%	(352,561)	(60.5)%
Selling, general and administrative expenses	(239,457)	(36.3)%	(254,459)	(43.6)%
Depreciation and amortization	(16,504)	(2.5)%	(17,661)	(3.0)%
Provision for doubtful accounts	(2,562)	(0.4)%	(576)	(0.1)%
Impairment loss	(13,227)	(2.0)%	(19,167)	(3.3)%
Other operating (expenses)/income, net	1,578	0.2%	(4,506)	(0.8)%
Equity in net income of investees	228	0.0%	698	0.1%
OPERATING INCOME	<u>24,365</u>	<u>3.7%</u>	<u>(65,095)</u>	<u>(11.2%)</u>
OIBDA	40,869	6.2%	(47,434)	(8.1)%

Revenues

Our Retail business increased its revenues by 13.2 % year on year to US\$659.9 million in 2010 due to an improvement in market conditions, store traffic growth and changes in the basket mix.

Operating income

Operating income of the Retail Business for the year ended December 31, 2010 amounted to US\$24.4 million gain, from US\$65.1 million of loss in the year ended December 31, 2009 as a result of a large-scale cost cutting program which was undertaken by the business.

Travel Services

Our Travel Services business consists of Intourist, a Moscow-based tour operator. It implements its activity in four business of tourism and travel industry: operating of travel tours, retail sales of tours, hotel business and transportation services. Intourist is one of the leading Russian providers of travel and leisure services. It is presented in more than 80 Russian regions and 168 countries of the world.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except				
Sales	518,231	100.0%	399,666	100.0%
Cost of sales	(455,798)	(88.0)%	(345,178)	(86.4)%
Selling, general and administrative expenses	(48,584)	(9.4)%	(40,466)	(10.1)%
Depreciation and amortization	(10,877)	(2.1)%	(8,860)	(2.2)%
Other operating (expenses)/income, net	(6,994)	(1.3)%	(6,260)	(1.6)%
OPERATING INCOME	<u>(4,021)</u>	<u>(0.8%)</u>	<u>(1,098)</u>	<u>(0.3%)</u>
OIBDA	6,856	1.3%	7,762	1.9%

Revenue

The total operating revenues of our Travel Services business for the year ended December 31, 2010 were US\$518.2 million compared to US\$399.7 million for the year ended December 31, 2009, representing increase of 29.7% mainly due to an improvement in market conditions. The business serviced 935,238 customers in 2010 compared to 898,647 in 2009. The hotel group, which comprises 12 hotels, decreased the total number of rooms by 9% to nearly 3,059 rooms as of December 31, 2010.

Operating income

In our Travel Services business operating margin decreased to (0.8%) for the year ended December 31, 2010 from (0.3%) in the year ended December 31, 2009 due to high competition and pricing pressure experienced in the tour operating and hotel markets.

Corporate and Other

In this category we include our central corporate functions. Thus, costs of our corporate function are included in the operating costs of this business. These costs being mostly attributable to personnel costs including share awards and bonuses granted increased to \$280.3 million for the year ended December 31, 2010, compared to \$182.3 million in the year ended December 31, 2009.

	Years ended December 31,			
	2010	% of revenues	2009	% of revenues
(Amounts in thousands of USD, except				
Sales	41,838	100.0%	32,867	100.0%
Cost of sales	(24,204)	(57.9)%	(12,547)	(38.2)%
Selling, general and administrative expenses	(280,307)	(670.0)%	(182,287)	(554.6)%
Depreciation and amortization	(7,336)	(17.5)%	(7,706)	(23.4)%
Provision for doubtful accounts	(8,957)	(21.4)%	(79,000)	(240.4)%
Impairment loss	(42,843)	(102.4)%	(143,850)	(437.7)%
Taxes other than income tax	(2,959)	(7.1)%	(2,862)	(8.7)%
Other operating (expenses)/income, net	16,150	38.6%	1,063,712	3,236.4%
Equity in net income of investees	17,883	42.7%	-	-
Net gain on disposal of subsidiaries	1,190	2.8%	2,584	7.9%
 OPERATING INCOME	 (289,545)	 (692.1%)	 670,911	 2,041.3%

Year ended December 31, 2010 compared to year ended December 31, 2009

Total operating revenues of the Other Businesses category increased to \$41.8 million for the year ended December 31, 2010, compared to \$32.9 million for the year ended December 31, 2009.

Operating income/(loss)

In the Corporate and Other Business operating losses for the year ended December 31, 2010 were \$289.5 million compared to income earned from sale of Comstar-UTS and Sistema Mass Media to MTS in 2009. The increase in selling, general and administrative expenses was a result of expenses incurred in line with a long-term motivation program in the year ended December 31, 2010.

Telecommunications Operating Data

Our revenues and operating income for the years ended December 31, 2010 and 2009 were influenced by trends in the principal businesses included in our Telecommunications mobile and alternative fixed line businesses of MTS. The following discussion contains certain operating data relating to each of the principal businesses in our Telecommunications Business.

Mobile Subscriber Data

The following table shows our mobile subscribers by country as of the dates indicated:

Subscribers ⁽¹⁾	<u>At December 31,</u>		
	2008	2009	2010
(in thousands)			
Russia	64,628	69,341	71,442
Ukraine	18,115	17,564	18,240
Uzbekistan	5,647	7,074	8,786
Turkmenistan	927	1,758	2,419
Armenia	2,017	2,073	2,461
Total consolidated	<u>91,334</u>	<u>97,810</u>	<u>103,348</u>
MTS Belarus (unconsolidated)	4,322	4,564	4,720

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

We had approximately 71.44 million subscribers in Russia as of December 31, 2010 and a leading 32.6% market share of total mobile cellular subscribers in Russia, according to AC&M-Consulting. Overall penetration in Russia was at approximately 151.0%, according to AC&M-Consulting. We had approximately 18.24 million subscribers in Ukraine as of December 31, 2010, and, according to AC&M-Consulting, a 33.7% market share of total mobile cellular subscribers in Ukraine. In addition, as of December 31, 2010, we had approximately 8.79 million subscribers in Uzbekistan, 2.42 million subscribers in Turkmenistan and 2.46 million subscribers in Armenia, representing a 42.3%, 78.5% and 68.9% market share, respectively, according to AC&M-Consulting and our estimates.

Mobile churn rate

We define mobile churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period. We view the subscriber churn as a measure of market competition and customer dynamics. The following table shows our Russian and Ukrainian subscriber churn for the periods indicated.

	Year Ended December 31,		
	2008	2009	2010
Subscriber Churn			
Russia.....	27.0%	38.3%	45.9%
Ukraine	47.3%	40.0%	31.0%

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. Our churn rate in Russia increased to 45.9% during the year ended December 31, 2010 as compared to 38.3% for the year ended December 31, 2009, as our mobile subscribers became more price sensitive and more likely to switch tariffs and switch to operators with lower-priced tariff plans and offers due to the economic downturn. In addition, due to the financial distress experienced by several mobile retailers in Russia, many increased their sales efforts in 2009 and 2010 to stimulate revenue earned from subscription fees, which we believe led to a decline in the quality of new subscribers.

Although the churn rate in Ukraine decreased to 31.0% in the year ended December 31, 2010 from 40.0% for the year ended December 31, 2009, it remains high due to the competitive environment among mobile operators in Ukraine, which has significantly intensified in recent years. We were able to decrease the churn rate in 2009 and 2010 by adjusting and changing our tariffs in response to changes in the market and economic environment and focusing on subscriber base management with an emphasis on improving the quality of subscriber acquisitions.

Mobile ARPU

We calculate mobile average monthly service revenue per subscriber by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period. Prior to April 1, 2008, we excluded connection fees from service revenues. The following table shows our average monthly service revenue per Russian and Ukrainian subscriber based on our current calculation methodology and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

	Year Ended December 31,		
	2008	2009	2010
Average monthly service revenue per subscriber			
Russia	\$10.5	\$7.8	\$8.3
Ukraine	\$7.2	\$4.7	\$4.8
Average monthly minutes of use per subscriber			
Russia	208	213	234
Ukraine	279	462	535

Average monthly service revenue per subscriber in Russia increased insignificantly to RUR 252.8 (\$8.3) for the year ended December 31, 2010, from RUR 247.5 (\$7.8) for the year ended December 31, 2009. This increase is in line with the addition of 6.5 million net subscribers in 2009, who, given the maturation of the market, are largely lower-value subscribers, which is dilutive to operating indicators like ARPU. Average monthly minutes of use per

subscriber in Russia increased from 213 minutes in 2009 to 234 minutes in 2010 mainly due to marketing campaigns and tariff promotions aimed at increasing voice traffic.

In Ukraine, average monthly service revenue per subscriber increased by 2.1% to \$4.8 for the year ended December 31, 2010 from \$4.7 for the year ended December 31, 2009. The average monthly minutes of use per subscriber increased from 279 minutes in 2008 to 462 minutes in 2009 and to 535 minutes in 2010 due to the introduction of a wide range of attractive tariffs aimed at stimulating traffic, such as inexpensive intra-network rates, as well as the increased use by subscribers of tariffs that include a flat amount of minutes per month.

Customers and Services Offered—Alternative Fixed Line Business

We provide alternative fixed line communications services to corporate, operator and residential subscribers in over 80 cities throughout Russia. Specifically, we offer local voice, DLD/ILD voice, data and Internet and pay-TV services to our subscribers. The interconnect tariffs we charge to other telecommunications operators in Moscow are regulated by the Russian government. Tariffs for our other services are not regulated and, consequently, we are permitted to establish our own tariff structures. We believe our alternative fixed line subscribers typically evaluate our service and product offerings based on such factors as price, technology, security, reliability and customer service.

The following table presents certain operating data for our alternative fixed line business in the Moscow market and in the Russian Regions and CIS as of and for the years ended December 31, 2009 and 2010.

	December 31, 2009	December 31, 2010
Alternative fixed line business		
Moscow market		
Installed telephone lines (000s)	659	659
Residential		
Number of subscribers (000s) ⁽¹⁾	621	541
ARPU (RUR)	440	566
ARPU (US\$).....	14.0	18.6
Corporate ⁽²⁾		
Number of subscribers (000s).....	27	29
ARPU (RUR)	13,676	13,359
ARPU (US\$).....	432.8	440
Operators		
Number of active lines (000s).....	438	438
of which, used by mobile operators (000s)	307	307
Russian regions and CIS (excluding Moscow market)⁽³⁾		
Residential		
Number of subscribers (000s)(1)	2,606	3,661
ARPU (RUR)	155	188
ARPU (US\$).....	4.9	6.2
Corporate ⁽²⁾		
Number of subscribers (000s).....	52	73
ARPU (RUR)	3,573	3,302
ARPU (US\$).....	113.1	108.6
Operators		
Number of active lines (000s).....	2	5

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

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

(3) No reliable data is available on installed lines outside of the Moscow market.

Customers and Services Offered—Traditional Fixed Line Business

We provide traditional fixed line communications services through our subsidiary, MGTS, which is the incumbent fixed line PSTN operator in Moscow. MGTS owns Moscow’s PSTN infrastructure, including switches, a transmission network, underground ducts, and owns or holds leases to properties housing its offices and equipment. As of December 31, 2010, MGTS had approximately 4.40 million active lines in service, a cable network of over 103,900 km, a fiber optic network of over 8,190 km and 3,024 payphones. Although MGTS’ core backbone network is fully digital and is based on state-of-the-art SDH technology, only around 69% of installed lines were digital as of December 31, 2010. As a result, those subscribers who connect to our network using an analog ATE are currently not able to receive our value-added services. Residential subscribers accounted for approximately 82.4% of MGTS’ total lines, corporates for 11.1% and public sector subscribers for 6.5%, as of December 31, 2010.

The following table presents certain operating data for our traditional fixed line business as of and for the years ended December 31, 2009 and 2010:

Traditional fixed line business	December 31, 2009	December 31, 2010
Installed telephone lines (000s).....	4,897	4,903
Residential		
Number of subscribers (000s) ⁽¹⁾	3,608	3,615
CPP traffic (millions of minutes).....	1,968	1,993
ARPU (RUR)	324	352
ARPU (US\$).....	10.3	11.6
Corporate ⁽²⁾		
Number of active lines (000s).....	761	785
Number of subscribers (000s).....	70	66
CPP traffic (millions of minutes).....	880	924
ARPU (excl. revenue from points of interconnect) (RUR).....	5,591	7,016
ARPU (excl. revenue from points of interconnect) (US\$).....	176.9	231.1
Number of points of interconnect (000s)	28	20
Average monthly revenue per point of interconnect (RUR)	5,539	6,714
Average monthly revenue per point of interconnect (US\$)	175.5	221.3
Operators		
Number of interconnected operators.....	207	195
Number of points of interconnect (000s)	225	235
Average monthly revenue per point of interconnect (RUR)	1,148	1,194
Average monthly revenue per point of interconnect (US\$)	36.3	39.3

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

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

Liquidity and Capital Resources

We use a variety of sources to finance our operations, both external and internal. In addition to net cash provided by operations, our companies use short- and long-term borrowings to fund capital expenditures and strategic investments. Short- and long-term funding sources may change with time, but currently include notes issued in the international and Russian capital markets and credit facilities with international and Russian banks, denominated in both rubles and foreign currencies.

Total proceeds from long-term borrowings, net of debt issuance costs in 2010 equal to 5,459.4 million dollars. Total payments to settle our obligations were \$5,302.6 million.

Our parent company, JSFC Sistema, is a holding company with direct operations mostly limited to certain functions for our group, including budgeting, corporate finance, strategic development and public relations. The ability of JSFC Sistema to repay its debts depends primarily upon the receipt of dividends, distributions and other payments from our subsidiaries, proceeds from the sale of subsidiaries and from additional borrowings.

We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. See our audited consolidated financial statements for a description of our indebtedness.

Working capital

Working capital is defined as current assets less current liabilities. As of December 31, 2010, we had a positive working capital of \$647.1 million, compared to \$500.6 million as of December 31, 2009. The increase in working capital was mainly attributable to an increase of our operating income for the year ended December 31, 2010.

We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital together with our plans for external financing will provide us with sufficient funds for our present requirements.

Credit Ratings

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently.

The credit ratings of our parent company and our subsidiaries as of the date of this document were as follows:

Name of issuer	Rating Agency	Date of Rating	Long-term Debt Rating	Outlook . Watch
Sistema	Standard & Poor's	10.03.2011	BB	Negative
	Fitch	26.11.2010	BB-	Positive
	Moody's	05.02.2010	Ba3	Stable
MTS	Standard & Poor's	10.03.2011	BB	Negative
	Moody's	25.01.2011	Ba2	RW Negative
	Fitch	26.11.2010	BB+	Positive
Sitronics	Fitch	08.02.2011	B-	RW Negative
	Moody's	21.02.2011	B3	Negative
MGTS	Standard & Poor's	02.08.2010	BB	Positive
	Moody's	19.01.06	Ba3	Stable
MBRD	Fitch	30.11.2010	B+	Positive
	Moody's	11.10.2010	B1	Stable

None of our existing indebtedness has any triggers related to our credit ratings.

Capital Requirements

We need funding to finance the following:

- capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;
- acquisitions;
- repayment of debt;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures, acquisitions and repayment of long-term debt will represent the most significant uses of funds for several years to come.

Our capital expenditures in the years ended December 31, 2010 and December 31, 2009 were \$4,179.6 million and \$3,434.4 million respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and build out of our telecommunication networks and expansion into new license areas and to increase oil production in our Oil and Energy business.. Our future expenditures may be higher, in particular as licenses relating to new telecommunication technologies became available and our investment program for expansion and full digitalization of the Moscow public switch telephone network is being implemented. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and build out of our networks.

In addition to our capital expenditures, we spent \$364.5million and \$1,729.1 million in the years ended December 31, 2010 and December 31, 2009, respectively, to acquire businesses. We may continue to expand our business through acquisitions. Our cash requirements relating to potential acquisitions can vary significantly based on market opportunities.

Capital Resources

We plan to finance our capital requirements through operating cash flows and financing activities, as described above. We do not depend on off-balance sheet financing arrangements.

At December 31, 2010, our debt was comprised of the following:

Short-term loans payable	Interest rate (Actual at December 31, 2010)	December 31, 2010
<i>USD-denominated:</i>		
VTB	3.59%	\$ 200,000
Other	Various	14,890
		214,890
<i>RUB-denominated:</i>		
Sberbank	7.2% - 8.7%	581,069
Other	Various	72,814
		653,883
Other currencies	Various	208,732
Loans from related parties	Various	15,094
Total short-term loans payable		\$ 1,092,599

Notes and corporate bonds	Currency	Interest rate	December 31, 2010
Bashneft Bonds due 2016	RUB	12.5%	\$ 1,640,587
MTS International Notes due 2020	USD	8.6%	750,000
JSFC Sistema Bonds due 2014	RUB	14.8%	648,155
JSFC Sistema Bonds due 2016	RUB	12.5%	623,423
MTS Notes due 2014	RUB	16.8%	492,176
MTS Notes due 2016	RUB	14.3%	492,176
MTS Notes due 2020	RUB	8.2%	492,176
MTS Finance Notes due 2012	USD	8.0%	400,000
MTS Notes due 2017	RUB	8.7%	328,117
MTS Notes due 2018	RUB	8.0%	315,337
JSFC Sistema Bonds due 2013	RUB	9.8%	196,870

SITRONICS Bonds due 2013	RUB	10.8%	98,435
Intourist Bonds due 2013	RUB	14.0%	65,623
SITRONICS Bonds due 2013	RUB	11.8%	41,212
MTS Notes due 2015	RUB	7.8%	39,823
DM-Center Bonds due 2015	RUB	8.5%	37,733
MTS Notes due 2013	RUB	7.0%	13,250
			<u>6,675,093</u>
Less: unamortized discount			(203)
Total notes and corporate bonds			\$ <u>6,674,890</u>

Loans from banks and financial institutions	Maturity	Interest rate (Actual at December 31, 2010)	December 31, 2010
<i><u>USD-denominated:</u></i>			
Golden Gates (Bank of Moscow)	2011-2013	LIBOR+8.0% (8.3%), \$ 9.8%-10.5%	306,000
Skandinaviska Enskilda Banken AB	2011-2017	LIBOR+0.23%-1.8% (0.68% - 2.26%)	242,013
China Development Bank	2011-2017	LIBOR+1.5% (1.96%)	157,406
Bank of China	2011-2017	LIBOR+1.5%-1.95% (1.96%-2.41%)	139,960
EBRD	2011-2014	LIBOR+1.51%-3.1% (1.97%-3.56%)	116,667
HSBC Bank plc and ING BHF Bank AG	2011-2014	LIBOR+0.3% (0.76%)	71,244
Citibank International plc and	2011-2013	LIBOR+0.43% (0.88%)	62,486
ING Bank N.V.			
The Royal Bank of Scotland	2011-2014	LIBOR+0.35% - 2.65% (0.81 - 2.95%)	61,361
HSBC Bank plc, ING Bank AG and	2011-2015	LIBOR+0.3% (0.76%)	59,570
Bayerische Landesbank			
Commerzbank AG, ING Bank AG and	2011-2014	LIBOR+0.3% (0.76%)	51,285
HSBC Bank plc			
Barclays Bank plc	2011-2014	LIBOR+0.13%-0.15% (0.59%-0.61%)	46,047
Troika Dialog Bank	2011-2015	LIBOR+6.5% (6.8%)	30,000
Societe Generale	2011-2016	LIBOR+1.25% (1.71%)	20,768
Other	2011-2015	Various	14,128
			<u>1,378,935</u>
<i><u>EUR-denominated:</u></i>			
EBRD	2011-2012	EURIBOR+5.2% (6.21%)	158,808
Syndicated Loan to Sitronics	2011-2013	EURIBOR+1.5% (2.73%)	158,808
BNP Paribas	2011-2018	EURIBOR+1.65% (2.88%)	52,159
LBWW	2011-2017	EURIBOR+0.75% (1.98%)	43,201
Bank of China	2011-2016	EURIBOR+1.95% (3.18%)	35,123
The Royal Bank of Scotland	2011-2013	EURIBOR+0.35% (1.58%)	13,740
Other	2011-2014	Various	18,346
			<u>480,185</u>
<i><u>RUB-denominated:</u></i>			
Sberbank	2011-2017	8.5%-14.50%	2,053,182
Gazprombank	2013-2017	8.75% - 11.85%	990,914
VTB	2017	11.95%	492,176
VTB-Capital	2017	11.95%	492,176
Bank of Moscow	2013	8.0% - 9.5%	459,364
Unicredit	2011-2016	MosPrime+1.8% - 5.2%(5.5% - 8.9%)	66,927
Raiffeisenbank	2011-2012	MosPrime+5.2% - 5.4% (8.9% - 9.5%)	63,172
Other	Various	Various	15,118
			<u>4,633,029</u>
<i><u>Other currencies-denominated</u></i>			
State Bank of India	2012	11%	535,595
Other	2011-2018	Various	201,565
			<u>737,160</u>
Total loans from banks and financial institutions			\$ <u>7,229,309</u>

The following table presents the aggregate scheduled maturities of long-term debt principal outstanding as of December 31, 2010:

Year ended December 31,		
2011	\$	2,103,405
2012		4,334,565
2013		1,557,911
2014		541,953
2015		1,478,907
Thereafter		4,293,179
Total	\$	<u>14,309,920</u>

Our ability to incur further indebtedness is limited by the covenants in our outstanding notes, including (i) consolidated indebtedness to consolidated EBITDA test (as defined in the indenture relating to the notes), (ii) MTS' debt/cash flow incurrence test. The covenants in our outstanding notes also limit our ability to grant liens on our properties and to enter into mergers, acquisitions, sales and sale-leaseback transactions.

The following table presents a summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries:

	Year ended December 31,	
	2010	2009
	(Amounts in thousands)	
Cash flows		
Net cash provided by operating activities	\$ 4,056,752	\$ 3,684,569
Net cash used in investing activities	(4,589,632)	(6,070,877)
Net cash provided by financing activities	(6,878)	5,207,891
Net increase/(decrease) in cash	(549,868)	2,878,019
Cash outlays for		
Capital expenditures ⁽¹⁾	4,179,574	3,434,416
Acquisition of subsidiaries, net of cash acquired	(364,532)	(1,729,063)

⁽¹⁾ Includes acquisitions of property, plant and equipment, intangible assets and principal payments on capital lease obligations.

During the periods under review, our operating activities generated positive cash flows due to organic growth and acquisitions. During the same periods, our investing activities generated negative cash flows due primarily to capital expenditures in connection with the development of our telecommunications network, investments in our oil and energy business and the acquisitions of new businesses. We expect for the foreseeable future to continue to use cash in investing activities as we continue to expand our telecommunications network and to invest in our oil production activity. We also intend to continue to expand our business through acquisitions. We intend to finance our future investments primarily through net cash flows from operations and the incurrence of additional indebtedness. The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, contractual restrictions and market conditions.

Liquidity

As of December 31, 2010 and December 31, 2009, we had total cash and cash equivalents of \$5,050.7 million (including \$2,785.6 million comprised of the banking activity) and \$5,600.5 million (including \$2,163.9 million comprised of the banking activity), respectively. In addition, as of December 31, 2010 and December 31, 2009, we had short-term investments of \$879.6 million and \$576.0 million, respectively, mostly in corporate and municipal bonds and bank deposits.

For details of external financing refer to Notes 17 and 18 to our audited consolidated financial statements.

Because most of our operating subsidiaries are incorporated in Russia, their ability to pay dividends to us is limited by provisions of Russian law. For example, Russian law requires that, among other things, dividends can only be paid in an amount not exceeding net profit as determined under Russian accounting standards. In addition, dividends may only be paid if the value of the company's net assets is not less than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company, if any, as determined under Russian accounting standards.

Competition

We operate in some of the most competitive industries in Russia, including telecommunications, oil and energy, technology and banking. Our businesses confront aggressive pricing practices, evolving customer demand patterns and changing technologies.

For example, in the Telecommunications Business, our wireless business is subject to increasing competition from a number of existing and emerging companies, resulting in pricing pressures and lower margins. We compete

with at least one other mobile cellular operator in each of our markets. The competition has evolved in recent years to exist primarily between MTS, Vympelcom and MegaFon, each of which has effective national coverage in Russia. Competition is based largely on local tariff prices and secondarily on network coverage and quality, the level of customer service provided, roaming and international tariffs and the range of services offered.

