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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

or

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 333-12032



MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

4 Marksistskaya Street, Moscow 109147 Russian Federation

(Address of Principal Executive Offices)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 5 SHARES OF COMMON STOCK	NEW YORK STOCK EXCHANGE
COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE⁽¹⁾

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

NONE
(Title of Class)

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

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,986,124,030 ordinary shares, par value 0.10 Russian rubles each and 21,620,747 American Depositary Shares, as of December 31, 2004.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes:

No:

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17

Item 18

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

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Unless the context otherwise requires, references to "MTS," "we," "us," or "our" refer to Mobile TeleSystems OJSC and its subsidiaries. "UMC" refers to Ukrainian Mobile Communications, our Ukrainian operations, which we acquired in March 2003. We refer to Mobile TeleSystems LLC, our 49%-owned joint venture in Belarus as MTS-Belarus. As MTS-Belarus is an equity investee, our revenues and subscriber data do not include MTS-Belarus. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

In this document, references to "U.S. dollars," "dollars," "\$" or "USD" are to the lawful currency of the United States, references to "rubles" or "RUR" are to the lawful currency of the Russian Federation, references to "hryvnias" are to the lawful currency of Ukraine and references to "€," "euro" or "EUR" are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Mobile TeleSystems OJSC, or MTS, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "predict," "plan," "will," "may," "should," "could" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Item 3. Key Information—D. Risk Factors," "Item 4. Information on Our Company—B. Business Overview" and "Item 5. Operating and Financial Review and Prospects," and include statements regarding:

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- liquidity, capital resources and capital expenditures;
- growth in demand for our services;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the condition of the economies of Russia, Ukraine and certain other CIS countries, political stability in Russia, Ukraine and certain other CIS countries, the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission.

Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data for the years ended December 31, 2002, 2003 and 2004, and as of December 31, 2003 and 2004, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. In addition, the following table presents selected consolidated financial data for the years ended December 31, 2000 and 2001, and as of December 31, 2000, 2001 and 2002, derived from our audited consolidated financial statements not included in this document. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition. The summary financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below.

	Years Ended December 31,				
	2000	2001	2002	2003	2004
(Amounts in thousands, except share and per share amounts, industry and operating data and ratios)					
Consolidated statements of operations data:					
Net operating revenues:					
Service revenues and connection fees ⁽¹⁾	\$499,354	\$851,374	\$1,299,141	\$2,465,089	\$3,800,271
Sales of handsets and accessories	36,358	41,873	62,615	81,109	86,723
Total net operating revenues	535,712	893,247	1,361,756	2,546,198	3,886,994
Operating expenses:					
Cost of services, exclusive of depreciation and amortization shown separately below	83,093	143,665	196,445	301,108	481,097
Cost of handsets and accessories, exclusive of depreciation and amortization shown separately below	39,217	39,828	90,227	173,071	218,590
Sales and marketing expenses	76,429	107,729	171,977	326,783	460,983
Depreciation and amortization	87,684	133,318	209,680	415,916	675,729
Sundry operating expenses ⁽²⁾	110,242	134,598	229,056	406,722	631,532
Impairment of investment	—	10,000	—	—	—
Net operating income	139,047	324,109	464,371	922,598	1,419,063
Currency exchange and translation losses (gains)	1,066	2,264	3,474	(693)	(6,529)

Other expenses (income):					
Interest income	(7,626)	(11,829)	(8,289)	(18,076)	(21,792)
Interest expenses	11,335	6,944	44,389	106,551	107,956
Other expenses (income), net	(502)	(2,672)	(2,454)	3,420	(33,456)
Total other expenses (income), net	3,207	(7,557)	33,646	91,895	52,708
Income before provision for income taxes and minority interest	134,774	329,402	427,251	831,396	1,372,884
Provision for income taxes	51,154	98,128	110,417	242,480	354,664
Minority interest	(6,428)	7,536	39,711	71,677	30,342
Net income before cumulative effect of a change in accounting principle	90,048	223,738	277,123	517,239	987,878
Cumulative effect of a change in accounting principle, net of income taxes of \$9,644 in 2001	—	(17,909)	—	—	—
Net income	\$90,048	\$205,829	\$277,123	\$517,239	\$987,878
Dividends declared	\$13,631	\$2,959	—	\$111,355 ⁽³⁾	\$219,918 ⁽³⁾
Pro forma net income giving effect to the change in accounting principle, had it been applied retroactively	93,108	223,738	277,123	517,239	987,878
Net income per share, basic and diluted	0.05	0.10	0.14	0.26	0.50
Dividends declared per share	0.01	—	—	0.06	0.11
Weighted average number of shares of common stock outstanding	1,806,968,096	1,983,359,507	1,983,359,507	1,983,374,949	1,984,497,348
Consolidated cash flow data:					
Cash provided by operating activities	\$190,914	\$338,201	\$412,772	\$965,984	\$1,711,589
Cash used in investing activities	(423,349)	(441,523)	(697,921)	(1,910,087)	(1,543,201)
(of which capital expenditures) ⁽⁴⁾	(224,898)	(441,200)	(574,272)	(958,771)	(1,358,944)
Cash provided by financing activities	298,543	247,592	100,817	997,545	10,773
Consolidated balance sheet data (end of period):					
Cash, cash equivalents and short-term investments	\$245,828	\$304,933	\$64,661	\$335,376	\$347,510
Property, plant and equipment, net	439,307	856,056	1,344,633	2,256,076	3,234,318
Total assets	1,101,332	1,727,492	2,283,296	4,225,351	5,581,187
Total debt (long-term and short-term) ⁽⁵⁾	52,773	325,840	454,485	1,660,334	1,937,148
Total shareholders' equity	801,084	1,018,279	1,302,044	1,723,910	2,523,323
Including capital stock	40,352	40,352	40,352	40,361	43,162
Financial ratios (end of period):					
Total debt/total capitalization ⁽⁶⁾	6.2%	24.2%	25.9%	49.1%	43.4%

