

## **GROUND**

### **for conditions and procedure related to reorganization of Mobile TeleSystems Open Joint Stock Company (MTS OJSC) in the form of merger to subsidiaries**

List of the companies to be merged:

- TELEKOM XXI OJSC (Saint-Petersburg);
- Kuban-GSM CJSC (Krasnodar);
- UDN-900 CJSC (Izhevsk);
- MTS-Barnaul CJSC (Barnaul);
- Dontelecom CJSC (Rostov-on-Don);
- ACC CJSC (Blagoveshensk);
- MTS-NN CJSC (Nizhni Novgorod);
- TELEKOM-900 CJSC (Moscow).

MTS OJSC owns 100% of the mentioned subsidiaries' placed shares, that allows MTS OJSC to fully control activities of its subsidiaries.

Subsidiaries have licenses for providing mobile communication services in some Russian regions: North-West region, Krasnodar region, Rostov region, Altai region, Amur region.

Merger of subsidiaries to MTS OJSC will allow to achieve the following:

- Reduction of management costs;
- Reduction of costs related to organization and handling of economic activity (no necessity to conclude agreements between MTS OJSC and a subsidiary for delivery of equipment, general contract, usage of trade mark, commercial representation and other economic contracts);
- Reduction of costs related to organization and handling of a subsidiary's corporate activity (decisions of shareholder, interaction with the Russian Federation Ministry on Anti-Monopoly Policy and the Federal Securities Commission);
- Simplification of the scheme related to provision of mobile communication services by MTS OJSC Branches, set up in the regions where subsidiaries operate (without agreements on commercial representation);
- Simplification of the management structure and higher efficiency of decision-making;
- Consolidation of subsidiaries' performance indicators in MTS OJSC Russian accounting statements;
- Integration of subsidiaries into a new organizational management structure of MTS OJSC.

General conditions and procedure of reorganization:

It is proposed to reorganize MTS OJSC in the form of merger of MTS OJSC subsidiaries, in which MTS OJSC owns 100% of placed shares, to MTS OJSC with transfer of all rights and obligations of subsidiaries to MTS OJSC and termination of subsidiaries' activity.

In accordance with the current legislation MTS OJSC shall be the successor of all rights and obligations of the subsidiaries.

Because of the fact that MTS OJSC owns 100% of placed shares in the subsidiaries and MTS OJSC President (a sole executive body) shall take decisions on all issues related to competence of subsidiaries general shareholders meetings, it seems feasible to implement the procedure of merger as follows:

- Conversion into shares in MTS OJSC, to which subsidiaries shall be merged to, of merged subsidiary common registered shares, owned by MTS OJSC, shall not be carried out.
- All subsidiary common registered shares owned by OJSC MTS and not subject to conversion shall be redeemed at the moment of appropriate record entered into the Register related to termination of activity of merged subsidiaries.
- MTS OJSC equity capital, the number of and par value of OJSC MTS shares shall not change at MTS OJSC reorganization in the form of merger of subsidiaries.
- Joint general meeting of MTS OJSC shareholders and subsidiaries' shareholder, which is MTS OJSC itself, shall not be conducted.
- Resolution on supplements and amendments to be entered into MTS OJSC Charter, concerning MTS OJSC succession of the rights and obligations of subsidiaries to be entered into MTS OJSC Charter, shall be approved at MTS OJSC general shareholders meeting along with the resolutions on reorganization in the form of merger and on approval of the agreement on merger.
- After approval of the resolution by MTS OJSC general shareholders meeting MTS OJSC President shall take a decision on reorganization of subsidiaries, decision on approval by subsidiaries of the agreement on merger of subsidiaries to MTS OJSC and decision on approval of the subsidiaries' act on transfer and acceptance.