We compete with a number of alternative fixed line operators servicing Moscow, Saint-Petersburg and other commercial centers. Intensifying competition in Moscow's alternative carrier market has resulted in increasing pressure on prices and profitability for all operators. Smaller companies with insufficient scale and limited resources are focusing on niche business of the market while large players act as market consolidators. As a result, the alternative carrier market is presently dominated by two large operators: MTS and Vympelcom.

Market risks

Foreign Currency Risk

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the Central Bank of Russia. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Rubles per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period End
Year ended December 31,				
2006.....	28.48	26.18	27.09	26.33
2007.....	26.58	24.27	25.49	24.55
2008.....	29.38	23.13	24.86	29.38
2009.....	36.43	28.67	31.72	30.24
2010.....	31.78	28.93	30.37	30.48

⁽¹⁾ The average of the exchange rates on the last business day of each full month during the relevant period.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Hryvna per U.S. dollar			
	High	Low	Average ⁽¹⁾	Period End
Year ended December 31,				
2006.....	5.05	5.05	5.05	5.05
2007.....	5.05	5.05	5.05	5.05
2008.....	7.88	4.84	5.27	7.70
2009.....	8.01	7.61	7.81	7.99
2010.....	8.01	7.89	7.94	7.96

⁽¹⁾ The average of the exchange rates on the last business day of each full month during the relevant period.

Our principal exchange rate risk involves changes in the value of the ruble, hryvnia and the euro relative to the U.S. dollar.

If the ruble or the hryvnia decline against the U.S. dollar and tariffs for our telecommunication services cannot be maintained for competitive or other reasons, our operating margins could be adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness. Our investment in monetary assets denominated in rubles and hryvnias is also subject to risk of loss in U.S. dollar terms. In particular, we are unable

economically to hedge the risks associated with our ruble and hryvnia bank or deposit accounts. Generally, as the value of the ruble or the hryvnia declines, our net ruble and hryvnia monetary asset position results in currency remeasurement losses.

Inflation and Exchange Rates

The Russian economy has been characterized by high rates of inflation:

<u>Year</u>	<u>Inflation rate</u>
2006.....	9.0%
2007.....	11.9%
2008.....	13.3%
2009.....	8.8%
2010.....	8.8%

The Ukrainian economy has been characterized by high rates of inflation:

<u>Year</u>	<u>Inflation rate</u>
2006.....	9.1%
2007.....	12.8%
2008.....	25.2%
2009.....	15.9%
2010.....	9.4%

In addition, for the year ended December 31, 2010, inflation rates in Uzbekistan, Turkmenistan and Armenia were estimated at 7.3%, 12.0% and 9.4%, respectively.

Certain of our costs, including salaries and utility costs, are sensitive to rises in the general price level in Russia. Over the past 15 years, the ruble has fluctuated, at times substantially over short periods of time, against the U.S. dollar and, in particular, it has significantly depreciated against the U.S. dollar in 2008 as a result of the ongoing global financial crisis.

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

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2010, approximately \$2,141.9 million, or 13.9% of our total indebtedness was variable interest rate debt, while \$13,260.6 million or 86.1% of our total indebtedness was fixed interest rate debt.

As of December 31, 2010, MTS recorded a liability of \$34.8 million and an asset of \$3.3 million in relation to the above hedge contracts in the accompanying consolidated balance sheet and a loss of \$70.5 million, of which \$32.7 million was recognized as interest expense, \$32.8 million – as currency exchange and transaction loss in the Group consolidated statement of operations and \$14.9 million was recognized in other comprehensive income. We continue to consider other financial instruments available to us on the market to mitigate exposure to variability in interest rates.

For long-term indebtedness with variable interest rates, the table below presents principal cash flows and related weighted average interest rates by contractual maturity dates as of December 31, 2010.

Contractual Maturity Dates as of December 31, 2010:

		December 31,								
		Currency	2011	2012	2013	2014	2015	Thereafter	Total	Average rate at December 31, 2010
Golden Gates (Bank of Moscow)		USD	-	230,000	-	-	-	-	230,000	8.30%
Skandinaviska Enskilda Banken AB		USD	31,656	31,656	31,656	31,656	31,656	42,777	201,057	0.68%
Skandinaviska Enskilda Banken AB		USD	5,851	5,851	5,851	5,851	5,851	11,701	40,956	2.26%
China Development Bank		USD	-	13,120	26,206	26,206	26,206	65,668	157,406	1.96%
Bank of China		USD	-	6,314	26,730	26,730	26,730	53,456	139,960	2.41%
EBRD		USD	18,462	18,462	18,462	9,229	-	-	64,615	3.56%
EBRD		USD	14,872	14,872	14,872	7,436	-	-	52,052	1.97%
HSBC Bank plc and ING BHF Bank AG		USD	19,741	19,741	19,741	12,021	-	-	71,244	0.76%
Citibank International plc and ING Bank N.V.		USD	21,799	21,798	18,889	-	-	-	62,486	0.88%
HSBC Bank plc, ING Bank AG and Bayerische Landesbank		USD	16,609	16,609	16,609	8,726	1,017	-	59,570	0.76%
Commerzbank AG, ING Bank AG and HSBC Bank plc		USD	14,790	14,790	14,790	6,915	-	-	51,285	0.76%
Barclays bank plc		USD	9,976	-	-	-	-	-	9,976	0.59%
Barclays bank plc		USD	36,071	-	-	-	-	-	36,071	0.61%
The Royal Bank of Scotland		USD	6,287	6,287	6,287	-	-	-	18,861	0.81%
The Royal Bank of Scotland		USD	42,500	-	-	-	-	-	42,500	2.95%
Troika Dialog Bank		USD	5,500	9,100	10,200	5,200	-	-	30,000	6.80%
Societe Generale		USD	1,903	3,773	3,773	3,773	3,773	3,773	20,768	1.71%
Total USD variable debt			246,017	412,373	214,066	143,743	95,233	177,375	1,288,807	
Weighted average USD interest rate			3.02%	2.66%	1.78%	1.76%	1.77%	1.80%		
EBRD		EUR	79,404	79,404	-	-	-	-	158,808	6.21%
Syndicated Loan Facility granted to MTS in 2009		EUR	158,808	-	-	-	-	-	158,808	2.73%
BNP Paribas		EUR	6,520	6,520	6,520	6,520	6,520	19,559	52,159	2.88%
The Royal Bank of Scotland		EUR	4,580	4,580	4,580				13,740	1.58%
LBWW		EUR	6,172	6,172	6,172	6,172	6,172	12,341	43,201	1.98%
Bank of China		EUR		7,025	7,025	7,025	7,025	7,023	35,123	3.18%
Total EUR variable debt			255,484	103,701	24,297	19,717	19,717	38,923	461,839	
Weighted average EUR interest rate			3.91%	3.55%	2.65%	2.67%	2.66%	2.65%		
Unicredit		RUB	25,024	-	-	-	-	-	25,024	5.53%
Unicredit		RUB	-	3,028	3,028	3,029	-	-	9,085	8.28%
Unicredit		RUB	-	2,333	3,500	3,500	4,664	-	13,997	8.53%
Unicredit		RUB	-	-	7,000	7,636	4,185	-	18,821	8.98%
Raiffeisenbank		RUB	-	39,374	-	-	-	-	39,374	9.50%
Raiffeisenbank		RUB	17,236	-	-	-	-	-	17,236	8.90%
Total RUB variable debt			42,260	44,735	13,528	14,165	8,849	-	123,537	
Weighted average RUB interest rate			8.63%	8.97%	8.72%	8.73%	8.74%	-		

We would experience an additional interest expense of approximately \$16.0 million in the year ended December 31, 2011, \$10.5 million in the year ended December 31, 2012, \$6.4 million in the year ended December 31, 2013, \$4.3 million in the year ended December 31, 2014, \$2.8 million in the year ended December 31, 2015 and \$1.1 million thereafter as a result of a hypothetical increase in the LIBOR/EURIBOR/MOSPRIME by 1% over the current rate as of December 31, 2010.

The fair value of our publicly traded long-term notes as of December 31, 2010 ranged from 94.0% to 111.3% of the principal amount. At December 31, 2010, the fair value of our other debt approximated its book value. We have not experienced significant changes in the market risks associated with our debt obligations in the table above subsequent to December 31, 2010.

Critical accounting policies

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

Revenue recognition

Telecommunications

The Telecommunications Business earns revenues from the provision of wireless telecommunication services, local telephone and data transmission services and usage of its local exchange networks and facilities. Revenues are recognized on an accrual basis, when services are actually provided or title to equipment passes to the customer, regardless of when the resulting monetary or financial flow occurs. Business revenue sources consist of the following: (a) monthly subscription fees, (b) usage fees, (c) value-added telecommunication service fees, (d) roaming fees charged to other operators for guest roammers utilizing our network, (e) connection fees, (f) revenues from use of prepaid phone cards and (g) sales of handsets and accessories.

We defer initial connection fees paid by subscribers for the first time activation of network service, as well as one time activation fees received for connection to various value-added services. These fees are recognized as revenue over the estimated average subscriber life. We periodically review our estimates of the expected subscriber relationship period.

Technology

The Technology Business earns revenues from (a) sale of consumer electronic, semiconductor products and other electronic devices; (b) manufacturing and distribution of software products; and (c) computer hardware sale and systems integration services. Revenues are recognized on an accrual basis, when services are actually provided or title to equipment passes to the customer, regardless of when the resulting monetary or financial flow occurs:

Electronic and semiconductor products 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. We accrue for known warranty if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified issues based on historical activity.

In those cases where we buy components from and subsequently sell the assembled devices to the same counterparty or where our responsibility to the customer is limited solely to assembly services, we record only the net amount retained as our revenues.

Revenues from the sale of software products are multiple-element arrangements, involving 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. Revenue on such arrangements is recognized applying the percentage-of-completion method. The measurement of progress towards completion is based on the ratio of hours or costs to date to estimated total hours or costs at completion.

If the service 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.

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

The arrangements regarding systems integration services typically include multiple elements, such as equipment and software, installation services and post-contract support.

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 revenues as services are performed.

Revenue and cost of sales from contracts involving solutions achieved through modification of telecommunications equipment and software are recognized by reference to the stage of completion of the contract at the balance sheet date when the outcome of a contract can be estimated reliably. Where the outcome of a contract cannot be estimated reliably, equal amounts of revenue and costs are recognized until results can be estimated more precisely. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Oil and gas

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

Power and Utilities

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

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

Revenue amounts are presented net of value added taxes.

Transportation Expenses

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

Refinery Maintenance Costs

The Group recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Banking operations

Interest income of the Banking Business is recognized on the accrual basis. Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful. Loans are written off against the allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral.

Other businesses

Our other business recognizes revenues when products are shipped or when services are rendered to customers.

In arrangements where we act as an agent, including travel agency arrangements and arrangements to administer construction projects, only the agency fee is recognized as revenue.

Management Estimates

The preparation of our 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.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of intangible assets and other long-lived assets, and valuation allowances on deferred tax assets.

License Costs and Other Intangible Assets

License costs are capitalized as a result of the purchase price allocated to licenses acquired in business combinations and 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 ASC 350.

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.

Useful Lives of Property, Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property, plant and equipment at least on an annual basis. Depletion expense of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves.

Impairment of Long-Lived Assets

The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with the FASB guidance on impairment of assets, including but not limited to ASC 205 “Presentation of Financial Statements” and ASC 360 “Property, Plant and Equipment”. 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.

Taxation

We are subject to a variety of taxes levied in the Russian Federation, including income taxes, payroll taxes, VAT, property taxes and other, and our foreign subsidiaries are subject to taxation in their respective jurisdictions.

The taxation system in Russia is subject to frequent changes, varying interpretations and inconsistent enforcement at the federal, regional and local levels. In some instances, new tax regulations have been given retroactive effect, while under the Tax Code only laws benefiting the taxpayer may have retroactive effect. In addition to our substantial tax burden, these conditions complicate our tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses and at times we have taken a position that may be considered aggressive by tax authorities, but that we consider to be in compliance with current

law. 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 those typically found in countries with more developed tax systems.

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes, 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. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2010, our tax declarations for the preceding two fiscal years were open to further review.

In the ordinary course of business, we may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which we operate. We consider that our liability, if any, in all pending litigation, other legal proceedings or other matters will not have a material effect upon our financial condition, results of operations or liquidity. We have adequately provided for tax liabilities in our financial statements; however, the risk remains that the authorities could take a different position with regard to interpretive issues.

Income Taxes

Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF was 20% in 2010. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions.

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

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

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

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.

New Accounting Pronouncements

Adopted during the year

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

In January 2010, the FASB issued additional guidance that requires new disclosures related to transfers into and out of Level 1 and Level 2 of fair value measurements and separate presentation of information about purchases, sales, issuances, and settlements in the roll forward for Level 3 inputs. The update also clarifies existing guidance for fair value measurements for each class of assets and liabilities as well as for disclosures about inputs and valuation

techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures related to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. The adoption of the revised guidance will impact disclosures in the Group's consolidated financial statements.

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

To be adopted in future periods

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

In March 2010, the FASB issued Accounting Standards Update ("ASU") 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging — Embedded Derivatives — Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Group on July 1, 2010. Early adoption is permitted. The Group does not expect the provisions of ASU 2010-17 to have a material effect on the financial position, results of operations or cash flows of the Group.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. The Group does not expect the provisions of ASU 2010-17 to have a material effect on the financial position, results of operations or cash flows of the Group.

In April 2010, the FASB issued an amendment to its stock-based compensation guidance to clarify that employee stock options that have exercise prices denominated in the currency of any market in which a substantial portion of the entity's securities trade should be classified as equity, assuming all other criteria for equity classification are met. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted. The Group does not expect the provisions of the amendment to have any effect on its financial statements.

In December 2010, the FASB issued guidance on disclosure of supplementary pro forma information for business combinations which states that when a public entity's business combinations are material on an individual or aggregate basis, the notes to its financial statements must provide pro forma revenue and earnings of the combined entity as if the acquisition date(s) had occurred as of the beginning of the annual reporting period. It clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as of it had occurred at the beginning of the current annual reporting period. It is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2010, and should be applied prospectively.

In December 2010, the FASB issued additional guidance which does not prescribe a specific method of calculating the fair value of a reporting unit in the performance of step 1 of the goodwill impairment test and requires entities with a zero or negative carrying value to assess, considering qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. It is effective for the impairment tests performed during

entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. Early application will not be permitted. The Group does not expect the provisions of the amendment to have significant impact on its financial statements.

Off-balance sheet arrangements

Obligations under guarantee contracts

As of December 31, 2010 MBRD and its subsidiaries guaranteed loans for several companies, including related parties, which totaled \$146.1 million. JSFC Sistema guaranteed loans for a few related companies in total amount of \$250.8 million.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2010, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of \$6.9 million as of December 31, 2010) for each newly-founded bank. As of December 31, 2010, MBRD's share capital amounted to 1,360.9 million RUB (equivalent to \$44.6 million as of December 31, 2010).

Obligations under derivative contracts

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

Buy-out put option – On December 23, 2010, simultaneously with the meeting of MTS' shareholders, the meeting of Comstar-UTS' shareholders approved the reorganization of Comstar-UTS through the statutory merger into MTS OJSC. In accordance with the Russian legislation, shareholders who voted against or did not vote on the merger have the right to sell their shares back to Comstar-UTS for cash at a price set by the company's Boards of Directors, subject to the statutory limit of 10% of the company's net asset value under the Russian Accounting Standards. Eligible shareholders shall file a buyout demand within no later than 45 (forty five) days after the adoption of the resolution on reorganization. The buy-out of shares shall be carried out within 30 days after the expiry of the period set for the buyout demand being made. Fair value of the Group's liability under the put option as of December 31, 2010 was estimated at \$11.6 million using an option pricing model.

Cash flow hedging

In 2009, 2008 and 2007 we entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments qualify for cash flow hedge accounting under U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2010 mature in 2012-2015.

In 2009, we entered into several cross-currency interest rate swap agreements with various banks. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest swap matches the interest and principal payments of the underlying debt allowing for highly effective hedges. Our cross-currency interest rate swap contracts outstanding as of December 31, 2010 mature in 2011.

Derivative instruments not designated as hedges

In 2009 and 2010, MTS entered into foreign currency option agreements with HSBC and BNP Paribas to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. According to the agreements, we have put and call option rights to acquire \$330.0 million in U.S. dollars at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements will 2011-2012.

In 2009 JSFC Sistema entered into foreign currency forward agreements to manage exposure to changes in currency exchange rates. As of December 31, 2010, Sistema has executed its foreign currency forward contracts and recorded a loss of \$10.1 million in the Group's consolidated statement of operations.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations (including interest) under these contracts due by the periods indicated as of December 31, 2010:

	January 1, 2011 December 31, 2011	January 1, 2012 December 31, 2012	January 1, 2013 December 31, 2013	January 1, 2014 December 31, 2014	January 1, 2015 December 31, 2015	Thereafter	Total
(Amounts in thousands)							
Contractual obligations:							
Notes payable	1,140,331	3,296,051	591,079	-	569,311	1,078,118	6,674,890
Bank loans and other liabilities	963,074	1,038,514	966,832	541,953	909,596	3,215,061	7,635,030
Operating leases and services agreements	490,408	148,970	137,873	134,166	137,502	230,194	1,279,113
Committed Investments:							
Purchases of property, plant and equipment	320,500	-	-	-	-	-	320,500

Agreement with Apple – In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. In 2010 and 2009, the Group made 7.5% and 0.4% of its total purchase installments contemplated by the agreement, respectively.

The total amount paid for handsets purchased under the agreement for the years ended December 31, 2010 and 2009 amounted to \$79.4 and \$3.4 million, respectively.

Capital commitments – As of December 31, 2010, the Group had executed purchase agreements of approximately \$320.5 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operations in Turkmenistan - In December 2010 the Group suspended its operations in Turkmenistan following a notice received from the Ministry of Communications of Turkmenistan informing of a decision to suspend licenses held by BCTI, the Group's wholly-owned subsidiary in Turkmenistan, for a period of one month starting from December 21, 2010. On January 21, 2011 period of license suspension expired but no permission to resume operations was granted.

The Group conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, MTS OJSC and the Ministry of Communications of Turkmenistan which expired on December 21, 2010 and was not extended. In accordance with certain provisions of this agreement, BCTI shared net profit derived from its operations in the country with the Ministry of Communications of Turkmenistan. The amount of shared net profit was calculated based on the financial statements prepared in accordance with local accounting principles subject to certain adjustments. Under the terms of the agreement, BCTI shared 49% of the net profit since the date of its acquisition by the Group through December 21, 2005, and 20% of the net profit commencing December 21, 2005. The Group at all times believed that the agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry of Communications failed to grant the extension in accordance with the terms of the agreement.

Following the decision to suspend licenses, Turkmenistan government authorities took some additional steps, including one-sided termination of interconnect agreements between BCTI and state-owned telecom operators, to prevent the Group from providing services to its customers.

Although BCTI have experienced no restrictions in using its current bank accounts and short-term deposits to settle existing tax and contractual liabilities, the ability of the Group to repatriate cash from the country is uncertain.

The Group has initiated a number of lawsuits against Turkmenistan government authorities and state-owned telecom operators to defend its legal rights. On December 21, 2010 BCTI filed three requests of arbitration with the

International Court of Arbitration of the International Chamber of Commerce (“ICC”) against the Ministry of Communications of Turkmenistan and several state-owned telecom operators requesting specific performance on the respective agreements and compensation of damages. On January 24, 2011 ICC proceedings were suspended due to the proposal of the Ministry of Communications of Turkmenistan to start negotiations but were resumed on February 18, 2011 as no agreement between the parties was reached.

On January 21, 2011, MTS sent to the Government of Turkmenistan a formal notice requesting to resolve the dispute by negotiations. Should the dispute not be resolved amicably by negotiations, MTS reserved its right to commence proceedings against the sovereign state of Turkmenistan on the basis of any applicable inter-governmental investment treaty. Under the Bilateral Investment Treaty (“BIT”) between the Russian Federation and Turkmenistan, if a dispute is not resolved through negotiations within six months from the date of the request to negotiate, it can be referred to the International Centre for the Settlement of Investment Disputes (“ICSID”).

Considering the adverse influence of the circumstances on the Group’s ability to conduct operations in Turkmenistan, the Group determined that all of its long-lived assets attributable to Turkmenistan were impaired and recorded an impairment charge of \$119.6 million in the consolidated statement of operations for the year ended December 31, 2010. The Group also assessed the recoverability of the subsidiary’s current assets and provided for or wrote down those which were considered to be impaired. The total effect of impairment charges on the Group’s statement of operations for the year ended December 31, 2010 was \$137.8 million.

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

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

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema-Hals, a former subsidiary of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The main part of the work under these contracts was to be performed between 2006 and 2012. Under the agreements, Sistema-Hals was to prepare the project documentation and perform construction works on behalf of MGTS, and MGTS was to reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and to pay a fixed fee of \$0.04 million per one building. During 2005-2009 project development and site preparation works were performed by Sistema Hals on 95 sites, which resulted in recognition of payable to Sistema Hals and construction in-progress amounted to \$39.3 million and \$33.3 million as of December 31, 2010, respectively.

In February 2009, the Board of Directors of MGTS approved the cancellation of agreements with Sistema-Hals with respect to 26 sites, which also extinguishes the respective portion of MGTS’ liability to Sistema-Hals, and signing of 26 new agreements with other non-related companies. Under the new agreements, the investor companies would perform all necessary reconstruction work and obtain the property rights for the reconstructed buildings except for the premises locating the digitalized nodes which would remain MGTS property. In addition, within 12 months after transfer of the building into the investment project, MGTS is to receive cash payment equal to MGTS’ share in the value of the building before reconstruction as appraised by an independent valuation firm in 2008, plus interest at 20% per annum accrued for the period from transfer of the building into the project and the date of payment. As of December 31, 2009, 2 out of aforementioned 26 agreements were cancelled.

In December 2010, MGTS and Sistema Hals cancelled agreements in connection with 87 sites out of 95. The agreed terms for the cancelled agreements are as follows:

- For 8 out of 87 sites all the expenses incurred by Sistema Hals in relation to construction process on those sites should be reimbursed by investor companies, not MGTS. Consequently, payable to Sistema Hals and construction in-

progress in connection with these sites of US\$ 20.8 million and US\$ 17.7 million, respectively, were reversed as of December 31, 2010.

- For 79 out of 87 sites MGTS agreed to reimburse part of the expenses incurred by Sistema Hals in relation to the construction process. Consequently, payable to Sistema Hals and construction in progress related to those 79 sites were reduced by \$6.4 million and \$5.5 million respectively, and, as of December 31, 2010, amounted to \$5.9 million and \$5.0 million respectively. In addition, management believes that the remaining capital expenditures are impaired as of December 31, 2010 by the amount of \$3.5 million.

The remaining 8 sites will be developed based on existing agreements. Accordingly, as of December 31, 2010, the respective payable to Sistema Hals and construction in-progress amounted to \$6.1 million and \$5.2 million respectively.

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

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2010, tax declarations of OJSC MTS and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

In October 2009, the Russian tax authorities completed the tax audit of Sibintertelecom for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 174.5 million (\$5.8 million as of December 31, 2009) of additional taxes, penalties and fines were payable by the Group. The resolution had not come into force as the Group has prepared and filed an appeal with the Federal Tax Service to recognize the tax authorities' resolution to be invalid. The Group succeeded in action in court of original jurisdiction, which recognized the tax authorities' resolution to be invalid. In February 2010 arbitration appellate court confirmed the decision of the court of original jurisdiction.

In December 2010 the Russian tax authorities completed the tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 353.9 million (\$11.6 million as of December 31, 2010) of additional taxes, penalties and fines were payable by the Group.

The Group purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that custom duties are calculated in compliance with the applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional custom duties. As of December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, the provision accrued amounted to \$10.0 million and \$68.2 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled \$17.8 million and \$15.3 million as of December 31, 2010 and 2009, respectively. However, the risk remains that the relevant authorities could take different positions with regard to interpretive issues and the effect could be significant.

In addition, the Group had a number of claims and litigations relating to sales and purchases of goods and services. Management estimates possible adverse effect on financial result of these claims in the amount of \$50.0 and \$nil million as of December 31, 2010 and 2009, respectively.

With regard to matters where practice concerning payment of taxes is unclear in respect of Oil and Energy segment operations, management estimated possible tax exposure at December 31, 2010, to be approximately of \$184.0 million (December 31, 2009: \$121.0 million).