Industry and operating data: ⁽⁷⁾

Mobile penetration in Russia (end of period)	2%	6%	12%	25%	51%
Mobile penetration in Ukraine (end of period)	—	—	—	13%	29%
Subscribers in Russia (end of period, thousands) ⁽⁸⁾	1,194	2,650	6,644	13,370	26,540
Subscribers in Ukraine (end of period, thousands) ⁽⁸⁾	—	—	—	3,349	7,374
Overall market share in the Moscow license area (end of period)	55%	50%	43%	43%	45%
Overall market share in Russia (end of period)	35%	33%	38%	37%	36%
Overall market share in Ukraine (end of period)	—	—	—	51%	53%
Average monthly usage per subscriber in Russia (minutes) ⁽⁹⁾	151	157	159	144	157
Average monthly service revenue per subscriber in Russia ⁽¹⁰⁾	\$54	\$36	\$23	\$17	\$12
Average monthly usage per subscriber in Ukraine (minutes) ⁽⁹⁾	—	—	—	97	114
Average monthly service revenue per subscriber in Ukraine ⁽¹⁰⁾	—	—	—	\$15	\$13
Subscriber acquisition costs in Russia ⁽¹¹⁾	\$69	\$56	\$35	\$26	\$21
Subscriber acquisition costs in Ukraine ⁽¹¹⁾	—	—	—	\$32	\$19
Churn in Russia ⁽¹²⁾	21.6%	26.8%	33.9%	47.3%	27.5%
Churn in Ukraine ⁽¹²⁾	—	—	—	23.8%	15.8%

⁽¹⁾ Service revenues represent subscription fees, usage charges and value-added service fees, as well as roaming fees charged to other operators for their subscribers, or guest roamers, utilizing our network. Service revenues amounted to \$484.5 million, \$830.3 million, \$1,274.3 million, \$2,435.7 million and \$3,753.3 million for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively. Guest roaming fees included in service revenues were \$43.2 million, \$52.6 million, \$83.4 million, \$112.0 million and \$93.3 million for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

⁽²⁾ Sundry operating expenses include taxes (other than income taxes), primarily revenue and property-based taxes, of \$26.9 million, \$25.3 million, \$39.1 million, \$40.4 million and \$50.0 million for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

⁽³⁾ Includes dividends on treasury shares of \$0.4 million and \$1.1 million for the years ended December 31, 2003 and 2004, respectively. In May 2005, our Board of Directors recommended cash dividends in the amount of \$409.48 million (including dividends on treasury shares of \$1.5 million). Our shareholders will vote on this recommendation at the annual shareholders meeting on June 21, 2005.

⁽⁴⁾ Capital expenditures include purchases of property, plant and equipment and intangible assets.

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

⁽⁶⁾ Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See note 5 above for the definition of "total debt."

⁽⁷⁾ Source: Sotovik, J'Son & Partners, AC&M-Consulting, Ukrainian News and our data.

⁽⁸⁾ We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of the "Jeans" and "SIM-SIM" brand tariffs) and whose account does not have a negative balance for more than this period. Prior to October 1, 2004, UMC used a 90-day period for such purposes with respect to its "Jeans" and "SIM-SIM" subscribers.

⁽⁹⁾ Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during the period and dividing by the number of months in that period. For Ukraine, the 2003 figure has been calculated based on the months of March through December 2003.

⁽¹⁰⁾ Average monthly service revenue per subscriber is calculated by dividing our service revenues for a given period, including guest roaming fees, by the average number of our subscribers during that period and dividing by the number of months in that period. For Ukraine, the 2003 figure has been calculated based on the months of March through December 2003.

- (11) Subscriber acquisition costs are calculated as total sales and marketing expenses and handset subsidies for a given period divided by the total number of gross subscribers added during that period. Effective January 1, 2001, we changed our accounting policy and began expensing dealer commissions on new connections as incurred instead of amortizing them over the estimated average subscriber life. For Ukraine, the 2003 figure has been calculated based on the months of March through December 2003.
- (12) We define our churn as the total number of subscribers who cease to be a subscriber (as defined above) during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period. For Ukraine, the 2003 figure has been annualized based on the months of March through December 2003. The significant decrease in the 2004 churn rate in Ukraine is largely attributable to the change in our churn policy for "Jeans" and "Sim-Sim" subscribers in Ukraine. See note 8 above. Under the previous churn policy, the 2004 churn rate in 2004 was 23%.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our securities involves a high degree of risk. You should carefully consider the following information about these risks, together with other information contained in this document, before you decide to buy our securities. If any of the following risks actually occur, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of our securities could also decline and you could lose all or part of your investment.

