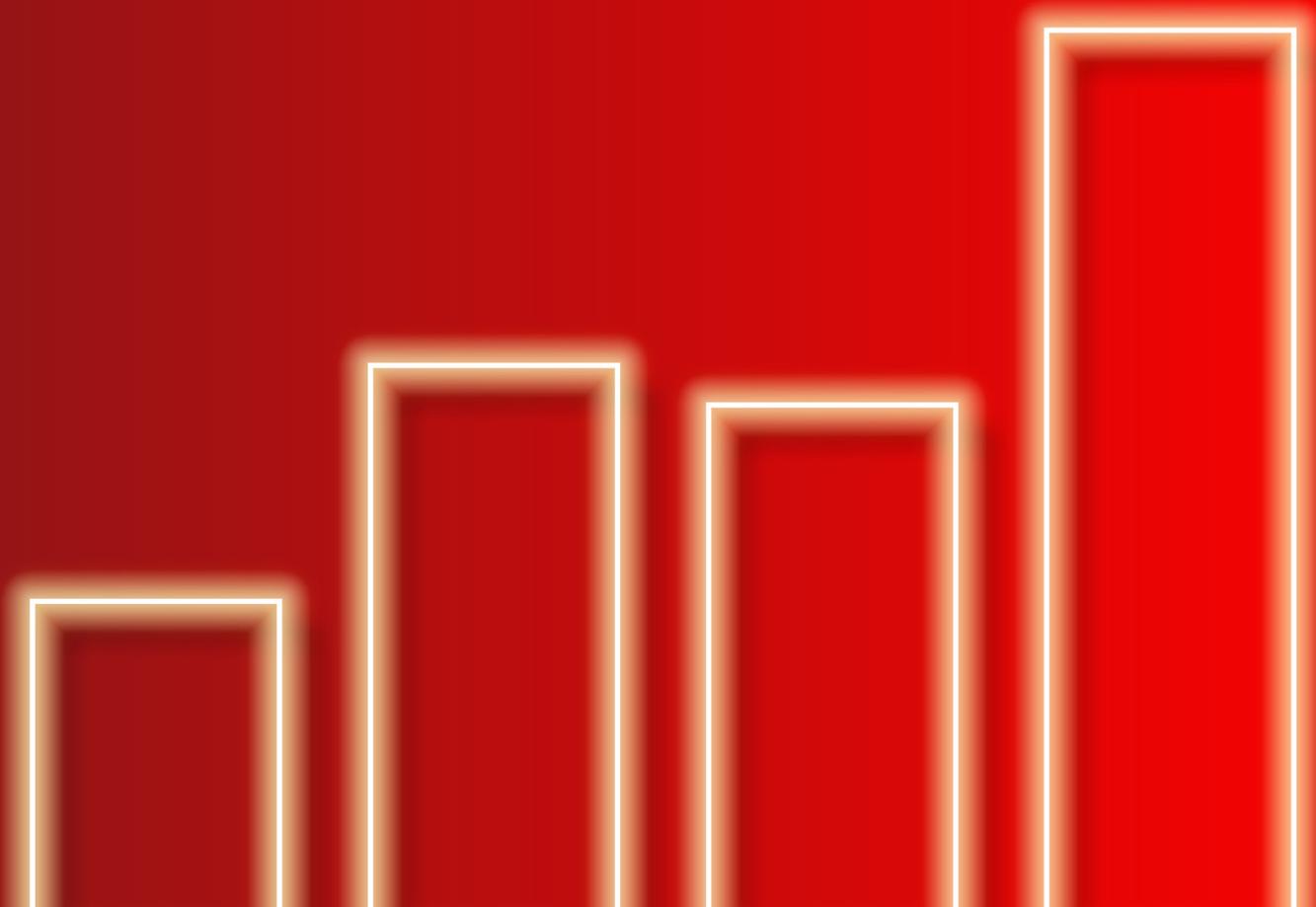




Annual Report 2008



From the start MTS has seen its mission as building a stable world of mobile communications that brings people together, enriches their lives, and unlocks their potential at work and at home. Today MTS is the largest mobile operator in Russia and Eastern and Central Europe. We help people stay in touch and access information in most regions of Russia, Ukraine, the Republic of Belarus, Uzbekistan, Turkmenistan, and Armenia.





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Disclaimer

Some of the information in this Annual Report may contain statements or projections regarding future events or future financial performance of the Company, as defined in the US Securities Act of 1995. Such statements contain such terms as “expect”, “estimate”, “intend”, “will”, “could” or other similar expressions. We wish to caution you that these statements are only predictions, and that actual events or results may differ. We refer you to the documents MTS files to the U.S. Securities and Exchange Commission, and Form 20-F, in particular. These documents contain and identify important factors, including those contained in the Risk Factors section of the Form 20-F. The factors that could cause the actual results to differ from the projections and forecasts include potential fluctuations in quarterly results, our competitive environment, dependence on development of new services and tariff structures, rapid technological and market change, acquisition strategy, risks associated with the telecommunication infrastructure, risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management and risks that may impact the future business growth.

Background





Company history

MTS OJSC was established as Mobile TeleSystems Closed Joint-Stock Company by Moscow City Telephone Network Open Joint Stock Company (MGTS), Deutsche Telekom (DeTeMobil), Siemens and several other shareholders in October 1993. Four Russian companies owned 53% of the stock, whereas two German companies had 47%. At the end of 1996, AFK Sistema OJSC bought out the Russian shareholders' stake and DeTeMobil bought the remaining stake from Siemens.

In 2000, Mobile TeleSystems CJSC and Russian Telephone Company CJSC merged to form Mobile TeleSystems Open Joint Stock Company. The same year, the Company entered the world stock markets. In June, 2000, the stocks of MTS OJSC started trading on the New York Stock Exchange as American Depositary Shares (index MBT).

In the past several years MTS OJSC has grown from the leader of a single regional market, Moscow, into a major multinational operator providing services to 95.66 million subscribers in numerous regions and countries (including subscribers of Mobile TeleSystems Joint LLC in the Republic of Belarus). A mobile phone has ceased to be a luxury item now playing an essential role in many people's social and business life.

Apart from building its proprietary networks, MTS acquires local mobile operators to develop their business and incorporate them into its integrated federal mobile communications network. Today MTS' services are available in most Russian regions and cities, including Moscow, St. Petersburg, Nizhny Novgorod, Krasnodar, Perm, Novosibirsk, Khabarovsk and many others.

We are proud of our significant contribution to the development of telecommunications in Russia and its neighboring countries.

- * In this Annual Report the terms "MTS", "the Company", and "the Group" shall mean the aggregate of the companies including MTS OJSC and its subsidiaries, and "MTS OJSC" shall mean Mobile TeleSystems Open Joint Stock Company. The indicators contained in this Annual Report are as of the end of 2008, except where other periods or dates are expressly indicated.

The President's message to the Shareholders



Dear shareholders,

Our 2008 results highlight what a clear success the year has been for MTS. Our success drivers will ensure that MTS OJSC not only meets the challenge of the current global downturn, but emerges stronger when our economies do rebound.

For the Group, the revenues grew by 24.2% to over USD10.2 billion year-over-year in 2008 as we generated strong, profitable growth in each of our markets of presence. OIBDA margin for the year was 50%, thus indicating that we are controlling costs where possible in what is both a volatile economic situation and an industry that is undergoing profound change.

The observed currency volatility is a short-term risk for MTS, which impacts our clients' consumption patterns and, through local currencies' conversion into USD, the Company performance, and financial and cash-management practices.

In Russia, our 23% business growth from RUR 157.8 million to RUR 194.3 million was enabled by the significant subscriber additions, rising voice usage and greater data adoption. However, we did see negative trends in the corporate segment relating in particular to the demand for higher-value products, such as international roaming and long-distance national calls. The continued economic deterioration witnessed by medium- and large-sized Russian corporations constitutes a threat to the short-term revenues of the Company.

In Ukraine, revenues grew by 5.8% to UAH 8.6 billion for the year as we continued to drive usage growth. In Q4, revenues did fall by nearly 6%; Ukraine is the hardest hit of our markets, and the economic downturn has clearly influenced our performance for the period. As the markets for Ukraine's primary exports — steel and chemicals — are down, further deterioration of the Ukraine economy is possible, which would likely impact the hryvna negatively. Nevertheless, our business is in good enough shape to withstand a short-term slowdown.

As I have said earlier, our efforts in Ukraine to transform our business began in 2006 when we began investing substantially to increase the capacity and quality of our network in order to make our offers more attractive to customers. By the end of 2008, MTS perception in the marketplace has shifted

from “expensive and of poor quality” to “high quality and inexpensive”, which is a good value proposition, as the subscribers look to extract greater value from their daily expenditures.

In Uzbekistan our annual revenues grew by 58% year-over-year to exceed USD 391 million as we continued to grow our subscriber base and develop our network. During the year, we more than doubled our subscriber count by adding over 2.8 million customers to reach nearly 5.6 million for the year with penetration levels at a little over 44%. Our 3G services are now available in five cities including Tashkent and Samarkand with the first networks launched at the end of October 2008. Given the country's low fixed-line and broadband penetration, we feel there is a great potential for capturing additional growth.

In Turkmenistan, annual revenue growth of 63% can be attributed primarily to the significant change in the official Manat/USD exchange procedure over the course of the year. However, the fundamentals of the business remain strong, and organic growth has enabled our subscriber level growth to 927 thousand, bringing our market share to 87%. Given our commitment to data usage development in all markets of our presence, it is important to note that we launched GPRS-based services in June 2008. We also started to offer to our subscribers our MTS Connect data modems and specially designed tariff plans.

Since our entry into Armenia market in September 2007, we have continued to successfully develop our VivaCell subsidiary and increased our subscriber market share from 74% to 79%, which translates to over two million subscribers. Revenues for the year reached 78 billion drams. Our financial and operating results demonstrate our ability to stimulate service usage and develop our business profitably. In Armenia, as in Russia and Uzbekistan, we are looking to build out a 3G network.

Looking ahead to 2009, we see both opportunities and challenges in our core markets. Our products' and services' appeal, overall efficiency and financial strength of MTS Group give us reason to believe we can be opportunistic in a stressed environment and take measures that ensure medium- and long-term growth.

MTS has long been associated with leadership and quality. Those are the two attributes that have enabled us to increase our share of the corporate segment to over 50% in our core markets. The corporate segment will be most exposed to the economic downturn. Anticipating this, we began in

September, 2008 to approach corporate customers in order to offer products that allow employees, whose phone service had been limited through cutbacks or layoffs, to continue using their SIM-cards with all the benefits of a corporate account.

Data usage is the segment which we feel is not sensitive to the current economic situation. Since 2006 we have seen significant growth in both content and traffic; total data revenues rose by 36% year over year in Q4 2008 in Russia. Data now is like voice services 10 years ago – low penetration that will grow so long as we continue to invest in the development of 3G networks. We launched operations in 14 cities in 2008 and expect to double that in 2009. We have also deployed our network in Moscow and are confident that upon resolution of outstanding frequency issues, by the end of the year, we will launch the network first in the metro and indoors followed then by full city coverage. Further investments will no doubt accelerate penetration of data usage, strengthen our brand and help further differentiate MTS from our competitors.

Retail is another factor of mass market and a key component to our business. A number of factors necessitate that we invest in distribution: the acquisition of Euroset, Russia's largest dealer, by our key competitor in early Q4; the evolution of our market from multi- to mono-brand distribution; and the fact that the dealer networks are the most stressed part under the current economic downturn.

Our approach to retail is to simultaneously develop organically through optimization of our current network and inorganically through the acquisition of small, relatively efficient retail chains. Evidence of this is our February acquisition of Telefon.ru, a mid-market retailer with over 500 stores throughout Russia's regions. We are also optimizing existing retail stores, rolling out the new retail store concept developed in 2008 to other locations and selecting locations with high footfall, such as malls and urban retail centers.

The quality of distribution is likewise important, which is why we have concluded an agreement with the managers of Svyaznoy Group, the No. 2 sales channel in Russia and the market's most profitable. Svyaznoy's management will oversee our MTS-branded distribution, applying its years of experience in the market and the systems it has developed to effectively manage inventories with the goal of enhancing our customer experience with MTS. In addition, Vodafone, in the context of our cooperation, has been actively contributing to the generation and implementation of ideas relating to the development of our proprietary distribution channels.

It is evident to us, however, that the era of inexpensive subscriber additions is passing. The economic situation has already closed or driven consolidation among numerous retailers, and with fewer active dealers, we foresee a rise in subscriber acquisition costs. Higher costs make it more important that new additions are quality additions, which is why we feel investments are necessary in proprietary mono-brand channels that attract more loyal and higher-value customers.

I am certain that once the economic situation stabilizes, the course we now navigate – coupled with the underlying strength of our organization – will lead to greater medium- and long-term growth and efficiency. The investments we make now will certainly provide greater revenue growth in both our core and complementary businesses. Likewise, investments in the quality of our operations will increase our active subscriber base and lead to more efficient marketing expenditures, thereby lowering churn and optimizing dealer commissions. The market changes and the economic volatility can provide more opportunities for actions aimed at equity value growth.

**M.V. Shamolin,
President of MTS OJSC**

Company's position in the mobile communications market



Company's position in the mobile communications market

As of December 31, 2008, MTS held licenses for 82 regions of the Russian Federation. Subsidiaries of MTS OJSC in the CIS operate in Ukraine (UMC CJSC), the Republic of Uzbekistan (Uzdunrobita Ltd.), Turkmenistan (Branch of BCTI Corporation), the Republic of Armenia (K-Telecom CJSC) and the Republic of Belarus (MTS Joint LLC). MTS has a licensed area that encompasses a total population of roughly 237 million.

In Russia mobile services are provided by the three federal operators – MTS OJSC, Vypelcom OJSC, and Megafon OJSC – as well as several dozen smaller regional telecoms companies, using different cellular communications standards: GSM, TDMA, NMT 450, and CDMA-1x. According to AC&M, as of December 31, 2008, wireless penetration in Russia reached 129.4%, and the total number of subscribers reached 187.8 million. By the number of subscribers MTS OJSC holds the leading position in Russia with a 34.4% market share, followed by Vypelcom and Megafon with 25.4% and 23.0%, respectively. MTS OJSC and its subsidiaries and dependent companies in Russia collectively had 64.6 million subscribers as of December 31, 2008.

By the end of Q4 2008, MTS' licenses covered 82 of the 83 regions in Russia. Thus, MTS OJSC directly or through its subsidiaries holds licenses for practically all of Russia, with the exception of the Penza Region. Megafon holds licenses for all 83 regions of the Russian Federation, while Vypelcom holds licenses for 76 regions. All three operators hold 3G licenses for the entire Russian Federation.

Russia's largest markets for mobile services (by number of subscribers) are Moscow and the Moscow Region and St. Petersburg and the Leningrad Region. According to AC&M, wireless penetration in Moscow and the Moscow region was 185.1% at December 31, 2008. The total number of subscribers of all operators in Moscow and the Moscow region is estimated at 31.4 million, with the share of MTS OJSC reaching 47.4%.

Wireless penetration in St. Petersburg and the Leningrad Region, according to AC&M, was 166.5% at December 31, 2008, with total subscribers number of 10.6 million. MTS' market share was at 30.8%.

The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar Territory (including the Republic of Adygeya), where the number of subscribers at December 31, 2008, as estimated by AC&M, surpassed 7.2 million and penetration was 139.6%. In addition, there are 14 regions of the Russian Federation where the number of subscribers exceeds 3 million: the Nizhny Novgorod Region, the Republic of Tatarstan, the Republic of Bashkortostan, the Samara Region, the Saratov Region, the Volgograd Region, the Rostov Region, the Chelyabinsk Region, the Perm Territory, the Novosibirsk Region, the Krasnoyarsk Territory, the Kemerovo Region, and the Irkutsk Region, while in the Sverdlovsk Region the number of subscribers has reached 5.4 million.

According to results for Q4 2008, the subsidiaries and dependent companies of MTS OJSC in other CIS countries had the following numbers of subscribers: 18.1 million in Ukraine (UMC CJSC), 5.6 million in Uzbekistan (Uzdunrobita LLC), 927 thousand in Turkmenistan (Branch of BCTI Corporation), 2.0 million in Armenia (K-Telekom CJSC), and 4.3 million in the Republic of Belarus (MTS Joint LLC, which is not consolidated in the Company's US GAAP financial statements).

Company outlook



Company outlook

As one of the leading players in the telecommunications market in Russia and the CIS, MTS OJSC aims at using the current growth potential that is offered in all rapidly developing segments of the industry. Today, we believe the mobile and fixed broadband access market to be an upcoming trend. Demand for data transmission services has a significant growth potential in the corporate as well as mass segments. Today, MTS offers data services and related additional services using its existing GSM (GPRS/EDGE) networks and is actively developing the 3G networks that already operate in Russia and Uzbekistan. The 3G network is going to be launched in Armenia, with the CDMA-450 as a separate project that is now being successfully implemented in Ukraine. MTS OJSC monitors the broadband access market closely and is ready to follow various scenarios to enter the market segment. In the long run, we expect the groups of new services based on the fixed and mobile data transmission, such as the services relating to positioning, mobile payments, telematic services (machine-to-machine), etc. to be soon available.

In the Company's core segment of mobile telephony, the general growth of services use and more active use of high-value VAS are the key growth drivers. MTS OJSC uses segment-oriented tariff offers and a wide range of VAS as the major use drivers. In a number of the Company's markets of presence there still remains the potential for organic growth due to the subscriber additions, and here MTS OJSC is focused on its leader position in subscriber acquisition. In addition to the above, the Company monitors the possibilities for inorganic development in and beyond its markets of presence. Our expertise in integrating the acquired companies is sufficient to make such integration into the business structure efficient and gain positive economic results as soon as possible.

The changes in the global economic system of 2008 may be a negative factor to the telecommunications market dynamics in general and to that of MTS OJSC, in particular. The following are the key negative general economic factors:

- reduced consumption in the corporate and mass markets, which may be negative for the Company's revenue value calculated in the national currency;

- increased “money value” and difficulties associated with debt financing, which may be negative for the Company’ investment activities;
- devaluation of local currencies in the markets of presence, which may be negative for the revenue value calculated in a foreign currency.

In Russia as the major market, the key change is the mobile operators’ consolidation of the mobile retail market that is the main channel for subscriber acquisition and churn reduction. The Company, promptly responding to the current changes, has intensified its activities aimed at the construction of its monobrand retail and servicing network and intends to maintain and strengthen its competitive position.

We believe the above factors will not change the list of priority development trends, while it can turn to be negative for the growth dynamics of the relevant business segments. In this context, MTS OJSC has prepared various scenarios of future developments and plans of actions to be implemented depending on the situation in 2009. Today, MTS OJSC’s target is to grow revenues calculated in the local currency and to maintain profitability that would be sufficient from the shareholders’ point of view. The management of MTS OJSC, being sure that the existing environment will not be disastrous for the Company’s potential, continues its actions aimed at its key target — preserving the leadership position in the mobile market in Russia and the CIS.

Company development strategy



Company development strategy

MTS OJSC's primary goal is to maintain and strengthen its position as a leading mobile operator in all markets of presence. In the context of the above, the key priority of the Company is to use any possibilities for growth while improving efficiency and maintaining the business profitability. MTS OJSC seeks to preserve and strengthen its market position through investing in network development, monitoring and applying advanced technologies, developing new products and offering new services to the subscribers. In addition, the Company monitors and is looking for any possibility for expansion of its presence in the mobile markets and relevant sectors of telecom industry in the CIS and in the growing markets beyond the CIS.

The 3+2 strategy, as approved in 2007 and amended in September, 2008, is used as the basis for making managerial decisions at MTS OJSC, and the strategy's efficiency has shown the good results achieved by the Company.

Given the deteriorated macroeconomic situation, the Company, aiming at creation of the best customer experience and improvement of cost efficiency, applies the network quality differentiation principle, thus enabling optimization of investments in 2G equipment without being disadvantageous to the Company's key target – MTS OJSC customer perception as a leading operator in terms of network quality. At the same time, the Company promptly responds to the competitors' moves and is prepared to intensify its actions on the most important markets of presence, where necessary.

MTS OJSC, seeking to develop the data and content services, maintains the balance between the EDGE and 3G development and aims at gaining the max economic effect of the data services while the market is getting ready for the new products and services. MTS has no plans to build its 3G network ahead of schedule, thus enabling CAPEX reduction and, at the same time, maintaining the company's growth in this direction equal to the market level.

In the context of M&A, the Russia and CIS markets are of the highest priority to the Company, while risky investments have lower priority in view of the unstable economic situation. It should be noted that apart from the price of the transaction, acquisition of an operator company entails extra investments in network construction, which would be associated with significant difficulties relating to borrowing.