Other commitments – As of December 31, 2010 MBRD and its subsidiaries guaranteed loans for several companies, including related parties, which totaled \$146.1 million. JSFC Sistema guaranteed loans for a few related companies in total amount of \$250.8 million.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2010, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of \$6.9 million as of December 31, 2010) for each bank. As of December 31, 2010, MBRD's share capital amounted to 1,360.9 million RUB (equivalent to \$44.6 million as of December 31, 2010).

Operating licenses in India – The Center for Public Interest Litigation, an Indian non-governmental not-for-profit organization, has filed a petition by seeking appropriate writ for cancellation of entire allocation of 2G spectrum and telecom licenses made by Department of Telecommunication on or after January 10, 2008. This petition is based on the Audit Report of the Controller and Auditor General of India on the spectrum allocation and grant of Telecom licenses. Management believes that there was no violation of the legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this petition.

Recent activities

Gazprombank loan terms – In January 2011 MTS has lowered the interest rates on the Gazprombank credit facilities. The parties agreed to reduce the annual interest rate on the facilities from 9.5% to 8.75% in effect as of December 24, 2010. MTS also restructured the Euro-denominated share of the facilities in the amount of Euro 200 million into Russian rubles with the new interest rate of 8.75% (up from 7% on Euro-denominated facilities). The final payment is to be executed in February 2015, but the agreement allows for early repayment.

MTS Finance – In February 2011 MTS has been notified by Mobile TeleSystems Finance S.A. (“MTS Finance”), a wholly owned subsidiary of MTS, that The Bank of New York Mellon (“BNY”), in its capacity as trustee under 8.00% notes due January 28, 2012 issued by MTS Finance (the “Notes”), transferred on February 2, 2011 interest payments to holders of the Notes, on behalf of MTS Finance, that were due and payable under the Notes on January 28, 2011 (the “Interest Payments”).

In March 2011 (i) The Bank of New York Mellon resigned as trustee, registrar and paying agent under the indenture dated as of January 28, 2005 (the “Indenture”) between Mobile TeleSystems Finance S.A.1 (the “Issuer”), the Company, and The Bank of New York Mellon (formerly JPMorgan Chase Bank, N.A.), pursuant to which the Issuer’s \$400,000,000 8.00% Notes due 2012 were issued; and (ii) Wilmington Trust Company was appointed, and accepted its appointment, as trustee, registrar and paying agent under the Indenture. In addition, pursuant to the Instrument, The Bank of New York Mellon (Luxembourg) S.A. resigned as Luxembourg paying agent, and Wilmington Trust SP Services (Luxembourg) S.A. was appointed, and accepted its appointment, as Luxembourg paying agent.

Acquisition of MGTS shares – In February 2011 CJSC Sistema-Inventure, a wholly-owned subsidiary of Sistema JSFC, acquired more than 1% of the ordinary shares of MGTS at a price of RUB 436.20 per share, for total cash consideration of RUB 370 million (approximately US\$ 12.3 million). The purchase was made in accordance with the mandatory tender offer announced by Sistema JSFC on November 13, 2010.

Transaction with Bank of Moscow – In February 2011 the previously announced transaction between Sistema and Bank of Moscow to establish OJSC RTI following the receipt of the Federal Antimonopoly Services permission and issuance of 84.6% of the share capital of the newly established company to Sistema and 15.4% to the Bank of Moscow was completed.

Acquisition of Trebs and Titov licenses – In February 2011 Bashneft acquired licenses on oil fields named after Trebs and Titov for RUB 18.5 billion (approximately \$598.0 million as of the date of transaction). As of December 31, 2010 the whole amount was classified as advance payment for non-current assets.

Pekin Hotel – In February 2011 the Group sold its stake in Pekin Hotel to Sistema Hals for a total consideration of US\$58.2.

Share buyback – In March 2011 MTS has completed the share buyback related to the reorganization of MTS through a merger with Comstar-UTS, CJSC “Dagtelecom” and OJSC “Eurotel”. A total of 8,000 MTS ordinary shares representing 0.0004% of the Company’s issued share capital were repurchased for RUB 1.96 million. As was

announced on June 25, 2010, the Company's Board of Directors set the buyback price at RUB 245.19 per one MTS ordinary share.

Sale of SITRONICS shares – In March 2011 Sistema's Board of Directors has approved the sale of Sistema's stake in OJSC SITRONICS ("SITRONICS") to OJSC RTI ("RTI"). In accordance with the proposal, Sistema's Board of Directors approved the sale of the Company's stake of approximately 63% in SITRONICS to RTI for US\$ 0.9228 per GDR (based on the three-month weighted average price for GDR of SITRONICS on the LSE). To facilitate the transaction, Sistema's Board of Directors has also approved the extension of a short-term loan by Sistema to RTI.

New President of JSFC Sistema – In March 2011 Sistema's Board of Directors has appointed Mikhail Shamolin, the former President and CEO of Mobile TeleSystems (MTS), as President of Sistema. Leonid Melamed, who has been President of Sistema for three years, will continue to serve as a member of Sistema's Board of Directors and Chairman of Russneft.

SITRONICS-Nano letter of credit – In March Sitronics announces that the Bank of Moscow and SITRONICS-Nano signed an agreement for issuance of an unsecured irrevocable letter of credit (L.C.) with post-financing in favor of STMicroelectronics for license and technology transfer to SITRONICS-Nano in the amount of EUR 27 million. The L.C. rate is EURIBOR+5%, term of contract is 3 years with potential extension for another 3 years. SITRONICS and Mikron act as L.C. guarantors.

Bonds offering – In March 2011 Sistema has completed its purchase of non-convertible amortizing Series 02 and Series 03 bonds with a par value of RUB 1,000 each. Following the tender, 8,641,660 Series 02 bonds and 10,858,340 Series 03 bonds were acquired at nominal value for the total amount of RUB 19.5 billion. The Series 02 and Series 03 bonds were due in 2014 and 2016, respectively. At the same time the Group has successfully placed RUB 19.5 billion of non-convertible amortizing Series 04 five-year bonds with a coupon rate of 7.65% for the ten semi-annual coupon payments. The bonds are due in 2016.

Acquisition of Inteleca – In April 2011 MTS acquired 100% in Inteleca Group of companies ("Inteleca"), an alternative operator in the cities of Barnaul and Biysk in Altai Krai of the Siberian Federal District, from a group of private investors.

The purchase price was RUB 545.8 million (or approximately \$19.2 million).

Acquisition of Orenburgnefteproduct - On 4 April 2011 the Bashneft acquired from OJSC NK "Russneft" a 94% stake in OJSC "Orenburgnefteproduct", a company engaged in wholesale and retail of oil products in Orenburg region. Cash consideration included USD 90 million of fixed payment and additional payment equal to net working capital of the acquired company. Additional payment should be defined within 30 days after acquisition.

3. Corporate governance

3.1. Principles of Corporate Governance

A key element of Sistema's strategy is to maintain corporate governance and the information transparency standards at a highest international level. The structure of the Corporation's corporate governance is based on the following three core principles:

- transparency of all processes for investors and partners,
- a proactive and professional Board of Directors,
- consistency and collegiality in decision-making.

Sistema JSFC is guided by these principles in all of its activities, including strategic and financial management, corporate governance, reporting, control and audit, risk management, HR and social policy.

Principles and procedures of Sistema JSFC corporate governance are set out in its Charter and in a number of publicly available bylaws that, all together, determine the structure and the scope of the Corporation's governance and control bodies. The Corporate Conduct Code and the Ethics Code contain additional commitments of Sistema JSFC in the area of transparency, social responsibility, and ethical principles of business.

3.2. Corporate Governance in 2010

In 2010 Sistema took a number of measures to further develop its corporate governance system.

In June 2010 a new independent director, Roger Munnings, was elected to the Board of Directors. Roger Munnings was formerly CEO of KPMG Russia/CIS, and will enhance the level of the Board of Director's competency in financial reporting, internal control and audit.

Sistema continued its practice of internal corporate governance ratings of the group's companies. The findings were used to work out plans for further development of the corporate governance systems of the subsidiaries.

In 2010, as part of standard work practice, each committee of the Board of Directors began producing written reports containing data on the work done by such committee between the sessions of the Board of Directors; this helped to improve the level of preparation and the regularity of committee meetings, and to improve the preparation of items submitted to the consideration of the Board of Directors.

A number of new internal regulations of Sistema JSFC were approved in 2010: an Information Policy, a new version of the Charter, and Terms of Reference of the General Meeting of Shareholders.

The new version of the information policy includes a revised description of the principles for the Corporation's interaction with all potential recipients of information, and an expanded list of information to be disclosed by the Corporation. The document balances the interests of the company's transparency and compliance with the legal requirements in control over the use of insider information.

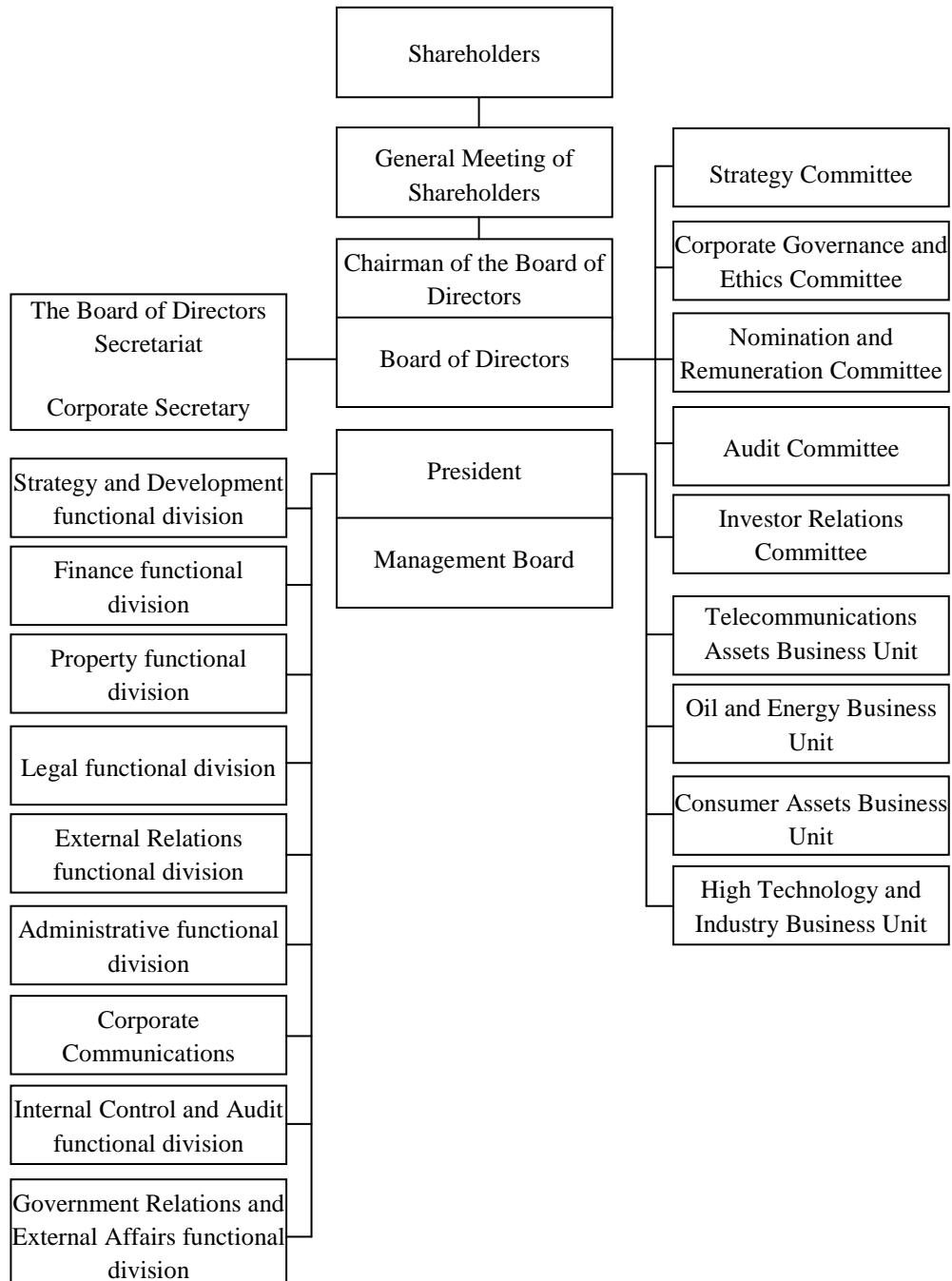
Amendments were made to the Charter and Terms of Reference of the General Meeting of Shareholders following amendments to the Federal Law "On Joint-Stock Companies". Simultaneously some points of the section on the procedural matters of conducting general meetings of shareholders and the scope of duties of the Company's Board of Directors were made more specific to reduce the risk of corporate conflicts.

3.3. Corporate Governance Structure

The Corporation's core governance bodies are: the General Meeting of shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that make recommendations on Sistema's policy formation in the relevant areas. As of 31 December 2010, the organizational structure of Sistema JSFC comprises 9 Functions and 4 industrial Business Units.

On 05 February 2011 the Board of Directors of Sistema JSFC took the decision on a gradual transition to a new organizational structure of the Corporation.

Structure of executive bodies and core units of Sistema JSFC



3.4. General Meeting of Shareholders

Principles of operation

The General Meeting of shareholders is the main governance body of Sistema JSFC. Its operation is regulated by the laws of the Russian Federation on joint-stock companies, the provisions of its Charter, and the Corporation's bylaws. The procedure for conducting the General Meeting of shareholders aims to ensure that the rights of shareholders are respected and all the requirements of RF laws are observed. Information and materials for the meeting are available to the shareholders in advance, in Russian and in English, and are published on the official web site of Sistema JSFC. Along with the notice on the forthcoming meeting, shareholders get voting ballots. Venues of all the meetings of Sistema JSFC shareholders are conveniently located not far from the company's head office. Holders of the

company's depositary receipts have the opportunity to vote on all agenda items by means of proxy voting via Deutsche Bank Trust Company Americas, the depositary of Sistema JSFC GDR program.

Observance of shareholders' rights to participate in running the company

Sistema JSFC aims to ensure the maximum protection of the shareholders' right to participate in running the Company. The fundamental right of a shareholder in this respect is the right to participate in the work of the General Meeting of shareholders and to vote on items on the agenda. For this right to be secured, information regarding the conduct of the General Meetings of Sistema JSFC is circulated to all the shareholders at least 30 days before the meeting, all materials are published on the website of the company in Russian and in English (www.sistema.com). Besides the notice regarding the General Meeting, Sistema JSFC also sends a voting ballot to each shareholder. The ballot can be filled out by the shareholder in advance and mailed to the Company to the address specified in the ballot. Such a vote of the shareholder will be taken into account when counting the voting results.

Holders of the company's depositary receipts have the opportunity to vote by means of proxy voting via Deutsche Bank Trust Company Americas, the depositary of Sistema JSFC's GDR program. The votes are collected by the depositary, Deutsche Bank Trust Company Americas, via clearing systems and are included in the general voting ballot of the depositary, with all votes cast for the proposed draft resolution, against it, or abstentions specified.

Each shareholder is also entitled to attend shareholder meetings and vote on the agenda items in person (or via a representative), because the meeting is held in the format of a physical meeting of shareholders.

An important shareholder's right to participate in running the Company is the right to access documents that the Company is obliged to keep in accordance with the provisions of the Federal Law "On Joint-Stock Companies". To exercise this right, a shareholder should send a written request to the Corporate Secretary of the Company asking for access to the documents that the shareholder would like to obtain. After the time for providing the documents is agreed upon, the requested documents will be made available to the shareholder.

Holders of material blocks of shares are entitled to make proposals for the agenda of the General Meeting of shareholders, and to nominate candidates to the Company's governance and control bodies. The Company accepts proposals on the agenda of the Annual General Meeting of shareholders in written form, within 100 days after the end of the financial year. Proposals received from shareholders are considered by the Board of Directors of the Company and, if the proposals meet the legal requirements for the work of the General Meeting of Shareholders, the proposed items are included in the agenda of the General Meeting.⁶⁷

General Meetings held in 2010 and their results

In 2010 four General Meetings of the Company's shareholders were held.

The Annual General Meeting of the shareholders of Sistema JSFC took place on 26 June 2010. The Annual General Meeting of Shareholders approved the annual report, the annual accounts including the profits and loss report of Sistema JSFC for 2009, approved the amount, the procedure, the forms and the timelines for paying dividends on the shares of the Company, elected members of the Board of Directors and the Revision Commission, approved appointment of the auditors, and approved the new version of the Company's Charter and the new version of the Terms of Reference of the General Meeting of Shareholders of the Company.

Based on the amount of average dividend yield on Sistema JSFC shares and the amount of consolidated net income calculated in line with the US GAAP standards, the General Meeting of shareholders resolved to allot 530,750,000.00 rubles to pay dividends, which equals 0.055 rubles per ordinary share of the Company.

Auditors of Sistema JSFC elected for 2010 are as follows:

- CJSC BDO - to conduct the Russian accounting standards audit;
- CJSC Deloitte and Touche CIS - to conduct the US GAAP audit.

The auditors were proposed following an open tender for election of the Company's auditors organized by the Audit Committee of the Board of Directors of Sistema JSFC.

The Annual General Meeting also approved amendments to the Charter and the Terms of Reference of the General Meeting of Shareholders that were made following amendments to the Federal Law "On Joint-Stock Companies". Simultaneously some points of the section on the procedural matters of conducting general meetings of shareholders and the scope of the Company's Board of Directors were made more specific to reduce the risk of corporate conflicts.

⁶ Holders of 10 and more per cent of the Company's voting shares are also required to request that an Extraordinary General Meeting be convened.

⁷ In the event of an Extraordinary General Meeting of shareholders whose agenda contains an item on the election of the Board of Directors, holders of material blocks of shares are entitled to nominate candidates to the Board of Directors. Written proposals on the matter must be delivered to the Company at least 30 days before the date of such a meeting.

In 2010, three Extraordinary General Meetings of shareholders were also held in the form of a letter ballot:

08 February 2010	<p>The following agenda item was considered: "Approval of related party transactions: Sistema JSFC participation in the Investment Agreement and the Agreement on Joining the Investment Agreement and Amending the Investment Agreement dtd 19 December 2009 signed by and between Rostanotech State Corporation, Sistema JSFC, SITRONICS OJSC, Research Institute for Molecular Electronics and Micron OJSC, AMEKS CJSC, and SITRONICS-Nano LLC".</p> <p>These agreements regulate the procedure and the conditions of implementing the project of establishing commercial production of extra large-scale integrated circuits on the basis on 90 nm nanoelectronic technology in the Russian Federation. The goal of the project is to create an advanced microelectronic manufacturing facility that will strengthen the positions of the project participants in the Russian market of microelectronics and expand their domain.</p> <p>The General Meeting of shareholders approved the proposed transaction.</p>
02 August 2010	<p>The following agenda item was considered: "Approval of a related party transaction of granting a surety to Svyazinvest OJSC under which Sistema JSFC undertakes to guarantee fulfillment of the obligations of Sistema-Invenchure CJSC under the Agreement of exchange of shares of MGTS OJSC for the shares of Sky Link CJSC entered into by Svyazinvest OJSC and Sistema-Invenchure CJSC".</p> <p>This agreement was proposed within the project of exchange of assets with the government performed in line with the assignment from the President of the Russian Federation Mr. V. Putin dtd 10.09.2009 #VP-P13-5227.</p> <p>The project comprises the following transactions:</p> <ol style="list-style-type: none">1) The Comstar Group sells 25%+1 share of Svyazinvest to Rostelekom and repays the debt of RUR 26 bn to Sberbank;2) Sistema-Invenchure CJSC (a 100% subsidiary of Sistema JSFC) exchanges 50% in Sky Link CJSC (effectively 100%) for 23.3% in the authorized capital of MGTS (28% of ordinary shares), and Sistema-Invenchure pays the difference between the assets' prices;3) Sistema JSFC restructures and sells the debt that the Sky Link Group owes to Sistema - in favor of the Svyazinvest Group. <p>The surety of Sistema JSFC on the obligations of its subsidiary Sistema-Invenchure CJSC under the exchange agreement granted in favor of Svyazinvest OJSC is necessary to ensure (1) an optimum transaction structure, and (2) maximum protection of the interests of the parties to the project of exchanging assets with the government.</p> <p>The General Meeting of shareholders approved the proposed transaction.</p>
21 December 2010.	<p>The following agenda item was considered: "Approval of a related party transaction: divestment of 99.9998 % in the charter capital of LLC Sistema Telecom".</p> <p>The transaction proposed for approval presumes transfer of Sistema-Telecom LLC that owns: 45% in the authorized capital of TS-Retail (the remaining 55% are held by MTS OJSC); promissory notes to the amount of RUR 2 bn that were previously issued by MTS; rights to the trademarks of the "Sistema umbrella brand" with the egg graphics, including the trademarks of MTS, Comstar-UTS and MGTS, - in favor of MTS.</p> <p>It is expected that full consolidation of TS-Retail operations will make it possible for MTS to strengthen its position in the distribution sector. MTS acquiring full control over its brand is in line with the current</p>

international practice when the user of a trademark owns the trademark. The transfer of the promissory notes will reduce the current volume of borrowings within the Group.

The General Meeting of shareholders approved the proposed transaction.

3.5. Board of Directors

The Board of Directors of Sistema JSFC is responsible for the strategic governance of Sistema JSFC. It determines the strategy of the Corporation's development, works out strategic and financial development plans, sets the principles for investing, appraises executive performance, assesses risks, approves principles for corporate governance procedures, approves transactions, and generally controls the work of the Corporation. The scope of duties of the Board of Directors is set out in the Charter of Sistema JSFC.

Board of Directors membership

The Board of Directors in place as of 31.12.2010 was elected by the General Meeting of shareholders on 26 June 2010. The Board of Directors has 11 members:

*BoD membership as elected on 26 June 2010**

1	Vladimir Evtushenkov	<i>Chairman</i>
2	Alexander Goncharuk	
3	Ron Sommer	
4	Dmitry Zubov	<i>Deputy Chairman</i>
5	Vyacheslav Kopiev	
6	Robert Kocharyan	
7	Roger Munnings	
8	Leonid Melamed	
9	Mehrotra Rajiv	
10	Evgeny Novitsky	
11	Sergey Cheremin	<i>Deputy Chairman</i>

Overall membership of the Board of Directors includes:

Executive directors	2 (18.2%)	R. Sommer, L. Melamed*
Non-executive directors	6 (54.5%)	V. Evtushenkov, A. Goncharuk, D. Zubov, V. Kopiev, R. Mehrotra, S. Cheremin
Independent directors	3 (27.3%)	R. Kocharyan, R. Munnings, E. Novitsky

* The powers of L. Melamed as the President were terminated on 09 March 2011, and his powers as the Chairman of the Management Board of Sistema JSFC were terminated on 16 April, hence from 17.04.2011 his status is amended as follows: "Non-executive director" of the Board of Directors of Sistema JSFC.

Changes in the membership of the Board of Directors.

* See the Annex for brief CVs of the members of the Board of Directors and their stakes in the authorized capital of Sistema JSFC.

In the beginning of 2010 the Board of Directors consisted of 13 members elected by the General Meeting of shareholders on 27 June 2009. When the new Board of Directors was elected on 26 June 2010, the number of its members was reduced most notably since 2005. The new Board of Directors did not include A. Gorbatovsky, S. Newhouse and R. Skidelsky from the previous membership; at the same time, a new member, R. Munnings, with significant experience in financial reporting and audit, was elected to the Board to strengthen its competencies in audit.

Meetings of the Board of Directors.

Meetings of the Board of Directors are pre-scheduled. If necessary, extraordinary meetings are convened to take decisions on urgent matters. The Corporation has an Annual Calendar Planning Cycle (from January 1 through December 31). This practice makes it possible for the new Board of Directors to maintain continuity and to act on the basis of the previously approved plan.

Meetings of the BoD are scheduled according to strategic planning requirements and Sistema's reporting cycle.

In 2010, the work plan of the Board of Directors included the following issues:

- development strategy of Sistema JSFC, its Business Units and key projects,
- development strategy of the key functions,
- corporate governance, internal control and audit,
- financial reporting and planning,
- HR matters and key appointments,
- items that are mandatory from the legal viewpoint.