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of our securities.

Risks Relating to Business Operations in Emerging Markets

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

Investors in emerging markets such as the Russian Federation, Ukraine and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation and Ukraine are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

Risks Relating to Our Business

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

On June 7, 2004, the General Prosecutor of Ukraine filed a claim against us and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to us. The complaint also sought an order prohibiting us from alienating 51% of our stake in UMC until the claim

was resolved on the merits. The claim was based on a provision of the Ukrainian privatization law that included Ukrtelecom among a list of "strategic" state holdings prohibited from alienating or encumbering its assets during the course of its privatization. While the Cabinet of Ministers of Ukraine in May 2001 issued a decree specifically authorizing the sale by Ukrtelecom of its entire stake in UMC, the General Prosecutor asserted that the decree contradicted the privatization law and that the sale by Ukrtelecom was therefore illegal and should be unwound. On August 12, 2004, the Kiev Commercial Court rejected the General Prosecutor's claim.

On August 26, 2004, the General Prosecutor requested the Constitutional Court of Ukraine to review whether certain provisions of the Ukrainian privatization law limiting the alienation of assets by privatized companies were applicable to the sale by Ukrtelecom of UMC shares to us. As of the date of this document, the Constitutional Court of Ukraine has yet to respond to the General Prosecutor's request.

If the Constitutional Court of Ukraine determines that Ukrtelecom's sale of its stake in UMC contradicted the terms of the Ukrainian privatization law, the General Prosecutor would be able to request the Kiev Commercial Court to reopen the case based on new circumstances and could potentially include additional plaintiffs that were not parties to the original proceeding and/or additional claims.

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

Our controlling shareholder has the ability to control our operations and its interests may conflict with those of holders of our securities, and it may make decisions that materially adversely affect your investment.

Sistema controls 50.6% of our outstanding shares. As a result, Sistema has the ability to implement actions requiring shareholder approval, including the election of a majority of our directors and the declaration of dividends, and has the ability to control our operations. Therefore, decisions made by Sistema will influence our business, results of operations and financial condition, and these decisions may conflict with the interests of the holders of our securities.

Sistema has outstanding a significant amount of indebtedness, including \$350.0 million of notes maturing in 2008 and \$350.0 million of notes maturing in 2011. In addition, the notes maturing in 2011 can be redeemed at the option of the noteholders in 2007. Therefore, Sistema will require significant funds to meet its obligations, which may come in part from dividends paid by its subsidiaries, including us.

Sistema voted in favor of declaring dividends of \$111.4 million in 2003 and \$220.0 million in 2004. The indentures relating to our outstanding notes do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, and our cash flow and ability to repay our debt obligations, or make capital expenditures, investments and acquisitions could be materially adversely affected.

Sistema also owns an interest in Sky Link CJSC, which operates on a CDMA-2000 standard in a number of key regions, including Moscow and St. Petersburg. Sky Link may pursue business strategies that specifically target high-end businesses and residential customers, which could result in increased competition for us.

Increased competition and a more diverse subscriber base have resulted in decreasing average monthly service revenues per subscriber, which may materially adversely affect our results of operations.

While our subscriber base and revenues are growing as we continue to grow our operations, our average monthly service revenues per subscriber are decreasing. For example, our average monthly service revenues per subscriber in Russia for 2002, 2003 and 2004 was \$23, \$17 and \$12, respectively. We expect our average monthly service revenues per subscriber to continue to decrease due to tariff decreases, lower tariffs in the regions outside of the Moscow license area and the increase of mass-market subscribers as a proportion of our overall subscriber mix. See "Item 5. Operating and Financial Review and Prospects." In addition, the Russian government may consider the introduction of a "calling party pays," or CPP, scheme. The introduction of CPP may have a negative impact on our average monthly service revenues per subscriber and margins depending on the settlement rate between mobile and fixed line operators set by the government. A decrease in our average monthly service revenues per subscriber may materially adversely affect our results of operations.

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

We are in the process of implementing a new billing system, which we expect to complete in December 2005. We expect the new billing system will ultimately increase our overall efficiency and reduce our expenses in the long term. During the transition period, however, we will be required to run both the old and new billing systems simultaneously, creating additional burdens on our technical support staff. We may also experience technical problems with the new billing system during the transition period. These factors may increase our operational risks and expenses and inconvenience subscribers in the short term and, consequently, have a material adverse effect on our business and results of operations.

Our failure to implement the necessary infrastructure to manage our growth could have a material adverse effect on our business and results of operations.