Leading communications brand in the CIS	Growth	
	1	<p>Creating the best customer experience</p> <ul style="list-style-type: none"> • Ensuring the best quality in all customer touch points • Increasing customer life-cycle value • Stimulating demand
	2	<p>Developing the services based on data and content transmission</p> <ul style="list-style-type: none"> • The best user experience in Internet • Innovative services and attractive content • Extensive and rapid infrastructure development (3G)
	3	<p>Expansion to the CIS and developing markets</p> <ul style="list-style-type: none"> • Consolidation of the CIS markets of presence • Increased presence in the CIS markets • Realizing the possibilities for growth beyond the CIS
+		
High revenue for the shareholders	Efficiency	
	+1	<p>Cost efficiency</p> <ul style="list-style-type: none"> • Taking continuous efforts to improve the cost efficiency and efficiency of processes • Realization of synergy effect of the CIS business • Effective technologies
	+2	<p>Development of MTS Group</p> <ul style="list-style-type: none"> • Effective organization and processes in the Group • Creation of the best-in-class team and corporate culture appeal • Active attitude in corporate and social responsibility

Рис. 1. Стратегия «3+2»

In general, the Company, in its investment activities, takes into account the current situation on the debt capital market and, when making investment decisions, evaluates the projects' quality as for their financial efficiency and alignment with the strategic priorities of the Company. The prerequisites here shall be meeting the obligations to the creditors and shareholders, and maintaining the best leverage possible given the currently limited potential for debt increase and restructuring.

Aware of the significant changes in the Russia mobile market, the management of MTS OJSC has decided to develop its monobrand retail network in order to maintain the Company's leader position as for subscriber additions, ensure stable and independent operation of sales and servicing channels. The increased number of customer touch points will radically extend the MTS brand's potential and, in the long run, contribute to the brand value growth. In addition, having this concept implemented in Russia will facilitate creation of proprietary retail network in other markets should the situation be favourable.

Optimization of operating expenses remains the key driver of the Company's performance growth. The new economic situation reveals new potential associated with the general slowdown of economic activity and the partners' readiness to negotiate price reduction, payment schemes adjustment and implementation of other measures to optimize costs.

We believe that the implementation of adopted strategy will ensure our further ability to meet the major targets set by the shareholders, i.e. to be a mobile operator that is leading in all the markets of our presence.

Board of Directors' performance report on the Company's business priorities



Board of Directors' performance report on the Company's business priorities

In 2008 MTS OJSC continued to implement its corporate strategy, fulfilling its undertakings relating to:

- growth in the Company's key markets;
- creating value in emerging markets;
- developing mobile broad access in the markets of presence;
- maintaining economic efficiency and further developing the Group.

The subscriber base of MTS Group increased to 95.7 mln in 2008 relative to 85.8 mln in 2007 (including subscribers of Mobile TeleSystem JLLC in Belarussia).

Consolidated revenue for the year increased by 24.2% to USD 10.245 bln as a consequence of the subscriber base and service use growth. The consolidated OIBDA growth by 21.7% to USD 5.140 bln as compared to 2007 (with OIBDA margin of 50.2%) was enabled by the continued revenue growth and costs control. The consolidated net income for the year was down by 6.8% to USD 1.930 bln as a result of the losses from the changing exchange rates and exchange rate differences relating to the USD-nominated debt. The net positive cash flow in 2008 was USD 2.148 bln.

Launching 3G networks in Russia and Uzbekistan and active deployment of 3G network in the three largest cities in Armenia are among the important achievements of the Company in 2008. Other important events were: announcing the exclusive, strategic, non-equity partnership with Vodafone; launching official sales of iPhone 3G™; and launching BlackBerry™ service.

The year was marked by the entry of MTS brand in India: the agreement with the India mobile operator Shyam Telelink, a subsidiary of AFK Sistema, was signed in December, 2008. As for the MTS brand, it was the first and the only Russian brand to be included into the BRANDZ™ Top 100 Most Powerful Brands ranking produced by Millward Brown and published by the Financial Times.

MTS actively realizes its potential in the Russia markets, the Company's revenue for the year increased by 23.2%, and MOU grew from 157 to 208 minutes. The Ukraine market proved to be rather stable in the downturn of second half of 2008: revenue for 2008 was up by 5.8%, churn reduced by 1.7% due to launching more attractive tariff plans and VAS, however, the Company's net income was down by 14.4% as a result of changing exchange rates. Uzbekistan and Turkmenistan show revenue growth exceeding 50% (57.5% and 63.4%, respectively). The positive revenue growth dynamics in Armenia was 7.8%.

Notwithstanding the changing exchange rates and the crisis developments in the markets of the Group's presence, MTS is exited about its outlook for 2009 which will be the year of optimizing and, as a consequence, strengthening the Company's business.

V.G. Saveliev,
Chairman of the MTS OJSC Board of Directors

Major events



Major events

1. Appointment of Mikhail Shamolin as the President of MTS OJSC in May, 2008

On May 29, 2008 the Board of Directors of MTS OJSC decided to appoint Mikhail Shamolin, who by that time headed MTS Russia Business Unit in the capacity of MTS Vice President, to the post of individual executive body (the President) of MTS OJSC.

Mikhail Shamolin joined MTS OJSC in 2005 as Vice President of Sales and Customer Service. After a year, he headed Russia Business Unit, the biggest division of MTS OJSC providing three fourths of the Company's revenue.

2. Roll-out of 3G networks in Russia in May 2008; currently MTS' 3G network operates in 15 cities of Russia

Saint Petersburg, Kazan, Sochi and Yekaterinburg became the first cities in Russia where MTS' new generation networks were rolled out in May 2008. At the end of the year, MTS' 3G networks operated already in 20 cities of Russia.

The development of 3G will significantly enhance the quality and usability of already existing data exchange services: subscribers receive a high-speed download of multi media content, user-friendly e-mail, file applications and online plays.

3. Floatation of three bond issues in the amount of RUR 30 billion in 2008

The first ruble bond issue in the amount of RUR 10 billion, with maturity in 2018 and two-year offer ("put option"), was successfully floated on June 24, 2008.

The second ruble bond issue in the amount of RUR 10 billion, with maturity in 2013, was floated on October 23, 2008.

The third ruble bond issue in the amount of RUR 10 billion, with maturity in 2015, was floated on October 28, 2008.

4. Obtaining a EUR 300 million credit from Gasprombank (Open Joint Stock Company) in December 2008

MTS OJSC obtained a credit in the amount of EUR 300 million from Gasprombank (Open Joint Stock Company). The credit term is 2.5 years. The provided funds will be used for the Company's corporate purposes, including the financing of its current financial and business activities and capital expenditure program.

5. iPhone 3G™ market launch in October 2008

The sales of iPhone™ 3G smartphone with embedded memory of 8 and 16 gigabyte started in MTS-branded retail stores on October 3, 2008.

The device supports GSM and 3G standards, is equipped with embedded GPS receiver to support navigation, is based on 2.0 version software, supports the Microsoft Exchange ActiveSync protocol and several hundreds third-party applications available in the new App Store. MTS OJSC developed special tariff plans "i-Onliner" and "SIM" for iPhone users.

6. In October 2008, the Board of Directors of MTS OJSC was increased from seven to nine members, and the number of independent directors increased up to three.

The number of members of MTS OJSC Board of Directors increased from seven to nine members, three of which are independent directors. This increase was due to requirements of the Russian law which provides for at least nine members of the Board of Directors for companies with the number of shareholders exceeding 10.000.

7. Conclusion of an exclusive strategic non-equity partnership agreement with Vodafone in October 2008.

MTS OJSC concluded an exclusive strategic non-equity partnership agreement with Vodafone, the leading global mobile operator, to extend the marketing and technology potential of both companies. The four-year agreement covers Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia.

The cooperation with Vodafone will enable MTS OJSC to receive an exclusive access to Vodafone's best practices, product portfolio and marketing and technological developments, and participate in global programs to purchase network and subscriber equipment.

8. Commercial launch of 3G in Uzbekistan in December 2008

In December 2008, MTS OJSC announced the commercial launch of the innovative 3G network in Tashkent. In Uzbekistan, a combined 2G/3G network is now under construction, using existed sites for base stations without substantial reconfiguration of the GSM network. The company's subscribers in the network coverage area can use all additional services currently existing in the 2G network, and also such innovative services as Video Call and High-Speed 3G Internet. Currently the 3G coverage area in Uzbekistan has been extended: MTS' 3G networks operate also in Samarkand, Bukhara, Urgench and Khiva.

9. Completion of payment of dividends for 2007 in December 2008

MTS OJSC completed the payment of dividends for 2007 in full on December 31, 2008 i. e. the deadline set by resolution of the Annual General Meeting of Shareholders and the Charter of MTS OJSC. The total dividends for 2007 amounted to RUR 29.58 billion; the dividend per MTS OJSC common share was RUR 14.84.

10. Signing of an agreement with the Indian mobile operator Shyam Telelink, a subsidiary of JSFC Sistema, to use MTS brand in the Indian market.

The company Shyam Telelink was enabled to use MTS brand in own image and advertising communications in India. MTS OJSC and Shyam Telelink cooperate on a repayment basis in accordance with respective regulations. This agreement doesn't provide for MTS' participation in the operating activity of Shyam Telelink, including in terms of market launch of MTS' products and services in India.

- 11. MTS brand became the first and only Russian brand which was named as one of BRANDZ™ Top 100 Most Powerful Brands, a ranking published by the Financial Times and Millward Brown, a leading global market research firm.**

MTS brand became the first and only Russian brand which was named as one of BRANDZ™ Top 100 Most Powerful Brands, a ranking published by the Financial Times and Millward Brown, a leading global market research firm.

MTS OJSC brand joined the ranks of the most powerful brands in the world with USD\$8.077 billion at 89st position. The ranking method takes into account revenue from intangible assets and brand position in the market.

MTS OJSC also joined the Top 100 Most Powerful Brands with the highest Brand Momentum score of 10. This indicator reflects the brand value short-term growth prospects and growth potential of the Company.

Company results for 2008

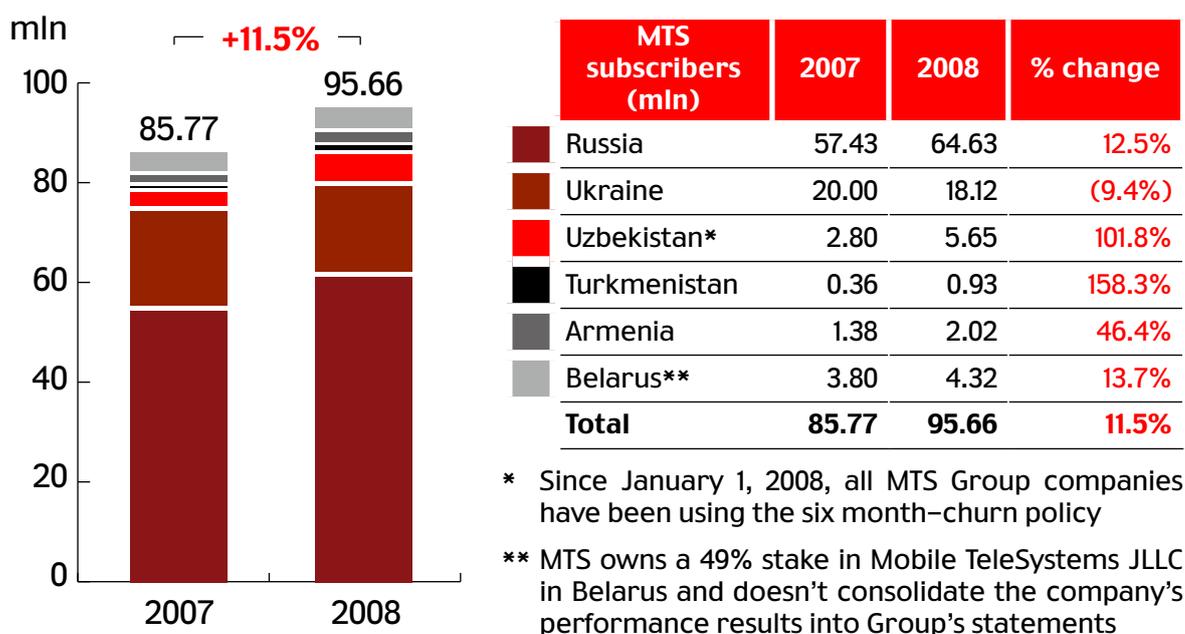


Company results for 2008

MTS's main competitive advantages are its wide-reaching network and in-tra-network roaming, traditionally high quality of communications services, profitable tariffs that consider the needs of different segments of the market, and a broad range of value-added services.

These features have enabled the Company to steadily increase income both through growth in the subscriber base and through higher-intensity consumption services.

Group's Subscriber Base Dynamics



- The number of MTS Group' subscribers exceeded 95 million at the end of 2008.
- The subscriber base in Russia in 2008 increased by 7.2 million subscribers thanks to attractive tariffs and seasonal marketing offers.
- Continued strong subscriber growth in CIS markets through network and distribution channel expansion.

Group's subscriber base growth for the year was 9.89 million (+11.5%).

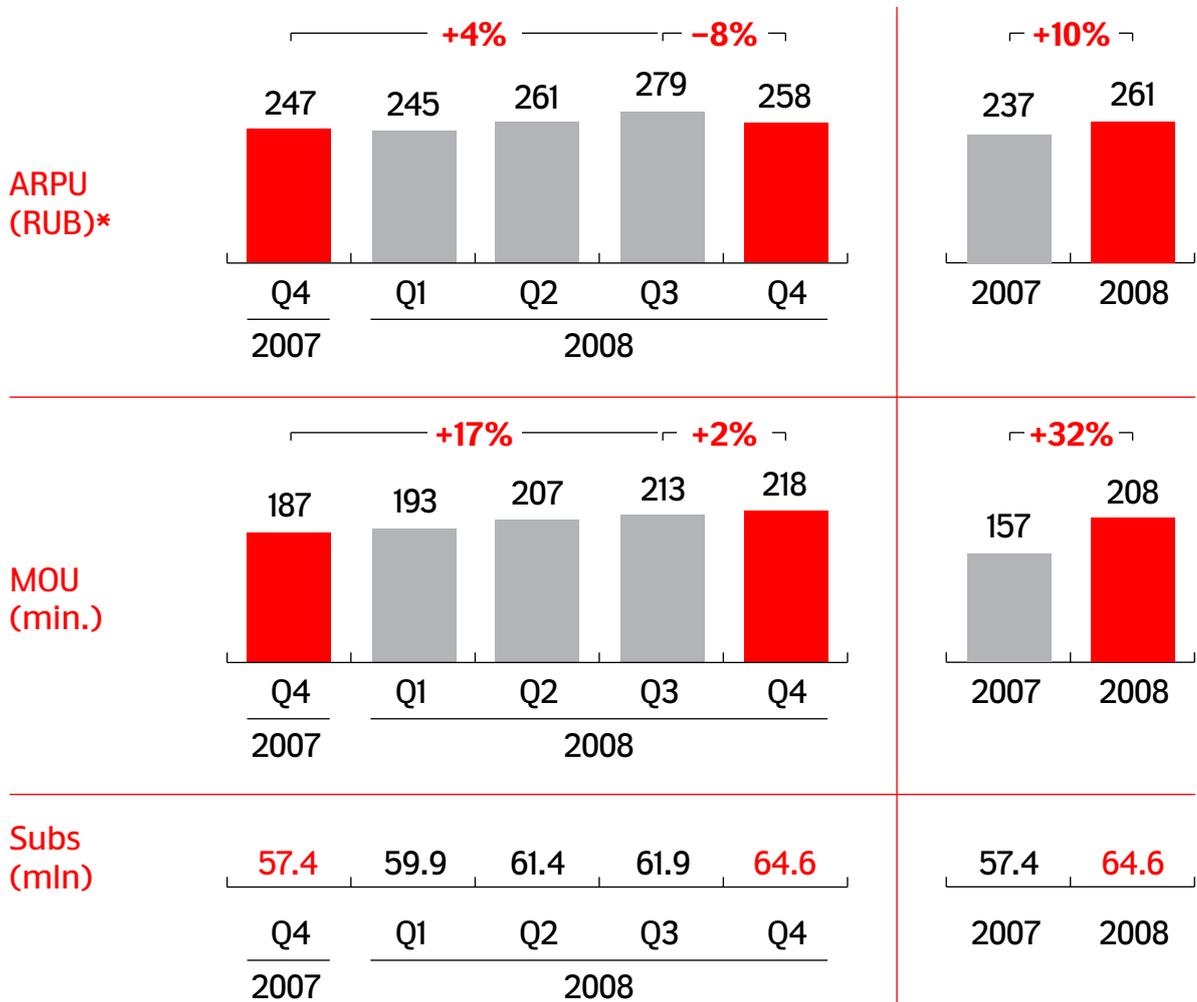
Russia

The Russian telecommunications market is characterized by rapid growth in the subscriber base and revenue. According to data from AC&M, at the end of 2007 the penetration (in SIM cards) was 129.4% or 187.8 million subscribers. The highest penetration levels were seen in Moscow and St. Petersburg, where they exceed 185,1% and 166,5%, respectively.

MTS' share of subscribers in Moscow is 47.4%, in St. Petersburg 30.8%, and in Russia as a whole 34.4%, according to data from AC&M.

One favorable result from 2008 is the Company's continued lead not only in revenue terms, but also by number of subscribers and growth in the subscriber base.

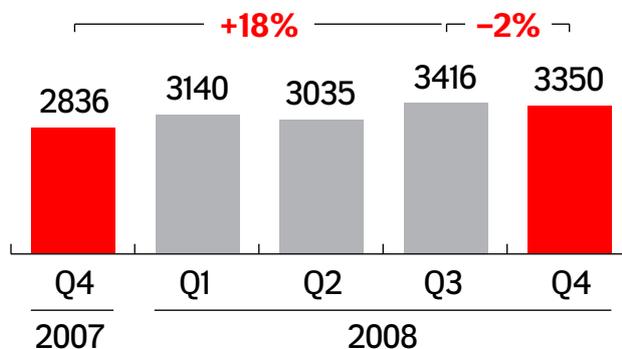
To retain its lead in the market the Company is continuing work aimed at providing subscribers not only with high-quality services, but also the cheapest tariff plans, and at increasing growth in service quality, network coverage, and level of customer service.

Russia: Operating Indicators


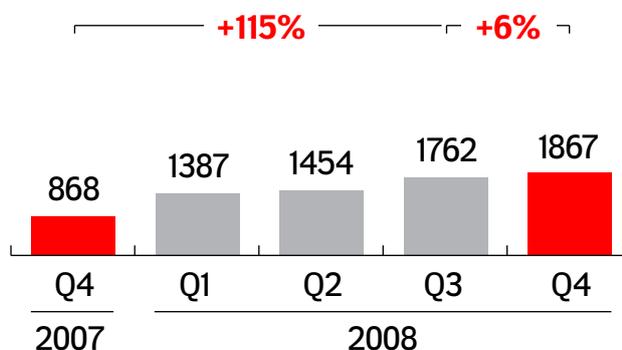
- Decrease in quarterly ARPU due to the existing growth of subscriber base at the end of the year.
- Significant annual usage growth due to successful MTS's marketing campaigns and tariff promotions.

Russia: Operating Indicators*

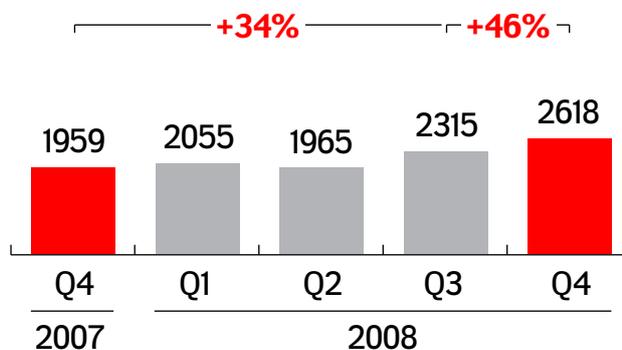
Messaging Revenue
(RUB mln)



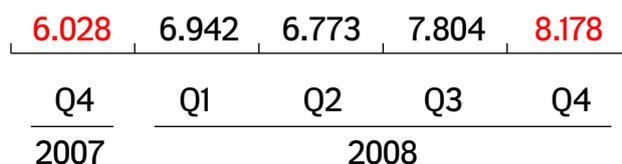
Data Traffic Revenue
(RUB mln)



Data Content Revenue
(RUB mln)



Total VAS revenues
(mln)**



* Including revenue from roaming services.