Any unplanned issues that may occur in the course of the Corporation's operation and that had not been included in the work plan of the Board of Directors are put on the agendas of the BoD meetings as necessary upon the decision of the BoD Chairman.

In 2010 the Board of Directors had 16 sessions: 8 scheduled meetings and 8 sessions in the form of a letter ballot on urgent matters. 2010 the Board of Directors considered 115 items in total.

	2010	2009
Number of meetings held	8	9
Number of letter ballots	8	4
Number of items on BoD work plan	46	46
Number of items considered by the BoD	115	124

In 2010 the Board of Directors considered the following key items:

- status of Sistema JSFC strategy implementation in 2009-2010. Corporation's development strategy;
- development of the Sistema Group oil and energy assets;
- Sistema JSFC subsidiaries' and affiliates' governance strategy;
- development strategies of the core subsidiaries of Sistema JSFC: SITRONICS OJSC, the Banking Group, Binnopharm CJSC, Sistema Shyam TeleServices Ltd.;
- report from the Internal Control and Audit Function;
- results of MTS-Comstar integration;
- financial strategy of the Corporation;
- development of innovations and R&D activities of Sistema JSFC companies;
- development strategies of the Business Units of Sistema JSFC;
- approval of the consolidated budget of Sistema JSFC and Key Performance Indicators of the management for 2011;
- strategy of establishing the united Concern on the basis of high-tech assets of Sistema JSFC;
- public and investor relations activities;
- financial performance results;
- convening the Annual General Meeting of shareholders, reports from the Committees of the Board of Directors, report on the quality of corporate governance;
- approval of transactions.

Issues considered by the Board of Directors in 2010 (vs. 2008 and 2009)

Besides approval of transactions, most of the items considered by the Board of Directors in 2010 belong to the category of strategy and development, financial reporting and corporate governance. In 2010 the number of items on

strategy, approval of transactions and shareholding in subsidiaries increased vs. 2009, which reflects the emphasis on updating the strategy and non-organic business development of the Group.

Preparation for sessions and quorum of the Board of Directors

Materials on the agenda items are provided to the Board members 10 days before the session. The most important agenda items are normally pre-considered in the meetings of the committees under the Board. Members of the Board of Directors meet with the rapporteurs and the management at a business dinner the evening before the session, where they can get explanations on the materials of the Board of Directors and clarify voting positions of the parties in an informal environment.

Sessions of the Board of Directors normally take place with all the Board members attending. No cases when a Board meeting had to be rescheduled due to the lack of quorum have been registered over the past few years.

Participation of the members of the Board of Directors in meetings of the Board of Directors and its committees in 2010

Board of Directors	Strategy Committee	Audit Committee	Nomination and Remuneration Committee	Corporate Governance and Ethics Committee	Investor Relations Committee
Participation in meetings					
V. Evtushenkov	15/16	13/13			
A. Goncharuk	15/16		3/4		
R. Sommer	16/16	9/13			5/5
D. Zubov	16/16		4/4		
V. Kopiev	15/16		2/2	8/8	
R. Kocharyan	16/16		2/2		4/5
L. Melamed	16/16	12/13	4/4		
R. Mehrotra	13/16				3/5
E. Novitsky	14/16		10/11		
S. Cheremin	15/16	7/13	4/4		4/5
R. Munnings	11/11		4/4	1/3	
A. Gorbatovsky	4/5		7/7		
S. Newhouse	5/5		4/7	2/2	
R. Skidelsky	3/5				2/4

NB. The first number denotes the number of meetings participated by the Board member, the second number stands for the total number of meetings the member could participate in.

Committees of the Board of Directors⁸

Sistema JSFC has five committees under the Board of Directors:

- Audit Committee,
- Nomination and Remuneration Committee,
- Corporate Governance and Ethics Committee,
- Investor Relations Committee,
- Strategy Committee.

Members of the Board of Directors manage the work of the committees, form most of their membership, pro-actively contribute in the meetings as [rapporteurs] and participants of discussions on the agenda items.

Audit Committee

The Audit Committee has three members: Committee Chairman - R. Munnings, Committee members - E. Novitsky and R. Mehrotra. Secretary of the Committee – L. Gorbatova.

The Audit Committee supervises preparation of financial reports and internal audit of Sistema JSFC and its subsidiaries, coordinates the work of internal control and audit departments. Besides, the Committee oversees the work of independent auditors, gives recommendations on their appointment and the amount of their fees, and acts as an intermediary in resolving disputable issues that independent auditors and the Corporation's management might have.

⁸ All data on the work of the committees is provided as of 31.12.2010.

In 2010 the Audit Committee met 11 times.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has five members: Committee Chairman - S. Cheremin, Committee members - A. Goncharuk, D. Zubov, R. Kocharyan, L. Melamed. Secretary of the Committee – G. Yermakov.

The Nomination and Remuneration Committee participates in the development of the company's human resources policy, gives recommendations to the Board of Directors on appointments to top management positions, and works out recommendations on compensations and benefits for the employees of Sistema JSFC.

In 2010 the Nomination and Remuneration Committee met 4 times.

Corporate Governance and Ethics Committee

The Corporate Governance and Ethics Committee has eight members: Committee Chairman - V. Kopiev, Committee Members - A. Goldin, I. Belikov, S. Drozdov, G. Yermakov, R. Munnings, I. Petrov and I. Potekhina. Secretary of the Committee – I. Petrov.

The Corporate Governance and Ethics Committee works out proposals on enhancing the standards of corporate behavior and improving the quality of corporate governance at subsidiaries and affiliates. Besides, it monitors compliance with the current laws, the Charter of the Corporation, and the business ethics standards. The Corporate Governance and Ethics Committee is responsible for preventing and settling corporate and ethical conflicts.

In 2010 the Corporate Governance and Ethics Committee met 8 times.

Investor Relations Committee

On 26 June 2010 six members were elected to the Investor Relations Committee and remained its members as of the end of 2010: Committee Chairman - R. Kocharyan, Committee members - A. Buyanov, R. Sommer, R. Mehrotra, I. Potekhina (secretary of the Committee) and S. Cheremin.

The core objective of the Committee is to work out the corporate policy in investor relations in Russia and abroad. The Committee presents recommendations on the topic to the Board of Directors.

In 2010 the Committee met 5 times.

Strategy Committee

The Strategy Committee has nine members: Committee Chairman - V. Evtushenkov, Committee members - A. Abugov, S. Boyev, F. Evtushenkov, R. Sommer, A. Korsik, L. Melamed, S. Cheremin and M. Shamolin.

The Committee considers and analyzes the strategic development of Sistema JSFC and the core strategic projects of the company.

In 2010 the Committee met 13 times.

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSFC Sistema:

We have audited the accompanying consolidated statements of financial position of JSFC Sistema and its subsidiaries (the "Group") as of December 31, 2010 and 2009 and the related consolidated statements of operations, cash flows and changes in shareholders' equity and comprehensive income for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of JSFC Sistema and its subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



April 26, 2011

Moscow, Russia

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2010 AND 2009

(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2010		2009					
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents									
Cash and cash equivalents	5	\$	2,265,068	\$	3,436,680				
Assets from banking activities, current portion, including cash and cash equivalents of \$2,785,596 and \$2,163,852	6		5,489,606		5,184,265				
Short-term investments	7		879,680		575,966				
Accounts receivable, net	8		1,726,674		1,334,169				
Prepaid expenses, other receivables and other current assets, net			1,705,955		1,358,226				
VAT receivable			649,690		302,703				
Inventories and spare parts	9		1,501,012		1,137,294				
Deferred tax assets, current portion	19		357,821		348,965				
Total current assets			<u>14,575,506</u>		<u>13,678,268</u>				
NON-CURRENT ASSETS:									
Property, plant and equipment, net	10		19,039,699		19,266,950				
Advance payments for non-current assets			1,426,607		502,481				
Goodwill	11		1,872,520		1,696,993				
Other intangible assets, net	12		3,022,973		2,798,002				
Investments in and loans to affiliates	13		1,147,694		631,822				
Investment in shares of Svyazinvest	14		-		859,668				
Assets from banking activities, net of current portion	6		1,812,743		1,614,968				
Debt issuance costs, net			159,803		162,525				
Deferred tax assets, net of current portion	19		317,195		243,569				
Long-term investments			469,742		292,277				
Other non-current assets			264,629		263,517				
Total non-current assets			<u>29,533,605</u>		<u>28,332,772</u>				
TOTAL ASSETS		\$	<u>44,109,111</u>	\$	<u>42,011,040</u>				

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED) AS OF DECEMBER 31, 2010 AND 2009 (Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2010	2009
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		\$ 1,775,698	\$ 1,416,118
Liabilities from banking activities, current portion	15	4,191,836	3,789,248
Taxes payable		674,269	736,834
Deferred tax liabilities, current portion	19	168,982	87,415
Subscriber prepayments, current portion		579,952	554,409
Accrued expenses and other current liabilities	16	3,341,647	2,352,489
Short-term loans payable	17	1,092,599	504,458
Current portion of long-term debt	18	2,103,405	3,736,708
 Total current liabilities		 13,928,388	 13,177,679
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	18	12,206,515	11,204,055
Liabilities from banking activities, net of current portion	15	1,444,783	1,455,402
Deferred tax liabilities, net of current portion	19	1,636,583	1,610,725
Asset retirement obligation	2	258,382	189,490
Subscriber prepayments, net of current portion		142,316	130,153
Postretirement benefits obligation		87,201	60,869
Property, plant and equipment contributions		89,067	90,411
 Total long-term liabilities		 15,864,847	 14,741,105
 TOTAL LIABILITIES		 29,793,235	 27,918,784
 Commitments and contingencies	25		
 Redeemable noncontrolling interests	2	 107,343	 82,261
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; and 9,281,827,594 shares outstanding with par value of 0.09 Russian Rubles)	21	30,057	30,057
Treasury stock (368,172,406 shares with par value of 0.09 Russian Rubles; 2009: 371,018,060 shares)		(463,733)	(466,345)
Additional paid-in capital		2,100,323	1,745,386
Retained earnings		6,471,327	5,577,759
Accumulated other comprehensive loss		(171,149)	(93,647)
 Total JSFC Sistema shareholders' equity		 7,966,825	 6,793,210
 Nonredeemable noncontrolling interests in equity of subsidiaries		 6,241,708	 7,216,785
 TOTAL EQUITY		 14,208,533	 14,009,995
 TOTAL LIABILITIES AND EQUITY	\$	 44,109,111	\$ 42,011,040

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2010	2009
Sales		\$ 27,509,526	\$ 18,052,589
Revenues from banking activities		588,947	697,227
TOTAL REVENUES		28,098,473	18,749,816
Cost of sales, exclusive of depreciation and amortization shown separately below		(11,784,763)	(7,598,159)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below		(374,037)	(540,263)
Selling, general and administrative expenses		(3,838,496)	(3,068,593)
Depreciation, depletion and amortization		(2,946,382)	(2,490,514)
Transportation costs		(535,390)	(159,001)
Provision for doubtful accounts		(146,617)	(261,182)
Loss from impairment and provisions for other assets		(293,919)	(362,215)
Impairment of investment in Svyazinvest	14	-	(349,370)
Taxes other than income tax		(4,118,603)	(1,617,547)
Other operating expenses, net		(267,711)	(452,313)
Equity in results of affiliates		92,236	(12,758)
Gain on acquisition of subsidiaries and affiliates	13, 3	477,400	2,782,835
Loss on disposal of interests in subsidiaries and affiliates		-	(383,978)
OPERATING INCOME		4,362,191	4,236,758
Interest income		131,428	192,176
Change in fair value of derivative instruments	20	(2,062)	(35,200)
Interest expense, net of amounts capitalized		(1,597,238)	(1,246,361)
Foreign currency transaction gains/(losses)		26,456	(92,825)
Income from continuing operations before income tax		2,920,775	3,054,548
Income tax expense	19	(1,088,963)	(746,668)
Equity in net income of energy companies in the Republic of Bashkortostan		-	4,400
Income from continuing operations		\$ 1,831,812	\$ 2,312,280
Loss from discontinued operations, net of income tax effect of \$nil		(39,269)	-
Gain/(loss) from disposal of discontinued operations, net of income tax effect of \$nil	4	324,656	(26,194)
NET INCOME		\$ 2,117,199	\$ 2,286,086
Noncontrolling interests		(1,198,502)	(642,645)
NET INCOME ATTRIBUTABLE TO JSFC SISTEMA		\$ 918,697	\$ 1,643,441
Weighted average number of common shares outstanding		9,280,322,906	9,278,981,940
Income per share, basic and diluted, US cents			

Income from continuing operations	6.82	17.99
Gain/(loss) from discontinued operations	3.08	(0.28)
Net income attributable to JSFC Sistema shareholders	9.90	17.71

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in thousands of U.S. dollars)

	<u>2010</u>	<u>2009</u> (As revised, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,117,199	\$ 2,286,086
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	2,946,382	2,490,514
(Gain)/loss from disposal of discontinued operations	(324,656)	26,194
Loss from discontinued operations	39,269	-
Gain on acquisition of subsidiaries and affiliates (see Notes 13 and 3)	(477,400)	(2,782,835)
Equity in results of affiliates	(92,236)	8,358
Dividends received from affiliates	34,937	107,735
Deferred income tax benefit	(27,932)	(29,954)
Change in fair value of derivative financial instruments	2,062	35,200
Foreign currency transactions (gain)/loss	(26,456)	92,825
Debt issuance cost amortization	89,244	51,707
Non-cash compensation to employees	70,978	10,946
Non-cash expenses associated with asset retirement obligation	8,925	5,916
Loss on disposal of interests in subsidiaries and affiliates	-	383,978
Loss from impairment and provisions of other assets	293,919	362,215
Loss from impairment of investment in Svyazinvest	-	349,370
Loss on disposal of property, plant and equipment	32,124	8,624
Amortization of connection fees	(95,706)	(36,449)
Provision for doubtful accounts receivable	146,617	261,182
Allowance for loan losses	29,052	34,606
Other	-	18,957
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	120,236	(99,224)
Accounts receivable	(538,393)	(234,463)
VAT receivable	(345,974)	(133,088)
Prepaid expenses, other receivables and other current assets	(348,522)	256,753
Inventories	(406,494)	(120,194)
Accounts payable	230,712	(484,882)
Subscriber prepayments	132,105	77,871
Taxes payable	(64,502)	297,738
Accrued expenses and other liabilities	455,931	442,544
Postretirement benefit obligation	55,331	(3,661)
Net cash provided by operations	<hr/> \$ 4,056,752	<hr/> \$ 3,684,569

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (Amounts in thousands of U.S. dollars)

	<u>2010</u>	<u>2009</u> (As revised, Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(3,486,468)	(3,000,930)
Payments for purchases of intangible assets	(693,106)	(433,486)
Payments for purchases of businesses, net of cash acquired	(364,532)	(1,729,063)
Proceeds from sale of subsidiaries, net of cash disposed	307,358	123,165
Payments for purchases of long-term investments	(478,530)	(758,591)
Payments for purchases of short-term investments	(851,325)	(936,122)
Payments for purchases of other non-current assets	(78,286)	(145,914)
Proceeds from sale of other non-current assets	92,430	35,649
(Increase)/decrease in restricted cash	(16,445)	11,778
Proceeds from sale of property, plant and equipment	18,782	5,196
Proceeds from sale of long-term investments	140,979	111,105
Proceeds from sale of short-term investments	461,882	336,127
Net increase in loans to customers and banks	357,629	310,209
Net cash used in investing activities	<u>\$ (4,589,632)</u>	<u>\$ (6,070,877)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from/(principal payments on) short-term borrowings, net	460,617	(864,416)
Net increase/(decrease) in deposits from customers	597,888	(1,201,192)
Net (decrease)/increase in debt securities issued and other liabilities	(225,504)	1,008,365
Advance received for shares of SSSL (Note 16)	602,276	-
Proceeds from long-term borrowings, net of debt issuance costs	5,459,359	11,638,990
Proceeds from capital transactions of subsidiaries	109,112	-
Debt issuance costs	(86,522)	(174,844)
Principal payments on long-term borrowings	(5,302,634)	(4,390,547)
Principal payments on capital lease obligations	(10,420)	(8,755)
Acquisition of noncontrolling interests in existing subsidiaries	(787,434)	(194,233)
Dividends declared by subsidiaries	(823,616)	(605,477)
Net cash (used in)/provided by financing activities	<u>\$ (6,878)</u>	<u>\$ 5,207,891</u>
Effects of foreign currency translation on cash and cash equivalents	<u>\$ (10,110)</u>	<u>\$ 56,436</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (549,868)</u>	<u>\$ 2,878,019</u>
CASH AND CASH EQUIVALENTS, beginning of the period	5,600,532	2,722,513
CASH AND CASH EQUIVALENTS, end of the period *	<u><u>\$ 5,050,664</u></u>	<u><u>\$ 5,600,532</u></u>
CASH PAID DURING THE PERIOD FOR:		
Interest, net of amounts capitalized	\$ (1,643,973)	\$ (1,246,503)

Income taxes	(987,696)	(599,907)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment contributed free of charge	\$ 2,814	\$ 3,213
Equipment acquired through vendor financing	-	27,983
Equipment acquired under capital leases	2,567	179,086
Amounts owed for capital expenditures	220,790	285,975
Payable related to business acquisitions	23,281	37,985
<i>* Cash and cash equivalents at the end of the period comprised of the following:</i>		
<i>Non-banking activities</i>	\$ 2,265,068	\$ 3,436,680
<i>Banking activities</i>	2,785,596	2,163,852
	<u>\$ 5,050,664</u>	<u>\$ 5,600,532</u>

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in thousands of U.S. dollars, except share amounts)											Redeemable non- controlling interests	
	Share capital		Treasury stock		Additional paid-in capital	Retained earnings	Accumulated other compre- hensive income	JSFC Sistema's equity	Non- redeemable non- controlling interests	Total equity		
	Shares	Amount	Shares	Amount								
Balances at January 1, 2009	9,650,000,000	30,057	(371,018,060)	(466,345)	2,450,496	3,930,143	(453,107)	5,491,244	3,836,573	9,327,817	237,948	
Accrued compensation costs	-	-	-	-	6,287	-	-	6,287	2,934	9,221	-	
Change in fair value of noncontrolling interests	-	-	-	-	-	4,175	-	4,175	3,320	7,495	(2,395)	
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(587,746)	(587,746)	(12,503)	
Acquisition of noncontrolling interests	-	-	-	-	22,511	-	-	22,511	(46,985)	(24,474)	(140,749)	
Disposals and capital transactions of subsidiaries	-	-	-	-	(733,908)	-	86,267	(647,641)	576,124	(71,517)	-	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	2,552,102	2,552,102	-	
Comprehensive income:												
Change in fair value of interest rate swaps, net of income tax effect of \$3,527	-	-	-	-	-	-	(13,136)	(13,136)	(10,442)	(23,578)	-	
Unrealized losses on available-for-sale securities, net of income tax effect of \$nil	-	-	-	-	-	-	(2,596)	(2,596)	-	(2,596)	-	
Unrecognized actuarial gains, net of income tax effect of \$nil	-	-	-	-	-	-	668	668	2,446	3,114	-	
Translation adjustment, net of income tax effect of \$nil	-	-	-	-	-	288,257	288,257	250,173	538,430	(4,399)	-	
Net income	-	-	-	-	-	1,643,441	-	1,643,441	638,286	2,281,727	4,359	
Total comprehensive income								1,916,634	880,463	2,797,097	(40)	
Balances at December 31, 2009	9,650,000,000	30,057	(371,018,060)	(466,345)	1,745,386	5,577,759	(93,647)	6,793,210	7,216,785	14,009,995	82,261	
Disposal of treasury shares	-	-	2,845,654	2,612	-	-	-	2,612	-	2,612	-	
Accrued compensation costs	-	-	-	-	60,629	336	-	60,965	757	61,722	-	
Change in fair value of noncontrolling interests	-	-	-	-	-	(6,639)	-	(6,639)	(5,479)	(12,118)	12,118	
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(838,158)	(838,158)	(14,973)	
Dividends declared by JSFC Sistema	-	-	-	-	-	(17,455)	-	(17,455)	-	(17,455)	-	
Acquisition of noncontrolling interests	-	-	-	-	(77,699)	-	-	(77,699)	(695,950)	(773,649)	-	
Disposals and capital transactions of subsidiaries	-	-	-	-	372,007	(1,371)	-	370,636	(576,743)	(206,107)	-	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	19,216	
Comprehensive income:												
Change in fair value of interest rate swaps, net of income tax effect of \$(6,357)	-	-	-	-	-	-	13,932	13,932	11,496	25,428	-	
Unrealized losses on available-for-sale securities, net of income tax effect of nil	-	-	-	-	-	-	3,628	3,628	-	3,628	-	
Unrecognized actuarial gains, net of income tax effect of \$nil	-	-	-	-	-	-	(2,291)	(2,291)	(5,232)	(7,523)	-	
Translation adjustment, net of income tax effect of \$7,528	-	-	-	-	-	-	(92,771)	(92,771)	(56,487)	(149,258)	938	
Net income	-	-	-	-	-	918,697	-	918,697	1,190,719	2,109,416	7,783	
Total comprehensive income								841,195	1,140,496	1,981,691	8,721	
Balances at December 31, 2010	9,650,000,000	30,057	(368,172,406)	(463,733)	2,100,323	6,471,327	(171,149)	7,966,825	6,241,708	14,208,533	107,343	

JSFC SISTEMA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in thousands of U.S. dollars, except share and per share amounts or if otherwise stated)

3. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

Description of the business – JSFC Sistema (the “Company”, together with its subsidiaries, the “Group”) invests in, and manages a range of companies which operate in the telecommunications, oil and energy, high technology, banking and other sectors. The main focus of the Group’s activities is service-based industries. The Company and the majority of the Company’s consolidated subsidiaries 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 Depository Receipts (GDRs), and Russian stock exchanges.

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

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Sistema Shyam TeleServices Limited Sistema Mass Media and subsidiaries	SSTL SMM	Wireless telecommunication services Cable television, advertising, production and distribution of periodicals, movie production
Consumer Assets Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
Detsky Mir-Center and subsidiaries	DM-Center	Retail and wholesale trading
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Medsi and subsidiaries	Medsi	Healthcare services
Technology and Industry Segment:		
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
SITRONICS and subsidiaries	SITRONICS	IT and systems integration, telecommunication solutions, microelectronic solutions
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Oil and Energy Segment:		
ANK Bashneft and subsidiaries Bashkirenergo	Bashneft Bashkirenergo	Oil and gas production Energy production

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Group’s entities maintain accounting records in the local currencies of the countries of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in

that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

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

The beneficial ownership interest and voting interest of JSFC Sistema in the significant entities as of December 31, 2010 and 2009 are as follows:

Significant entities	Ownership interest		Voting interest	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
MTS	55%	55%	55%	55%
SSTL	74%	74%	74%	74%
SMM	75%	75%	75%	75%
SITRONICS	70%	70%	70%	70%
MBRD	99%	96%	100%	100%
Intourist	66%	66%	66%	66%
DM-Center	75%	100%	75%	100%
Concern RTI	97%	97%	97%	97%
Medsi	100%	100%	100%	100%
Binnofarm	100%	100%	100%	100%
Bashneft	73%	73%	86%	86%
Bashkirenergo	31%	31%	50%	50%

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

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

Foreign currency – Management has determined that the functional currencies of the Group's subsidiaries for the year ended December 31, 2010 are the currencies of the countries of their domicile, with the exception of foreign subsidiaries of Intourist, a company incorporated in the RF, and Uzdunrobota, MTS subsidiary in Uzbekistan, whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations.

In preparing the financial statements of the entities within the Group, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the

date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency, are not restated.

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

On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

The official rate of exchange, as determined by the Central Bank of the RF, between RUB and USD as of December 31, 2010 was 30.48 RUB to 1 USD (30.24 RUB to 1 USD as of December 31, 2009).

Revenue recognition – Generally, revenues are recognized when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured.

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

Telecommunications segment

The Telecommunications segment of the Group earns revenues from the provisions of wireless and wireline telecommunication and data transmission services and usage of its exchange networks and facilities.