Our billing system registers and debits the account of a subscriber for calls made by such subscriber after such calls are made. There could be potential delays between the time that a subscriber's balance reaches zero and the disconnection of such subscriber from our network and, to the extent that this occurs, there would be an increase in our doubtful accounts receivable. During the first quarter of 2003, certain dealers and subscribers together fraudulently exploited these billing time lags by placing a sizeable amount of domestic and international long distance calls using subscriber accounts registered under false names. We discovered this fraud in March 2003, and we incurred approximately \$16.7 million in losses during 2003 as a result of this dealer fraud. We have taken measures that we believe will prevent further use of this scheme, such as requiring our subscribers to activate their long distance services in person at our service centers. This, in turn, may cause us to lose subscribers who view the new requirement as burdensome and materially adversely affect our market share. We have also canceled our contracts with certain dealers who had the highest numbers of fraudulent accounts. In 2004, we did not incur any significant losses as a result of subscriber or dealer fraud.

The failure or breakdown of key components of our infrastructure in the future, including our billing system, could have a material adverse effect on our business and results of operations.

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

We plan to expand our network infrastructure in the following ways:

- extend coverage and increase the capacity of our existing network in the Moscow and regional license areas;
- further develop our operations in Ukraine and Uzbekistan and make investments in MTS Belarus; and

- introduce service in the regions in which we have licenses and have not yet commenced operations.

Our ability to increase our subscriber base depends upon the success of our network expansion. We have expended considerable amounts of resources to enable this expansion. Limited information regarding the markets into which we have or are considering expanding, either through acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues.

In addition, we have expanded our network through acquisitions and we may continue to engage in further acquisitions. We may not be able to integrate previous or future acquisitions successfully or operate them profitably. Such integration requires significant time and effort from our senior management, who are also responsible for managing our existing operations. Such integration may also be difficult as our technical systems may differ from those of the acquired businesses. In addition, unpopular cost cutting measures may be required and control of cash flow may be difficult to establish. Any difficulties encountered in the transition and integration process could have a material adverse effect on our results of operations.

We also may face risks during the course of our expansion into countries outside of the Russian Federation. Differing cultures and more uncertain business operating environments could lead to lower profitability and higher risks to our business.

The buildout of our network is also subject to risks and uncertainties, which could delay the introduction of service in some areas and increase the cost of network construction, including difficulty in obtaining base station sites on commercially attractive terms. In addition, telecommunications equipment used in Russia and Ukraine is subject to governmental certification, which must be renewed at least every three years. The failure of any equipment we use to receive timely certification or re-certification could also hinder our expansion plans. To the extent we fail to expand our network on a timely basis, we could experience difficulty in expanding our subscriber base.

Rapid growth and expansion may cause us difficulty in obtaining adequate managerial and operational resources and strain our financial resources, restricting our ability to successfully expand our operations.

We have experienced substantial growth and development in a relatively short period of time, and we believe that our businesses may continue to grow for the foreseeable future. The operating complexity of our business, as well as the responsibilities of management, have increased as a result of this growth, placing significant strain on our managerial and operational resources. Our future operating results depend, in significant part, upon the continued contributions of a small number of our key senior management and technical personnel.

We will need to continue to improve our operational and financial systems and managerial controls and procedures to keep pace with our growth. We will also have to maintain close coordination among our logistical, technical, accounting, finance, marketing and sales personnel. Management of growth will require, among other things:

- stringent control of network buildout, operating and other costs;
- the ability to integrate new acquisitions into our operations;
- continued development of financial and management controls and information technology systems, and their implementation in newly acquired businesses;
- implementation of adequate internal control over financial reporting and disclosure controls and procedures; and
- hiring and training of new personnel.

Our success will depend, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia, Ukraine and in the other CIS countries where we operate for personnel with relevant expertise is intense due to the small number of qualified individuals. We are not insured against damage that we may incur in case of loss or dismissal of our key personnel. Our inability to successfully manage our growth or personnel needs could have a material adverse effect on our business, financial condition and results of operations.

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

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with the Moscow City Telephone Network, or MGTS, and other incumbent fixed-line operators in Russia, Ukrtelecom, in Ukraine, and other local, domestic and international telecommunications operators. Fees for interconnection are established by agreements with network operators and vary, depending on the network used, the nature of the call and the call destination. We have entered into interconnection agreements with several local, domestic and international telecommunications operators, including MGTS and Rostelecom in Russia and UTEL and Ukrtelecom in Ukraine. Interconnection with these operators is required to complete calls originating on our network but terminating outside of it and to complete calls to our subscribers originating outside of our network.

In Russia, the government plans to privatize Svyazinvest, a holding company that controls several regional fixed-line operators. In Ukraine, the government plans to privatize Ukrtelecom, which has a market share of over 80% of all fixed-line telecommunications services in Ukraine. The timing of these privatizations is not yet known, and it is unclear how these privatizations will affect our interconnection arrangements and costs.