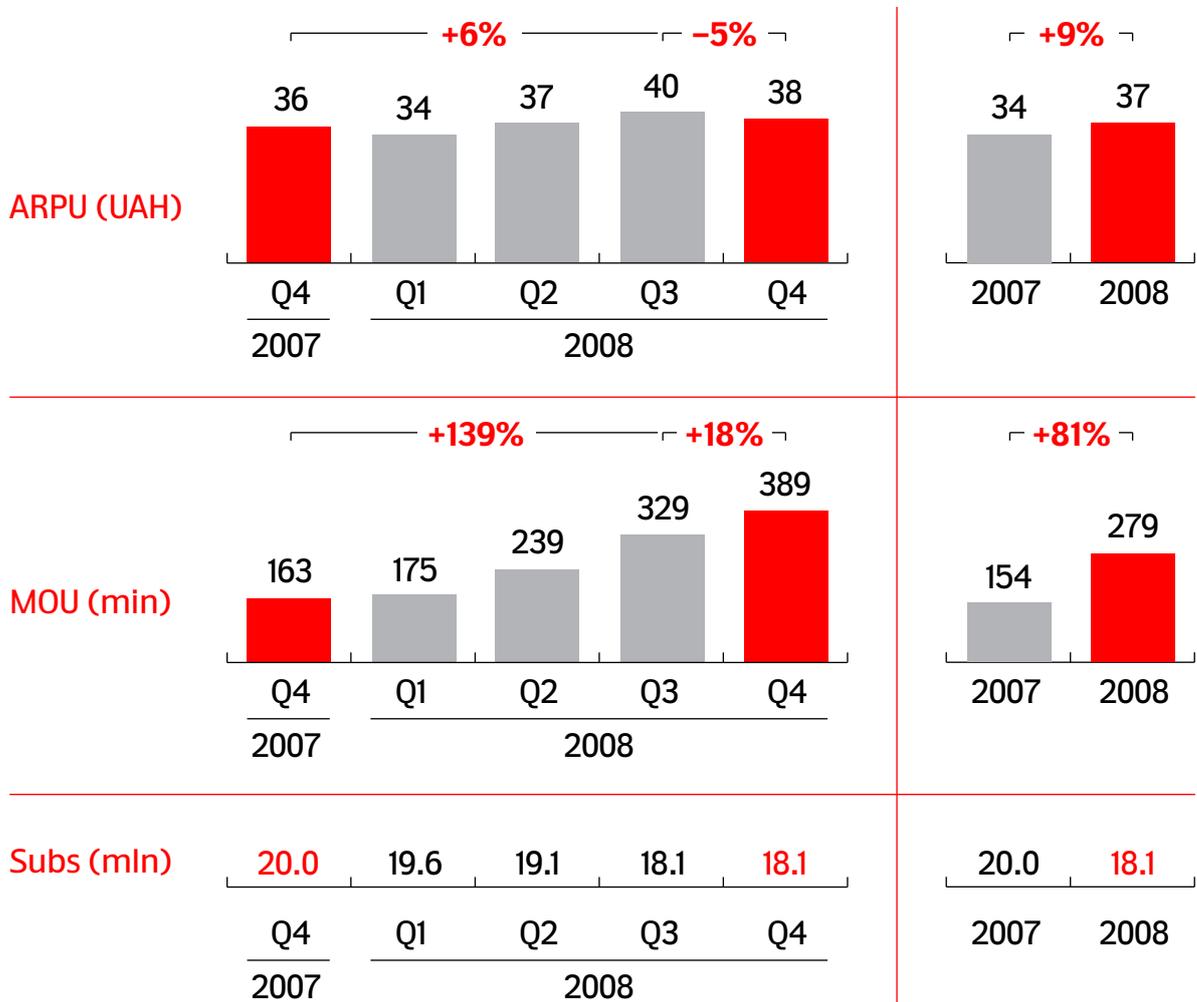
** Excluding SMS and data packages which are included into package tariff offerings.

- Strong growth of VAS revenues in 2008 as the Company rolled out 3G networks across Russia and introduced attractive VAS offers.
- Key initiatives in Q4:
 - Reintroduction of MTS Connect at lower price points paired with new USB modem design.
 - Further expansion of 3G networks.
 - Launch of the mass market Email online service.
 - Introduction of the SMS Group service to send group SMS through the Web interface.
 - Launch of the Catch Good'ok service, allowing a caller to add the ring-back tone of the party he/she is calling.
 - Launch of the youth-focused tariff, Red Music, with exclusive content for subscribers.
 - Launch of the mobile version of RuTube, the most popular site with user content in Russia.
 - MMS promotion around New Year's holidays.

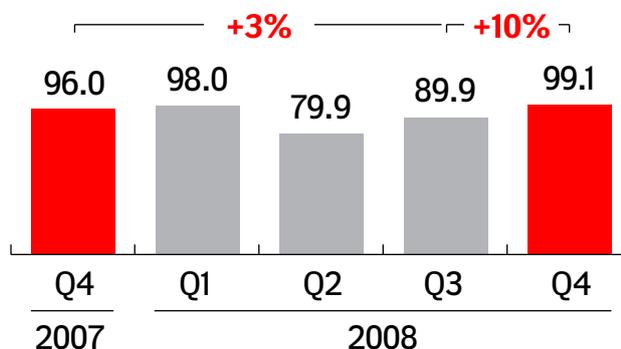
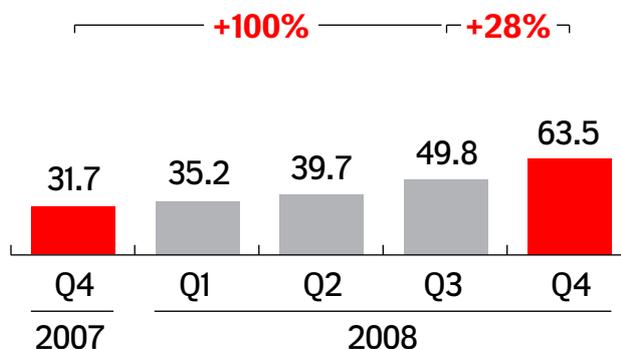
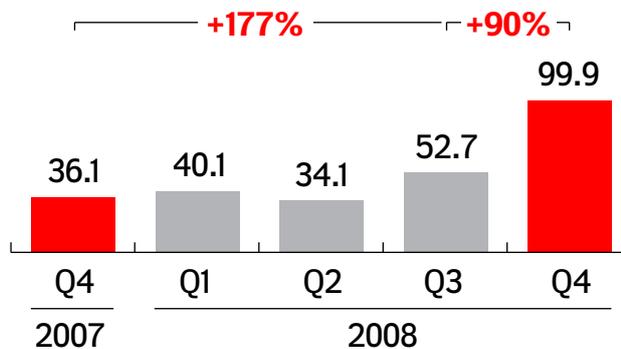
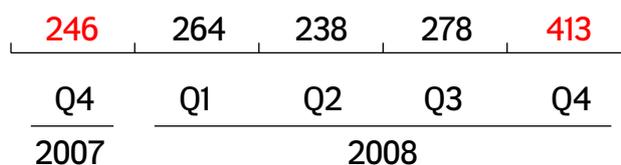
Ukraine

The mobile communications market in Ukraine has been growing strongly since 2003.

According to data from AC&M, at the end of 2008 the service penetration in the country was 120.8% or 55.8 million subscribers. MTS (UMC CJSC) had 18,1 million subscribers in Ukraine, or 32,5% of the market, at the end of the year. The Company provides GSM 900/1800 and CDMA 450 services throughout the entire country.

Ukraine: Operating Indicators


- Stable ARPU growth due to measures to built a quality subscriber base.
- MOU growth due to campaigns to stimulate voice and enhance the loyalty.
- Stabilization of subscriber base thanks to improving the network quality and attractive propositions.

Ukraine: Operating Indicators
**Messaging Revenue
(UAH mln)**

**Data Traffic Revenue
(UAH mln)**

**Data Content Revenue
(UAH mln)**

Total VAS (mln)*


* Excluding SMS and data packages which are included into package tariff offerings.

- Significant growth in VAS consumption due to network quality improvements and roll-out of data-dedicated CDMA-450 network.
- Key initiatives in Q4:
 - 100 cars in 100 days SMS competition, boosting content revenues.
 - MMS for the price of SMS offer in October 2008 driving up MMS usage.
 - Continued expansion of CDMA networks across the country.
 - Launch of the entertainment and information service MTS Click.
 - SMS Banking service working with 25 leading Ukrainian banks, a total of 57 million SMS messages sent using this service in 2008.
 - Money transfer service launched on Super MTS tariff plan.

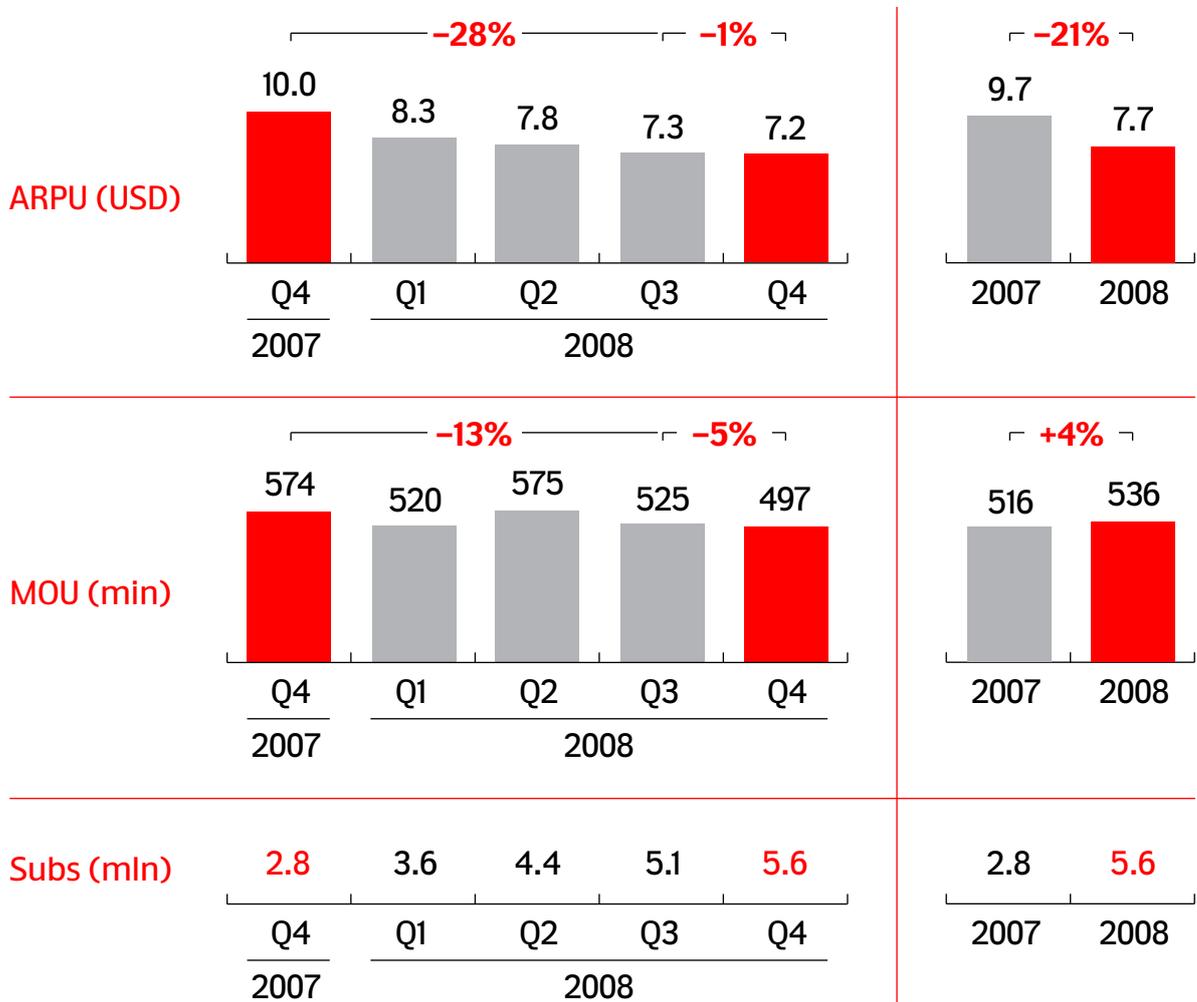
Uzbekistan

According to the Company's estimates, in 2008 the service penetration in the country grew by 22 pp, and was 44%, or approximately 12.3 million subscribers.

MTS offers services in Uzbekistan using TDMA, GSM 900, and GSM 1800 technologies.

During the year, the number of MTS subscribers increased by 2.8 million and was 5.4 million subscribers, or 46% of the market of Uzbekistan at the end of the year. Thanks to the receipt of a license to provide Internet services and use 3G networks throughout all of Uzbekistan, and also using WiMAX technology, the Company plans not only to retain its leading positions in the market, but also to gain higher market share by concurrently offering innovative services, including wideband Internet access services.

Uzbekistan: Operating Indicators



- ARPU decline due to growing share of private users in the Company's subscriber base as the penetration level was 44%.
- Decrease in quarterly MOU due to acquisition of mass-market subscribers.
- Subscriber count doubled during 2008.

Turkmenistan

Along with Uzbekistan's telecommunications market, the market in Turkmenistan can also be characterized as one with a low level of penetration.

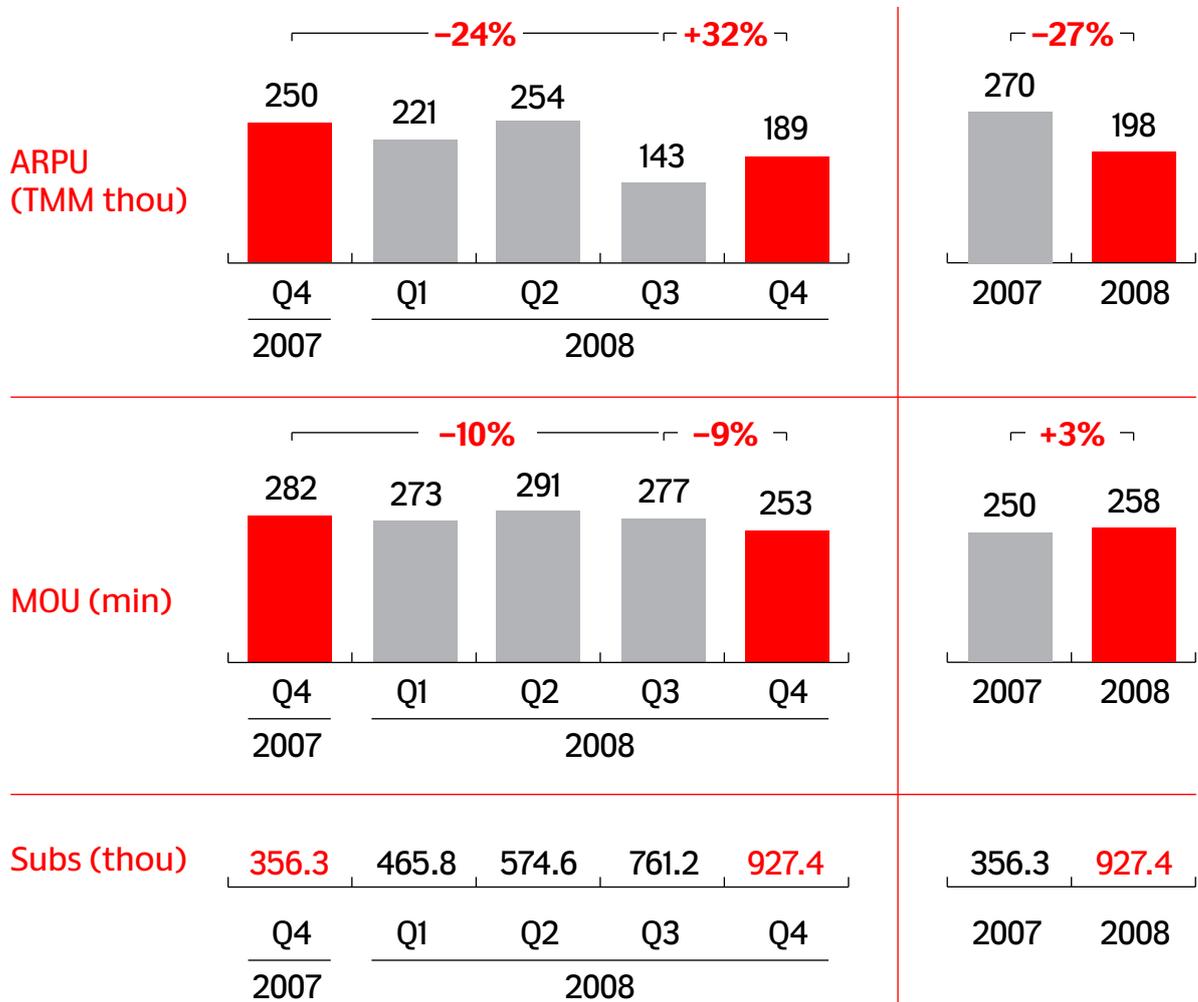
In 2008 the penetration increased by 11.7 pp and was 19.1%, or approximately 1.1 million subscribers.

MTS offers GSM 900/1800 services in Turkmenistan. Subscribers numbered 927 thousand (an 87% market share) at the end of the year.

In Turkmenistan the Company has been traditionally the leader in the market and it continues to increase its market share not only thanks to impeccable quality of services, but also by constantly marketing new rate offerings aimed at different, targeted segments of the market.

In 2008 the Company was able to offer its subscribers a number of completely new, even more convenient and inexpensive, rates (Velayat, Druzhiba ("Friendship") and Internet).

Turkmenistan: Operating Indicators



- Annual ARPU decline due to growing share of private users in the subscriber base.
- Decreasing quarterly MOU due to the acquisition of mass-market subscribers as the market becomes more penetrated.
- Over 571 thousand subscribers added during the year.

Armenia

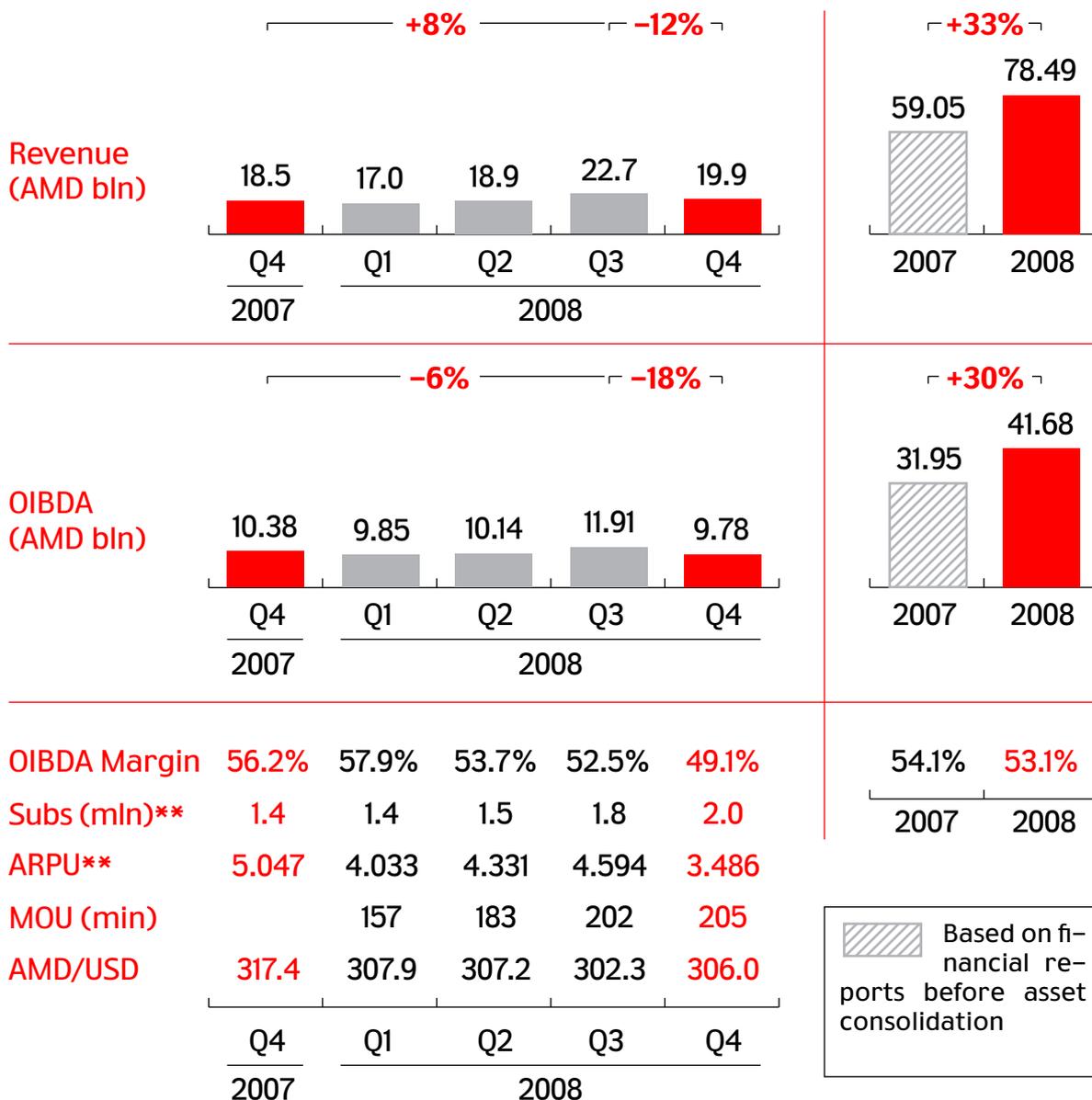
In September 2007 the Company acquired the leading operator in the Armenian market, offering mobile communications services under the VivaCell brand using GSM 900/1800. In Q3 2008 the VivaCell brand changed to VivaCell-MTS. The change in visual representation was the first stage of a complex re-branding of K-Telecom which involved all areas of interaction between the operator and subscribers: innovative services and rates, and also new convenient servicing formats, consistent with world standards applicable at MTS Group, became available to VivaCell-MTS subscribers.