Telecommunications segment revenue consists of, and is recorded as follows:

- (i) Usage charges: Revenues derived from wireless and wireline telephone usage and data transmission are recognized as the services are provided.
- (ii) Monthly subscription fees: Monthly telephone and network service subscription fees are recognized in the month during which the telephone services are provided to customers.
- (iii) Service activation and connection fees: 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 use of prepaid phone cards: 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) Charges for value-added telecommunication services: Revenues derived from value-added telecommunication services are recognized in the period when the services are provided to customers.
- (vi) Roaming fees charged to other operators for guest roammers utilizing the segment's network: 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) Equipment sales: 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. 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 companies of the Group record revenues on a gross basis when several or all of the following factors apply: they are the primary obligors for providing the product or service in a transaction, they have latitude in establishing prices and selecting suppliers of services, they have credit risk related to collection of the related receivables, or they bear the risk of inventory loss. If the companies of the Group do not control the terms of the transaction or bear the risk of loss from such factors, then revenue is recognized on a net basis.

Technology and industry segment

Revenues under arrangements specific to respective divisions within the Technology and Industry segment are recognized as follows:

Telecommunication Solutions division

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

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

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 product revenues. In such multiple-element arrangements, the software component is accounted for using the residual method.

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

Information Technologies Solutions division

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

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

Revenue from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the statement of financial position 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 where it is probable that such costs will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

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

Microelectronic Solutions division

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

Oil and energy segment

Oil and Gas

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

Power and Utilities

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

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

Other businesses

The Group's other businesses recognize revenue when products are shipped or when services are rendered to customers. In cases where the Group acts as an agent, only the net agency fee is recognized as revenue. Revenue amounts are presented net of value added taxes.

Regulated services – Regulated tariff services, consisting of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by MGTS, the subsidiary of MTS, and energy provided by Bashkirenergo totaled approximately 9.4%

and 8.0% of the consolidated revenues for the years ended December 31, 2010 and 2009, respectively. Changes in the rate structure for such services are subject to the Federal Tariff Service approval.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, demand deposits and other highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents of the banking division include cash deposited with the Central Bank of the RF and other banks as well as qualifying correspondent bank accounts and/or deposits with original maturities of 90 days or less.

A reconciliation of total cash and cash equivalents and cash and cash equivalents arising from non-banking and banking activities is presented in the statement of cash flows for the years ended December 31, 2010 and 2009.

Restricted cash – Cash and cash equivalents restricted by agreements with third parties for special purposes. Restricted cash as of December 31, 2010 and 2009 was \$48.3 million and \$51.5 million, respectively, including cash deposited by the Group to guarantee certain loans, and to be in compliance with the government regulation of local currency conversion into foreign currencies in Uzbekistan.

Financial instruments – The Group's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, derivative financial instruments, assets and liabilities from banking activities, accounts payable and short-term and long term debt.

The fair market value of financial instruments approximates the carrying value of these items due to the short-term nature of these amounts.

Hedging activities – The Group uses derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risk exposures. The Group reviews its fair value hierarchy classifications quarterly. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2010 and 2009 no reclassifications occurred. The fair value measurement of the Group's hedging agreements is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of operations together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statement of operations.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

The Group does not use financial instruments for trading or speculative purposes.

Accounts receivable – Accounts receivable are stated at their net realizable value after deducting a provision for doubtful accounts. Such provision reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Assets from banking activities (including reclassifications and revisions) – Assets from banking activities comprise assets (loans, notes and others) involved in operations of the banking division.

Management of the Group determined that a segregation of the assets of its banking division, including its cash and cash equivalents, in the financial statement line items, "Assets from banking activities," (current or non-current, as relevant) would provide more transparency and a better presentation to the readers of the financial statements and therefore has made certain reclassifications to the 2009

presentation to conform with this transparency initiative. The summary of changes to the comparative information is presented below:

	2009		2009
	As reported	Reclassifications	As amended
Cash and cash equivalents	\$ 3,845,427	\$ (408,747)	\$ 3,436,680
Short-term investments	1,210,608	(634,642)	575,966
Prepaid expenses, other receivables and other current assets, net	1,426,794	(68,568)	1,358,226
Assets from banking activities, current portion	4,072,308	1,111,957	5,184,265
	\$ 10,555,137	\$ -	\$ 10,555,137

In performing the presentation modifications described above, management of the Group determined that certain correspondent bank accounts and/or deposits qualifying for classification as “cash and cash equivalents – banking activities” had been omitted from the opening and closing balances of “Cash and cash equivalents” and inappropriately classified within operating activities in “Net increase in loans to customers” and “Loans to banks issued by the banking division”. Additionally, cash flow fluctuations represented by certain loans in the banking division had been inadvertently classified in cash inflow/outflow from operating activities rather than investing activities in the 2009 cash flow statement.

The effect of the revisions to the 2009 cash flow statement described in the preceding paragraph is as follows:

	2009		2009
	As reported	Revisions	As revised
Net cash provided by operations (from “Loans to banks issued by the banking devision”)	\$ 3,021,926	\$ 662,643	\$ 3,684,569
Net cash used in investing activities (from “Net increase in loans to customers”)	(6,423,176)	352,299	(6,070,877)
 Cash and cash equivalents, opening balance	 1,982,350	 740,163	 2,722,513
Cash and cash equivalents, ending balance	3,845,427	1,755,105	5,600,532

The allowance for loan losses is management’s estimate of probable incurred loan losses in the lending portfolios. Additions to the allowance for loan losses are made by charges to the consolidated statement of operations. Loans deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of amounts previously charged as uncollectible are credited to the allowance for loan losses.

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

Loans subject to individual reviews are analyzed and segregated by risk according to the Group’s internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions and performance trends within specific portfolio segments, and any other pertinent information result in the estimation allowances for loan losses. An allowance

for loan losses is established for individually impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Individually impaired loans are measured based on the present value of payments expected to be received, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the measure of estimated fair value, an 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 earned but not collected for loans that are placed on non-accrual or written-off is reversed against interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame and when the borrower has demonstrated payment performance of cash or equivalents for a minimum of six months.

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

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

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

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

Property, plant and equipment – For subsidiaries acquired by the Group through business combinations, 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.

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

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

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Switches and transmission devices	7-31 years
Network and base station equipment	4-12 years
Refining, marketing, distribution and chemicals	3-40 years
Exploration and production assets	3-19 years
Power and utilities	3-47 years
Other plant, machinery and equipment	3-25 years

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

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 statement of financial position 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 telecommunications equipment for installation are not depreciated until an asset is placed into service.

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

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

As of December 31, 2010 and 2009, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

	Telecom- munications	Oil and Energy	Total
Balance as of January 1, 2009	\$ 62,053	-	62,053
Liabilities incurred in the current period	3,923	1,924	5,847
Business combinations	-	92,044	92,044
Accretion expense	6,518	9,611	16,129
Revisions in estimated cash flows	17,693	-	17,693
Currency translation adjustment	(1,504)	(2,772)	(4,276)
Balance as of December 31, 2009	\$ 88,683	100,807	189,490
Liabilities incurred in the current period	4,066	1,745	5,811
Business combinations	-	-	-
Accretion expense	9,776	11,969	21,745
Revisions in estimated cash flows	(23,813)	82,547	58,734
Currency translation adjustment	(673)	(1,191)	(1,864)
Balance as of December 31, 2010	\$ 78,039	195,877	273,916

Current portion	-	15,534	15,534
Long-term portion	78,039	180,343	258,382
Balance as of December 31, 2010	\$ 78,039	195,877	273,916

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

The Group recorded the long-term portion of the present value of assets retirement obligations as a part of long-term liabilities in the consolidated statements of financial position as of December 31, 2010 and 2009 and the current portion of Group's obligation was included as a component of accrued expenses and other current liabilities. Revisions in estimated cash flows are attributable to the change in the estimated future useful life of the assets.

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

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

Goodwill – Goodwill arising on acquisitions is recognized as an asset and initially measured at cost.

For the acquisitions for which the acquisition date was before January 1, 2009, goodwill is determined as the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized, and the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is allocated on a pro-rata basis to decrease the value of certain long-term assets.

For the acquisitions where the acquisition date was January 1, 2009 and thereafter, goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any noncontrolling interest in the acquiree at the acquisition date is credited to income.

Goodwill is not amortized to operations, but instead is reviewed for impairment at least annually. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of the reporting unit. If the reporting unit's carrying amount is greater than its fair value, a second step is performed whereby implied fair value that relates to the reporting unit's goodwill is compared to the carrying value of the reporting unit's goodwill.

The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Group has determined that there are no impairment losses in respect of goodwill for the reporting periods covered by these consolidated financial statements.

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

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

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

Other intangible assets represent 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. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized in an amount equal to the difference. The Group also evaluates the remaining useful life of its intangible assets that are not subject to amortization on an annual basis to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, that asset is tested for impairment. After recognition of the impairment, if any, the asset is amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization.

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

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

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

Investments which are expected to be realized within twelve months after the statement of financial position date are classified as short-term investments. Other investments are classified as long-term investments.

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

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

Liabilities from banking activities – Liabilities from banking activities include deposits from banks and customers, promissory notes issued and other liabilities that arise out of operations of the banking division.

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

Income taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF was 20% in 2010 and 2009. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions.

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

The Group intends to reinvest the unremitted earnings of certain of its subsidiaries. Accordingly, no provision has been made for taxes with respect to these earnings. In the event of their distribution, in most cases such earnings would be subject to income taxes.

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

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

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

Stock-based compensation – The Group calculates and records the fair value of equity instruments, such as stock options or restricted stock, awarded to employees for services received and recognizes

such amounts in the consolidated statement of operations. The fair value of the equity instruments is measured on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments (Note 24). 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 postretirement benefits – Subsidiaries of the Group contribute to the local state pension funds and social funds, on behalf of their employees.

Since January 1, 2010, Unified social tax (“UST”) was substituted with social contributions calculated by the application of following rates: 26% – for the accumulated personal income up to RUB 415,000, 0% for the personal earnings above stated amount. Social contributions are allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund was 20%.

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 Group amortizes those gains or losses over the average remaining service period of the employees.

The Group records on the statement of financial position 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, 2010 and 2009 amounted to \$46.4 million and \$87.5 million, respectively.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2010 and 2009 were \$417.3 million and \$440.7 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, 2010 and 2009, equaled \$18.7 million and \$21.3 million, respectively. Such costs were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Taxes other than income tax – Taxes other than income tax comprise excises, mineral reserve tax and customs, which relate to the Oil and Energy segment, and other taxes. The mineral extraction tax of \$1,108.3 million, excise taxes of \$671.4 million, export duties of \$2,081.3 million were

recorded in the year ended December 31, 2010 compared to \$609.1 million, \$193.5 million and \$563.5 million in 2009 respectively.

Redeemable noncontrolling interests – From time to time to optimize the structure of business acquisitions and to defer payment of the purchase price the Group enters into put and call option agreements to acquire noncontrolling stake in the existing subsidiary which are not considered freestanding financial instruments as they were entered into in connection with other equity transactions. Therefore, the put and call option agreements in combination with the underlying noncontrolling interest are considered a single unit of account and are accounted for as “Redeemable noncontrolling interest” at redemption value which is generally the fair value of redeemable noncontrolling interests as of reporting date.

Fair value of redeemable noncontrolling interests is assessed based on discounted future cash flows of the acquired entity (“Level 3” significant unobservable Inputs of the hierarchy established by the US GAAP guidance). Changes in redemption value of redeemable noncontrolling interests are accounted for in the Group’s retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

As of December 31, 2010 redeemable noncontrolling interests outstanding consist of \$86.9 million attributable to MTS’ subsidiaries and \$20.4 million attributable to M2M Telematics shares. As of December 31, 2009 redeemable noncontrolling interests outstanding of \$82.3 million are attributable to MTS’ subsidiaries.

Earnings per share – Basic earnings per share (“EPS”) have been determined using the weighted average number of shares outstanding during the year ended December 31, 2010 and 2009.

Diluted EPS reflect the potential dilution related stock options granted to employees. The diluted weighted average number of shares and diluted EPS were not different from basic for the years ended December 31, 2010 and 2009.

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.

Reclassifications – Certain comparative information presented in the consolidated financial statements for the year ended December 31, 2009 has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2010.

Recent accounting pronouncements

Adopted during the year

In June 2009, the FASB updated the guidance related to consolidation accounting for variable interest entities to require an enterprise to perform an analysis to determine whether the entity’s variable interest or interests give it a controlling interest in a variable interest entity. The adoption of this guidance, effective January 1, 2010, did not have an impact on the Group’s consolidated financial statements.

To be adopted in future periods

In October 2009, FASB issued Accounting Standards Update (“ASU”) No. 2009-14, “Software” (Topic 985): Certain Revenue Arrangements That Include Software Elements-a consensus of the FASB Emerging Issues Task Force, that amends Subtopic 985-605, “Software: Revenue Recognition”. The Update excludes from the scope of Accounting Standards Codification (“ASC”) 985-605 certain tangible products that contain software that functions together with nonsoftware deliverables to deliver the tangible product’s essential functionality. The ASU does not create any new methods of revenue recognition, but its amendments to the scope of existing guidance can significantly affect an entity’s periodic revenue. The amendments in the Update are effective prospectively for revenue

arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Group is currently evaluating the potential impact of this ASU on the Group's consolidated financial statements.

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

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

In March 2010, the FASB issued ASU 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging – Embedded Derivatives – Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Group on July 1, 2010. The Group does not expect the provisions of ASU 2010-17 to have a material effect on the consolidated financial position, results of operations or cash flows of the Group.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Group does not expect the provisions of ASU 2010-17 to have a material effect on the consolidated financial position, results of operations or cash flows of the Group.

In April 2010, the FASB issued an amendment to its stock-based compensation guidance to clarify that employee stock options that have exercise prices denominated in the currency of any market in which a substantial portion of the entity's securities trade should be classified as equity, assuming all other criteria for equity classification are met. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Group does not expect the provisions of the amendment to have any effect on its consolidated financial statements.

In December 2010, the FASB issued guidance on disclosure of supplementary pro forma information for business combinations which states that when a public entity's business combinations are material on an individual or aggregate basis, the notes to its financial statements must provide pro forma revenue and earnings of the combined entity as if the acquisition date(s) had occurred as of the beginning of the annual reporting period. It clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the

prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as of it had occurred at the beginning of the current annual reporting period. It is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2010, and should be applied prospectively.

In December 2010, the FASB issued additional guidance which does not prescribe a specific method of calculating the fair value of a reporting unit in the performance of step 1 of the goodwill impairment test and requires entities with a zero or negative carrying value to assess, considering qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. It is effective for the impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. Early application is not permitted. The Group does not expect the provisions of the amendment to have significant impact on its consolidated financial statements.

5. ACQUISITIONS

Acquisitions 2010

OJSC M2M Telematics

In July 2010 the Group acquired a 51% controlling stake in OJSC M2M Telematics for a total cash consideration of \$20 million. The Group has an option to acquire the remaining 49% stake in the next two to five years. The purchase price allocation for the acquisition was as follows:

Other non-current assets	\$	39,216
Noncontrolling interest		(19,216)
Cash consideration paid	\$	20,000

M2M Telematics is the leader in the Russian market of transport monitoring, navigation and telematics based on GLONASS/GPS technologies. The company has a broad portfolio of products for multiple market segments which it sells through an extensive distribution network comprising 56 regional partners to a large customer base.

CJSC Multiregion

In July 2010 MTS acquired a 100% stake in CJSC Multiregion, one of the leading groups of broadband and cable TV providers in the Russian regions, from Cavolo Trading Limited (Cyprus). The purchase price amounts to \$123.6 million. MTS will also assume debts totaling \$94.4 million. The provisional amounts for the transaction were as follows:

Current assets	\$	46,778
Non-current assets		46,732
Customer base		76,376
Goodwill		148,743
Current liabilities		(126,780)
Non-current liabilities		(44,007)
Fair value of noncontrolling interest		(24,246)
Cash consideration paid	\$	123,596

The fair value of the noncontrolling interests was determined based on unobservable inputs ("Level 3" from the fair value hierarchy). The fair value of Multiregion's net assets was measured using the discounted future cash flows which were further adjusted for the lack of control and lack of liquidity.

The excess of the purchase price over the value of net assets acquired was allocated to goodwill which was assigned to the Telecommunication segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the synergies from reduction of internet-traffic and administrative

expenses of the MTS and expected increase of market share as a result of future capital expenditures to be made by the MTS.

Sky Link

In November 2009, the Group and Svyazinvest (“the Parties”) signed a non-binding memorandum of understanding (“MOU”), under which the Parties agreed to enter in a series of transactions which would ultimately result in (i) the disposal of the Group’s investment in Svyazinvest to a state-controlled enterprise; (ii) non-cash extinguishment of the Group’s indebtedness to Sberbank; (iii) an increase in the Group’s ownership in Sky Link from 50.0% to 100.0% and disposal of this 100% investment to Svyazinvest; and (iv) the disposal of 28% of MGTS’ common stock previously owned by Svyazinvest to the Group.

In April 2010 the Group raised its effective equity stake in Sky Link by 50.0% to 100.0%. This 100% stake had previously been agreed to be disposed of as a part of the transaction with Svyazinvest (see above), and was therefore classified as an asset held for sale upon the date of the Group acquiring 100% ownership. The purchase price allocation for the acquisition was as follows:

Current assets	\$ 47,640
Non-current assets	541,267
Current liabilities	(135,248)
Non-current liabilities	(136,873)
Fair value of the Group’s investments as of the date of acquisition	(148,263)
Cash consideration paid	\$ <u>168,523</u>

In July 2010, the Group and Svyazinvest signed an exchange agreement where the parties agreed to exchange their stakes in MGTS and Sky Link under certain conditions.

According to the share exchange agreement, Svyazinvest agreed to transfer to the Group 28.0% of ordinary shares in MGTS (23.3% of the share capital of MGTS), in exchange for Group's 100% stake in Sky Link. Furthermore, the Group was to make an additional cash payment of RUB 450 million to Svyazinvest to cover the difference in value of MGTS and Sky Link shares, and the new shareholders of Sky Link agreed to settle its obligations to the Group in the total amount of approximately \$307.4 million. As a result of the transaction the Group recognized a gain on disposal amounting to \$324.7 million.

Upon completion of the transaction, the Group's stake in MGTS increased to 93.3% and the noncontrolling interests attributable to MGTS decreased by \$410.3 million, with corresponding increase in additional paid-in capital of \$86.0 million.

Acquisition of non-controlling interests

In September 2010, through voluntary tender offer MTS acquired 37,614,087 ordinary Comstar-UTS shares, or approximately 9.0% of Comstar-UTS' issued share capital, for a total cost of RUB 8.28 billion (approximately \$271.89 million as of October 6, 2010). This brings MTS' total ownership stake in Comstar-UTS to 70.97% of Comstar-UTS' issued share capital (or 73.33% excluding treasury shares). The transaction was accounted for directly in equity.

In October 2010, MBRD issued additional shares, which were all purchased by the Group. As a result of transaction, the Group's share in MBRD increased to 99.3%. The transaction was accounted for directly in equity and resulted in a decrease in the noncontrolling interest of \$12.5 million.

In February-April 2010, Bashneft made mandatory offers to acquire noncontrolling interests in Ufimsky Refinery, Ufaorgsintez, Ufaneftekhim, Novoil and Bashkirnefteproduct. As a result of subsequent purchases of noncontrolling interests the Group's ownership in these entities increased by 0.51%, 3.67%, 5.64%, 0.51% and 0.15% respectively for a total cash consideration of \$128.1 million. These transactions were accounted for directly in equity and resulted in the decrease in noncontrolling interests by \$119.1 million.

In April 2010, Bashneft acquired 25% of shares of Sistema-Invest, a subsidiary of the Group, for a cash consideration of \$205 million. As a result of acquisition the Group's stake in Sistema-Invest increased to 90%. In December 2010 the Group's increased its stake in Sistema-Invest to 100% for a cash consideration \$120 million. The transactions in April and December 2010 were accounted for directly in equity and resulted in the decrease in noncontrolling interest by \$245.7 million and by \$35 million, respectively.

Other acquisitions

Below are the other individually insignificant acquisitions for the year ended December 31, 2010:

Acquiree	Principal activity	For the year ended December 31, 2010			Acquiring segment	Purchase price (in \$ million)
		Date of acquisition	Ownership interest Before acquisition	After Acquisition		
Tenzor Telecom	Fixed line and Internet services	February 2010	0%	100%	Telecom-communications	6.2
Penza Telecom	Fixed Line and internet services	May 2010	0%	100%	Telecom-communications	19.3
Serebryany Bor LLC	Rentering a building	October 2010	0%	100%	Consumer Assets	5.9
Sweet-com	Telematic communication	June 2010	74.9%	100%	Telecom-communications	8.5
Lank Telecom	Fixed line and Internet services	December 2010	0%	100%	Telecom-communications	17.8
NMSK	Fixed line and Internet services	December 2010	0%	100%	Telecom-communications	23.2
Smart Technology	Information Technologies Solutions	April 2010	65%	100%	Technology	3.5

Total	\$ <u>84.4</u>
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As a result of the purchase price allocation related to other acquisitions, the Group assigned \$32.2 million to the goodwill and \$39.5 to the subscriber base.

Pro forma results of operations (unaudited)

The following pro forma financial data for the years ended December 31, 2010 and 2009, give effect to the acquisitions of Serebryany Bor LLC, OJSC M2M Telematics, CJSC Multiregion, Tenzor Telecom, Penza Telecom, Lank Telecom and NMSK as if they had occurred as of January 1, 2009:

	Year ended December 31,	
	2010	2009
Revenues	\$ 28,172,167	\$ 18,840,780
Net income	913,343	1,611,570

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

Acquisitions 2009

Oil and energy companies in the Republic of Bashkortostan

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

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

The purchase price allocation for the acquisition was as follows:

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

Eurotel acquisition

In December 2009, MTS acquired a 100% stake in Eurotel OJSC ("Eurotel"), a Russian federal provider of fixed line communication services, from Mortfield Holdings Limited (Cyprus). The purchase price amounted to \$110.0 million with a portion payable by the end of February 2011 should the company satisfy certain conditions set forth in the purchase agreement. At the acquisition date the estimated fair value of this contingent consideration was \$20.0 million.

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

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

Current assets	\$ 14,300
Non-current assets	67,960
Customer base	4,726
Goodwill	98,542
Liabilities	(75,528)
Fair value of contingent consideration	(20,000)
Cash consideration paid	\$ 90,000

Goodwill is mainly attributable to the synergies from reduction of interconnect and internet-traffic expenses of MTS. Goodwill is not deductible for income tax purposes and was assigned to the "Telecommunications" segment.

Acquisitions of nonredeemable and redeemable noncontrolling interests

In October 2009, JSFC Sistema made a mandatory offer of RUB 286.5 per ordinary share to the shareholders of Bashneft to acquire outstanding shares. As a result of the offer, the Group's ownership in Bashneft increased by approximately 1.2% for a total cash consideration of \$23 million. The transaction was accounted for directly in equity and resulted in the decrease in noncontrolling interests by \$45.5 million.

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

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

In March 2008, SITRONICS purchased a 49.0% stake in its subsidiary, SITRONICS IT B.V. (previously – Kvazar-Micro Corporation B.V.) for a total consideration of \$174.8 million, increasing its stake to 100.0%. The allocation of purchase price increased the recorded cost of the customer base by \$17.3 million, and \$123.4 was recognized as goodwill. The customer base is amortised over the remaining term of contractual relationships of approximately three years. Goodwill is not deductible for income tax purposes and is attributable to the economic potential of the system integration market in CIS and synergies realized by the Group. In April 2009, a portion of distribution business of SITRONICS IT B.V. was disposed of.

Other acquisitions

Below are the other individually insignificant acquisitions for the year ended December 31, 2009:

Acquiree	Principal activity	Date of acquisition	Ownership interest		Acquiring segment	Purchase price (in millions)
			Before acquisition	After acquisition		
Eldorado	Mobile retailer	March 2009	0%	100%	Telecommunications	17.8
		February 2009	0%	100%	Telecommunications	
Telefon.ru	Mobile retailer	February 2009	0%	100%	Telecommunications	60.0
		February 2009	0%	100%	Telecommunications	
Dagtelecom	Mobile operator	2009	75%	100%	Telecommunications	51.3
Kolorit Dizayn Inc	Outdoor advertising services	September 2009	0%	100%	Telecommunications	39.7

Teleforum	Mobile retailer	October 2009	0%	100%	Telecommu- nications	2.2
Total					\$ 171.0	

As a result of the purchase price allocation related to other acquisitions, the Group assigned \$2.5 million to the acquired brands, \$4.7 million to the acquired customer base, \$230.0 million to the goodwill and \$30.3 to the fair value of contingent consideration.