Although Russian legislation requires that operators of public switched telephone networks may not refuse to provide interconnections or discriminate against one operator over another, we believe that, in practice, some public network operators attempt to impede wireless operators by delaying interconnection applications and by charging varying interconnect rates to different wireless operators and, in particular, more favorable rates to local wireless operators, potentially enabling our competitors to offer lower prices. Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices or at all, causing us to lose market share and revenues, which could have a material adverse effect on our business and results of operations.

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

Under the Ukrainian Telecommunications Law adopted in November 2003, the National Commission for the Regulation on Communications, or the NCRC, commencing January 1, 2005, has been entitled to regulate the tariffs for public telecommunications services rendered by fixed-line operators, whereas the mobile cellular operators (including UMC) are entitled to set their retail tariffs and negotiate interconnect rates with other operators. However, the NCRC would be entitled to regulate the interconnect rates of any mobile cellular operator declared a "dominant market force" by the Antimonopoly Committee of Ukraine, or the AMC. Government regulation of our interconnect rates could cause our interconnect revenues to decrease or be limited, which could have a material adverse effect on our results of operations.

In addition, we believe that the state-owned fixed-line operator monopolies, Ukrtelecom and UTEL, are currently able to influence telecommunications policy and regulation and may cause substantial increases in interconnect rates for access to fixed-line operators' networks by the mobile cellular operators. Such increases could cause our costs to increase, which could have a material

adverse effect on our results of operations. Similarly, Urktelecom and UTEL may cause substantial decreases in interconnect rates for access to mobile cellular operators' networks by the fixed-line operators, which could cause our revenues to decrease and materially adversely affect our results of operations.

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

There is a limited number of frequencies available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. While we believe that our current spectrum allocations are sufficient, frequency may not be allocated to us in the future in the quantities, with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas. For example, the availability of frequencies in the GSM 900 MHz band in Ukraine is limited by the fact that the Ukrainian military has a number of frequencies for its exclusive use. While future capacity constraints could be reduced by an increase in the GSM frequencies allocated to us, including additional frequencies in the GSM 1800 MHz band, we may not be awarded some or any of the remaining GSM spectrum. In addition, the Ukrainian government is currently delaying the allocation of new frequencies to wireless communications operators in Ukraine which, in turn, may constrain our network capacity in those areas of Ukraine characterized by high subscriber usage.

A loss of assigned spectrum allocation, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. For example, on September 5, 2000, we received a letter from the State Service for Communication Control, a department of the Ministry of Information Technologies and Communications, informing us of the cancellation of the approval the State Service for Communication Control had given it in May 2000 for certain frequencies within the 900 MHz band in order to install base stations with restricted emanation, which we used primarily for the development of our network in the underground stations of the Moscow subway system. While the Department of Communications Control, also under the Ministry of Information Technologies and Communications, halted the implementation of this letter on September 14, 2000, and the Ministry of Information Technologies and Communications reinstated these frequency allocations to us on November 14, 2000, such future attempts may be made to remove frequency allocations from us. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner or at all. If our frequencies are revoked or we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and lower revenues.

Because we lack a comprehensive back-up system for our network and insurance for our computer systems, a network or computer systems failure could prevent us from operating our business and lead to a loss of subscribers, damage to our reputation and violations of the terms of our licenses and subscriber contracts and penalties.

We have back-up capacity for our network management, operations and maintenance systems, but automatic transfer to back-up capacity is limited. In the event that the primary network management center was unable to function, significant disruptions to our systems would occur, including our inability to provide services. Disruptions in our services occurred in the Moscow license area on May 30, 2003, in the Kiev license area on August 31, 2004 and September 1–2, 2004, in the Nizhny Novgorod license area on December 10, 2004 and in the Kirov license area on December 21, 2004. See "Item 4. Information on Our Company—B. Business Overview—Regulation in Ukraine—Competition" for a description of the recommendation issued by the AMC to UMC following the Kiev area disruptions.

These types of disruptions may recur, which could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

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

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

Our licenses contain various requirements. These include participation in a federal communications network, adherence to technical standards, investment in network infrastructure and employment of Russian technical personnel.

In addition, some of our current licenses in Russia provide for payments to be made pursuant to a decision by the Association of GSM Operators, or the Association, to finance telecommunication infrastructure improvements, which in the aggregate could total up to \$103.0 million as of December 31, 2004. The Association is a nongovernmental not-for-profit organization comprised of representatives from the major cellular communications companies, including us. Neither the Association nor Russian lawmakers have established a procedure for enforcing and collecting such payments and the new Federal Law on Communications, which came to effect on January 1, 2004, does not provide for such payments to be made. Accordingly, we have made no payments to date pursuant to any of the current licenses which could require such payments. Each of our licenses also requires service to be started by a specific date and most contain further requirements as to network capacity and territorial coverage to be reached by specified dates.

If we fail to comply with the requirements of applicable Russian, Ukrainian or other legislation or we fail to meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated. A suspension or termination of our licenses or other necessary governmental authorizations could have a material adverse effect on our business and results of operations.

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

Our ability to attract new subscribers and retain existing subscribers depends in part on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company or shareholders and affiliates or our services could negatively affect this brand image, which could lead to loss of market share and revenues.