According to the Company's estimates, during 2008 the penetration of services in the country increased by 22 pp and was 80%, or approximately 2.6 million subscribers.

MTS' subscribers in Armenia numbered 2.0 million, or 79% of the market, at the end of the year.

Today MTS holds leading positions in the promising and rapidly growing Armenian market, which allows us to speak confidently about the great prospects of developing the Company's business in this area.

Armenia: Financial and Operating Highlights*



- Pressure on revenue due to increasing competition and seasonal promotions stimulating on-net traffic.
- OIBDA dynamics reflects the revenue dynamics.

* The asset has been consolidated from September 14th, 2007.
 ** Operational indicators (ARPU and subscriber base count) are not available before Q4 2007 when K-Telecom adopted MTS Group's accounting standards.

Equity capital and securities



Equity capital and securities

Equity capital and issues of shares

The equity capital of MTS OJSC as of December 31, 2008, was 199,332,613.80 rubles.

Outstanding and authorized shares of MTS OJSC as of December 31, 2008:

Outstanding shares

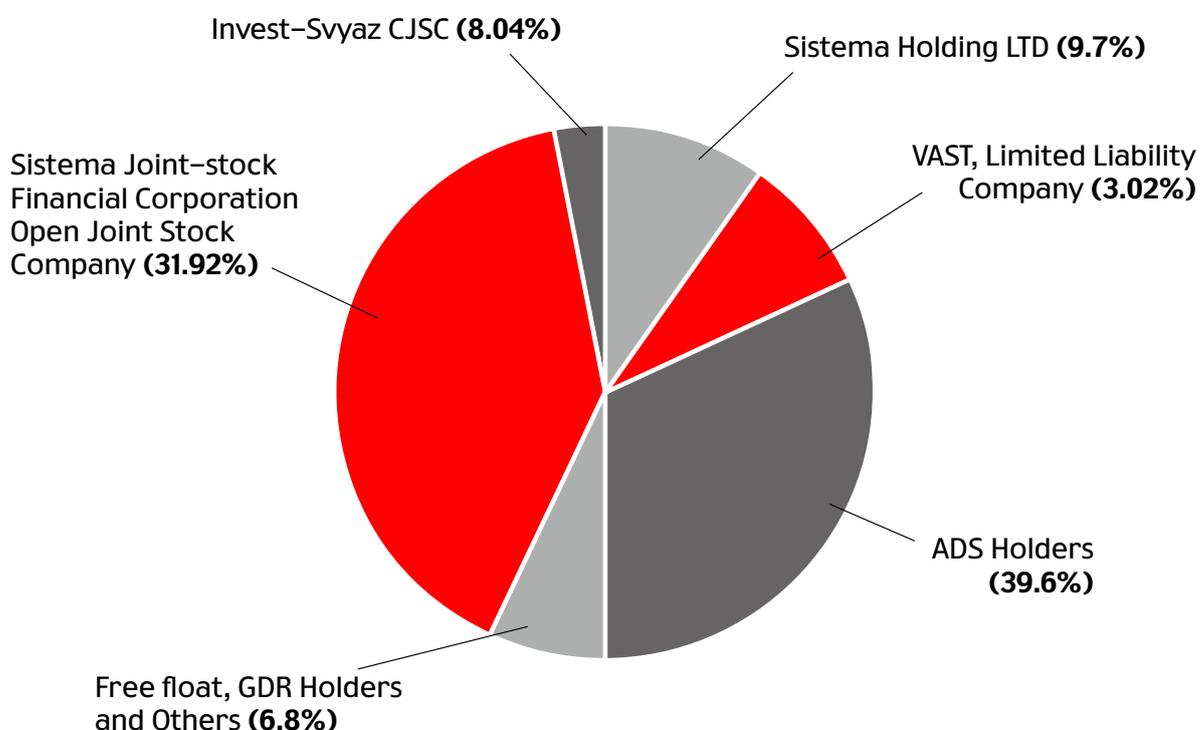
Categories/classes of shares	Number of shares	Nominal value per share (rubles)
Обыкновенные акции	1 993 326 138	0.1
Привилегированные акции	0	0

Authorized shares

Categories/classes of shares	Number of shares	Nominal value per share (rubles)
Обыкновенные акции	103 649 654	0.1
Привилегированные акции	0	0

As at December 31, 2008, the registered shareholders of MTS OJSC had the following shares in the equity capital*:

Sistema Joint-stock Financial Corporation Open Joint Stock Company	31.92%
Invest-Svyaz CJSC**	8.04%
Sistema Holding Limited (“Sistema Holding”)**	9.7%
VAST, Limited Liability Company (“VAST”) **	3.02%
ADS Holders	39.6%
Free float, GDR Holders and Others***	6.8%

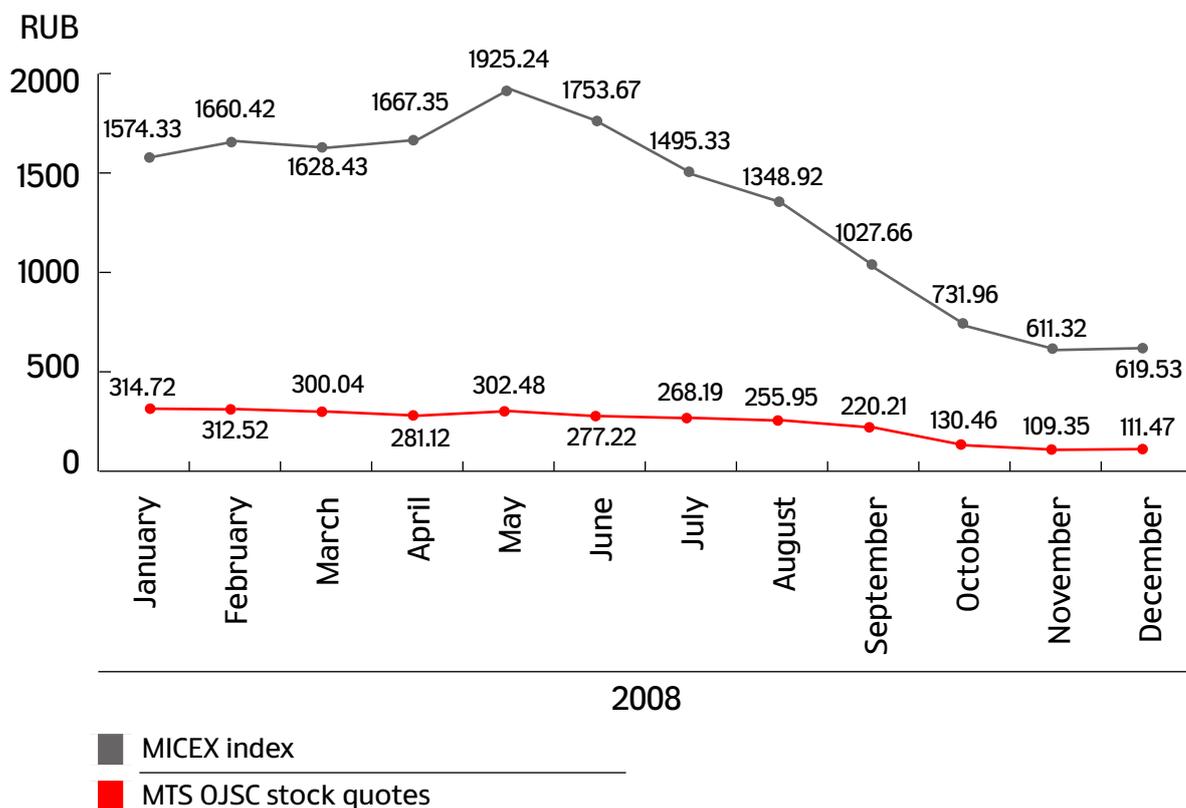


* Calculation of the shares of shareholders in the MTS OJSC equity capital was carried out with a certain allowance. MTS LLC (a 100% subsidiary MTS OJSC) holds MTS OJSC shares in connection with the implementation of the Management Compensation Program and Stock Option Program, which were approved in the Company. Besides, during 2008 our 100% subsidiary «MTS Bermuda Ltd.» purchased 39 431 500 shares of our Company in the form of ADS, which resulted in the decrease in the ownership capital (assets) according to the annual financial statements. These shares are not taken into account in the equity capital when calculating the above stakes.

** VAST LLC, Invest-Svyaz CJSC and Sistema Holding Limited are the affiliated companies of AFK Sistema OJSC .

*** 1.89% of shares were bought back by MTS OJSC from its shareholders after reorganization of MTS OJSC by merger with Mobile Communication Systems OJSC and BashCELL CJSC.

Dynamics of the prices for MTS OJSC common shares as compared with the MICEX index, January 2008 – December 2008*



* The quotes are stated as of the last trading day of the month, for the MICEX index – the closing price, for MTS shares – weighted average price.

American depositary receipts

On June 30, 2000, MTS successfully placed a Level-III ADS issue on the New York Stock Exchange (NYSE: MBT), and became the second company in Russia to implement a program of the highest-level ADSs.

The Company's ADSs are now traded on the London Stock Exchange, the Frankfurt Stock Exchange, the Berlin Stock Exchange, and the Munich Stock Exchange. The New York Stock Exchange accounts for the highest volume of trade.

Since October 3, 2003, MTS shares have been traded as non-listed securities on the Moscow Interbank Currency Exchange (MICEX). In December 2003 MTS shares were included in MICEX Quotation List B.

On December 15, 2004, MTS announced the change in the ratio of American depository receipts (ADSs) on the New York Stock Exchange to common shares of the Company. The changes took effect on January 3, 2005, the first trading day of the year. As a result of the changes, one MTS ADS became equal to 5 common shares of the Company. Previously 1 ADS had been equal to 20 common shares, i.e., the ratio was decreased by a factor of 4. To effect the change all ADS holders received 3 additional shares for each ADS held at December 27, 2004.

As of December 31, 2007, a total of 155,479,301 ADSs had been issued for registered common shares (equal to 777,396,505 registered common shares).

Information on stock exchange listings of MTS OJSC shares

Trading floor	Stock ticker	Quotation list level
MICEX CJSC	MTS-ao	B
New York Stock Exchange	MBT	Level III ADSs

Information on the current listings and transaction prices is available in Russian and English at:

<http://www.micex.ru>

<http://finance.yahoo.com/q/hp?s=MBT>

Bond issues

MTS is one of the largest issuers of corporate bonds in Russia. Our first issue of Eurobonds, for \$250 million, took place in December 2001; an additional \$50-million tranche of the same issue was offered in 2002. In 2003 MTS placed debt securities for the total value of \$1.1 billion. In January 2005 MTS placed 7-year Eurobonds in the amount of \$400 million. The funds received as a result of the bond issue are used by the Company to finance the acquisition of local mobile communications operators, development in the regions, and other corporate purposes.

Credit ratings of MTS as an issuer:

Moody's	S&P	Fitch Ratings
Ba2, прогноз позитивный	BB, прогноз позитивный	BB+, прогноз негативный

Basic details of bond issues:

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	9.75% fixed, payable semiannually
Issue price	100%
Currency of issue	US\$
Amount of issue	400,000,000
Maturity date	January 30, 2008

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	8.375% fixed, payable semiannually
Issue price	100%
Currency of issue	US\$
Amount of issue	400,000,000
Maturity date	October 14, 2010

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	8.00% fixed, payable semiannually
Issue price	99.736%
Currency of issue	US\$
Amount of issue	400,000,000
Maturity date	January 28 th , 2012

The first issue of the NTS OJSC rouble bonded loan for 10 billion roubles took place in June 2008. In October 2008 MTS OJSC placed two more issues of bonds for 10 billion roubles each. The funds received as a result of the bond issue were used for corporate purposes.

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary non-convertible interest-bearing bonds payable to bearer subject to compulsory centralized storage , Series 01
Coupon	1-3 coupons – 14,01%, 4-10 coupons to be specified by the issuer
Issue price	100%
Currency of issue	Rouble
Amount of issue	10 000 000 000
Date of placement	October 23 rd , 2008
Maturity date	October 17 th , 2013
ISIN Reg No	RU000A0JQ0D4
Offer	April 23 rd , 2010

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary non-convertible interest-bearing bonds payable to bearer subject to compulsory centralized storage , Series 02
Coupon	1-3 coupons – 14,01%, 4-14 coupons to be specified by the issuer
Issue price	100%
Currency of issue	Rouble
Amount of issue	10 000 000 000
Date of placement	October 28 th , 2008
Maturity date	October 20 th , 2015
ISIN Reg No	RU000A0JQ0E2
Offer	April 28 th , 2010

Issuer	Mobile TeleSystems Open Joint Stock Company
Type of security	Documentary non-convertible interest-bearing bonds payable to bearer subject to compulsory centralized storage , Series 03
Coupon	1-4 coupons – 8.7%, 5-20 coupons to be specified by the issuer
Issue price	100%
Currency of issue	Rouble
Amount of issue	10 000 000 000
Date of placement	June 24 th , 2008
Maturity date	June 12 th , 2018
ISIN Reg No	RU000A0JPTJ4
Offer	June 24 th , 2010

Dividend policy

As a leading telecommunications group, with companies in rapidly developing markets, MTS' main objective is to maintain sufficient resources and flexibility to meet its financial and operating requirements. At the same time, the Company continually seeks ways to create shareholder value both through its commercial and financial strategies – including both organic and inorganic development – and through management of the Company's capital.

Pursuant to its traditional practices, MTS will proceed with annual dividend payments as a part of its policy of enhancing shareholder value. When determining the amount of dividends payable by the Company the Board of Directors considers a variety of factors, including the prospects for the growth of revenues, requirements for capital expenses, cash flow from core operations, potential acquisition opportunities, as well as the Company's debt position. Decisions on dividends are proposed by the Board of Directors and later voted upon at annual general meetings of shareholders of MTS in the first half of the year.

MTS aims to maintain its practice of returning a minimum of 50% of net annual profit (according to US GAAP) to its shareholders through dividend payments, but this can vary depending on any of the circumstances mentioned above.

Dividend history of MTS OJSC, 2002–2007

	2002	2003	2004	2005	2006	2007
Total dividends (MUSD)	111	220	403	562	747	1243
As % of net income	40%	43%	41%	50%	69%	60%
Per ADS	\$0.3	\$0.6	\$1.0	\$1.4	\$1.9	\$3.1

Corporate governance



Corporate governance

Thanks to the Company's existing highly effective system of corporate governance, MTS is able not only to balance the interests of shareholders and management, but also to effect cooperation between them based on trust and a high culture of business relationships and ethical norms, which clearly illustrates the Company's impeccable business reputation in business circles.

The principal features of corporate governance for MTS are:

- full protection of the rights and interests of shareholders;
- transparency (disclosure) of relevant financial information and information on the Company's activities;
- ability to monitor the activities of the Company's Management Board;
- independence of the Board of Directors in defining the Company's strategy and approving business plans and important business decisions;
- centralization of decision-making on key issues relating to the Company's activities.

The Company aspires to meet international standards of corporate governance. We comply with the Code of Ethics and Code of Corporate Conduct which set out a number of important principles aimed at both directors and managers of the Company (detailed information on compliance with the Code of Corporate Conduct is set out in Annex 1). MTS fully complies with statutory requirements regarding prescribed procedures for major transactions and related-party transactions (detailed information on compliance with transaction approval procedures is set out in Annex 2).

The Company constantly strives to improve our corporate governance, drawing on the experience of other companies, following recent legislative changes and progressive standards in this area, and adjusting our corporate governance system accordingly. To improve our corporate governance system, during the reporting year we approved amendments to the Charter of MTS OJSC, as well as a number of internal regulations, including new Rules and Regulations of MTS OJSC Board of Directors, Rules and Regulations of MTS OJSC Management Board.

The approved documents provide greater protection for the Company's shareholders, investors, and partners by strengthening the loyalty of the members of the Board of Directors and the Company's managers and fostering team spirit and a desire to work and achieve substantial results.

In 2008 the Board of Directors of MTS OJSC held 27 meetings. When preparing and making decisions, the Board of Directors strove to consider the interests of the Company's shareholders, workforce, partners, creditors, local communities, and other public stakeholders.

To enhance the effectiveness of the Board of Directors, its previously established committees continued to operate: Budget Committee, Remuneration and Appointments Committee, Committee for Corporate Conduct and Ethics, Strategy Committee. At the same time, because of inexpedience and duplication of some Committee functions and those of the Company's internal bodies, the Quality Committee and Tender and Procurement Committee were dissolved (Minutes of MTS OJSC Board of Directors meeting No. 126, October 06. 2008).

Information on the Board of Directors

The Board of Directors was elected at the Annual General Meeting of Shareholders of MTS OJSC held on June 27, 2008, with a term commencing upon election and continuing till October 03, 2008.



Vitaly Gennadievich Savelyev **Chairman of the Board of Directors**

Born in 1954.

Mr. Savelyev graduated from the mechanical-engineering faculty of the Polytechnic Institute in Leningrad and got the second degree from the Palmiro Engineering and Economic Institute in Tolyatti.

Mr. Savelyev started his working life at Sayano-Shushenskaya Hydroelectric Power Station participating in its construction. He rose from the ranks of engineer to design manager of one of KrasnoyarskGesStroy associations. After completion of the construction, he returned to Leningrad where he was employed at the Union Trust Sevsapmetallurgmontazh as Deputy Executive Manager. From 1987 he was employed as Deputy Chief of Central Administrative Board of Glavleningradzhilstroy with responsibility for engineering constructions. In December 1988 he established and headed the Leningrad branch of the Soviet-American Joint Venture Dialogue which was one of the first enterprises in the country to promote computer technologies and software products. In 1989 Mr. Savelyev was among promoters and board members of DialogueBank. From 1990 to 1993 he was the President of the Soviet-American enterprise Dialogue-Invest. From 1993 to 1995 he served as the Chairman of the Board of the Bank Rossiya. In November 1995 he became the Chairman of the Board of MENATEP SPB bank, and in September 2001 the Deputy Chairman of Casprom OJSC. From 2002 to 2004 he served as the Vice President of the united company GROS, an advisor of General Director of Sviazinvest with responsibility for finance and IT technologies, and from 2005 to 2007 he was the Deputy RF Minister of Economic Development and Trade.

Since 2007 Mr. Savelyev has been the First Vice President of AFK Sistema and headed Sistema Telecom, the complex of telecommunication assets development.

Since August, 2008 Mr. Savelyev has been the First Vice President and Head of Telecommunication Assets Business Unit.

He held no shares of MTS OJSC during the reporting year.



Anton Vladimirovich Abugov
Member of the Board of Directors

Born in 1976.

Mr. Abugov graduated from the Academy of National Economy under the Government of the Russian Federation.

In 1995 he was involved in developing infrastructure and a regulatory framework for the stock market in Russia. Between 1995 and 2002 Mr. Abugov was Director of Corporate Finance at United Financial Group, seeing through a number of major fundraising, strategic consultancy, and merger and acquisition projects in various industries in Russia and Eastern Europe.

In 1999 he was an advisor to RAO UES of Russia. From 2003 to 2006 he was in charge of the Corporate Finance Department at AKB Rosbank. He currently serves as Sistema's First Vice President and Head of Strategy and Development.

He held no shares of MTS OJSC during the reporting year.



Alexey Nikolaevich Buyanov
Member of the Board of Directors

Born in 1968.

Mr. Buyanov graduated from the Moscow Physical-Technical Institute (MFTI).