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

Transactions within Oil and Energy segment

In order to create a vertically integrated oil group, the Group has undergone a number of intergroup restructuring initiatives. In January 2010, JSFC Sistema sold its stakes in Bashnefteproduct to Bashneft, a Group subsidiary. Upon completion of transaction, the Group's effective ownership in Bashnefteproduct has decreased resulting in an increase in noncontrolling interests and decrease in additional paid-in capital by \$53.0 million. In December 2009, JSFC Sistema sold its stakes in Ufaneftekhim, Novoil, Ufaorgsintez and UNPZ to Bashneft, a Group subsidiary. Upon completion of these transactions, the Group's effective ownership in these subsidiaries has decreased resulting in an increase in noncontrolling interests by \$671.0 million.

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

Issuance of common shares of Detsky Mir

In December 2010, OJSC Detskiy Mir-Center, a subsidiary of the Group, increased its share capital through an additional share issue offered to Sberbank in a private placement. Detskiy Mir-Center issued 743 shares with a par value of RUB 100, representing 25%+1 share of the company's share capital after the additional issue. Sberbank acquired the stake in Detskiy Mir-Center for a total consideration of approximately RUB 3.4 billion (approximately \$111.6 million as of December 31, 2010). The strategic objective of the shareholders is to attract a strategic investor or achieving a similar event. If such event for Detskiy Mir-Center is not achieved within three years, and under certain other conditions, Sberbank will have the right to sell its stake in Detskiy Mir-Center to Sistema. The parties also agreed to certain pre-emptive and tag-along and drag-along rights in relation to their respective stakes in Detskiy Mir-Center. As a 25%+1 shareholder of Detskiy Mir-Center, Sberbank is able to elect two out of eight board members. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by \$12.7 million and corresponding increase in additional paid-in capital by \$96.5 million.

Transactions within Telecommunications segment

In December 2010, MTS acquired 100% of Sistema Telecom LLC ("Sistema Telecom") from JSFC Sistema for RUB 11.6 billion (\$379.0 million as of December 27, 2010). Sistema Telecom's key assets consist of property rights in respect of the group of trademarks, including the distinctive "egg" trademarks of MTS, Comstar-UTS and MGTS, certain promissory notes previously issued by MTS in the amount of RUB 2.0 billion (\$65.5 million) and a 45% stake in TS-Retail, a 100% subsidiary of the Group. The acquisition was accounted for as a common control transaction directly in equity and resulted in the decrease in noncontrolling interests by \$198.7 million.

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

directly in equity and resulted in an increase of noncontrolling interests by \$135.1 million.

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

Issuance of common shares of SMM

In October 2009, SMM issued additional share capital which in exchange for noncontrolling interest in Russian World Studios (RWS), a SMM subsidiary. As a result of the transaction, SMM acquired a 100% stake in RWS and the Group share in SMM decreased from 100.0% to 75.0%. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by \$38.0 million.

Disposal of Sistema-Hals

In a series of transactions in April – October 2009, the Group sold its controlling stake in Sistema-Hals for a total consideration of RUB 60.0. As a result of the transactions the Group's share in Sistema-Hals decreased from 80.0% to 28.2%. The transactions resulted in recognition of a loss on disposal of \$364.9 million and the decrease in noncontrolling interests of \$50.5.

In December 2010, the Group completed the sale of its 27.6% ownership share of Sistema-Hals to Blairwood Limited and Stoneflower Limited (each acquired the stake of 13.8%) for a total cash consideration of \$70.0 million.

Disposal of investment in MTT

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

Discontinued operations of SITRONICS

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

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

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

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

7. CASH AND CASH EQUIVALENTS

Included in the cash and cash equivalents balance are cash equivalents of \$1,321.0 million and \$1,952.4 million as of December 31, 2010 and 2009, respectively, which primarily comprise term deposits with banks and bank promissory notes with original maturities of less than 90 days.

8. ASSETS FROM BANKING ACTIVITIES, NET

Assets from banking activities, net of an allowance for loan losses, as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Cash and cash equivalents	\$ 2,785,596	\$ 2,163,852
Loans to customers	3,447,603	3,414,359
Short-term investments in securities (trading)	694,753	576,039
Short-term investments in securities (available-for-sale)	434,098	76,700
Long-term investments in securities (held-to-maturity)	-	323,195
Other investments	197,351	473,088
Less: allowance for loan losses	<u>(257,052)</u>	<u>(228,000)</u>
Assets from banking activities, net	7,302,349	6,799,233
Less: amounts maturing after one year	(1,812,743)	(1,614,968)
Assets from banking activities, current portion	\$ 5,489,606	\$ 5,184,265

Loans to customers as of December 31, 2010 and 2009 included loans to affiliates and other related parties of \$nil and \$65.5 million, respectively.

In May 2010 the Group sold the part of its bank bonds of the amount of \$90.9 million, which were earlier classified as held to maturity. The remaining part of these bonds of the amount of \$232.3 million was reclassified from held to maturity investments to available for sale and accounted for fair value.

The following table presents the effective average interest rates by categories of loans as of December 31, 2010 and 2009:

	2010			2009		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Loans to customers						
- corporate customers	13.4%	11.6%	10.0%	16.3%	15.7%	15.4%
- individuals	16.5%	10.4%	12.6%	16.6%	13.4%	14.5%
Loans to banks	4.7%	0.4%	0.5%	8.3%	0.4%	0.1%

The movement in the allowance for loan losses for the years ended December 31, 2010 and 2009 was as follows:

	2010	2009
Allowance for loan losses, beginning of the year	\$ 228,000	\$ 193,394
Additions charged to the results of operations	38,797	87,433
Write-off of allowance for loans losses	(9,126)	(51,182)
Currency translation adjustment	(619)	(1,645)
Allowance for loan losses, end of the year	\$ 257,052	\$ 228,000

9. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Trading securities:		
Corporate bonds	-	\$ 120,780
Corporate shares	\$ 2,827	2,283
	<u>2,827</u>	<u>123,063</u>
Other short-term investments:		
Promissory notes and deposit certificates from third parties	47,076	259,250
Promissory notes and loans to related parties	28,825	24,942
Bank deposits with original maturities exceeding 90 days	773,540	130,016
Funds in trust management	26,986	20,077
Other short-term investments	426	18,618
	<u>876,853</u>	<u>452,903</u>
Total	\$ 879,680	\$ 575,966

Promissory notes from third parties, which are primarily denominated in RUB, bear interest rates varying from 5.5% to 14.0% as of December 31, 2010.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2010 are between 2.0% to 9.0% for RUB and USD denominated deposits. As of December 31, 2009, the effective interest rates on bank deposits with original maturities exceeding 90 days were between 6.5% to 9.0% for RUB and USD denominated deposits.

10. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Trade receivables	\$ 1,954,846	\$ 1,559,171
Less: provision for doubtful accounts	(228,172)	(225,002)
Total	\$ 1,726,674	\$ 1,334,169

Trade receivables as of December 31, 2010 and 2009 include receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of \$1.0 million and \$105.5 million, respectively. Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

11. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Finished goods and goods for resale	\$ 756,179	\$ 479,207
Raw materials and spare parts	539,000	483,322
Work-in-progress	212,863	183,911
Costs and estimated earnings in excess of billings on uncompleted contracts	6,686	8,646
	<u>1,514,728</u>	<u>1,155,086</u>
Less: long-term portion	(13,716)	(17,792)
Total	\$ 1,501,012	\$ 1,137,294

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation and depletion, as of December 31, 2010 and 2009 consisted of the following:

		2010	2009
Switches, transmission devices, network and base station equipment	\$ 11,295,627	\$ 10,069,994	
Refining, marketing, distribution and chemicals	5,083,897	5,096,275	
Exploration and production assets	3,899,433	3,515,365	
Other plant, machinery and equipment	2,083,934	1,855,183	
Buildings and leasehold improvements	1,782,206	1,823,421	
Power and utilities	1,759,395	1,661,599	
Construction in-progress and equipment for installation	872,518	956,202	
Telecommunication equipment for installation	448,009	432,908	
Land	33,650	33,208	
	27,258,669	25,444,155	
Less: accumulated depreciation	(8,218,970)	(6,177,205)	
Total	\$ 19,039,699	\$ 19,266,950	

Depreciation and depletion expenses for the year ended December 31, 2010 and 2009 amounted to \$2,416.3 million and \$2,017.3 million, respectively.

13. GOODWILL

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

	Telecom- munications	Technology and Industry	Consumer assets	Total
Balance as of January 1, 2009				
Gross amount of goodwill	\$ 1,325,716	\$ 124,549	\$ 64,279	\$ 1,514,544
Accumulated impairment loss	(49,891)	-	(63,560)	(113,451)
	1,275,825	124,549	719	1,401,093
Adjustments to preliminary allocations	42,005	-	-	42,005
Purchase price allocations	328,565	-	-	328,565
Currency translation adjustment	(74,653)	190	(207)	(74,670)
Balance as of December 31, 2009				
Gross amount of goodwill	1,620,208	124,739	64,072	1,809,019
Accumulated impairment loss	(48,466)	-	(63,560)	(112,026)
	\$ 1,571,742	\$ 124,739	\$ 512	\$ 1,696,993
Adjustments to preliminary allocations	(6,004)	-	-	(6,004)
Purchase price allocations	181,311	-	-	181,311
Currency translation adjustment	2,624	(2,404)	-	220
Balance as of December 31, 2010				
Gross amount of goodwill	1,797,769	122,335	64,072	1,984,176
Accumulated impairment loss	(48,096)	-	(63,560)	(111,656)
	\$ 1,749,673	\$ 122,335	\$ 512	\$ 1,872,520

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

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

No impairment was recognized based on the goodwill impairment tests as of December 31, 2010 and 2009. Fair value of the Group's reporting units was measured using a combination of present value techniques, the Gordon model and projected multiples.

14. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill as of December 31, 2010 and 2009 consisted of the following:

	2010			2009		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Acquired customer base	\$ 649,231	(236,326)	412,905	596,583	(251,352)	345,231
Radio frequencies	314,722	(100,496)	214,226	239,045	(75,351)	163,694
Operating licenses	1,409,785	(448,960)	960,825	1,370,913	(345,451)	1,025,462
Numbering capacity with finite contractual life, software and other	2,343,980	(1,194,063)	1,149,917	2,105,459	(1,089,064)	1,016,395
	4,717,718	(1,979,845)	2,737,873	4,312,000	(1,761,218)	2,550,782
Unamortized intangible assets:						
Trademarks	216,504	-	216,504	220,173	-	220,173
Numbering capacity with indefinite contractual life	68,596	-	68,596	27,047	-	27,047
Total intangible assets	\$ 5,002,818	(1,979,845)	3,022,973	4,559,220	(1,761,218)	2,798,002

Amortization expense recorded on other intangible assets for the years ended December 31, 2010 and 2009 amounted to \$530.0 million and \$473.2 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,			
2011			\$ 848,740
2012			547,574
2013			383,302
2014			246,408
2015			164,272
Thereafter			547,577
			\$ <u>2,737,873</u>

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, 2010 and 2009 consisted of the following:

	2010		2009	
	Voting power, %	Carrying value	Voting power, %	Carrying value
MTS Belarus	49.0%	\$ 227,130	49.0%	\$ 220,450
SITRONICS NANO	49.8%	243,366	49.8%	203,041
Sky Link (Note 3)	disposed	-	50.0%	133,590
RussNeft	49.0%	-	-	-
Aspek	49.9%	107,185	-	-
Belkamneft	38.0%	559,784	38.0%	67,177
Other investments at cost and loans to investees	Various	10,229	Various	7,564
Total		\$ 1,147,694		\$ 631,822

MTS Belarus – In April 2008 the Group entered into a credit facility agreement with MTS Belarus valid till March 15, 2009. The facility allowed MTS Belarus to borrow up to \$33.0 million and bore interest at 10.0% per annum. In the year ended December 31, 2009 the maturity date was extended to March 15, 2010 and facility was increased to \$46.0 million. In the year ended December 31, 2010 the maturity date was extended through March 15, 2011. The credit facility was fully paid upon maturity.

The financial position and results of operations of MTS Belarus as of and for the year ended December 31, 2010 and 2009 were as follows:

	(unaudited)	
	2010	2009
Total assets	\$ 527,609	\$ 498,278
Total liabilities	72,533	56,736
Net income	145,707	143,061

SITRONICS-NANO LLC – In October 2009, SITRONICS entered into an agreement to form SITRONICS-Nano, which is owned 49.75% by SITRONICS, 49.75% by Russian Corporation of Nanotechnologies (“RUSNANO”) and 0.5% by another party. The primary purpose of SITRONICS-Nano is to acquire equipment and licenses necessary to launch 90 nanometer microchip production and to lease them to SITRONICS, and to provide project financing to SITRONICS. The equipment and licenses purchases will be financed through the equity of SITRONICS-Nano and external borrowings.

SITRONICS-Nano is determined to be a variable interest entity where SITRONICS has a variable interest through a lease agreement and is not the primary beneficiary. SITRONICS accounts for the investment under the equity method.

RUSNANO has a put option to sell its shares to Sistema at market price +25% not earlier than in nine years and not later than in 10.5 years from the date of financing (December 2009). Sistema has a call option to acquire at any time RUSNANO’s shares at RUB 6,480.0 million plus 18% p.a.

In addition, during the first nine years of operations of SITRONICS-Nano on non-fulfillment of certain criteria, RUSNANO can put its share in SITRONICS-Nano to Sistema at RUB 6,480.0 million (\$213.3 million as of December 31, 2010) plus 18% p.a., less any net profit attributed and paid to RUSNANO during the period from the date of the put option application.

The maximum exposure to a loss is determined as the Group’s contribution to SITRONICS-Nano adjusted by the Group’s share of distributed results of the investee and is equal to \$220.7 million.

The financial position and results of operations of SITRONICS-Nano as of and for the year ended December 31, 2010 and 2009 were as follows:

	(unaudited)	
	2010	2009
Total assets	\$ 964,485	\$ 440,283
Total liabilities	488,692	10,429
Net loss/income	(25,498)	1,075

Oil Company RussNeft – In April 2010, the Group acquired a noncontrolling 49% stake in Oil Company RussNeft for a total cash consideration of \$20 million.

The investment in noncontrolled entity is accounted for using the equity method. As a result of the final measurement of the equity stake in RussNeft, the Group recognized an impairment in the amount of \$20 million in 2010.

The financial position and results of operations of RussNeft as of and for the year ended December 31, 2010 were as follows:

	(unaudited) 2010
Total assets	\$ 6,219,259
Total liabilities	7,206,314
Net income	588,934

Belkamneft – As of December 31, 2010 and 2009 the Group had a 38% investments in Belkamneft, held through its subsidiary, Bashneft. During the year-ended December 31, 2009, the Group was unable to exert any influence over the operations of Belkamneft, and so accounted for this investment using the cost method. RussNeft is the controlling shareholder of Belkamneft, and therefore following the acquisition of a 49% interest in RussNeft during 2010, the Group determined that it had attained significant influence over Bashneft's production subsidiary Belkamneft. The Group, as of the acquisition date of its additional indirect holding through RussNeft, remeasured, at fair value, its equity investment in Belkamneft and recognized a gain in the amount of \$477.4 million. Retroactive application of the equity method of accounting for this investment was not performed due to immateriality.

The financial position and results of operations of Belkamneft as of and for the year ended December 31, 2010 were as follows:

	(unaudited) 2010
Total assets	\$ 2,589,636
Total liabilities	462,671
Net income	127,586

OJSC Aspek – In July 2010, Bashneft acquired 49.9% of OJSC Aspek (“Aspek”) for cash consideration of RUB 3.7 billion (approximately \$121.4 as of December 31, 2010). Aspek is a holding company with ownership in different businesses, including an oil and petrochemicals trading business and a petrol stations network. In accordance with the shareholders agreement, Aspek will be restructured in 2011 when certain assets will be distributed to the existing controlling shareholder. After completion of the restructuring, the Group's stake will increase to 100%.

As of December 31, 2010, the Group accounts for the 49.9% investment in accordance with the equity method. As a result of the final measurement of the equity stake in OJSC Aspek the Group recognized a loss in the amount of \$16.8 million.

The financial position and results of operations of Aspek as of and for the year ended December 31, 2010 were as follows:

	(unaudited) 2010
Total assets	\$ 316,235
Total liabilities	104,250
Net income	10,537

16. INVESTMENT IN SHARES OF SVYAZINVEST

In December 2006, as a part of its program of regional expansion, Comstar UTS acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company (“Svyazinvest”) from Mustcom Limited for a total consideration of approximately \$1,390.0 million, including cash of \$1,300.0 million and the

fair value of the call and put option of \$90.0 million. Comstar UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest. Svyazinvest is a holding company that holds controlling stakes in seven publicly traded incumbent fixed-line operators (“MRKs”) based in all seven Federal districts of Russia, Rostelecom, a publicly traded long-distance fixed-line operator operating a Russia-wide network, and several other entities, the majority of which are non-public.

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

In November 2009, the Group and Svyazinvest (“the Parties”) signed a non-binding memorandum of understanding (“MOU”), under which the Parties agreed to enter in a series of transactions which would ultimately result in (i) disposal of the Group’s investment in Svyazinvest to a state-controlled enterprise; (ii) noncash extinguishment of the Group’s indebtedness to Sberbank; (iii) increase in the Group’s ownership in Sky Link to 100% and disposal of this investment to a state-controlled enterprise; and (iv) disposal of 28% of MGTS’ common stock owned by Svyazinvest to the Group. In addition, certain cash consideration, the amount of which was under negotiations between the parties, was to be paid to Svyazinvest under the MOU (see Note 3).

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

In September 2010, the Group completed the sale of its Svyazinvest stake for a cash consideration of RUB 26.0 billion (\$0.9 billion as of December 31, 2010) and repaid the outstanding debt to Sberbank in the amount of RUB 26.0 billion (\$0.9 billion as of December 31, 2010) with proceeds from the sale.

17. LIABILITIES FROM BANKING ACTIVITIES

Liabilities from banking activities as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Term deposits	\$ 3,026,225	\$ 2,962,849
Deposits repayable on demand	2,026,740	1,472,648
Promissory notes issued and other liabilities	583,654	809,153
	<hr/> 5,636,619	<hr/> 5,244,650
Less: amounts maturing after one year	(1,444,783)	(1,455,402)
Total	\$ 4,191,836	\$ 3,789,248

Liabilities from banking activities as of December 31, 2010 and 2009 include liabilities with affiliates and other related parties for \$153.8 million and \$99.2 million, respectively.

The fair value of liabilities from banking activities 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, 2010 and 2009:

	2010			2009		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Term deposits:						
- corporate customers	6.9%	4.8%	3.8%	9.2%	5.6%	5.0%
- individuals	11.0%	7.8%	7.5%	12.8%	9.3%	8.6%
Promissory notes issued	8.3%	5.0%	-	12.9%	9.9%	8.3%
Deposits repayable on demand:						
- corporate customers	1.6%	0.0%	0.0%	0.3%	0.3%	0.1%
- individuals	0.4%	0.2%	0.3%	0.4%	0.6%	0.5%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2010 and 2009 consisted of the following:

		2010		2009
Customers' advances	\$	775,973	\$	566,670
Advance for shares of SSTL		602,276		-
Payroll and other accrued expenses		477,920		402,550
Accruals for services		365,447		232,551
Bitel liability (Note 25)		210,760		170,000
Accrued interest on loans		180,878		254,251
Tax and legal provisions		88,605		125,660
Financial instruments at fair value		57,473		95,103
Dividends payable		53,474		9,037
Other		528,841		496,667
Total	\$	3,341,647	\$	2,352,489

In December 2010, Rosimushchestvo, the Russian Federal Agency for State Property Management, paid the rupee equivalent of \$600 million for a stake of approximately 17% in SSTL's share capital, in which Sistema currently has an ownership percentage of 74%. At of December 31, 2010 SSTL was yet to issue shares to Rosimushchestvo relating to such contribution and consequently, the amount received was recognized in accrued expenses and other current liabilities as an advance for shares of SSTL.

In March 2011 SSTL has issued the shares to Rosimushchestvo. Following the additional share issue the total stake in the share capital of SSTL owned by Russian parties (Sistema and Rosimushchestvo) will not exceed 74%. SSTL plans to use the funds from the rights offering to finance the continued development of the company, and in particular to strengthen its leading position in wireless broadband (under EV-DO Rev. A). The funds will also be used to expand the branded retail network in its current telecommunication circles and to accelerate the launch of operations in a number of new circles.

19. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of December 31, 2010 and 2009 consisted of the following:

	Interest rate (Actual at December 31, 2010)	December 31, 2010		December 31, 2009	
		USD	RUB	USD	RUB
<i>USD-denominated:</i>					
VTB	3.59%	\$	200,000	\$	-
Deutsche Bank AG	-		-		20,408
Other	Various		14,890		47,940
			214,890		68,348

<i>RUB-denominated:</i>				
Sberbank	7.2%-8.7%	581,069	22,120	
B&N Bank	-	-	51,249	
Uralsib	-	-	50,367	
MDM Bank	-	-	46,767	
Raiffeisenbank	-	-	30,645	
Other	Various	72,814	112,957	
		653,883	314,105	
Other currencies	Various	208,732	81,729	
Loans from related parties	Various	15,094	40,276	
Total		\$ 1,092,599	\$ 504,458	

20. LONG-TERM DEBT

Long-term debt as of December 31, 2010 and 2009 consisted of the following:

	December 31, 2010	December 31, 2009
Loans from banks and financial Institutions	\$ 7,229,309	\$ 8,549,643
Notes and corporate bonds	6,674,890	5,970,658
Capital leases	250,876	181,047
Loans from related parties	50,339	118,013
Other borrowings	104,506	121,402
	14,309,920	14,940,763
Less amounts maturing within one year	(2,103,405)	(3,736,708)
Total	\$ 12,206,515	\$ 11,204,055

Loans from banks and financial institutions

Loans from banks and financial institutions as of December 31, 2010 and 2009 consisted of the following:

	Maturity	Interest rate (Actual at December 31, 2010)	December 31, 2010	December 31, 2009
			December 31, 2010	December 31, 2009
<i>USD-denominated:</i>				
Golden Gates (Bank of Moscow)	2011-2013	LIBOR+8.0% (8.3%), 9.8%-10.5%	\$ 306,000	\$ 230,000
Skandinaviska Enskilda Banken AB	2011-2017	LIBOR+0.23%-1.8% (0.68%- 2.26%)	242,013	279,519
China Development Bank	2011-2017	LIBOR+1.5% (1.96%)	157,406	-
Bank of China	2011-2017	LIBOR+1.5%-1.95% (1.96%- 2.41%)	139,960	-
EBRD	2011-2014	LIBOR+1.51%-3.1% (1.97%- 3.56%)	116,667	200,000
HSBC Bank plc and ING BHF Bank AG	2011-2014	LIBOR+0.3% (0.76%)	71,244	90,985
Citibank International plc and ING Bank N.V.	2011-2013	LIBOR+0.43% (0.88%)	62,486	84,560
The Royal Bank of Scotland	2011-2014	LIBOR+0.35%-2.65% (0.81-2.95%)	61,361	152,649
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2011-2015	LIBOR+0.3% (0.76%)	59,570	76,180
Commerzbank AG, ING Bank AG and HSBC Bank plc	2011-2014	LIBOR+0.3% (0.76%)	51,285	66,557
Barclays Bank plc	2011-2014	LIBOR+0.13%-0.15% (0.59%-0.61%)	46,047	59,203
Troika Dialog Bank	2011-2015	LIBOR+6.5% (6.8%)	30,000	30,000
Societe Generale	2011-2016	LIBOR+1.25% (1.71%)	20,768	-
VTB	-	-	-	755,173
Sberbank	-	-	-	370,000

Syndicated Loan Facility granted to MTS in 2009	-	-	-	360,000
Syndicated Loan Facility granted to MTS in 2006	-	-	-	323,077
Other	2011-2015	Various	14,128	89,029
			1,378,935	3,166,932
<i>EUR-denominated:</i>				
EBRD	2011-2012	EURIBOR+5.2% (6.21%)	158,808	484,895
Syndicated Loan to SITRONICS	2011-2013	EURIBOR+1.5% (2.73%)	158,808	193,671
BNP Paribas	2011-2018	EURIBOR+1.65% (2.88%)	52,159	-
LBWW	2011-2017	EURIBOR+0.75% (1.98%)	43,201	-
Bank of China	2011-2016	EURIBOR+1.95% (3.18%)	35,123	-
Syndicated Loan Facility granted to MTS in 2009	-	-	-	341,580
Gazprombank	-	-	-	286,920
European Investment Bank	-	-	-	164,979
Nordic Investment Bank	-	-	-	114,768
Other	2011-2014	Various	32,086	38,649
			480,185	1,625,462
<i>RUB-denominated:</i>				
Sberbank	2011-2017	8.5%-14.50%	2,053,182	2,878,897
Gazprombank	2013-2017	8.75%-11.85%	990,914	213,600
VTB	2017	11.95%	492,176	-
VTB-Capital	2017	11.95%	492,176	-
Bank of Moscow	2013	8.0% - 9.5%	459,364	-
Unicredit	2011-2016	MosPrime+1.8%-5.2% (5.5%-8.9%)	66,927	57,278
Raiffeisenbank	2011-2012	MosPrime+5.2%-5.4% (8.9%-9.5%)	63,172	39,677
Other	Various	Various	15,118	49,619
			4,633,029	3,239,071
<i>Other currencies-denominated</i>				
State Bank of India	2012	11%	535,595	-
Other	2011-2018	Various	201,565	518,178
			737,160	518,178
Total			\$ 7,229,309	\$ 8,549,643

Certain loans from banks and financial institutions are subject to restrictive covenants, including, but not limited to, compliance with certain financial ratios, limitations on dispositions of assets and limitations on transactions within the Group. Management believes that the Group is in compliance with all restrictive provisions of loans from banks and financial institutions as of December 31, 2010.