We may be unable to obtain licenses for third-generation, or UMTS, wireless services on commercially reasonable terms or at all, which would hinder us from competing effectively with operators who are able to provide these services and limit our ability to expand our services.

During the past few years, the Ministry of Information Technologies and Communications has stated its intention to announce the procedures for the award of licenses for UMTS wireless services. To date, however, no procedures have been announced. Depending upon the procedures adopted, we may be unable to obtain UMTS licenses on commercially reasonable terms or at all. Failure to obtain UMTS licenses for the Moscow and other license areas or Ukraine (although we do not believe that the award of UMTS licenses in Ukraine is imminent) would hinder us from competing effectively with

operators who are able to provide these services and limit our ability to expand our services, which could have a material adverse effect on our prospects, business and results of operations.

In addition, we employ technology based primarily on the Global System for Mobile Communications, or GSM, standard. The UMTS standard is significantly superior to existing second-generation standards such as GSM. The adoption of UMTS may consequently increase the competition we face. The technology we currently use may become obsolete or uncompetitive and, if we are not able to develop a strategy compatible with this or any other new technology, we may not be able to acquire new technologies necessary to compete on reasonable terms. In addition, expenditures in connection with new technology may adversely affect our ability to expand in other areas.

Licenses for the use of code division multiple access, or CDMA, technology have already been granted for the provision of fixed wireless services in a number of regions throughout Russia. CDMA is a second-generation digital cellular telephony technology that can be used for the provision of both wireless and fixed services. Although CDMA technology is currently classified in Russia as a fixed radio-telephone service, it may be used for wireless communications, and it may be offered for use via portable handsets. Currently, CDMA technology is offered by certain mobile operators in Russia using the NMT-450 standard. If CDMA operators were able to develop a widespread network throughout Russia, we would face increased competition.

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

Our licenses expire in various years from 2005 to 2016 and may be renewed in Russia, Ukraine and Uzbekistan upon application to the Federal Service for Supervision in the Area of Communications, the NCRC and the Agency of Communications and Informatization, respectively. From time to time, as required, we also apply for the re-issuance of licenses prior to their expiration.

Governmental officials have broad discretion in deciding whether to renew a license, and may not renew our licenses after expiration. If our licenses are renewed, they may be renewed with additional obligations, including payment obligations. Failure to renew our licenses or to receive renewed licenses with similar terms to our existing licenses could significantly diminish our service area, which could have a material adverse effect on our business and results of operations.

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

We have purchased interests in various mobile telecommunications companies from Sistema and entered into arrangements with subsidiaries of Sistema for advertising (Maxima), interconnection services (MTT), insurance services (Rosno), interconnection and telephone numbering capacity (MGTS, Comstar and MTU-Inform), IT services and hardware purchases (Kvazar-Micro), banking services (MBRD), office leases (MGTS) and the purchase of a new billing system (STROM telecom). Furthermore, we have entered into a number of arrangements with T-Mobile and its affiliates, including agreements for the purchase of shares of UMC, and we have entered into a number of equipment lease agreements with Invest-Svyaz Holding, one of our shareholders and a wholly-owned subsidiary of Sistema. These transactions may present conflicts of interest, potentially resulting in the conclusion of transactions on terms not determined by market forces.

If the Federal Antimonopoly Service was to conclude that we acquired or created a new company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the divestiture of this company or other assets, which could have a material adverse effect on our business and results of operations.

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to, the Federal Antimonopoly

Service or its predecessor agencies. In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior approval or notification. While we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If the Federal Antimonopoly Service was to conclude that an acquisition or formation of a new company was done in contravention of applicable legislation, it could impose administrative sanctions and require the divestiture of this company or other assets, which could have a material adverse effect on our business and results of operations.

In addition, if we or any of our subsidiaries were to be classified by the Federal Antimonopoly Service as a dominant market force or as having a dominant position in the market, the Federal Antimonopoly Service would have the power to impose certain restrictions on their businesses. These restrictions could result in competitive disadvantages, and materially adversely affect the business and results of operations of these entities. See "**—Risks Relating to Our Industry—If we are found to have a dominant position in our markets, the government may regulate our tariffs and restrict our operations.**"

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

We own less than 100% of the equity in some of our subsidiaries, with the remaining equity balance being held by minority shareholders. These subsidiaries have in the past carried out, and continue to carry out, numerous transactions with us and our other subsidiaries, which may be considered "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions." These transactions have not always been properly approved and, therefore, may be challenged by minority shareholders. In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders meeting to approve certain transactions, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of shares and share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other transactions requiring supermajority approval. In the event these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party or other transactions in the future, we could be limited in our operational flexibility and our results of operations could be materially adversely affected.

All or part of our subscriber database, containing private information relating to our subscribers, was illegally copied and stolen in early 2003, and is currently publicly sold in Russia.

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

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

In January 2003, lawsuits were filed by two of our subscribers seeking compensation for damages resulting from the leak of the subscribers' confidential information. While the subscribers subsequently withdrew their claims, if similar lawsuits are successful in the future, we might have to pay significant damages, including consequential damages, which could have a material adverse effect on our results of operations. Future breaches of security may also negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, prospects and results of operations.