From 1992 to 1994 he was an intern investigator with the Institute for Problems in Mechanics (IPM) of the Russian Academy of Sciences. He started work at JSFC Sistema OJSC in 1994, and from 1994-1995 held various positions in Sistema's Property Complex. In 1995 he was appointed head of department at Sistema-Invest and later Vice President of Sistema-Invest. In 1997 he was appointed First Vice President of Sistema-Invest. He served as Vice President of MTS OJSC from 1998 to 2002. In July 2002 he was appointed Vice President of JSFC Sistema OJSC heading to run the department for financial restructuring. He is now Senior Vice President of JSFC Sistema OJSC, heading the company's financial and investment group.

He held 100,000 registered common shares of MTS OJSC during the reporting year.



Mohanbir Singh Gyani
Member of the Board of Directors

Non-executive Independent Director of MTS OJSC

Born in 1951

Mr. Gyani graduated from San Francisco State University with a B.A. in business administration and holds an MBA in finance. He has 30 years of experience in telecommunications.

Mr. Gyani is the current Vice Chairman (and formerly CEO and Chairman) of Roamware.

From 2000 to 2003 Mr. Gyani was the President of AT&T Wireless Mobility Services. From 2003 to 2005 he was Senior Advisor to the President at AT&T Wireless Group with responsibility for strategy, development, and operations. In 1999, following the Vodafone and AirTouch merger, Mr. Gyani served as Head of Strategy and Corporate Development and member of the Board of Vodafone AirTouch. Mr. Gyani was Executive Vice President and Chief Financial Officer of AirTouch Communications from 1994 to 1999. Mr. Gyani began his career in 1978 with Pacific Telesis Group where he held various leading financial and management positions.

Currently Mr. Gyani is a member of the Boards of Keynote Systems, Safeway, Sirf Technology, and Union Banc of California, and a number of private firms and non-profit organizations. He is a former Board member of the Cellular Telecommunications and Internet Association (CTIA) and the GSM Association.

He held no shares of MTS OJSC during the reporting year.



Tatiana Vladimirovna Yevtoushenkova
Member of the Board of Directors

Born in 1976.

Ms Yevtoushenkova graduated from the Finance Academy under the Government of the Russian Federation.

She has been Advisor to the President of MTS OJSC since August 2007 and a member of the Board of Directors since June 2007. Ms. Evtushenkova joined MTS in October 2002. Prior to that, from December 1999 she was the Director of the Investments Department at Sistema Telecom.

From 2002 to 2007 Ms. Yevtoushenkova was MTS OJSC Vice President of Strategy and Development.

Since 2008 she has been an advisor of the President of Sberbank of Russia OJSC.

She held 136,968 registered common shares of MTS OJSC during the reporting year.



Leonid Adolfovich Melamed
Member of the Board of Directors

Born in 1967.

Mr. Melamed graduated from the Sechenov Moscow Medical Academy and holds a doctorate in medicine.

Mr. Melamed has been a board member of the global GSM Association (GSMA) since 2008.

Mr. Melamed was the President of MTS OJSC from June 14, 2006 to May 29, 2008, and a member of its Board from June 23, 2006 to October 02, 2008.

From 1991 to 2006 he was employed at ROSNO insurance company, where he was appointed General Director and Management Board Chairman in 2003.

From 2004 to 2006 Mr. Melamed headed the Expert Council on Insurance Legislation, part of the State Duma Committee on Lending Institutions and Financial Markets.

In 2004 he was named Person of the Year in the annual People of the Year project run by the Internet holding company Rambler and received a Russian Golden Salamander Public Award in insurance in the category of Insurance Company Leader. In 2005 he received a national award as Person of the Year in the category of Insurance Company Leader and was named 2005 Manager of the Year for rapid enhancement of strategic potential under the Century Actors project carried out by the International League for Strategic Management, Assessment, and Accounting, the Institute of Economic Strategies, and the journal Economic Strategies. He was also named one of the 250 “Young Global Leaders” by the World Economic Forum in 2007.

He held 200,000 registered common shares of MTS OJSC during the reporting year.



Paul James Ostling

Member of the Board of Directors

Non-executive Independent Director of MTS OJSC

Born in 1948.

Paul Ostling holds a law degree from the Fordham University School of Law and a B.S. in Mathematics and Philosophy from Fordham University. He has 30 years of managerial experience.

Currently Mr. Ostling is the CEO and General Director of KUNGUR Oilfield Equipment & Services.

From 2003 to 2007 he was the Chief Operating Officer (COO) of Ernst & Young in 2003. Prior to that he held a number of other management positions at Ernst & Young: Global Executive Partner from 1994 to 2003, Vice Chairman and National Director of Human Resources from 1985 to 1994, and associate and assistant general counsel from 1977 to 1985.

Mr. Ostling began his career at Chadbourne & Parke as an Associate Attorney Litigation and Corporate Matters.

From 2004 to 2008 Mr. Ostling was the Chairman of the Audit Commission of United Services Organization. From 2003 to 2007 he was a board member of Transatlantic Business Dialogue (TABD), and co-chairman of the Ukrainian Advisory Council with responsibility for foreign investments. Mr. Ostling is also the Chairman of the Business Council for International Understanding (BCIU). He has been a board member of OKHK URALKHIM OJSC and Promsviazbank OJSC.

He held no shares of MTS OJSC during the reporting year.

The Board of Directors was elected at the Extraordinary General Meeting of Shareholders of MTS OJSC held on October 03, 2008, with a term commencing upon election and continuing till December 31, 2008.



Vitaly Gennadievich Savelyev
Chairman of the Board of Directors

Born in 1954.

Mr. Savelyev graduated from the mechanical–engineering faculty of the Polytechnic Institute in Leningrad and got the second degree from the Palmiro Engineering and Economic Institute in Tolyatti.

Mr. Savelyev started his working life at Sayano–Shushenskaya Hydroelectric Power Station participating in its construction. He rose from the ranks of engineer to design manager of one of KrasnoyarskGesStroy associations. After completion of the construction, he returned to Leningrad where he was employed at the Union Trust Sevsapmetallurgmontazh as Deputy Executive Manager. From 1987 he was employed as Deputy Chief of Central Administrative Board of Glavleningradzhilstroy with responsibility for engineering constructions. In December 1988 he established and headed the Leningrad branch of the Soviet–American Joint Venture Dialogue which was one of the first enterprises in the country to promote computer technologies and software products. In 1989 Mr. Savelyev was among promoters and board members of DialogueBank. From 1990 to 1993 he was the President of the Soviet–American enterprise Dialogue–Invest. From 1993 to 1995 he served as the Chairman of the Board of the Bank Rossiya. In November 1995 he became the Chairman of the Board of MENATEP SPB bank, and in September 2001 the Deputy Chairman of Casprom OJSC. From 2002 to 2004 he served as the Vice President of the united company GROS, an advisor of General Director of Sviazinvest with responsibility for finance and IT technologies, and from 2005 to 2007 he was the Deputy RF Minister of Economic Development and Trade.

Since 2007 Mr. Savelyev has been the First Vice President of AFK Sistema and headed the complex of telecommunication assets development Sistema Telecom.

Since August, 2008 Mr. Savelyev has been the First Vice President and Head of Telecommunication Assets Business Unit.

He held no shares of MTS OJSC during the reporting year.



Sergey Alexeevich Drozdov
Deputy Chairman of the Board of Directors

Born in 1970.

Mr. Drozdov graduated from the S. Ordzhonikidze State Academy of Management in Economics in 1993. Cand, sc. (Economics).

Mr. Drozdov was head of the financial innovations and marketing department at the City of Moscow’s Property Fund from 1994

to 1995. He has been working at Sistema since 1995. He was the executive director of the department of development and investments from 1995 to 1998, and from 1998 to 2002 served as Vice President, Acting President, and First Vice President of Sistema-Invest OJSC. Mr. Drozdov became head of the Corporation's department of corporate property in April 2002. He was appointed Acting First Vice President of Sistema on May 15, 2002, and First Vice President of Sistema in September 2002. In April 2005 he became Senior Vice President and Chief of the Property Complex. He held no shares of MTS OJSC during the reporting year.



Alexey Nikolaevich Buyanov **Member of the Board of Directors**

Born in 1968.

Mr. Buyanov graduated from the Moscow Physical-Technical Institute (MFTI).

From 1992 to 1994 he was an intern investigator with the Institute for Problems in Mechanics (IPM) of the Russian Academy of Sciences. He started work at JSFC Sistema OJSC in 1994, and from 1994-1995 held various positions in Sistema's Property Complex. In 1995 he was appointed head of department at Sistema-Invest and later Vice President of Sistema-Invest. In 1997 he was appointed First Vice President of Sistema-Invest. He served as Vice President of MTS OJSC from 1998 to 2002. In July 2002 he was appointed Vice President of JSFC Sistema OJSC heading to run the department for financial restructuring. He is now Senior Vice President of JSFC Sistema OJSC, heading the company's financial and investment group.

He held 100,000 registered common shares of MTS OJSC during the reporting year.



Anton Vladimirovich Abugov **Member of the Board of Directors**

Born in 1976.

Mr. Abugov graduated from the Academy of National Economy under the Government of the Russian Federation.

In 1995 he was involved in developing infrastructure and a regulatory framework for the stock market in Russia. Between 1995 and 2002 Mr. Abugov was Director of Corporate Finance at United Financial Group, seeing through a number of major fundraising, strategic consultancy, and merger and acquisition projects in various industries in Russia and Eastern Europe.

In 1999 he was an advisor to RAO UES of Russia. From 2003 to 2006 he was in charge of the Corporate Finance Department at AKB Rosbank. He currently serves as Sistema's First Vice President and Head of Strategy and Development.

He held no shares of MTS OJSC during the reporting year.



Mohanbir Singh Gyani
Member of the Board of Directors

Non-executive Independent Director of MTS OJSC

Born in 1951

Mr. Gyani graduated from San Francisco State University with a B.A. in business administration and holds an MBA in finance. He has 30 years of experience in telecommunications.

Mr. Gyani is the current Vice Chairman (and formerly CEO and Chairman) of Roamware.

From 2000 to 2003 Mr. Gyani was the President of AT&T Wireless Mobility Services. From 2003 to 2005 he was Senior Advisor to the President at AT&T Wireless Group with responsibility for strategy, development, and operations. In 1999, following the Vodafone and AirTouch merger, Mr. Gyani served as Head of Strategy and Corporate Development and member of the Board of Vodafone AirTouch. Mr. Gyani was Executive Vice President and Chief Financial Officer of AirTouch Communications from 1994 to 1999. Mr. Gyani began his career in 1978 with Pacific Telesis Group where he held various leading financial and management positions.

Currently Mr. Gyani is a member of the Boards of Keynote Systems, Safeway, Sirf Technology, and Union Banc of California, and a number of private firms and non-profit organizations. He is a former Board member of the Cellular Telecommunications and Internet Association (CTIA) and the GSM Association.

He held no shares of MTS OJSC during the reporting year.



Tatiana Vladimirovna Yevtoushenkova
Member of the Board of Directors

Born in 1976.

Ms Yevtoushenkova graduated from the Finance Academy under the Government of the Russian Federation.

She has been Advisor to the President of MTS OJSC since August 2007 and a member of the Board of Directors since June 2007. Ms. Yevtoushenkova joined MTS in October 2002. Prior to that, from December 1999 she was the Director of the Investments Department at Sistema Telecom.

From 2002 to 2007 Ms. Yevtoushenkova was MTS OJSC Vice President of Strategy and Development.

Since 2008 she has been an advisor of the President of Sberbank of Russia OJSC.

She held 136,968 registered common shares of MTS OJSC during the reporting year.



Danial Eldon Crawford
Member of the Board of Directors

Non-executive Independent Director of MTS OJSC

Born in 1939.

Mr. Crawford graduated with a master's degree in electrical engineering from New York University.

Mr. Crawford has 30 years of experience in management in the telecommunication branch. From 2004 to 2006, he held the position of President of International Sales and Wholesale at MCI. From 1998 to 2004, Mr. Crawford was the Chairman of the Board of Directors of Embratel Participacoes, the holding company that controls Embratel, Brazil's premier national telecommunications company. Previously, he was the Chairman of the Board of Directors of Star One, the Chief Operating Officer at Avantel and headed different departments at MCI.

He held no shares of MTS OJSC during the reporting year.



Paul James Ostling
Member of the Board of Directors

Non-executive Independent Director of MTS OJSC

Born in 1948.

Paul Ostling holds a law degree from the Fordham University School of Law and a B.S. in Mathematics and Philosophy from Fordham University. He has 30 years of managerial experience.

Currently Mr. Ostling is the CEO and General Director of KUNGUR Oilfield Equipment & Services.

From 2003 to 2007 he was the Chief Operating Officer (COO) of Ernst & Young in 2003. Prior to that he held a number of other management positions at Ernst & Young: Global Executive Partner from 1994 to 2003, Vice Chairman and National Director of Human Resources from 1985 to 1994, and associate and assistant general counsel from 1977 to 1985.

Mr. Ostling began his career at Chadbourne & Parke as an Associate Attorney Litigation and Corporate Matters.

From 2004 to 2008 Mr. Ostling was the Chairman of the Audit Commission of United Services Organization. From 2003 to 2007 he was a board member of Transatlantic Business Dialogue (TABD), and co-chairman of the Ukrainian Advisory Council with responsibility for foreign investments. Mr. Ostling is also the Chairman of the Business Council for International Understanding (BCIU). He has been a board member of OKHK URALKHIM OJSC and Promsviazbank OJSC.

He held no shares of MTS OJSC during the reporting year.



Mikhail Valeryevich Shamolin **Member of the Board of Directors**

Born in 1970.

Mr. Shamolin graduated from Moscow Automobile and Road Institute in 1992. In 1993 he got the second degree from the Russian Academy of Government Service under the President of the Russian Federation. From 1996 to 1997 he studied at Wharton Business School, where he completed finance and management course for top managers.

Mr. Shamolin joined MTS in July 2005 as Vice President of Sales and Customer Service. On August 15, 2006 he was transferred to the position of Vice President and Director of MTS Russia Business Unit. On May 29, 2008 he was appointed President and CEO of the Company.

Prior to joining MTS, Mr. Shamolin was served at Interpipe Corp. in Ukraine as Managing Director of the Ferroalloys Division. From 1998 to 2004 he was employed with the international consulting company McKinsey&Co.

He held 174,890 registered common shares of MTS OJSC during the reporting year.

Members of the Company's Board of Directors prior to the Annual General Meeting of Shareholders in 2008:

- Anton V. Abugov, b. 1976
- Alexey N. Buyanov, b. 1969
- Mohanbir Singh Gyani, b. 1951
- Sergey A. Drozdov, b. 1970
- Tatiana V. Yevtoushenkova, b. 1976
- Leonid A. Melamed, b. 1967
- Paul James Ostling, b. 1948

The changes in the composition of the Board of Directors of MTS OJSC were related to compliance with the requirement of Federal Law No. 208-FZ of December 26, 1995, "On Joint-stock Companies" of mandatory election of a company's board of directors at its annual general meeting of shareholders and maintenance of the total number of members of the board of directors of the company with a number of shareholders exceeding 10,000.

Main issues considered by the Board of Directors in 2008

- Acquisition of local operators: the Cezanne Project
- Approval of related-party transactions
- Approval of Indemnification Agreements which are related-party transactions
- Convocation of the Annual General Meeting of MTS OJSC Shareholders
- Amendments to the Charter of MTS OJSC
- Early termination of the powers of MTS OJSC President and election of MTS OJSC President
- Early termination of the powers of members of MTS OJSC Management Board and election of members of MTS OJSC Management Board
- Making decision on the acquisition of MTS OJSC securities
- Change in the composition of MTS OJSC Management Board
- Placement of MTS OJSC securities including the approval of resolutions regarding the issue of securities and the prospectus for securities
- Approval of the Resolution regarding the issue of securities
- Approval of the Prospect for MTS OJSC Securities
- MTS OJSC Stock Option Program
- Implementation of MTS OJSC Budget
- Implementation of the CAPEX Program
- Conclusion of the Strategic Partnership Agreement under the Red Brothers Project
- Report on the implementation of the sales strategy in the corporate and mass market in MTS Russia Business Unit

- Progress of the implementation of MTS OJSC marketing strategy
- Conclusion of the Strategic Partnership Agreement with Vodafone
- MTS OJSC Retail Sales Network Development Strategy
- Approval of MTS OJSC Corporate Social Responsibility Strategy
- Committees of the Board of Directors of MTS OJSC
- MTS OJSC convergent services development status
- Changes to MTS OJSC corporate structure
- Approval of the transaction between MTS OJSC and Ericsson AB
- Approval of criteria for evaluation of M&A and investment projects of MTS OJSC
- Approval of the conclusion of the Underwriting Agreement between Mobile TeleSystems Bermuda Limited, MTS OJSC, Goldman Sachs International, Barclays Capital Inc.
- Improvement of MTS OJSC corporate governance structure

Information on remuneration of members of the Board of Directors

The conditions of, and procedure for payment of remuneration to members of the Board of Directors of MTS OJSC are set out in the Rules and Regulations of Remunerations and Compensations Payable to the Members of the Board of Directors of MTS OJSC, a document approved by the General Meeting of Shareholders of MTS OJSC.

In accordance with that Rules and Regulations, members of the Board of Directors of MTS OJSC during their term of office receive remuneration and are compensated for expenses associated with their duties as members of the Board of Directors. Compensation is paid for actually incurred expenses to a maximum of \$10,000 per month and includes costs of travel to and from the venue of meetings of the Board of Directors plus accommodation expenses.

Members of the Company's Board of Directors receive remuneration in three forms:

1. Remuneration based on the results of work

1. Remuneration of independent directors of the Company:

- individual remuneration based on the results of work

The amount of individual remuneration of an independent director amounts to \$ 250, 000.00 for a corporate year, remuneration of the Chairman of the Board of Directors – \$ 275, 000.00 for a corporate year and can be changed only in accordance with a separate resolution of the General Shareholders' Meeting based on the results of the Company's work in the reporting year.

Individual remuneration based on the results of work shall be paid by the Company with monetary funds by four (4) equal installments. The first installment shall be paid within fifteen (15) days on completion of three months since the date of election to the Board of Directors (settlement period). The second and third installments of the remuneration shall be paid within fifteen (15) days since completion of the previous settlement period. The fourth installment shall be paid within fifteen (15) days after completion of a corporate year.

- bonus.

Independent directors receive additional remuneration depending on the amount of capitalization of MTS OJSC based on the results of the Company's work provided income is available in compliance with US GAAP standards and MTS Group budget is fulfilled at least by 95% for each of the following indicators: revenue, OIBDA% and net income. Maximum amount of bonus paid to independent directors at the time of receipt of remuneration shall not exceed \$ 200, 000.00.

The bonus shall be paid by the Company with monetary funds within fifteen (15) days on completion of a corporate year irrespective of the date of office termination of the independent director.

2. Remuneration of the Board of Directors members who are not independent directors

Remuneration to the Board of Directors members of the Company who are not independent directors shall be paid based on the results of work for the year if there is income available in compliance with US GAAP standards and MTS Group budget is fulfilled at least by 95% for each of the following indicators: revenue, OIBDA% and net income.

The amount of individual remuneration of the Board of Directors member totals \$ 250, 000.00 for a corporate year, the amount of remuneration of the Chairman of the Board of Directors amounts to \$275. 000.00 for a corporate year.

Therefore, the Board of Directors are stimulated to improve the Company's performance in each reporting year.

Remuneration shall be paid by the Company within fifteen (15) days after completion of a corporate year irrespective of the date of office termination of the Company Board of Directors member in compliance with these Regulations, annual financial statements data and the Minutes of the meeting of the Committee for Remunerations and Appointments of the Company Board of Directors.

2. Remuneration for performance of additional duties

Additional remuneration shall be paid to the members of the Board of Directors for discharge of duties related to the work on the Committees of the Board of Directors:

- \$25, 000.00 per annum for work in mandatory Committees of the Board of Directors as the Chairman of the Committee of the Board of Directors (for participation in each committee), \$15, 000.00 per annum to a member of the Committee of the Board of Directors.
- \$10,000.00 per annum for work in other Committees of the Board of Directors as the Chairman of the Committee of the Board of Directors (for participation in each committee), \$5, 000.00 per annum to a Committee member of the Board of Directors (for participation in each committee).

The Company shall pay remuneration with monetary funds by 4 equal installments. The first installment shall be paid within fifteen (15) days on completion of three months since election as a Committee member of the Company Board of Directors. The second and third installments shall be paid within fifteen (15) days on completion of the previous settlement period. The fourth installment shall be paid within fifteen (15) days on completion of a corporate year.