Equipment with carrying value of \$280.3 million is pledged to collateralize some of the other loan facilities provided to the Group as of December 31, 2010.

Notes and corporate bonds

Notes and corporate bonds as of December 31, 2010 and 2009 consisted of the following:

	Currency	Interest rate	December 31, 2010	December 31, 2009
Bashneft Bonds due 2016	RUB	12.5%	\$ 1,640,587	\$ 1,653,209
MTS International Notes due 2020	USD	8.6%	750,000	-
JSFC Sistema Bonds due 2014	RUB	14.8%	648,155	661,284
JSFC Sistema Bonds due 2016	RUB	12.5%	623,423	628,220
MTS Notes due 2014	RUB	16.8%	492,176	495,963
MTS Notes due 2016	RUB	14.3%	492,176	495,963
MTS Notes due 2020	RUB	8.2%	492,176	-
MTS Finance Notes due 2012	USD	8.0%	400,000	400,000
MTS Notes due 2017	RUB	8.7%	328,117	-
MTS Notes due 2018	RUB	8.0%	315,337	298,155
JSFC Sistema Bonds due 2013	RUB	9.8%	196,870	184,236
SITRONICS Bonds due 2013	RUB	10.8%	98,435	-
Intourist Bonds due 2013	RUB	14.0%	65,623	-
SITRONICS Bonds due 2013	RUB	11.8%	41,212	-
MTS Notes due 2015	RUB	7.8%	39,823	248,213

DM-Center Bonds due 2015	RUB	8.5%	37,733	38,024
MTS Notes due 2013	RUB	7.0%	13,250	247,981
MTS Finance Notes due 2010	USD	8.4%	-	400,000
SITRONICS Bonds due 2010	RUB	22.0%	-	96,841
Sistema Capital Notes due 2011	USD	8.9%	-	89,480
Intourist Bonds due 2010	RUB	9.0%	-	33,064
MGTS Bonds due 2010	RUB	16.0%	-	402
			6,675,093	5,971,035
Less: unamortized discount			(203)	(377)
Total notes and corporate bonds			\$ 6,674,890	\$ 5,970,658

In certain instances the Group has an unconditional obligation to repurchase notes at par value if claimed by the noteholders, where a subsequent sequential coupon is announced.

The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses such notes in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

The fair values of notes and corporate bonds based on the market quotes as of December 31, 2010 at the stock exchanges where they are traded were as follows:

	Stock exchange	% of par	Fair value
Bashneft Bonds due 2016	MICEX stock exchange	108.15	\$ 1,774,295
MTS International Notes due 2020	Irish stock exchange	112.40	843,000
JSFC Sistema Bonds due 2014	MICEX stock exchange	111.25	721,072
JSFC Sistema Bonds due 2016	MICEX stock exchange	108.67	677,474
MTS Notes due 2014	MICEX stock exchange	104.03	512,011
MTS Notes due 2016	MICEX stock exchange	99.85	491,438
MTS Notes due 2020	MICEX stock exchange	98.00	482,333
MTS Finance Notes due 2012	Luxembourg stock exchange	105.61	422,440
MTS Notes due 2017	MICEX stock exchange	99.65	326,696
MTS Notes due 2018	MICEX stock exchange	101.50	320,067
JSFC Sistema Bonds due 2013	MICEX stock exchange	104.40	205,532
Intourist Bonds due 2013	MICEX stock exchange	102.70	67,395
SITRONICS Bonds due 2013	MICEX stock exchange	100.00	98,435
SITRONICS Bonds due 2013	MICEX stock exchange	102.25	42,139
MTS Notes due 2015	MICEX stock exchange	100.50	40,042
DM-Center Bonds due 2015	MICEX stock exchange	94.00	35,469
MTS Notes due 2013	MICEX stock exchange	99.96	13,244
			\$ 7,073,082

Notes and corporate bonds are subject to certain financial and non-financial restrictive covenants, including, but not limited to, limitations on dispositions of assets, limitations on transactions with affiliates, compliance with certain financial ratios.

On November 11, 2010 an international arbitration tribunal constituted under the rules of the London Court of International Arbitration rendered an award with regards to arbitration commenced by Nomihold Securities Inc. in April 2007. The ruling requires the Group's subsidiary, MTS Finance, to honor Nomihold's option to sell MTS Finance the remaining 49% stake in Tarino Limited for \$170 million, plus interest, plus \$5.88 million in dividends and to compensate it for related costs. MTS Finance appealed against the award, however the appeal was rejected and the award became final on

January 5, 2011. In connection with the above mentioned restriction concerning the unsatisfied liability arising from any judgment against the Group, prior to the date these consolidated financial statements were issued, the Group obtained consents from the noteholders of MTS Finance Notes due 2012 and MTS International Notes due 2020 and banks, with the exception of Barclays Bank, to (1) waive certain defaults and events of default which might arise under the loan agreements as a result of the award, and (2) certain amendments to the loan agreements to avoid possible future events of default which may arise as a result of the award. Therefore, the Group classified the notes and bank loans in accordance with their original maturities in its consolidated statement of financial position as of December 31, 2010, with the exception of the credit facility with Barclays Bank classified as current and fully repaid in February 2011.

Other than as mentioned above, management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of December 31, 2010.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on December 31, 2010 is as follows:

Year ended December 31,	
2011	\$ 2,103,405
2012	4,334,565
2013	1,557,911
2014	541,953
2015	1,478,907
Thereafter	4,293,179
Total	\$ <u>14,309,920</u>

21. INCOME TAX

The Group's provision for income taxes for the year ended December 31, 2010 and 2009 was:

	2010	2009
Current provision	\$ 1,116,895	\$ 776,622
Deferred income tax benefit	(27,932)	(29,954)
Total income tax expense	\$ <u>1,088,963</u>	\$ <u>746,668</u>

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

	2010	2009
Income tax provision computed on income before taxes at statutory rate of 20% in 2010 and 2009	\$ 584,155	\$ 610,910
Adjustments due to:		
Change in valuation allowance	105,129	191,253
Non-deductible expenses	251,648	149,946
Earnings distribution from subsidiaries	80,530	101,642
Effect of Group restructuring	75,400	232,900
Impairment of long-lived assets in Turkmenistan	27,565	-
Additions/(reductions) to unrecognized tax benefits	766	(10,451)
Dispositions of subsidiaries	-	68,209
Non-taxable gain on bargain purchase	-	(556,567)
Currency exchange and translation differences	(2,391)	2,871
Effect of rates different from standard	(6,587)	(698)
Settlements with tax authorities on prior period income tax	(27,252)	(43,347)
Income tax expense	\$ <u>1,088,963</u>	\$ <u>746,668</u>

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

	2010	2009
Deferred tax assets		
Tax losses carried forward	\$ 475,523	\$ 266,421
Property, plant and equipment	404,713	303,238
Accrued expenses	172,593	178,605
Inventory obsolescence	61,762	24,305
Allowance for doubtful accounts and loans receivable	38,904	18,229
Intangible assets	37,517	46,637
Deferred connection fees	31,522	16,663
Deferred revenues	20,832	33,610
Valuation of investment in Svyazinvest	-	78,761
Other	77,570	109,749
	<u>1,320,936</u>	<u>1,076,218</u>
Less: valuation allowance	(460,660)	(316,744)
Total deferred tax assets	\$ 860,276	\$ 759,474
Deferred tax liabilities		
Property, plant and equipment	(1,418,898)	(1,375,148)
Intangible assets	(257,604)	(247,571)
Undistributed earnings of subsidiaries and affiliates	(242,367)	(161,294)
Debt issuance costs	(34,966)	(32,505)
Other	(36,990)	(48,562)
Total deferred tax liabilities	\$ (1,990,825)	\$ (1,865,080)
Net deferred tax assets, current	\$ 357,821	\$ 348,965
Net deferred tax assets, long-term	\$ 317,195	\$ 243,569
Net deferred tax liabilities, current	\$ (168,982)	\$ (87,415)
Net deferred tax liabilities, long-term	\$ (1,636,583)	\$ (1,610,725)

The Group has the following significant balances for income tax losses carried forward as of December 31, 2010 and 2009:

Jurisdiction	Period for carry-forward	Period for	
		2010	2009
India	2011-2018	\$ 241,330	\$ 105,462
Luxembourg	Unlimited	124,464	94,163
Russia	2011-2020	94,164	37,934
Other	2011-2013	15,565	28,862
Total		\$ 475,523	\$ 266,421

Management established the following valuation allowances against deferred tax assets because there will not be sufficient future taxable income against which to realize such assets:

Valuation allowances	2010	2009
Tax losses carried forward	\$ 335,362	\$ 199,625
Sale of investment in Svyazinvest	66,887	78,800
Other	58,411	38,319
Total	\$ 460,660	\$ 316,744

As of December 31, 2010 and 2009 the Group included accruals for uncertain tax positions in the amount of \$14.5 million and \$11.2 million, respectively, as a component of income tax payable.

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

	2010	2009
Balance, beginning of the year	\$ 11,179	\$ 19,798
Additions based on tax positions related to the current year	14,590	2,094
Additions based on tax positions related to the prior year	1,504	-
Additions based on tax of acquired entities	7,587	1,521
Reduction on tax positions of disposed entities	(2,141)	(4,045)
Reduction in tax positions related to prior years	(47)	(1,778)
Reductions in tax positions due to change of tax position during the year	-	(2,848)
Settlements with tax authorities	(18,109)	(3,305)
Currency translation adjustment	(56)	(258)
Balance, end of the year	\$ 14,507	\$ 11,179

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2010 and 2009 amounted to charge of \$3.3 million and reversal of (\$0.6) million respectively, and are included in income tax expense in the accompanying consolidated statements of operations. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totaled to \$3.3 million and \$4.3 million as of December 31, 2010 and 2009, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

22. 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, 2010 and 2009:

	Level 1 (quoted prices in active markets for identical assets or liabilities)	Level 2 (significant other observable inputs)	Level 3 (significant unobservable inputs)	Total fair value
<i>December 31, 2010</i>				
Assets at fair value:				
Trading securities	\$ 694,753	-	-	\$ 694,753
Available for sale securities	224,732	\$ 209,366	-	434,098
MTS interest rate swaps	-	3,322	-	3,322
MTS currency option agreements	-	247	-	247
Total assets	\$ 919,485	\$ 212,935	-	\$ 1,132,420
Liabilities at fair value:				
MTS interest rate swaps	-	(31,315)	-	(31,315)
MTS buy-out put option	-	(11,636)	-	(11,636)
MTS cross-currency interest rate swaps	-	(3,469)	-	(3,469)
MTS currency option agreements	-	(2,612)	-	(2,612)
RUSNANO put option (Note 13)	-	-	(22,689)	(22,689)
Redeemable noncontrolling interests (Note 2)	-	-	(107,343)	(107,343)
Total liabilities	\$ -	\$ (49,032)	\$ (130,032)	\$ (179,064)
<i>December 31, 2009</i>				
Assets at fair value:				
Trading securities	698,318	-	-	698,318
Available for sale securities	57,885	-	-	57,885
MTS interest rate swaps	-	3,391	-	3,391
Total assets	\$ 756,203	\$ 3,391	\$ -	\$ 759,594
Liabilities at fair value:				
MTS interest rate swaps	-	(32,636)	-	(32,636)
MTS cross-currency interest rate swaps	-	(26,559)	-	(26,559)
MTS currency option agreements	-	(4,280)	-	(4,280)
JSFC Sistema foreign currency forward agreement	-	(11,000)	-	(11,000)
RUSNANO put option (Note 13)	-	-	(20,627)	(20,627)
Redeemable noncontrolling interests (Note 2)	-	-	(82,261)	(82,261)
Total liabilities	\$ -	\$ (74,475)	\$ (102,888)	\$ (177,363)

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

Interest Rate Risk

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

Foreign Currency Risk

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

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

Cash flow hedging

In 2009 the Group entered into several cross-currency interest rate swap and variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate and exchange rates related to its debt obligations. The instruments qualified for cash flow hedge accounting under the US GAAP. Each interest rate swap matched the exact maturity dates of the underlying debt allowing for highly-effective hedges.

These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed USD- and Euro-denominated interest rate to a fixed RUB-denominated interest rate. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest swap matched the interest and principal payments of the underlying debt allowing for highly-effective hedges. Cross-currency interest rate swap contracts outstanding as of December 31, 2010 mature in 2011.

The following table presents the fair value of Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2010 and 2009.

	Statement of financial position location	December 31,	
		2010	2009
<i>Asset derivatives</i>			
Interest rate swaps	Other non-current assets	\$ 3,322	3,391
Total		\$ 3,322	3,391
<i>Liability derivatives</i>			
Interest rate swaps	Accrued expenses and other current liabilities	\$ (31,315)	\$ (32,636)
Cross-currency interest rate swaps	Other payables	(3,469)	(9,211)
Cross-currency interest rate swaps	Accrued expenses and other current liabilities	-	(17,348)
Total		\$ (34,784)	\$ (59,195)

The following table presents the effect of Group's derivative instruments designated as hedges on the consolidated statements of operations for the years ended December 31, 2010 and 2009.

	Location of loss recognized	Year ended December 31,	
		2010	2009
Interest rate swaps	Interest expense	\$ (32,726)	\$ (8,392)
Cross-currency interest rate swaps	Currency exchange and transaction loss	<u>(37,820)</u>	<u>(24,299)</u>
Total		<u>(70,546)</u>	<u>(32,691)</u>

The following table presents the effect of Group's derivative instruments designated as hedges on accumulated other comprehensive income for the years ended December 31, 2010 and 2009.

	2010	2009
Accumulated derivatives (loss)/gain, beginning of the year	\$ (40,293)	\$ (16,714)
Fair value adjustments on hedging derivatives, net of tax	(39,757)	(28,764)
Amounts reclassified into earnings during the period, net of tax	65,185	5,185
Accumulated derivatives loss, end of the year	<u><u>\$ (14,865)</u></u>	<u><u>\$ (40,293)</u></u>

As of December 31, 2010, the outstanding hedge instruments were highly effective. Approximately \$7.0 million of net loss is expected to be reclassified into net income during the next twelve months.

Cash inflows and outflows related to hedge instruments were included in the cash flows from operating activities in the consolidated statement of cash flows for the years ended December 31, 2010 and 2009.

Non-designated derivative instruments

MTS foreign currency options – In 2010 and 2009 the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. The agreements include a combination of put and call option rights to acquire \$330.0 million of USD at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements will mature in 2011-2012.

MTS buy-out put option – On December 23, 2010, simultaneously with the meeting of MTS' shareholders, the meeting of Comstar-UTS' shareholders approved the reorganization of Comstar-UTS through the statutory merger into OJSC MTS. In accordance with the Russian legislation, shareholders who voted against or did not vote on the merger have the right to sell their shares back to Comstar-UTS for cash at a price set by the company's Boards of Directors, subject to the statutory limit of 10% of the company's net asset value under the Russian Accounting Standards. Eligible shareholders shall file a buyout demand within no later than 45 (forty five) days after the adoption of the resolution on reorganization. The buy-out of shares shall be carried out within 30 days after the expiry of the period set for the buyout demand being made. Fair value of the Group's liability under the put option as of December 31, 2010 was estimated at \$11.6 million using an option pricing model.

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

JSFC Sistema foreign currency forward agreement – In 2009 JSFC Sistema entered into foreign currency forward agreements to manage exposure to changes in currency exchange rates. As of December 31, 2010, Sistema has executed its foreign currency forward contracts and recorded a loss of \$5.3 million in the Group's consolidated statement of operations.

The following table presents the fair value of Group's derivative instruments not designated as hedges in the consolidated statements of financial position as of December 31, 2010 and 2009.

	Statement of financial position location	December 31,	
		2010	2009
Asset derivatives:			
MTS foreign currency options	Other non-current assets	\$ 247	\$ -
Total		\$ 247	\$ -
Liability derivatives:			
MTS foreign currency options	Accrued expenses and other current liabilities	\$ (92)	\$ (2,654)
MTS buy-out put option	Accrued expenses and other current liabilities	(11,636)	-
MTS foreign currency options	Accrued expenses and other current liabilities	(2,520)	(1,627)
JSFC Sistema foreign currency forward agreement	Accrued expenses and other current liabilities	-	(11,000)
RUSNANO put option (Note 13)	Accrued expenses and other current liabilities	(22,689)	(20,627)
Total		\$ (36,937)	\$ (35,908)

The following table presents the effect of Group's derivative instruments not designated as hedges on the consolidated statements of operations for the years ended December 31, 2010 and 2009.

	Location of gain/(loss) recognized	Year ended December 31,	
		2010	2009
RUSNANO put option (Note 13)	Change in fair value of derivative instruments	\$ (2,062)	-
MTS currency forward	Currency exchange and transaction gain	-	\$ 12,788
MTS foreign currency options	Currency exchange and transaction gain/(loss)	1,916	(4,280)
JSFC Sistema foreign currency forward agreement	Currency exchange and transaction loss	(5,334)	(15,005)
Comstar UTS purchased call option	Change in fair value of derivative instruments	-	(5,420)
Total		\$ (5,480)	\$ (11,917)

23. SHARE CAPITAL

As of December 31, 2010 and 2009, JSFC Sistema had 9,650,000,000 voting common shares issued and 9,281,827,594 shares outstanding with a par value of RUB 0.09.

In June 2010, JSFC Sistema declared dividends the year ended December 31, 2009 amounting to RUB 530.8 million (equivalent of \$17.5 million as of December 31, 2010). No dividends were declared in 2009.

24. SEGMENT INFORMATION

In accordance with U.S. GAAP, operating segments are defined as components of an enterprise engaging in business activities for 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.

As the management of the Group reviews the business operations based on the product and service lines, the four Group's operating segments are organized as follows: Telecommunications, Technology and Industry, Consumer Assets, and Oil and Energy. Corporate and Other comprise the companies that control and manage the Group's interests in its subsidiaries. Refer to accounting policies in Note 2 for further discussion of the types of products and services and method of revenue generation and related accounting treatment included within each operating segment. The Group's management evaluates the performance of the segments based on segment operating income.

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, 2010 and 2009 is shown below. Any differences between the business segment information provided and the corresponding information in the consolidated financial statements which have not been reconciled below relate to intercompany eliminations:

For the year ended December 31, 2010	Telecom- munications	Technology and Industry	Consumer Assets	Oil and Energy	Corporate and Other	Total
Net sales to external customers ^(a)	11,476,224	1,317,291	1,949,670	13,316,711	38,577	28,098,473
Intersegment sales	-	464,339	28,994	1,331	24,736	519,400
Equity in results of affiliates	54,544	1,389	228	36,074	17,883	110,118
Interest income	89,757	7,614	3,511	44,104	90,494	235,480
Interest expense	883,042	90,696	52,457	353,110	329,106	1,708,411
Net interest revenue ^(b)	-	-	24,443	-	-	24,443
Depreciation, depletion and amortization	2,062,456	106,181	61,166	709,033	7,546	2,946,382
Segment operating income	2,282,378	37,638	144,577	2,295,295	(288,791)	4,471,097
Income tax expense/(benefit)	563,067	28,133	15,554	483,495	(1,286)	1,088,963
Investments in affiliates	236,532	220,755	5,132	666,969	29,967	1,159,355
Segment assets	17,886,600	3,003,917	9,028,243	14,588,850	3,466,480	47,974,090
Indebtedness ^(c)	8,422,811	935,586	362,001	3,932,594	1,749,527	15,402,519
Capital expenditures	2,870,697	96,055	65,096	1,088,772	58,954	4,179,574

For the year ended December 31, 2009	Telecom- munications	Technology and Industry	Consumer Assets	Oil and Energy	Corporate and Other	Total
Net sales to external customers ^(a)	9,948,871	1,186,046	1,866,814	5,729,349	18,736	18,749,816
Intersegment sales	7,085	322,410	29,965	1,298	14,131	374,889
Equity in results of affiliates	20,413	-	(33,171)	-	4,400	(8,358)
Interest income	113,145	17,876	7,116	33,350	142,500	313,987
Interest expense	632,603	78,022	68,791	218,745	343,170	1,341,331
Net interest revenue ^(b)	-	-	51,887	-	-	51,887
Depreciation, depletion and amortization	1,864,168	68,027	52,414	498,191	7,714	2,490,514
Segment operating income	2,016,267	(6,408)	(236,193)	3,370,611	670,911	5,815,188
Income tax expense/(benefit)	551,403	(4,943)	5,310	114,667	80,231	746,668
Investments in affiliates	355,749	182,414	-	69,832	26,660	634,655
Segment assets	18,794,885	2,806,649	10,205,498	12,808,809	3,648,072	48,263,913
Indebtedness ^(c)	8,910,702	926,239	403,040	2,500,349	2,704,891	15,445,221
Capital expenditures	2,617,655	333,523	78,220	403,529	1,489	3,434,416

(a)-Interest income and expenses of the banking division are presented as revenues from financial services and cost of financial services, correspondingly, 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 the segment measure of profit 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 noncontrolling interests and reconciliation of assets to the consolidated segment assets are as follows:

	2010	2009
Total segment operating income	\$ 4,471,097	\$ 5,815,188
Intersegment eliminations	(108,906)	(1,578,430)
Operating income	4,362,191	4,236,758
Interest income	131,428	192,176
Change in fair value of derivative financial instruments	(2,062)	(35,200)
Interest expense	(1,597,238)	(1,246,361)
Currency exchange and translation gain/(loss)	26,456	(92,825)
Consolidated income from continuing operations before income tax	\$ 2,920,775	\$ 3,054,548

	2010	2009
Total segment assets	\$ 47,974,090	\$ 48,263,913
Intersegment eliminations	(3,864,979)	(6,252,873)
Consolidated assets	\$ 44,109,111	\$ 42,011,040

For the years ended December 31, 2010 and 2009, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

For the years ended December 31, 2010 and 2009, the Group's revenues outside of the RF were as follows:

	2010	2009
Ukraine	\$ 1,148,663	\$ 1,074,127
Asia and Pacific region	1,340,811	1,070,251
Greece	231,461	390,199
Central and Eastern Europe	191,847	74,935
Other	70,444	77,210
Total	\$ 2,983,226	\$ 2,686,722

As of December 31, 2010 and 2009, the Group's long-lived assets located outside of the RF were as follows:

	2010	2009
Ukraine	\$ 1,281,135	\$ 1,512,379
Asia and Pacific region	2,569,320	2,503,655
Greece	110,045	140,581
Central and Eastern Europe	101,952	130,043
Other	55,735	44,038
Total	\$ 4,118,187	\$ 4,330,696

25. 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, 2010 and 2009, the Group entered into transactions with related parties as follows:

	2010	2009
Sale of goods and services	\$ (856,792)	\$ (139,082)
Telecommunication services provided	(7,395)	(5,625)
Revenues from financial services	(11,554)	(21,782)
Cost of financial services	14,043	2,342
Telecommunication services purchased	5,539	1,374
Purchases of goods for resale	2,558	712
Other expenses	72,164	44,252

The Group enters into transactions to purchase and sell goods and services from and to its related parties in the normal course of business.