Risks Relating to Our Financial Condition

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

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. At December 31, 2004, our consolidated total debt, including capital lease obligations, was approximately \$1,937.1 million, and we have signed several agreements for additional financing for an aggregate amount of approximately \$493.0 million since December 31, 2004. We have approximately \$370.9 million in notes and bank loans that are due by December 31, 2005.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, which could cause defaults under our other indebtedness.

We may not be able to generate sufficient cash flow or access international capital markets or incur additional indebtedness to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity, sell assets, reduce or delay capital expenditures or seek additional capital. We cannot assure you that any refinancing or additional financing would be available on commercially reasonable terms or at all, or whether our assets could be sold, or if sold, whether the proceeds therefrom would be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources."

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

We will need to make significant capital expenditures, particularly in connection with the development, construction and maintenance of, and the purchasing of software for, our GSM network. We spent approximately \$574.3 million in 2002, approximately \$958.8 million in 2003 and approximately \$1,358.9 million in 2004 for the fulfillment of our capital spending plans, and we may need to significantly increase our capital expenditures in the future to facilitate our regional growth and maintain our competitive network coverage. In addition, the acquisition of UMTS licenses and frequency allocations and the buildout of a UMTS network will require substantial additional capital expenditures. However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;

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

To meet our financing requirements, we may need to attract additional equity or debt financing. Russian companies are limited in their ability to issue shares in the form of ADRs or other depository receipts due to new Russian securities regulations that came into force in 2003 providing that no more than 40% of a Russian company's shares may be circulated abroad through sponsored depository receipt programs. As of May 31, 2005, depository receipts, including ADRs, accounted for approximately 37% of our outstanding shares. Therefore, our ability to raise additional equity financing through depository receipt programs is substantially limited. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, prospects and results of operations.

In addition, from time to time, we may merge our subsidiaries into us for operational reasons. Under Russian law, such merger would be considered a reorganization and we would be required to notify our creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate our debts and demand reimbursement for applicable losses. In the event that we elect to undertake any such merger and all or part of our debt is accelerated, we may not have the ability to raise the funds necessary for repayment and our business and financial condition could be materially adversely affected. On November 9, 2004, our general meeting of shareholders approved a merger of seven of our wholly-owned subsidiaries into us. The term for notifying our creditors has not yet commenced. We do not, however, expect a substantial portion of our indebtedness to be accelerated.

Devaluation of the ruble against the U.S. dollar could increase our costs and reduce our revenues.

Until recently, the ruble has fluctuated dramatically against the U.S. dollar, in the great majority of instances falling in value. A significant portion of our costs, expenditures and liabilities, including capital expenditures and borrowings (including our U.S. dollar-denominated notes), are either denominated in, or closely linked to, the U.S. dollar, while substantially all of our revenues are denominated in rubles. As a result, the devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in ruble terms. In order to hedge against this risk, we link our tariffs in Russia, which are payable in rubles, to the U.S. dollar. The effectiveness of this hedge is limited, however, as we may not be able to increase prices in line with ruble devaluation against the U.S. dollar due to competitive pressures or regulatory restrictions, leading to a loss of revenue in U.S. dollar terms. We do not engage in any other hedging arrangements. Additionally, if the ruble declines against the U.S. dollar and price increases cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness, including our notes. The devaluation of the ruble also results in losses in the value of ruble-denominated assets, such as ruble deposits. In order to hedge against this risk, we invest a significant portion of our cash in U.S. dollar-denominated deposits.

The decline in the value of the ruble against the U.S. dollar also reduces the U.S. dollar value of tax savings arising from the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would increase total expenses.

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

The Russian economy has been characterized by high rates of inflation. In 2004, the inflation rate of 11.7%, combined with the nominal appreciation of the ruble, resulted in the appreciation of the ruble against the U.S. dollar in real terms. As we tend to experience inflation-driven increases in certain of our costs, including salaries and rents, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins.

Russian currency control regulations hinder our ability to conduct our business.

The Central Bank of Russia has from time to time imposed various currency control regulations in attempts to support the ruble, and may take further actions in the future. Furthermore, the government and the Central Bank of Russia may impose additional requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia, which could prevent us from carrying on necessary business transactions, or from successfully implementing our business strategy.

A new framework law on exchange controls took effect on June 18, 2004. This law empowers the government and the Central Bank of Russia to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law also abolishes the need for companies to obtain transaction-specific licenses from the Central Bank of Russia (except for opening bank accounts outside Russia), envisaging instead the implementation of generally applicable restrictions on currency operations. As the evolving regulatory regime is new and untested, it is unclear whether it will be more or less restrictive than the prior laws and regulations it has replaced.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information subject us to the risks of additional costs and penalties.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and arbitration courts, and they could be used in politically motivated investigations and prosecutions. We believe that the prices used by our group are market prices and, therefore, comply with the requirements of Russian tax law on transfer pricing. However, due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and propose adjustments. If such price adjustments are upheld by the Russian arbitration courts and implemented, our future financial results could be adversely affected. In addition, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which would have an adverse impact on our financial condition and results of operations. Although Ukraine has reformed its transfer pricing rules, similar concerns with interpretation and enforcement by the Ukrainian tax authorities exist.