3. Additional forms of direct and indirect remuneration

The Company shall insure professional liability of the Board of Directors members and, therefore, ensure indemnification of potential losses to shareholders and investors related to decision making by the Board of Directors.

Total remuneration paid to the members of the Board of Directors in 2008: RUR 298 723 000.

Limit of coverage of civil liability of members of the Board of Directors of MTS OJSC under concluded insurance contracts:

- September 2006 to September 2007: \$ 100 million;
- October 2007 to October 2008: \$ 195 million;
- October 2008 to October 2009: \$ 250 million.

Committees of the Board of Directors

MTS OJSC
Board of
Directors

- **Budget Committee**

1. **A.N. Buyanov** – Chairman
 2. **T.V. Yevtoushenkova**
 3. **M.S. Gyani**
 4. **V.G. Savelyev**
- V.S. Travkov – Secretary

- **Audit Committee**

1. **P.J. Ostling** – Chairman
 2. **M.S. Gyani**
 3. **D.E. Crawford**
- R. Lukomsky – Secretary

- **Remuneration and Appointments Committee:**

1. **P.J. Ostling** – Chairman
 2. **M.S. Gyani**
 3. **D.E. Crawford**
- S.B. Nikonov – Secretary

- **Committee for Corporate Conduct and Ethics:**

1. **M.S. Gyani** – Chairman
 2. **S.A. Drozdov**
 3. **T.V. Yevtoushenkova**
 4. **M.V. Shamolin**
- M.A. Kalinin – Secretary

- **Strategy Committee:**

1. **V.G. Savelyev** – Chairman
 2. **M.S. Gyani**
 3. **A.V. Abugov**
 4. **T.V. Yevtoushenkova**
 5. **M. Hecker**
- G.A. Susdaltsev – Secretary

Terms of reference of the committees and their activities during the reporting year

Budget Committee

The main function of the Budget Committee is to develop proposals on MTS' financial policy and monitor and oversee its implementation.

During the reporting period the Committee reviewed and made decisions on such issues as:

- Implementation of the Financial Policy in 2007;
- 2009 Financial Policy;
- Financing in 2008;
- Appointing organizers for the issuance of MTS's ruble-denominated bonds;
- Gaining a long-term credit from the banks EBRD, NIB, EIB in the amount of up to MUSD 575;
- Hedging MTS' credit portfolio;
- Key inputs parameters for preparing MTS' budget for 2009;
- Key MTS' budget parameters for 2009;
- Appointing a new Secretary of the Budget Committee of MTS OJSC Board of Directors;
- MTS' budget for 2009;
- Refinancing plans for 2009.

Audit Committee

The main function of the Audit Committee is to monitor accounting and the preparation and auditing of the Company's financial reports.

During the reporting period the Committee met several times and made decisions on such important issues as:

- Discussion of the draft report on MTS' financial and operating results in Q4 2007;
- Discussion of the review from Deloitte in Q4 2007;
- Brief statement of the Audit Committee on some unusual and challenging operations with financial reporting in relation to financial documentation in Q4 2007;
- Preparing the working schedule and the status of 20-F Form;
- Presentation and discussion of the provisional status of SOX self certification;
- Discussion of the report on MTS' financial and operating results in Q1 2008;
- Discussion of the review from Deloitte in Q1 2008;
- Discussion of the draft report on MTS' financial and operating results in Q2 2008;
- Discussion of the review from Deloitte in Q2 2008;
- Preparing the report on the work schedule and 20-F Form status;
- Discussion of the draft report of MTS' financial and operating results in Q3 2008;
- Discussion of the review from Deloitte in Q3 2008;
- Discussion of Deloitte's report on the integrated audit and consolidated financial statements for 2007;

- Discussion of the consolidated financial statements for 2007 and press release details;
- Discussion of the risk section of the report prepared under Form 20-F;
- Presentation and discussion of the Risks Report of the MTS OJSC Group;
- Discussion of remunerations payable to external auditors for the audit services and additional services in 2008;
- Issues relating to the internal audit management and administration.

Remuneration and Appointments Committee

The main function of the Remuneration and Appointments Committee is to identify the Company's priorities relating to the development and implementation of human resources policy and development strategy in human resources and remuneration.

During the reporting period the Committee met several times and made decisions on such important issues as:

- Recommendations regarding the appointment of a member of the Audit Committee of MTS OJSC Board of Directors;
- Approval of the work schedule of the Remuneration and Appointments Committee for 2008–2009;
- Approval of changes in the list of participants of the MTS OJSC Stock Option Program for 2008;
- Transfer of the fund of reserved (unused) bogus shares of Stock Option Programs for 2007 and 2008 (I) to the 2008 Stock Option Fund (II);
- Approval of the fund size and the number of participants of the MTS OJSC Stock Option Program Based on Distribution of Phantom Shares and Conditions of Participation in it of Managers and Employees for 2008–2009;

- Approval of the fund size and the number of participants of the MTS OJSC Stock Option Program Based on Distribution of Phantom Shares and Conditions of Participation in it of Managers and Employees for 2008–2010;
- Review of changes in the MTS OJSC Stock Option Program.

Committee for Corporate Conduct and Ethics

The main function of the Committee for Corporate Conduct and Ethics is to create a system of effective corporate conduct (governance) consistent with international standards that facilitates improved governance.

During the reporting period no substantial breaches of corporate conduct rules or ethics were identified in the operation of the MTS Common Hotline.

During the reporting period the Committee met several times and made decisions on such important issues as:

- Election of the Committee's Secretary;
- Approval of the work schedule of the Committee for 2008;
- Approval of candidates nominated for the election to Board of Directors (Supervisory Boards) and auditing commissions of foreign subsidiaries;
- Review of the report on the operation of the MTS Common Hotline regarding ethics;
- Convocation of the Annual General Meeting of MTS OJSC Shareholders;
- Review of the restated version of the Code of Ethics for MTS OJSC Senior Executives.

Strategy Committee

The main function of the Strategy Committee is the strategic development of the Company and formulating recommendations on other priority areas of the Company's development.

During the reporting period the Committee met several times and made decisions on such important issues as:

- Status of the Project to develop the strategic unincorporated partnership between MTS and Vodafone (Red Brothers) including the description of the business case;
- M&A activities of MTS: brief description of the status of current projects;
- Appointment of the Secretary of the Strategy Committee of the Board of Directors of MTS OJSC;
- MTS' positioning with respect to the acquisition of GV Telecom;
- MTS' positioning with respect to the acquisition of Kinnevik Group;
- Report on the implementation of MTS' marketing strategy;
- Report on NPS analysis of MTS vs. competitors in Q3 2008;
- Report on services and network quality in MTS OJSC vs. competitors in Q3 2008;
- Work schedule of the Strategy Committee of the Board of Directors of MTS OJSC for 2008–2009;
- Forecast of the results of the implementation of MTS' functional strategies (marketing strategy, sales and customer service strategy, technology strategy, IT strategy);
- Pre-evaluation of the Criterion Basis;
- Measures to cut costs.

Individual Executive Body: The President

During 2008 the functions of the Sole Executive Body (President) of MTS OJSC were discharged by the following persons:

- **Leonid Adolfovich Melamed** during the period from 14 June 2006 to 29 June 2008
- **Mikhail Valeryevich Shamolin** during the period from 30 May 2008 up to the present date.



Leonid Adolfovich Melamed

Born in 1967.

Mr. Melamed graduated from the Sechenov Moscow Medical Academy and holds a doctorate in medicine.

Mr. Melamed has been a board member of the global GSM Association (GSMA) since 2008.

Mr. Melamed was the President of MTS OJSC from June 14, 2006 to May 29, 2008, and a member of its Board from June 23, 2006 to October 02, 2008.

From 1991 to 2006 he was employed at ROSNO insurance company, where he was appointed General Director and Management Board Chairman in 2003.

From 2004 to 2006 Mr. Melamed headed the Expert Council on Insurance Legislation, part of the State Duma Committee on Lending Institutions and Financial Markets.

In 2004 he was named Person of the Year in the annual People of the Year project run by the Internet holding company Rambler and received a Russian Golden Salamander Public Award in insurance in the category of Insurance Company Leader. In 2005 he received a national award as Person of the Year in the category of Insurance Company Leader and was named 2005

Manager of the Year for rapid enhancement of strategic potential under the Century Actors project carried out by the International League for Strategic Management, Assessment, and Accounting, the Institute of Economic Strategies, and the journal Economic Strategies. He was also named one of the 250 “Young Global Leaders” by the World Economic Forum in 2007.

He held 200,000 registered common shares of MTS OJSC during the reporting year.



Mikhail Valeryevich Shamolin

Was elected President of MTS OJSC by the resolution of the Board of Directors’ meeting of 29 May 2008 (Minutes No. 120) for a term of three (3) years.

Born in 1970.

Mr. Shamolin graduated from Moscow Automobile and Road Institute in 1992. In 1993 he got the second degree from the Russian Academy of Government Service under the President of the Russian Federation. From 1996 to 1997 he studied at Wharton Business School, where he completed finance and management course for top managers.

Mr. Shamolin joined MTS in July 2005 as Vice President of Sales and Customer Service. On August 15, 2006 he was transferred to the position of Vice President and Director of MTS Russia Business Unit.

Prior to joining MTS, Mr. Shamolin was served at Interpipe Corp. in Ukraine as Managing Director of the Ferroalloys Division. From 1998 to 2004 he was employed with the international consulting company McKinsey&Co,

He held 174,890 registered common shares of MTS OJSC during the reporting year.

Collective Executive Body: The Management Board

On May 29, 2009 the Board of Directors adopted a resolution electing new members of MTS OJSC Management Board (Minutes No. 120).

Composition of the Management Board as of December 31, 2008:



Mikhail Valeryevich Shamolin Chairman of the Management Board

Born in 1970.

Mr. Shamolin graduated from Moscow Automobile and Road Institute in 1992. In 1993 he got the second degree from the Russian Academy of Government Service under the President of the Russian Federation. From 1996 to 1997 he studied at Wharton Business School, where he completed finance and management course for top managers.

Mr. Shamolin joined MTS in July 2005 as Vice President of Sales and Customer Service. On August 15, 2006 he was transferred to the position of Vice President and Director of MTS Russia Business Unit. On May 29, 2008 he was appointed President and CEO of the Company.

Prior to joining MTS, Mr. Shamolin was served at Interpipe Corp. in Ukraine as Managing Director of the Ferroalloys Division. From 1998 to 2004 he was employed with the international consulting company McKinsey&Co,

He held 174,890 registered common shares of MTS OJSC during the reporting year.



Alexander Genrikhovich Bogatyrev

Born in 1956.

Mr. Bogatyrev graduated with a degree in automatics and remote control from the Moscow Forestry Engineering Institute. Cand. Sc. (Engineering).

Mr. Bogatyrev joined MTS OJSC in 2006 as advisor to the Vice President of Network and Information Technologies. Prior to joining MTS, he was the Chief Technical Officer in ROSNO OJSC. From 1999 to 2004 he lived in Israel where he occupied key positions in companies engaged in logistics and software development.

Since July 2008 he has been the MTS OJSC Vice President of network and Information Technologies.

Member of the Supervisory Board of Ukrainian Mobile Communication CJSC (UMC CJSC) since 2007.

He held no shares of MTS OJSC during the reporting year.



Pavel Dmitrievich Belik

Born in 1966.

Mr. Belik he graduated from the KGB's Orel Higher Military Command Communications School in 1987 specializing in the operation of radio-relay and tropospheric communication systems.

He served in the government communication forces from 1987 to 1992. From 1992 to 2004 he served in military counter-intelligence units and the Internal Security Directorate of the Russian Federal Security Service (FSB).

He graduated in law from the FSB Academy in 1999.

Mr. Belik joined MTS in February 2005 as Director of Security for the Moscow Macro Region. He has been Vice President of Security of MTS OJSC since October 3, 2005.

He held 13,916 registered common shares of MTS OJSC during the reporting year.



Cynthia Alison Gordon

Born in 1962.

Mrs. Gordon graduated with a B.A. from Brighton University.

Mrs. Gordon started her career at Unilever on a management trainee program in brand management of major mass-market brands.

Prior to joining MTS OJSC, she was Vice President of Marketing at Orange. She was Marketing Director at Orange in the U.K. from 2001 to 2003.

From 2000 to 2001 she was Marketing Director at Demon/Scottish Telecom. She held the same post at ACC International (AT&T) from 1998 to 1999, and from 1993 to 1998 held a range of senior marketing positions at British Telecom and was the head of ChargeCard. She worked at One to One (T-Mobile) from 1991 to 1993, and at Lloyds TBS and Abbey National from 1989 to 1993.

Since January 2007 Mrs. has been MTS OJSC Vice President-Chief Marketing Officer.

He held no shares of MTS OJSC during the reporting year.



Andrey Anatolyevich Dubovskov

Born in 1966.

Mr. Dubovskov graduated from the S.A. Gerasimov All-Union State Institute of Cinematography (VGIK) in 1993.

Mr. Dubovskov was appointed Director of MTS Ukraine Business Unit in January 2008. He joined the MTS Ukraine Business Unit as the First Deputy Director General in December 2007.

From 2006 to 2007, he was Director of MTS Ural Macro Region, from 2004 to 2006 served as Director of MTS OJSC branch in Nizhny Novgorod. From 2002 to 2004, he headed one of Tele2 Group companies in Nizhny Novgorod.

Mr. Dubovskov has a wealth of experience in working for Russian and foreign telecommunications companies. From 1993 onwards, he occupied a number of management positions in such companies as Millicom International Cellular S.A., Millicom International Cellular B.V., Regionalnaya Sotovaya Svyaz LLC and CJSC 800 as well as other companies in Moscow, Alma-Ata, Nizhny Novgorod and Perm.

He held 11,650 registered common shares of MTS OJSC during the reporting period.



Ruslan Sultanovich Ibragimov

Born in 1963.

Mr. Ibragimov graduated in law from Moscow State University in 1986, where he continued to post-graduate studies. Cand. Cs. (Law).

Mr. Ibragimov joined MTS OJSC in 2006 as Director of the Legal Department, and in February 2007 was appointed to the position of Director for Legal Matters. In February 2007 he headed the Legal Block.

Prior to joining MTS OJSC, he worked at the Moscow college of lawyers Ibragimov, Kagan, and Partners. From 1997 to 2002 he held the post of directing partner, Deputy General Director-Head of Tax and Legal Consultation at Top-Audit. From 1992 to 1996 he headed legal services in several commercial banks. He is a member of the Board of the Non-profit Organization Russian Corporate Counsel Association (RCCA).

He held 19,824 registered common shares of MTS OJSC during the reporting period.



Alexey Valeryevich Kornya

Born in 1975.

Mr. Kornya graduated from the Saint Petersburg State University of Economics and Finance in 1998.

Mr. Kornya joined MTS OJSC in July 2004 as the Chief Financial Officer of MTS OJSC Ural Macro Region. In October 2004 he occupied the position of Director of the Financial Planning and Analysis Department, the Financial Block, MTS Group CC, in March 2007 he was appointed Director of Controlling, the Finance and Investment Block.

Since August 2008, he has been headed the Finance and Investment Block.

Prior to joining MTS OJSC, Mr. Kornya was employed at Severo-Zapadny Telecom OJSC in Saint Petersburg, Petrazavodsk. Prior to that, he served as auditor at the Audit Department of PricewaterhouseCoopers CJSC in Saint Petersburg,

He held no shares of MTS OJSC during the reporting year.



Sergey Borisovich Nikonov

Born in 1960.

Mr. Nikonov graduated from the Military Institute of the USSR Ministry of Defense as a military interpreter in 1987.

Mr. Nikonov joined MTS OJSC in July 2006.

In October 2005 he became Deputy General Director of Power Machines OJSC responsible for human resources and administration.

From 2003 to 2005 he served as the Deputy General Director of ROSNO, where he headed human resources, administration, and internal control.

He worked with the Federal Tax Police Service from 1992 to 2002. He began his career in 1987 with state security agencies.

He held 19,982 registered common shares of MTS OJSC during the reporting period.



Alexander Valaryevich Popovsky

Born in 1977.

Mr. Popovsky graduated with a degree in computing machinery, systems and networks (system engineer) from the Vyatka State Technological University in 1999, where he continued to post-graduate studies (systems analysis). In 2005 he got an academic degree Cand. Sc. at the Moscow Aeronautical Institute, and participated in the program of Executive MBA London Business School.

From 1999 to 2001 he served as manager of the telecommunication network transmission section of KirovElectrosviaz JC. In April 2001 he joined MTS OJSC as the Director of MTS OJSC Branch in Kirov. In July 2004 he became the Director of MTS OJSC Branch Volga Region–Northwest. In June 2007 he was appointed to the office of Director of MTS OJSC Macro Region South.

Since 2008 he has been the Director of MTS Russia Business Unit.

He held 20,717 registered common shares of MTS OJSC during the reporting period.



Oleg Yuryevich Raspopov

Born in 1966.

Mr. Raspopov graduated in law from the Academy of the RF Ministry of Taxation in 2003, and graduated in economics from the Academy of Finance under the Government of the RF in 2006.

He has been the Vice President, Director of MTS–Foreign Subsidiaries Business Unit since January 2008.

Mr. Raspopov joined MTS OJSC in June 2006 as Director of the External Resources Management Department. In March 2007 he was appointed acting Vice President, Director of MTS–Foreign Subsidiaries Business Unit.

Prior to joining MTS OJSC, in November 2004 he headed Insurance Broker–Energozashchita OJSC that was established by him. From 2002 to 2004 he occupied the position of assistant of the Chief Financial Officer of RAO UES of Russia OJSC. From 2001 to 2002 served as lawyer at Gaspromenergосervice CJSC.

He held no shares of MTS OJSC during the reporting year.



Andrey Borisovich Terebenin

Born in 1962.

Mr. Terebenin graduated from MGIMO (Moscow State Institute of International Relations) of the RF Foreign Ministry in international economic relations.

In 1999 he became a partner in the communications agency Treugolnik Porter Novelli, and from 2003 prior to coming to MTS held the position of General Director and partner at the communications holding company R.I.M. Porter Novelli. He held management posts at Ekonomicheskaya Gazeta, Dun & Bradstreet CIS, and AIG Russia.

He held 29,735 registered common shares of MTS OJSC during the reporting period.



Michael Hecker

Born in 1970.

Mr. Hecker is a graduate in administration and international politics from Pierre Mendez France University of Grenoble (France) and a graduate in law and modern history from Goettingen University (Germany), where he also earned a PhD in the history of constitutional law.

He joined MTS OJSC in May 2006 as the Director of Strategic Projects.

Since 2008 he has been the MTS OJSC Vice President of Strategy and Corporate Development.

Prior to joining MTS OJSC, Mr. Hecker worked at A.T. Kearney Europe, where he was involved in strategy, marketing, and finance projects for telecommunications companies and consumer-goods manufacturers. Prior to that he served as a junior associate lawyer in Berlin and Brandenburg (Germany).

He held no shares of MTS OJSC during the reporting year.

The following persons ceased to be members of the Management Board between January 1 and December 31, 2008, by resolution of the Board of Directors:

- Leonid Adolfovich Melamed (the resolution of the Board of Directors was adopted on May 29, 2008)
- Vsevolod Valeryevich Rozanov (the resolution was adopted on September 04, 2008)

Total remuneration paid to members of the Management Board and the President of the Company in 2008: RUR 881 828 000.

Financial and business oversight bodies

The financial and business oversight bodies of MTS OJSC re structured as:

MTS OJSC Auditing Commission

On June 27, 2008, the Annual General Meeting of Shareholders of MTS OJSC elected the following persons as members of the Auditing Commission:

1. **Vasily Vasilyevich Platoshin**, citizen of the Russian Federation, b. 1965, Chief Accountant of JSFC Sistema OJSC;
2. **Artem Yevgenyevich Popov**, citizen of the Russian Federation, b. 1979, Executive Director of Financial Planning and Budget Department of JSFK Sistema OJSC.
3. **Mikhail Vladimirovich Tolkun**, citizen of the Russian Federation, b. 1958, Managing Director for Appraisal and Methodology, Chief of the Internal Control and Audit Department of JSFC Sistema OJSC.

The Auditing Commission is independent from officers of the Company's management bodies and reports solely to the General Meeting of Shareholders of the Company.

Based on the results of its work, the Auditing Commission presented its findings on the financial statements of MTS OJSC for 2008. According to the Auditing Commission, the audit provided a reasonable basis to express the opinion that the financial and business operations of MTS OJSC during the reporting year were in all material respects carried out in accordance with current legislation, and that the annual financial statements of MTS OJSC for 2008 fairly present the Company's financial condition as at December 31, 2008, and the results of its financial and business operations for the period from January 1 through December 31, 2008.