Related party balances as of December 31, 2010 and, 2009 are disclosed in the corresponding notes to the financial statements.

26. STOCK BONUS AND STOCK OPTION PLANS

The Company, and several of its subsidiaries, operate share-based compensation plans in order to compensate their employees. This is done through either “equity” plans, in which employees may exercise their options for shares, and “phantom” plans, which generally allow employees to receive cash compensation which varies dependent on the share price that the options are linked to.

A summary of share-based compensation plans offered by the Company is as follows:

JSFC Sistema Phantom Share Option Plan – In December 2007, JSFC Sistema launched a long-term incentive program for up to 110 of its senior and middle managers (“JSFC Sistema Phantom Share Option Plan”). Participants of the program were entitled to exercise options granted to them for a period of twelve months after the options cliff vest after three years. A total of up to 20,000 phantom share options related to the shares of JSFC Sistema, 996,000 phantom share options related to the shares of MTS, 1,190,500 phantom share options related to the shares of Comstar-UTS, and 45,455,000 phantom share options related to the shares of SITRONICS were granted under the plan. Upon vesting, the participants were entitled to cash compensation equal to the market price of the share at the time of exercise.

A summary of the status of the JSFC Sistema Phantom Share Option Plan in the years ended December 31, 2010 and 2009 is presented below:

	Quantity	Exercise price, per share, USD	Weighted average fair value of options, USD
Outstanding at January 1, 2009	12,364,390	1.8	0.01
Granted	300	1.8	0.01
Forfeited	(1,087,998)	1.8	0.04
Expired	-	-	-
Outstanding at December 31, 2009	11,276,692	1.8	0.13
Granted	-	-	-
Forfeited	-	-	-
Expired	(11,276,692)	1.8	0.13
Outstanding at December 31, 2010	-	-	-

JSFC Sistema Share-based Long-Term Motivation Program – In 2010, JSFC Sistema’s Board of Directors established a three-year motivation program for senior management (“JSFC Sistema Share-based Long-Term Motivation Program”). According to the program, the participants are granted phantom shares of JSFC Sistema upon their continued employment with the Group. Participants can convert up to 2/3 of

phantom shares granted into cash based on the weighted-average market price of the Company's ordinary shares at the MICEX for 60 trading days preceding the end of 2010. The rest will be converted into ordinary shares of JSFC Sistema in the beginning of 2012.

The grant-date fair value of an equity portion of the award was measured at the fair value of the Company's ordinary shares at that date and equated to \$54.3 million. The liability portion of the award is remeasured at fair value at each reporting date, and was \$59.7 million as of December 31, 2010.

In addition to the plans disclosed above, the Group has a number of share-based compensation plans in MTS, SITRONICS and Bashneft, not disclosed here on the basis of their lack of significance to the Group.

27. 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 2058.

Rental expenses under the operating leases amounting to \$495.7 million and \$396.4 million for the year ended December 31, 2010 and 2009, respectively and are included in operating expenses. Rental expenses under the operating leases amounting to \$182.4 million and \$168.7 million for the year ended December 31, 2010 and 2009, respectively are included in cost of sales.

Future minimum rental payments under operating leases in effect as of December 31, 2010, are as follows:

Year ended December 31,	
2011	\$ 490,408
2012	148,970
2013	137,873
2014	134,166
2015	137,502
Thereafter	230,194
Total	\$ <u>1,279,113</u>

Agreement with Apple – In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. In 2010 and 2009, the Group made 7.5% and 0.4% of its total purchase installments contemplated by the agreement, respectively.

The total amount paid for handsets purchased under the agreement for the years ended December 31, 2010 and 2009 amounted to \$79.4 and \$3.4 million, respectively.

Capital commitments – As of December 31, 2010, the Group had executed purchase agreements of approximately \$320.5 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Operations in Turkmenistan – In December 2010 the Group suspended its operations in Turkmenistan following a notice received from the Ministry of Communications of Turkmenistan informing of a decision to suspend licenses held by BCTI, the Group's wholly-owned subsidiary in Turkmenistan, for a period of one month starting from December 21, 2010. On January 21, 2011 period of license suspension expired but no permission to resume operations was granted.

The Group conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, MTS OJSC and the Ministry of Communications of Turkmenistan which expired on December 21, 2010 and was not extended. In accordance with certain provisions of this agreement, BCTI shared net profit derived from its operations in the country with the Ministry of Communications of Turkmenistan. The amount of shared net profit was calculated based on the financial statements prepared in accordance with local accounting principles subject to certain adjustments. Under the terms of the agreement, BCTI shared 49% of the net profit since the date of its acquisition by the Group through December 21, 2005, and 20% of the net profit commencing December 21, 2005. The Group at all times believed that the agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry of Communications failed to grant the extension in accordance with the terms of the agreement.

Following the decision to suspend licenses, Turkmenistan government authorities took some additional steps, including one-sided termination of interconnect agreements between BCTI and state-owned telecom operators, to prevent the Group from providing services to its customers.

Although BCTI have experienced no restrictions in using its current bank accounts and short-term deposits to settle existing tax and contractual liabilities, the ability of the Group to repatriate cash from the country is uncertain.

The Group has initiated a number of lawsuits against Turkmenistan government authorities and state-owned telecom operators to defend its legal rights. On December 21, 2010 BCTI filed three requests of arbitration with the International Court of Arbitration of the International Chamber of Commerce ("ICC") against the Ministry of Communications of Turkmenistan and several state-owned telecom operators requesting specific performance on the respective agreements and compensation of damages. On January 24, 2011 ICC proceedings were suspended due to the proposal of the Ministry of Communications of Turkmenistan to start negotiations but were resumed on February 18, 2011 as no agreement between the parties was reached.

On January 21, 2011, MTS sent to the Government of Turkmenistan a formal notice requesting to resolve the dispute by negotiations. Should the dispute not be resolved amicably by negotiations, MTS reserved its right to commence proceedings against the sovereign state of Turkmenistan on the basis of any applicable inter-governmental investment treaty. Under the Bilateral Investment Treaty ("BIT") between the Russian Federation and Turkmenistan, if a dispute is not resolved through negotiations within six months from the date of the request to negotiate, it can be referred to the International Centre for the Settlement of Investment Disputes ("ICSID").

Considering the adverse influence of the circumstances on the Group's ability to conduct operations in Turkmenistan, the Group determined that all of its long-lived assets attributable to Turkmenistan were impaired and recorded an impairment charge of \$119.6 million in the consolidated statement of operations for the year ended December 31, 2010. The Group also assessed the recoverability of the subsidiary's current assets and provided for or wrote down those which were considered to be impaired. The total effect of impairment charges on the Group's statement of operations for the year ended December 31, 2010 was \$137.8 million.

MGTS long-term investment program – In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012, providing for extensive capital expenditures, including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government on December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately \$1,600.0 million and included reconstruction of 350 local telephone stations and installation of 4.3 million of new phone lines. As a result of implementation of the investment program, new digital equipment is being installed in the buildings housing the telephone nodes, and a substantial amount of floor space will become available after the replacement of analogue switching equipment. The additional free floor space after reconstruction is expected to be sold to third parties or rented out. There are 113 automatic telephone station buildings which are to be reconstructed or rebuilt in the course of the investment program.

Currently, the management had not made a decision whether to sell the free floor space created in the course of the investment program or to rent it out.

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

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema-Hals, a former subsidiary of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The main part of the work under these contracts was to be performed between 2006 and 2012. Under the agreements, Sistema-Hals was to prepare the project documentation and perform construction works on behalf of MGTS, and MGTS was to reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and to pay a fixed fee of \$0.04 million per one building. During 2005-2009 project development and site preparation works were performed by Sistema Hals on 95 sites, which resulted in recognition of payable to Sistema Hals and construction in-progress amounted to \$39.3 million and \$33.3 million as of December 31, 2010, respectively.

In February 2009, the Board of Directors of MGTS approved the cancellation of agreements with Sistema-Hals with respect to 26 sites, which also extinguishes the respective portion of MGTS' liability to Sistema-Hals, and signing of 26 new agreements with other non-related companies. Under the new agreements, the investor companies would perform all necessary reconstruction work and obtain the property rights for the reconstructed buildings except for the premises locating the digitalized nodes which would remain MGTS property. In addition, within 12 months after transfer of the building into the investment project, MGTS is to receive cash payment equal to MGTS' share in the value of the building before reconstruction as appraised by an independent valuation firm in 2008, plus interest at 20% per annum accrued for the period from transfer of the building into the project and the date of payment. As of December 31, 2009, 2 out of aforementioned 26 agreements was cancelled.

In December 2010, MGTS and Sistema Hals cancelled agreements in connection with 87 sites out of 95. The agreed terms for the cancelled agreements are as follows:

- For 8 out of 87 sites all the expenses incurred by Sistema Hals in relation to construction process on those sites should be reimbursed by investor companies, not MGTS. Consequently, payable to Sistema Hals and construction in-progress in connection with these sites of \$20.8 million and \$17.7 million, respectively, were reversed as of December 31, 2010.
- For 79 out of 87 sites MGTS agreed to reimburse part of the expenses incurred by Sistema Hals in relation to the construction process. Consequently, payable to Sistema Hals and construction in progress related to those 79 sites were reduced by \$6.4 million and \$5.5 million respectively, and, as of December 31, 2010, amounted to \$5.9 million and \$5.0 million respectively. In addition, management believes that the remaining capital expenditures are impaired as of December 31, 2010 by the amount of \$3.5 million.

The remaining 8 sites will be developed based on existing agreements. Accordingly, as of December 31, 2010, the respective payable to Sistema Hals and construction in-progress amounted to \$6.1 million and \$5.2 million respectively.

Other commitments – As of December 31, 2010 MBRD and its subsidiaries guaranteed loans for several companies, including related parties, which totaled \$146.1 million. JSFC Sistema guaranteed loans for a few related companies in total amount of \$250.8 million.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2010, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of \$6.9 million as of December 31, 2010) for each bank. As of December 31, 2010, MBRD's share capital amounted to 1,360.9 million RUB (equivalent to \$44.6 million as of December 31, 2010).

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

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2010, tax declarations of OJSC MTS and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

In October 2009, the Russian tax authorities completed the tax audit of Sibintertelecom for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 174.5 million (\$5.8 million as of December 31, 2009) of additional taxes, penalties and fines were payable by the Group. The resolution had not come into force as the Group has prepared and filed an appeal with the Federal Tax Service to recognize the tax authorities' resolution to be invalid. The Group succeeded in action in court of original jurisdiction, which recognized the tax authorities' resolution to be invalid. In February 2010 arbitration appellate court confirmed the decision of the court of original jurisdiction.

In December 2010 the Russian tax authorities completed the tax audit of MTS OJSC for the years ended December 31, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 353.9 million (\$11.6 million as of December 31, 2010) of additional taxes, penalties and fines were payable by the Group.

The Group purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that custom duties are calculated in compliance with the applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional custom duties. As of December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, the provision accrued amounted to \$10.0 million and \$68.2 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled \$17.8 million and \$15.3 million as of December 31, 2010 and 2009, respectively. However, the risk remains that the relevant authorities could take different positions with regard to interpretive issues and the effect could be significant.

In addition, the Group had a number of claims and litigations relating to sales and purchases of goods and services. Management estimates possible adverse effect on financial result of these claims in the amount of \$50.0 and \$nil million as of December 31, 2010 and 2009, respectively.

With regard to matters where practice concerning payment of taxes is unclear in respect of Oil and Energy segment operations, management estimated possible tax exposure at December 31, 2010, to be approximately of \$184.0 million (December 31, 2009: \$121.0 million).

3G license – In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that MTS will have to build a certain number of base stations that support 3G standards and will have to start providing services in the Russian Federation by certain date, and also will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 2010 MTS is in compliance with these conditions.

Operating licenses in India – The Center for Public Interest Litigation, an Indian non-governmental not-for-profit organization, has filed a petition by seeking appropriate writ for cancellation of entire allocation of 2G spectrum and telecom licenses made by Department of Telecommunication on or after January 10, 2008. This petition is based on the Audit Report of the Controller and Auditor General of India on the spectrum allocation and grant of Telecom licenses. Management believes that there was no violation of the legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this petition.

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

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

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

In January 2007, the Prosecutor General of Kyrgyzstan 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 sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011 London Court of International

Arbitration made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold \$170.0 million for Option Shares, \$5.9 million in damages, \$34 million of interest and costs – all representing in total approximately \$210.0 million ("Award"). In addition to the \$170.0 million liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional \$40.8 million in the consolidated financial statements for the year ended December 31, 2010.

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 misappropriation 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 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.

On March 10, 2011 the Judicial Committee of the UK Privy Council ruled in favor of the KFG Companies. The Privy Council's ruling confirms the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies against various defendants, including "Sky Mobile" LLC, Altimo and Altimo Holdings, for the wrongful misappropriation and seizure of Kyrgyz telecom operator Bitel and its assets.

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 before the court in the Isle of Man, as described above. The Group is not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

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

28. SUBSEQUENT EVENTS

Transactions with Intourist shares – In November 2010, OJSC Intourist (a subsidiary of the Group) and Thomas Cook Group Plc agreed to establish a new entity for Intourist's tour operating and retail businesses and a sale of a 50.1% stake in the newly formed entity to Thomas Cook for a total stock and cash consideration of \$45 million. The new entity will include Intourist's tour operating and retail businesses. Intourist will have a 49.9% stake in the new entity while Thomas Cook will acquire a 50.1%

stake in the joint venture for a total consideration of \$45 million of which \$10 million is to be payable in cash and \$35 million due in Thomas Cook's shares listed on the London Stock Exchange (based on the average share price for twenty trading days preceding completion of the deal). Intourist will retain its hotel business. In addition, Thomas Cook and Intourist entered into an option agreement exercisable over the next five years under which Thomas Cook may call, and Intourist may put, Intourist's remaining shares in the new company. As of April 26, 2011 the new entity was not established.

Acquisition of MGTS shares – In February 2011, CJSC Sistema-Inventure, a wholly-owned subsidiary of Sistema JSFC, acquired more than 1% of the ordinary shares of MGTS at a price of RUB 436.20 per share, for total cash consideration of RUB 370 million (approximately \$12.3 million). The purchase was made in accordance with the mandatory tender offer announced by Sistema JSFC on November 13, 2010.

Transaction with Bank of Moscow – In February 2011, the previously announced transaction between Sistema and Bank of Moscow to establish OJSC RTI following the receipt of the Federal Antimonopoly Services permission and issuance of 84.6% of the share capital of the newly established company to Sistema and 15.4% to the Bank of Moscow was completed.

Acquisition of Trebs and Titov licenses – In February 2011, Bashneft acquired licenses on oil fields named after Trebs and Titov for RUB 18.5 billion (approximately \$598.0 million as of the date of transaction). As of December 31, 2010 the whole amount was classified as advance payment for non-current assets.

Pekin Hotel – In February 2011, the Group sold its stake in Pekin Hotel to Sistema Hals for a total consideration of \$58.2.

Sale of SITRONICS shares – In March 2011, Sistema's Board of Directors has approved the sale of Sistema's stake in OJSC SITRONICS ("SITRONICS") to OJSC RTI ("RTI"). In accordance with the proposal, Sistema's Board of Directors approved the sale of the Company's stake of approximately 63% in SITRONICS to RTI for \$0.9228 per GDR (based on the three-month weighted average price for GDR of SITRONICS on the LSE). To facilitate the transaction, Sistema's Board of Directors has also approved the extension of a short-term loan by Sistema to RTI.

New President of JSFC Sistema – In March 2011, Sistema's Board of Directors has appointed Mikhail Shamolin, the former President and CEO of Mobile TeleSystems (MTS), as President of Sistema. Leonid Melamed, who has been President of Sistema for three years, will continue to serve as a member of Sistema's Board of Directors and Chairman of RussNeft.

SITRONICS-Nano letter of credit – In March 2011, SITRONICS announced that the Bank of Moscow and SITRONICS-Nano signed an agreement for issuance of an unsecured irrevocable letter of credit with post-financing in favor of STMicroelectronics for license and technology transfer to SITRONICS-Nano in the amount of EUR 27 million. The rate of interest relating to this letter of credit is EURIBOR+5% and the term of the contract is 3 years with potential to extend for another 3 years. SITRONICS and Mikron are guarantors to this facility.

Bonds offering – In March 2011, Sistema has completed its purchase of non-convertible amortizing Series 02 and Series 03 bonds with a par value of RUB 1,000 each. Following the tender, 8,641,660 Series 02 bonds and 10,858,340 Series 03 bonds were acquired at nominal value for the total amount of RUB 19.5 billion (\$0.6 billion as of December 31, 2010). The Series 02 and Series 03 bonds were due in 2014 and 2016, respectively. At the same time the Group has successfully placed RUB 19.5 billion of non-convertible amortizing Series 04 five-year bonds with a coupon rate of 7.65% for the ten semi-annual coupon payments. The bonds are due in 2016.

Acquisition of Orenburgnefteproduct – In April 2011, Bashneft acquired from OJSC NK "RussNeft" a 94% stake in OJSC "Orenburgnefteproduct", a company engaged in wholesale and retail of oil products in Orenburg region. Cash consideration included \$90 million of fixed payment and additional payment equal to net working capital of the acquired company. Additional payment should be defined within 30 days after acquisition.

The Group management has evaluated subsequent events through April 26, 2011, the date when its financial statements were issued.

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

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

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

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

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

As of December 31, 2010	Consolidated subsidiaries	Group's share in equity investees
Unproved oil and gas properties	\$ 48,799	\$ -
Proved oil and gas properties	3,693,491	2,020,998
Accumulated depreciation, depletion and amortization	(315,900)	(414,135)
Net capitalized costs	\$ 3,426,390	\$ 1,606,863

As of December 31, 2009	Consolidated subsidiaries	Group's share in equity investees
Unproved oil and gas properties	\$ 13,230	\$ -
Proved oil and gas properties	3,391,997	-
Accumulated depreciation, depletion and amortization	(136,428)	-
Net capitalized costs	\$ 3,268,799	\$ -

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

Year ended December 31, 2010	Consolidated subsidiaries	Group's share in equity investees
Acquisition of proved properties	\$ -	\$ 13,028
Acquisition of unproved properties	48,799	-
Exploration costs	8,004	3,775
Development costs	240,321	66,370
Total costs incurred	\$ 297,124	\$ 83,173

Nine months ended December 31, 2009	Consolidated subsidiaries	Group's share in equity investees
Acquisition of proved properties	\$ 2,818,001	\$ -
Acquisition of unproved properties	-	-
Exploration costs	13,230	-
Development costs	162,069	-
Total costs incurred	\$ 2,993,300	\$ -

III. Results of operations for oil and gas producing activities

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

Year ended December 31, 2010	Consolidated companies	Group's share in equity investees
Revenue		
Sales	\$ 984,403	\$ 471,682
Transfers	2,343,576	188,737
Total revenues	\$ <u>3,327,979</u>	\$ <u>660,419</u>
Production costs (excluding production taxes)	(623,800)	(129,909)
Exploration expenses	(8,004)	(2,516)
Depreciation, depletion and amortization	(170,612)	(57,313)
Accretion expense	(11,969)	(839)
Taxes other than income taxes	(1,257,987)	(254,785)
Related income taxes	(251,121)	(47,642)
Total results of operation of producing activities	\$ <u>1,004,486</u>	\$ <u>167,415</u>
Nine months ended December 31, 2009	Consolidated companies	Group's share in equity investees
Revenue		
Sales	\$ 1,296,753	\$ -
Transfers	762,361	-
Total revenues	\$ <u>2,059,114</u>	\$ <u>-</u>
Production costs (excluding production taxes)	(347,050)	-
Exploration expenses	(9,699)	-
Depreciation, depletion and amortization	(115,212)	-
Accretion expense	(9,611)	-
Taxes other than income taxes	(698,775)	-
Related income taxes	(120,100)	-
Total results of operation of producing activities	\$ <u>758,667</u>	\$ <u>-</u>

IV. Reserve quantity information

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

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

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

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation.

The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. The law applies both to newly issued and old licenses and the management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto from the March 31, 2009 to December 31, 2009 and for the year ended December 31, 2010 are shown in the tables set out below.

Thousands of barrels (proved developed and undeveloped reserves)	Consolidated subsidiaries	Group's share in equity investees
Crude oil		
March 31, 2009	\$ 1,667,600	\$ -
Revisions of previous estimates	179,775	-
Extensions and discoveries	14,200	-
Production	(66,475)	-
Sales of reserves	-	-
December 31, 2009	\$ 1,795,100	\$ -
Acquisition of equity stake in RussNeft	-	462,458
Revisions of previous estimates	181,512	36,298
Purchase of hydrocarbons in place	-	3,903
Extensions and discoveries	-	-
Production	(100,712)	(20,886)
Sales of reserves	-	-
December 31, 2010	\$ 1,875,900	\$ 481,773
Proved developed reserves		
March 31, 2009	\$ 1,625,112	\$ -
December 31, 2009	\$ 1,728,473	\$ -
December 31, 2010	\$ 1,763,800	\$ 323,946
Proved undeveloped reserves		
March 31, 2009	\$ 42,488	\$ -
December 31, 2009	\$ 66,627	\$ -
December 31, 2010	\$ 112,100	\$ 157,828

The noncontrolling interest included in the above total proved reserves was 506,493 thousand barrels and 484,677 thousand barrels as of December 31, 2010 and 2009, respectively. The noncontrolling interest included in the above proved developed reserves was 476,199 thousand barrels and 466,688 thousand barrels as of December 31, 2010 and 2009, respectively.

The Company's proved oil reserves are located entirely in the Russian Federation.

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to oil and gas reserves in the Group's most significant oil fields, is calculated in accordance with the requirements of ASC No. 932. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence

at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

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

As of December 31, 2010

	Total consolidated companies	Group's share in equity investees
Future cash inflows	\$ 66,653,165	\$ 14,655,812
Future production and development costs	(36,263,017)	(9,298,014)
Future income tax expenses	(6,078,030)	(1,071,560)
Future net cash flows	\$ 24,312,118	\$ 4,286,238
Discount for estimated timing of cash flows (10% p.a)	(15,216,083)	(2,357,737)
Discounted future net cash flows	\$ 9,096,035	\$ 1,928,501
Noncontrolling interest in discounted future net cash flows	\$ 2,455,929	

As of December 31, 2009

	Total consolidated companies	Group's share in equity investees
Future cash inflows	\$ 34,444,850	\$ -
Future production and development costs	(20,892,354)	-
Future income tax expenses	(2,710,499)	-
Future net cash flows	\$ 10,841,997	\$ -
Discount for estimated timing of cash flows (10% p.a)	(6,824,445)	-
Discounted future net cash flows	\$ 4,017,552	\$ -
Noncontrolling interest in discounted future net cash flows	\$ 1,084,739	

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

Consolidated companies	2010	2009
Discounted present value as at January 1, 2010 and March 31, 2009	\$ 4,017,552	\$ 2,110,046
Sales and transfers of oil and gas produced, net of production costs and taxes other than income tax	(1,438,187)	(1,003,589)
Net changes in prices and production costs estimates	4,235,993	3,387,078
Net changes in mineral extraction taxes	(1,442,021)	(1,176,304)
Development costs incurred during the period	240,321	162,069
Changes in estimated future development costs	(419,299)	(384,829)
Revisions of previous quantity estimates	2,180,360	771,135
Net changes in income taxes	(758,859)	(385,297)
Other changes	2,043,045	366,316
Accretion of discount	437,130	170,927
Discounted present value at December 31	\$ 9,096,035	\$ 4,017,552

Group's share in equity investees

	2010
Discounted present value as at April 30,	\$ 2,220,905
Net changes due to purchases of minerals in place	19,392
Sales and transfers of oil and gas produced, net of production costs	(273,208)
Net changes in prices and production costs estimates	38,964
Net changes in mineral extraction taxes	(434,834)
Extensions and discoveries, less related costs	-
Development costs incurred during the period	58,047
Changes in estimated future development costs	47,719
Revisions of previous quantity estimates	49,463
Net changes in income taxes	75,606
Other changes	(11,802)
Accretion of discount	168,691
Discounted present value at December 31	\$ 1,958,943

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