Auditor of MTS OJSC

On June 27, 2008, the Annual General Meeting of Shareholders of MTS OJSC approved as the Company's auditor ZAO Deloitte & Touche CIS (location: 4/7 ul. Vozdvizhenka, bldg. 2, Moscow, Russian Federation, main state registration

number (OGRN) 1027700425444, License No. E 002417 issued on November 6, 2002, by the RF Ministry of Finance for 5 years, extended by RF Ministry of Finance Order No. 676 of October 31, 2007, for five years from November 6, 2007, under the same number). Deloitte has received international recognition and numerous awards for its high quality of service and unique corporate culture. Kennedy Information ranks Deloitte as the world's number one provider of advisory services.

In 2006 the London publication International Securitisation Report (ISR), for the eighth time, named Deloitte the world's best audit firm in the provision of securitization services.

Deloitte's tax practice was voted best in Europe in International Tax Review's survey of tax directors and CFOs.

Deloitte Touche Tomatsu was recognized by the World Business Council for Sustainable Development (WBCSD) as having the best scores for economic development.

The work performed by the Auditor:

- Audit of MTS' 2008 Annual Financial Statements prepared under Russian accounting standards;
- Integrated audit of MTS Group' 2008 Consolidated Financial Statements prepared under US GAAP and as required by the Sarbanes–Oxley Act.

Based on the audit the Auditor of MTS OJSC expressed the opinion that the financial statements of MTS OJSC were fairly presented and accounting procedures were consistent with the laws of the Russian Federation and GAAP requirements.

The Auditor's fee is approved by MTS OJSC Board of Directors and was, based on 2008 results, RUR 83,000 thousand, exclusive of the cost of eventual additional consultancy services not exceeding RUR 23,998 thousand and the value added tax.

Internal Audit Department of MTS OJSC

The Internal Audit Department of MTS OJSC was formed in September 2003, and is an independent unit of the Company within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. Today

the Department consists of a head of the department, a financial and business operations analysis section, and an operational audit and coordination section, and employees at the Company's macro-regional branches.

The Internal Control Department performs the following functions:

- provides guarantees of the fair presentation of information, compliance with requirements and verification of effectiveness through reviews, internal audits, diagnostic studies, and releases: regularly, as needed, or in the form of ad hoc audit projects;
- participates in investigations, transactions, and various operations of the Company, and in projects of other units of the Company: as needed or in the form of ad hoc projects/assignments;
- provides advice and recommendations, including explanations on selected issues, assists in finding solutions and improvements, educating employees in matters under review: as necessary, in the course of reviews, or in the form of ad hoc advisory and educational projects.

The Internal Audit Department reports directly to the President of MTS OJSC and functionally to the Audit Committee of the Board of Directors of MTS OJSC.

Control Department of MTS OJSC

The Control Department was formed in June 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. The Department consists of a head of the department, a deputy head of the department, a financial and business operations review section, and administrative control section, and a performance assessment section.

The Control Department performs the following functions:

- monitoring and analyzing the results of financial and business operations of the units of MTS OJSC;
- monitoring compliance with fiscal discipline at MTS OJSC and monitoring the implementation of decisions of its management bodies, including its collective management bodies;

- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;
- monitoring the preparation and implementation of operational and design plans;
- monitoring the implementation of internal regulations and business processes;
- monitoring the effectiveness and transparency of the system of governance at MTS OJSC, including identifying abuses by executive bodies and officers of MTS OJSC;
- monitoring compliance with instructions of the President of MTS OJSC;
- conducting independent investigations at the request of the President or collective management bodies of the Company;
- conducting independent investigations in the event of conflicts between different units of the Company;
- preparing opinions on violations brought before the disciplinary commission of MTS OJSC.

The Control Department reports directly to the Head of the MTS OJSC President's Office.

Internal Control Systems Department of MTS OJSC

The Internal Control Systems Department was formed in 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center. The Department operates in accordance with its Regulations. The Department consists of a head of the department, a development and support section, and certification and testing section.

The Internal Control Systems Department performs the following functions:

- developing effective internal control systems at MTS Group;
- supporting internal control systems;
- testing and certifying internal control systems at MTS Group.

The Internal Control Systems Department reports directly to MTS Vice President of Finance and Investments and is accountable to the Audit Committee of MTS OJSC Board of Directors.

Audit Committee of MTS OJSC Board of Directors

The Audit Committee of the Board of Directors of MTS OJSC was created in October 2003. It is an advisory body of the Board of Directors that ensures that the Board of Directors is provided with objective information on a number of issues.

The main duties of the Audit Committee are:

- overseeing the work of the management of MTS OJSC, evaluating its effectiveness, and providing information to the Board of Directors, and formulating relevant recommendations, in the following areas:
 - risk management and internal control systems;
 - financial accounting and preparation of the Company's reports and evaluation of their fair presentation;
 - compliance with requirements applicable to the activities of MTS OJSC;
 - effectiveness of implementation of goals and objectives by the Board of Directors.
- overseeing and coordinating activities and plans and evaluating the performance of the internal audit service of MTS OJSC;
- appointing and determining the qualifications, level of remuneration, and independence of the external auditor; evaluating the quality of services provided by the auditor; reviewing opinions and results of the

work of external auditors; providing preliminary approval and confirmation of auditors' services in accordance with applicable requirements of regulators; and formulating relevant recommendations for the Board of Directors and management team;

- providing effective coordination of information exchange between external and internal auditors, maintaining proper independence of auditors, and assisting in addressing factors that diminish their independence;
- ensuring the development and implementation of effective policies and standards relating to risk management, compliance with the Company's requirements and internal controls, and compliance with measures to prevent fraud and abuse, including measures to support procedures for receiving, keeping, and reviewing complaints;
- advising employees of MTS OJSC on accounting, internal controls, and auditing (whistle-blower initiatives).

Company financial results for 2008



Company financial results for 2008

In the past several years MTS OJSC has transformed from being the leader of one regional market of Moscow into a major transnational operator, which provides services to 95.66 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in Belarus, whose financial results are not consolidated in the US GAAP financial statements of MTS OJSC)

Below we present the data of consolidated financial statements, excluding the financial results of the operations of MTS OJSC in the Republic of Belarus.

Group revenue. Revenue contribution per country*



* Percentages indicated do not equal 100% due to rounding

Key financial indicators, 2008 (MUSD)

Indicators	Q4 2008	Q4 2007	Q4 2008 vs. Q4 2007	Q3 2008	Change over the quarter	2008	2007	Change over the year
Revenue	2 418	2 326	4%	2 812	-14%	10 245	8 252	24%
OIBDA	1 162	1 127	3%	1 453	-20%	5 140	4 223	22%
OIBDA margin	48.1%	48.4%	-0.3 pp.	51.7%	-3.6 pp	50.2%	51.2%	-1.0 pp
Net operating income	706	644	+10%	936	-25%	3 204	2 734	17%
Net operating margin	29.2%	27.7%	+1.5 pp	33.3%	-4.1 pp	31.3%	33.1%	-1.8 pp
Net income	146	460	-68%	516	-72%	1 930	2 072	-7%

- The full year consolidated revenue increased by 24% to 10.245 billion USD
- The full year consolidated OIBDA increased by 22% vs. 2007 to 5.140 billion USD (OIBDA margin made up 50.2%)
- The full year consolidated net income decreased by 7% to 1.930 billion USD
- The Company's positive net cash flow in 2008 made up 2.148 billion USD

Revenue structure (MUSD)

Region	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2007	2008	Change over the year
Russia	1 723.4	1 797.7	2 020.3	2 166.7	1 855.5	6 181.0	7 840.2	+27%
Ukraine	425.3	408.8	434.0	465.3	353.9	1 608.0	1 662.0	+3%
Uzbekistan	76.6	79.4	93.2	103.1	115.7	248.5	391.4	+58%
Turkmenistan	46.7	43.8	34.2	20.2	33.2	168.5	131.4	-22%
Armenia*	58.2	55.2	61.5	75.0	65.0	66.5	256.6	

* Note: Armenia figures were included in the Group financial statements beginning from September 14th, 2007.

OIBDA (MUSD)

Region	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2007	2008	Change over the year
Russia	822.0	877.4	1 034.6	1 115.2	897.1	3 152.7	3 924.3	+24%
Ukraine	194.8	190.1	202.6	224.6	142.0	781.8	759.3	-3%
Uzbekistan	48.7	49.1	57.7	65.5	70.6	157.8	242.9	+54%
Turkmenistan	28.6	26.9	21.6	8.5	20.5	93.5	77.6	-17%
Armenia*	32.7	32.0	33.0	39.4	31.9	37.7	136.2	

* Note: Armenia figures were included in the Group financial statements beginning from September 14th, 2007.

OIBDA margin (MUSD)

Region	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	2007	2008
Russia	47.7%	48.8%	51.2%	51.5%	48.3%	51.0%	50.1%
Ukraine	45.8%	46.5%	46.7%	48.3%	40.1%	48.6%	45.7%
Uzbekistan	63.6%	61.8%	61.9%	63.5%	61.0%	63.5%	62.1%
Turkmenistan	61.4%	61.6%	63.0%	42.3%	61.7%	55.5%	59.0%
Armenia*	56.2%	57.9%	53.7%	52.5%	49.1%	56.6%	53.1%

* Note: Armenia figures were included in the Group financial statements beginning from September 14th, 2007.

Main conclusions

- The Group's stable financial position allows flexible and quick response to market changes and creation of additional shareholder value.
- Revenue growth due to the subscriber base growth and growing use of voice and value-added services.
- Achievement of the Group's 50% OIBDA margin target despite the growth of expenses due to inflation.
- Retaining profitability in more competitive markets through the control over expenses and effective investment in developing these markets.
- Leveraging greater scale by expanding our footprint and expanding networks in the markets of presence.

Thanks to its successful financial results for 2008, MTS is now one of the Russian stock market's "blue chip" companies and ranks among the world's 10 largest operators by the size of its subscriber base.

Main risk factors

Main risk factors

We are an operator, which provides chargeable telecom services to subscribers. Our financial position and operating indicators depend among other things on the paying capacity of the population, competitive environment in the countries of presence, demand for our services and operations effectiveness. Our activities are regulated by the state, in particular, through licensing and the laws effective in the countries of our presence. For provision of wireless services we use radio frequencies, which are allocated by the states of these countries. We are planning to develop the infrastructure of our network through the expansion of the coverage and the increase of capacity of the existing network in the licensed territories, further expansion of our operations in the countries of our presence and other countries through new acquisitions or new licenses, which is taken into account in our program of capital investments.

Macroeconomic instability and slowdown in the economic growth in the countries where the company operates may result in the decrease of demand for the services provided, decrease of revenues and indicators of effectiveness of the Company. The financial market crisis may restrict the Company's ability to raise debt financing, limit the Company growth rates, affect the financial position of the Company.

In addition to Russia we are present in the markets of Ukraine, Uzbekistan, Turkmenistan, Belarus, Armenia, and we can further expand our presence in future to other countries. Our business activities, operating indicators and financial position may depend on the relations between Russia and other countries of our presence, effectiveness of local and regional authorities, economic situation in these countries and in Russia, social situation. The economies of the countries of our presence are subject to the influence of the world economic slump and economic slowdown and also depend on the dynamics of the prices for raw materials in the world market.

The telecommunications market is subject to rapid and significant changes in technology and is distinguished by the constant emergence of new products and services, which require constant alignment with them. Consequently the technologies that we currently use may become less profitable and even obsolete. The competition is growing including the competition from potential new mobile operators in the markets, where our Company already operates. To manage this risk the Company invests in the increase of the portfolio of value added services as well in the roll-out of 3G network and development of

other wireless services. Among other things our competitive position, financial and operating indicators depend on the implementation of these initiatives.

Independent dealers account for a significant share of new acquisitions and our financial indicators depend on their loyalty; however we also develop sales channels, which are under our control.

The state bodies of the countries of our presence have a high degree of freedom with respect to granting, extension, suspension and withdrawal of licenses, definition of criteria for classifying companies in certain territories as monopolists, companies having a dominant position and/or a significant position by issuing corresponding decrees and laws. If we or any of our subsidiaries are classified as having a dominant position in the country of our presence, the government of this country will be able to apply certain restrictions to our activities, tariffs for telecom services and traffic transmission, which may affect our business, financial position and operating results. The capacity of our network and the feasibility of its expansion, which among other factors are important for maintaining the market share as for subscribers and revenues, will depend on the ability to timely extend the right to use the allocated frequencies and get new frequencies.

We keep the main portion of our rouble and hard currency reserves in Russian banks, including the subsidiaries of foreign banks. A notable portion of our expenses, costs and liabilities, including capital expenses and loans are nominated in USD and/or EURO, while the main portion of our revenues is nominated in locals currencies of the counties of our presence. The situation in the markets of our presence, including the stability of the banking system, inflation, fluctuation of exchange rate of local currencies to USD and/or EURO influences our operating indicators and operating results.

Agreements on our active bonds and bonds of our controlling shareholder AFK Sistema as well as some loan agreement contain liabilities, which among other things restrict our capability as well as the capability of AFK Sistema OJSC and its subsidiaries (including our company) to raise borrowed funds, create security interests, dispose of assets, carry out merger and consolidation with other parties, sell or transfer our GSM licenses or GSM licenses of our subsidiaries, including those of our foreign subsidiaries. Non-performance of these obligations as well as the change of the majority shareholder may result in the early redemption of Eurobonds.

For more information on the risks please see section «Item 3 – Key Information – D. Risk Factors» in the annual MTS OJSC 20-F report and the quarterly MTS OJSC report for 2008.

Human resources and social policy



Human resources and social policy

Work and compensation

As at December 2008 MTS OJSC had 22 467 employees on its payroll list.

In 2008, within the framework of the compensation policy of MTS OJSC, which envisages annual reviews of the employees' wages, based on performance appraisals, the average salary increased by 15%.

At present the Company has the compensation system that consists of fixed and variable portions.

The fixed portion (the salary) is determined taking into account the salary ranges established for each grade based on the analysis of the Labour market in the region of presence.

The incentive program, which establishes explicit and transparent principles for setting bonus target amounts and calculating their actual amounts on the basis of performance, was introduced in MTS OJSC in 2007 and remained effective in 2008. The incentive system is based on key performance indicators and individual targets, which are set in bonus plans to be signed with each employee. Quarterly and annual plans are paid to Company employees based on the fulfillment of the bonus plan.

Main reasons for introducing the new incentive system in 2007 were as follows:

- to link an employee's income to his/her performance and the performance of the Company as a whole;
- to provide both short-term and long-term incentives to achieve the goals, set to the Company;
- to define a clear and transparent system of objective rules for setting targets and evaluating their fulfillment and the principles for calculating bonuses.

In 2008 bonus system for the employees, who are engaged in sales activities and customer care services, was revised and optimized.

Main reasons for introducing the new incentive system for the employees engaged in sales activities and customer care services, in 2008 were as follows:

- improvement of the performance of the employees engaged in sales activities and customer care services;
- setting up an explicit and transparent system of objective rules for setting targets, appraisal of their achievement and appraisal of the principles of bonus calculation;
- bringing the incentive systems of different sales and customer care divisions in line with general principles;
- improvement of the competitiveness of the incentive system for sales and customer care employees.

Main results of implementing the incentive system:

- the Company has got a regulated compensation system, which establishes explicit, objective and transparent rules for calculating both fixed and variable portions;
- implementation of the incentive system contributed to the improvement of effectiveness of MTS OJSC operations and improvement of financial discipline of Company managers – improvement of compensation system competitiveness.

Improvement of the MTS OJSC organizational structure in 2008

	Results of the changes
01.04.2008 – Creation of the Block for Strategy and Corporate Development of the MTS OJSC Group Corporate Centre	One Block combined the departments for corporate and strategic development. Concentration of the functions of strategic and corporate development of the Company within one Block allowed making complex decisions both on strategic objectives and organizational mechanisms for their implementation.
31.12.2008 – Inclusion of the Department for the Work with Strategic Partners in the Block for Strategy and Corporate Development	A division was established that will monitor the cooperation of MTS OJSC with its strategic partner Vodafone: procedures for exchanging best practices and for the use of the Vodafone experience were set up.
31.03.2008 – Reorganization of operations of the Marketing and Sales divisions of BU MTS Russia and their splitting into two functional directions: – commercial direction for the work with the retail market – commercial direction for the work with the business market	<p>The organizational structure was to the maximum extent adjusted for coordination of activities aimed at strengthening the MTS OJSC market position in each segment.</p> <p>Strengthening the MTS position in the business market, increase of the market share with respect to revenues.</p> <p>Improvement of sales effectiveness, increase of the market share with respect to subscribers.</p>
01.07.2008 – Creation of the Block for Convergence of the MTS Group Corporate Centre	<p>Establishment of the Block for Convergence was necessary for implementing the strategy for broadband access. The establishment of the Block and strategy implementation will make it possible for MTS OJSC:</p> <ul style="list-style-type: none"> • to diversify the MTS OJSC business by penetrating to the attractive fixed line telecom market segments with a convergent solution (total communications provider strategy); • to earn additional revenue with a high OI-BDA level; • to differentiate the offers prepared for customers as compared to those of competitors and to increase ARPU; • to improve the loyalty of MTS OJSC customers and reduce the churn rate; to draw away competitors' customers;

- to adequately respond to the merger of Vimpelcom OJSC and Golden Telecom, protect the MTS OJSC corporate customer base, strengthen the position in the mass market;
- to effectively use the existing fixed line infrastructure;
- to “give more” to customers and to establish itself as a leader in the market of convergent services.

<p>01.12.2008 The Marketing Block was renamed the Commercial Block of the MTS Group Corporate Centre and the Block organizational structure was optimized.</p>	<p>The Marketing Block was renamed the Commercial Block in order to improve the understanding of the functions and responsibilities (in order to emphasize that the MTS OJSC sales divisions belong to this Block alongside with the marketing divisions)</p>
<p>01.12.2008 Merger of the CC and BUR communication management divisions at the level of the Block for Corporate Communications</p>	<p>Transfer of all functions of corporate communications management in the RF to one division;</p> <p>Improvement of the effectiveness of corporate communications by giving the responsibility for the management of such communications to one division;</p> <p>Optimization of payroll expenses by reducing the total number of the employees of the CC PR Department and BUR PR Department.</p>

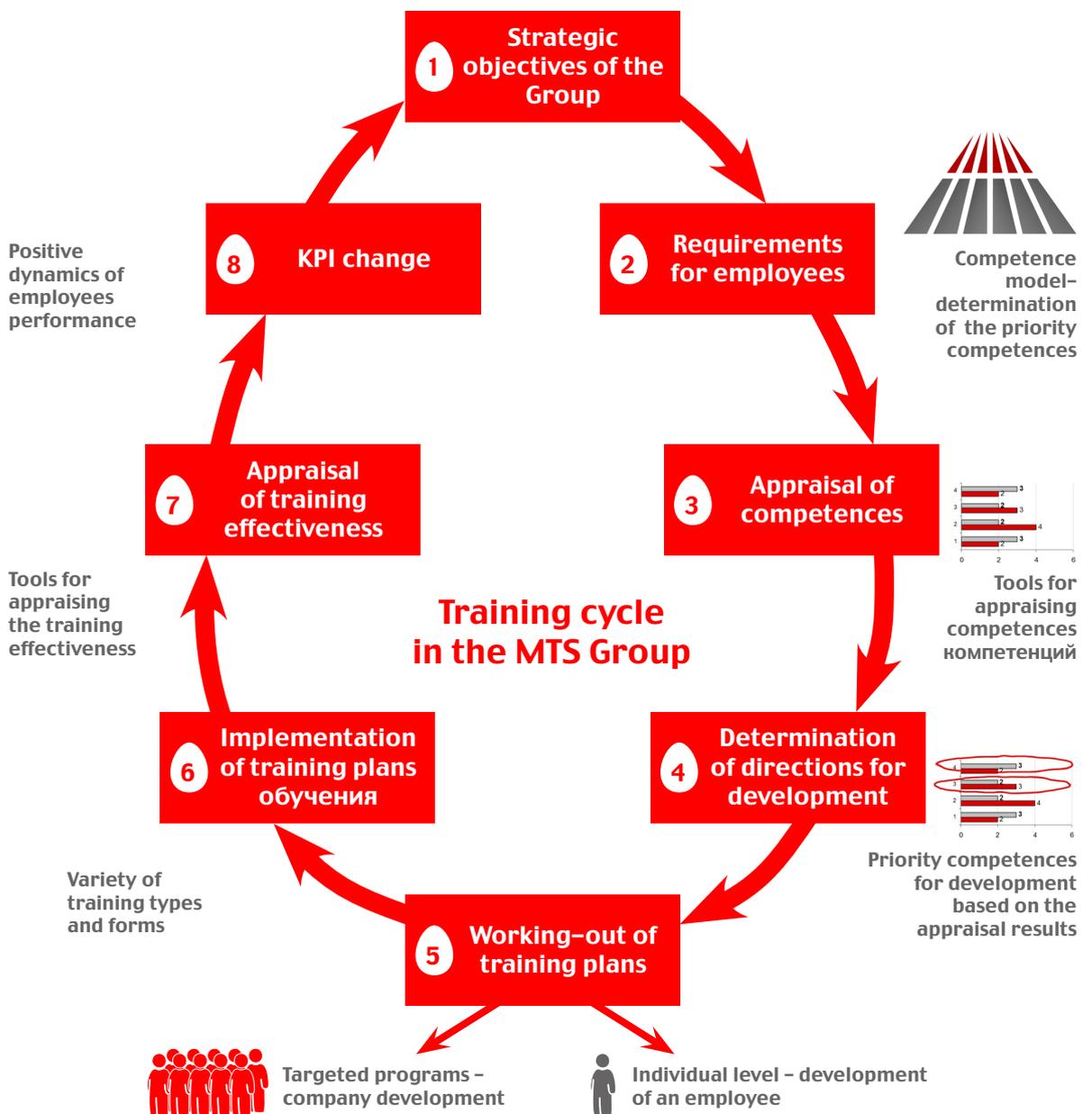
In 2008 the basic changes in the MTS OJSC organizational structure were aimed at the support of development of new business lines and priority projects, such as broadband access, partnership with Vodafone. Besides, the changes in the organizational structure were aimed at improvement of the effectiveness of company operations, strengthening its positions in strategically important areas and strengthening the synergy effect, e.g. creating the marketing organizational structure on the basis of segmentation principles and consolidation of corporate communications functions.

The fundamental principle for carrying out structural changes has been the principle of splitting the functions and responsibilities between divisions and management levels.

Staff development

MTS OJSC has a well-developed system training model, based on the company strategic company objectives and objectives of HR management. The training system is also based on the model of MTS Group Competencies and requirements for professional knowledge and skills of the employees.

MTS Group training system



The Company has a Corporate University, which sets the training standards and coordinates the processes in the field of training and development of employees. The Corporate University mission is to create conditions for improving employee performance and development of the MTS Group business through the provision of high-quality, innovative and system-based training.

The main objective is the training and development of employees – to provide system-based, effective development of employees in competences, which are key for the Company, to form the expertise, skills and principles that will be necessary to the employees and managers for improving the performance in their current position as well as to create a resource of expertise and skills for the candidate pool in future.

Staff training and development are carried out using the following forms and methods:

- **Induction training.** The Company conducts uniform, centralized induction training for all new employees, whose purpose is to ensure the understanding of the Company business, culture and structure, as well as understanding of internal processes and organizational procedures by new employees. For new managers we provide additional programs of introduction to the Company's internal structure, business processes, and established interaction procedures. For existing employees we conduct team-building activities to enhance corporate spirit and strengthen corporate culture. The heads of Company functional subdivisions carry out training of existing employees according to the rules specified in bylaws. Functional seminars are conducted for newly implemented processes.
- **Vocational training.** The Company has a system of vocational training aimed at ensuring constant development of expertise and skills of the employees. Standards and contents of training programs are set in accordance with the requirements for particular positions as well as in accordance with the requirements for professional knowledge of employees. Vocational training is planned based on the results of appraisal of professional skills and annual performance appraisals and in accordance with the needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for employees who work directly with customers, is provided mainly through in-house resources according to uniform standards (taking into account regional differences).

- **Managerial training for managers.** The basis of this system is the concept of targeted and modular training of managers. Targeted programs are mandatory for selected categories of managers, while modular programs are created based on annual appraisal of managers' competencies. Particular attention is given to training managers in the methods of personnel management (selection, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. In addition to ensuring a uniform approach of managers to performance of managerial functions, an important objective of management training is to motivate and retain Company managers. The direction and content of management training programs are determined based on the Company development strategy, the business objectives of the relevant sub-unit, and the level of managers' competencies according to the appraisal results.
- **Candidate pool training.** The basis of the candidate pool training system is the individual development plans of each employee included in the Candidate Pool. The training program is worked out individually based on the appraisal results and the level of competences. A unique program is used for training the high-potential employees (Top Talents). This program combines Mini-MBA and business simulation in the telecom field and is called the Academy of Success.

Staff training and development are carried out using the following forms and methods:

- **Self-education.** The Company has created the conditions for the self-education of employees. The internal library of study material by competences was created. The Smart-Book is available, which helps an individual to develop the required competences;
- **Full-time training, workshops.** When conducting such trainings and workshops the internal resources are actively involved, internal training programs are developed and local tutors are trained;
- **Distance training.** Distance forms of training are actively used in the company for all types of training. Theory courses are conducted mainly in the distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained as result of training and to evaluate satisfaction with training programs;

- **On-the-job training** is deemed the preferred and most effective method. One of the main objectives of a manager at any level is the professional growth of his or her subordinates;
- **Long-term development of a candidate pool and high-potential employees (Top Talent)** is one of the key elements for implementation of the Company strategy. In collaboration with Human Resources, managers formulate long-term career development programs for the candidate pool and high-potential employees (top talent), oversee their implementation, and work personally with these employees and their supervisors and mentors. The company creates conditions that allow promising leaders to manage their own career;
- **Staff rotation and development appointments** are regarded as an effective tool for developing, training, and retaining promising employees. The rotation mechanism is actively used to develop reserve personnel;
- **Special tasks, projects.** This form of development is actively used in the Company for developing employees of the Candidate Pool within the framework of individual development plans;
- And the other.

Today over 37 in-house training programs have been developed in the Company, targeted and modular programs for managers have been introduced, a system of internal tutors has been established, standards for training and certification of on-staff and corporate tutors have been approved, rules for planning and organizing employee training have been approved, the rules for appraisal of professional knowledge have been approved, the Employee Distance Testing and Training system has been implemented, the program for training managers and Candidate Pool has been developed, the program for Top Talent training (the Academy of Success) has been implemented, 32 employees from the Top Talent group have been trained. A distributed Distance System for testing and training employees has been introduced. 19 distance training courses and more than 100 professional tests have been developed and launched. A training system for the employees of marketing divisions (the Academy of Marketing) has been developed.

The approved model of competences of the MTS Group as well as various criteria and standards on the number of programs depending on the employee

category and the cost of programs, are used as a basis for planning the training programs and for sending employees for training.

Induction training is provided to all new employees, and in the event of introduction of a new regulatory document – to all existing Company employees.

The criteria for sending for vocational training are the approved vocational training plans, which are produced by functional managers based on the professional expertise appraisal results.

The criteria used for sending employees for training in management competencies are the results of management competency appraisals, the shaping of personal development and formation of targeted training programs focused on group priorities, which are based on the competency appraisal results for MTS OJSC in general.

The best employees from the candidate pool are selected for long-term development programs and MBAs and mini MBAs.

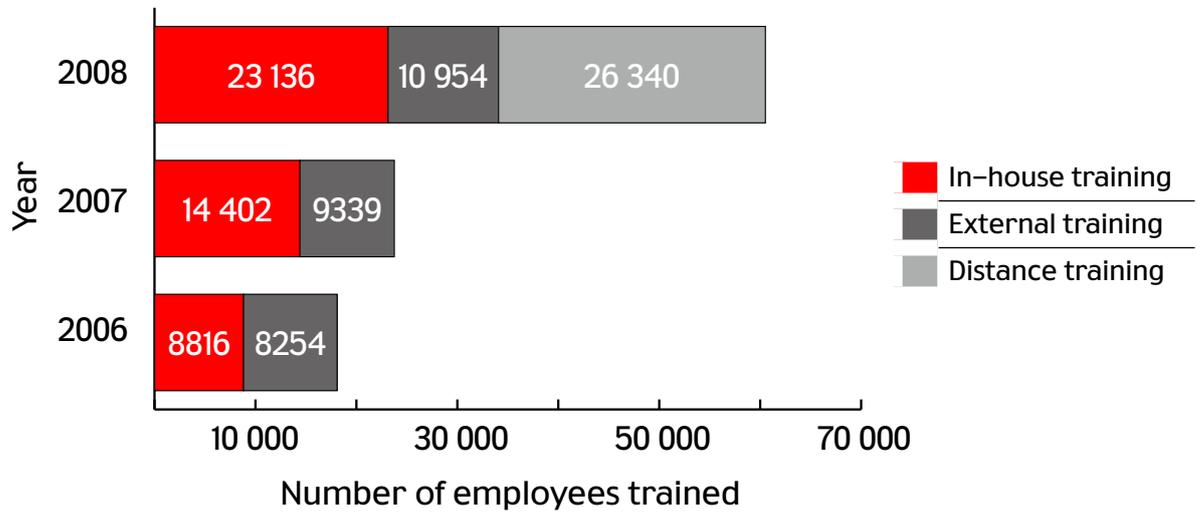
Training dynamics in 2006–2008

Основные показатели	2006	2007	2008
Number of employees trained (in total)	18070	23741	60430
Number of training sessions (in total)	2907	3311	4174

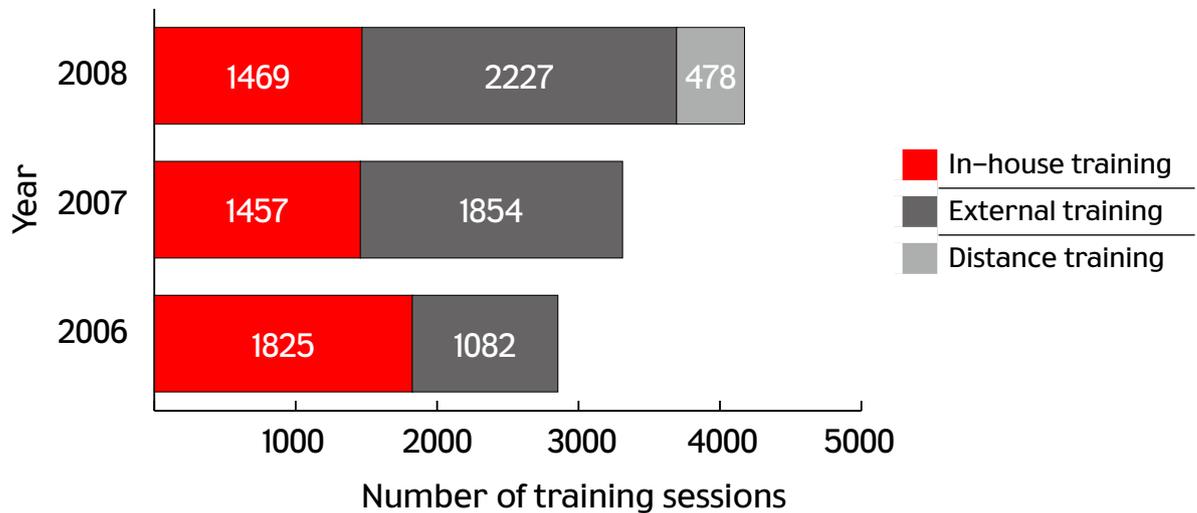
The training system that has been put in place in the Company, meets the needs of business and influences the achievement of its strategic goals. An outcome of this system's existence is a well constructed training system that is understood and shared by managers and has an impact on our performance and the achievement of strategic goals.

According to the results of feedback questionnaires (the ratio of the questionnaires with the average score equal to 8 (on the 10-point scale) to the total number of questionnaires) the level of satisfaction is 93.4%, which shows a high effectiveness of the training programs.

Dynamics of the number of employees trained



Dynamics of the number of training sessions



Social policy of the Company

Being the major cellular operator in Russia and the CIS countries MTS OJSC believes that its social responsibility is the responsibility for the influence of the MTS OJSC decisions and actions on the society and environment, which in the event of the Company's ethic and transparent behavior will:

- contribute to sustainable development, health promotion and social welfare;
- take into account the expectations of the parties concerned;
- comply with the applicable legislation and be in line with the international conduct norms;
- be integrated in the activities of the Company as a whole and implemented by the Company in its relations with other parties;
- contribute to the information transparency of the Company and improvement of its corporate governance

One of the MTS OJSC objectives is the integration of this responsibility at all Company levels, including the products, services and processes.

The Company determines its development strategy in accordance with the requirements of the society and consumers, and the main objective of this strategy is the improvement of the quality of life of a human being.

By the quality of life MTS OJSC means the combination of social, economic and other criteria that reflect the level and extent of the welfare of a human being in various spheres of life as a basic precondition for a stable development of the civil society and an individual.

Principles and strategy of corporate social responsibility in MTS OJSC

The key MTS OJSC principles of running socially responsible business are aimed at ensuring a sustainable development of the company, growth of its welfare and formation of a competitive economy. These principles were determined taking into account the expectations of all parties concerned, are

of a long-term nature and contribute to the implementation of the MTS OJSC development strategy.

Running a responsible business. MTS OJSC implements the principle of running a responsible business. The company plans and carries out its activities so that they would contribute to the positive changes in the society, improve social climate, decrease social tension and stimulate the development of the society.

Responsibility of a telecom operator. Being the major cellular operator in Russia and the CIS countries MTS OJSC believes that its main objective is the provision of high quality, innovative and affordable telecom products and services to all users.

Equal opportunities. The company makes the largest possible contribution to creation of equal opportunities for everyone through provision of equal access to modern technologies, innovative products and services, which contribute to the fulfillment of personal potential. To the extent of this priority one of the key directions of MTS OJSC activities is the provision of equal conditions and opportunities for both the population of remote areas and large cities.

Innovations. We believe, that the objectives in the field of improving the life quality can be achieved through large-scale introduction of innovative technologies, products and services. Proliferation of innovations, their use in the day-to-day life contributes to formation of innovative way of thinking, which, in its turn, stimulates the development of the society, contributes to the growth of the economy and integration of the country into the world community as well as forms a successful tomorrow's society.

Contribution to economic growth and social welfare. The Company growth strategy is based on significant investments in setting-up and development of the country's telecom infrastructure, which is required for successful implementation of key strategic state-wise projects.

The activities of MTS OJSC, the largest cellular operator in Russia and the CIS countries, are aimed at the development of the high-technology segment of economy and the growth of investment attractiveness of the country.

MTS OJSC supports the state initiatives aimed at the improvement of the life quality, social welfare in general and the welfare of each individual and contributes to the implementation of these initiatives by the state.

Responsibility towards the state. The MTS OJSC activities in all markets of its presence are solely based on the prevailing legislation and regulatory acts of the relevant state bodies, including those in the field of taxation, financial control, sanitation and epidemiological norms and labour law.

Long-term investments. We consider the investments in the development of social sphere to be long-term investments, which contribute not only to the development of the society, but also create the basis for sustainable development of the Company.

Drive for results. One of the MTS OJSC key principles in the social sphere is the drive for achievable and measurable results. In the company's perception this means the pursue of a policy of well thought through investments with foreseeable results, aimed at solving the most acute social problems for the benefit of the society.

Information openness. We believe that a continuous dialogue with the representatives of all parties concerned is a pre-requisite for effective implementation of the social policy. MTS OJSC is open for such dialogue and is interested in it. Being a public company, we inform the public on all aspects of our activities in compliance with the rules set by the Russian legislation and international norms, which are established for public companies.

The MTS OJSC strategy in the field of social responsibility is based on continuous analysis of the company's current business processes, the extent of their compliance with the principles of socially responsible business, planning and implementation of projects, which extend beyond the minimum statutory requirements and are aimed at increasing the positive influence of the Company business on the society.

In order to improve the effectiveness of our social policy we attentively examine the best Russian and world practices in the sphere of social responsibility and are open to cooperation with expert and investment communities.

Philanthropy policy

We believe that philanthropy is one of the components of the Company social responsibility policy. Therefore our activities in this area are governed by the same principles as the principles of the social policy of MTS OJSC.

- Projects aimed at the improvement of the life quality of the society have the highest priority
- We focus on long-term projects in the sphere of philanthropy, which contribute to solving the most acute social problems faced by broad layers of population and are in line with the priorities of the social policy of the state
- In terms of the geography of the charity projects we are mainly interested in the projects that can be implemented on the largest possible scale both within one country and in all countries where MTS OJSC carries out its activities
- Pursuant to the MTS OJSC social policy we are interested in implementing the projects aimed at creation of equal conditions and opportunities both for the population of remote areas and large cities
- We believe that modern innovative technologies make a significant contribution to improving the life quality and contribute to the implementation of the personal potential of an individual, therefore charity projects, where our technologies, products and services contribute to achieving this objective, are of the highest priority for the Company
- Bearing in mind the existing most acute social problems we believe that charity projects aimed at improving health and contributing to the harmonious development of the young generation will be most welcome. The active social position of the business in solving such problems will contribute to formation of harmonious and successful society in future.
- We are open to cooperation with federal and regional authorities, nonprofit organizations and representatives of the business community within the framework of implementation of joint charity programs, which are compliant with the MTS OJSC social policy and philanthropy policy, on the terms and conditions of equal partnership and subject to legal and other restrictions applicable to the Company

Code of Ethics and Corporate Conduct of MTS OJSC employees

The Code of Ethics and Corporate Conduct of MTS OJSC employees is the internal policy (bylaw) of the company whose purpose is to specify various aspects of interaction of MTS OJSC employees with the Company as an employer, corporate conduct standards as well as the rules for interaction of MTS OJSC employees with business partners and external auditors. The Code is binding on all Company's employees irrespective of their position.

The Code guarantees the MTS OJSC employees:

- Freedom from any discrimination. Recruitment, development, promotion, disciplinary measures, etc. shall be irrespective of sex, race, nationality, language, origin, age, place of residence, religion, political convictions, participation or nonparticipation in public associations, social position or official capacity of an employee.
- Protection against discriminative behavior towards them, negligence or other forms of harassment
- Safe labour conditions
- Company commitment to decrease the impact of its activities on the environment
- Observance of all statutory norms with respect to the employer– employee relations
- Fair and unbiased settlement of all disputes by the Company Management

At the same time the Code specifies the following aspects:

- Flat prohibition and disapproval of child and forced labour
- Prohibition of jobbery
- Prohibition of any actions breaching local anti–corruption laws, Foreign Corrupt Practices Act (FCPA), as well as MTS OJSC bylaws
- Prohibitions of actions breaching customs and tax laws

- Aspects of MTS OJSC copyright protection and protection of other copyright holders
- Rules of business communication with colleagues and partners

Environmental protection

While carrying out our activities we try to produce the minimal impact on the environment and to decrease this impact as and when possible. To solve this problem we observe the requirements of the environmental laws and the regulations on running responsible business.

Interaction with parties concerned

For our Company the key aspect of interaction with parties concerned is information openness and transparency of the company.

With respect to disclosure of information and interaction with shareholders the MTS OJSC is governed by the requirements of the US Securities and Exchange Commission, New York Stock Exchange, Russian Legislation, Company Charter and bylaws. We use a strict and thorough approach to preparation of financial statements, which ensures a high level of public information disclosure.

All material financial and operating information, published by the Company, is audited by external auditors.

In the last several years MTS OJSC was declared one of the most transparent companies in Russia and the CIS (according to the Standard & Poor's assessments).

MTS OJSC aspires to provide equal opportunities to all shareholders both in terms of provision of timely access to information and protection of their rights.

To improve the procedures of interaction with MTS OJSC shareholders MTS OJSC participates in international ratings in the field of corporate governance, information transparency and credit ratings.

The existing Investor Relations Department makes it possible for MTS OJSC to effectively interact with analytics and investors through timely provision of information as well as by organizing road shows and meetings with the Company Management.

All material information is accessible on the corporate site in the section for Investors and Shareholders.

The dialogue with the users of MTS OJSC services, company employees, representatives of authorities, nonprofit organizations and other parties concerned is carried out via various communication channels, the details of which are available on the corporate site www.mts.ru.

President of MTS OJSC _____ Mikhail V. Shamolin

Chief Accountant
of MTS OJSC _____ Irina R. Borisenkova



Additional information about the Company

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Information about the investor relations department	Location of Investor Relations Department: 5 ul. Vorontsovskaya, bldg. 2, Moscow, 109004, Russian Federation. Tel.: (495) 911 6553. Fax: (495) 911 6588. E-mail address: ir@mts.ru
Entity maintaining records of rights to securities	Registrar NIKoil OJSC Postal address: 8 ul. Pravdy, block 45, Moscow, 125124, Russia License No. 10-000-1-000290, issued on June 17, 2003, with no expiry date. Issuing authority: RF Federal Commission for the Securities Market.
Mass media publication publishing information about the Company	Annex to the Bulletin of the Federal Financial Markets Service (FFMS)