Restrictions on investments outside of Russia or in hard-currency-denominated instruments in Russia expose our cash holdings to devaluation.

Currency regulations established by the Central Bank of Russia restrict investments by Russian companies outside Russia and in most hard-currency-denominated instruments in Russia, and there are

only a limited number of ruble-denominated instruments in which we may invest our excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against the U.S. dollar.

Additionally, Russian companies must repatriate 100% of offshore foreign currency earnings to Russia and convert 10% of those earnings into rubles within seven days of receipt, although Russian legislation allows the Central Bank of Russia to decrease this conversion requirement or increase it up to 30%. For example, we earned around \$83.4 million, \$112.0 million and \$93.3 million in foreign currency in 2002, 2003 and 2004, respectively, primarily from our roaming agreements. This requirement further increases balances in our ruble-denominated accounts and, consequently, our exposure to devaluation risk.

Continued or increased limitations on the conversion of rubles to foreign currency in Russia could increase our costs when making payments in foreign currency to suppliers and creditors and could cause us to default on our obligations to them.

Many of our major capital expenditures are denominated and payable in various foreign currencies, including the U.S. dollar and euro. For example, as of December 31, 2004, we had \$164.7 million committed under contracts with foreign suppliers for the purchase of network infrastructure that were primarily denominated in U.S. dollars. Although Russian legislation currently permits the conversion of rubles into foreign currency, the market in Russia for the conversion of rubles into foreign currencies is limited. The scarcity of foreign currencies may tend to inflate their values relative to the ruble, and such a market may not continue to exist, which could increase our costs when making payments in foreign currencies to suppliers and creditors.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or delay or restriction in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition and results of operations.

Indentures relating to our notes and our controlling shareholder Sistema's notes contain, and our syndicated loan agreement contains, restrictive covenants, which limit our ability to incur debt and to engage in various activities.

The indentures relating to our outstanding notes contain covenants limiting our ability to incur debt, create liens on our properties and enter into sale and lease-back transactions. The indentures also contain covenants limiting our ability to merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. Our syndicated loan facility contains similar and other covenants. Failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which controls 50.6% of our outstanding shares and consolidates our results in its financial statements, is subject to various covenants in the indentures related to its \$350.0 million in aggregate principal amount of notes due 2008 and \$350.0 million in aggregate principal amount of notes due 2011, which impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, inter alia, incurrence of indebtedness, creation of liens and disposal of assets. In these indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain debt/EBITDA (as defined therein) ratio is met. In addition to us, Sistema has other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its covenants, which could materially limit our ability to conduct our operations, including the implementation of our business strategy.

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

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

- Any person acquires beneficial ownership of 50% or more of the total voting power of all shares of our common stock; provided that the following transactions would not be deemed to result in a change in control:
 - any acquisition by Sistema, T-Mobile or their respective subsidiaries that results in the 50% threshold being exceeded; and
 - any acquisition by us, our subsidiary or our employee benefit plan.
- We merge or consolidate with or into, or convey, sell, lease or otherwise dispose of all or substantially all of our assets to, another entity or another entity merges into us and, immediately following such transaction, Sistema and T-Mobile together do not beneficially own at least 50% of the total voting power of all shares of common stock of such entity.
- We no longer beneficially own more than 50% of the issuer's share capital.

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

Risks Relating to Our Industry

We face increasing competition that may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

The Russian wireless telecommunication services market is becoming increasingly competitive. The trend in Russian government licensing policies has been to increase competition among wireless telecommunication service providers. Russian regulatory authorities have moved from granting exclusive licenses for each technology standard per region to granting multiple licenses covering the same territory. Increased competition, including from the potential introduction of new mobile operators in the markets where we operate, may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.

A merger between our two largest competitors would result in a competitor substantially larger than us with leading market shares in the Russian mobile communications market.

In August 2003, Russian financial industrial conglomerate Alfa Group, which owns a 25.1% stake in Vimpelcom, announced its purchase of CT-Mobile, which owns a 25.1% stake in MegaFon. This acquisition gives Alfa Group a 25.1% blocking stake in MegaFon and the press reported that Alfa Group might seek to merge Vimpelcom and MegaFon, Russia's second and third largest wireless communications providers and our two largest competitors. Though it is unclear whether such merger might occur, in the event that it does, it would result in a competitor substantially larger than us with leading market shares in the Russian wireless communications market.

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

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

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

Because of limitations on the rights of license holders and the need to have a license reissued in the event of a merger, our ability to integrate our networks may be restricted, thus preventing us from offering integrated network services.

As our regional development program proceeds, we intend to integrate our various networks to create a single, unified GSM network. The Federal Law on Communications and other telecommunications regulations prohibit the transfer or assignment of licenses and require that telecommunications services must be provided by the licensee only. Further, applicable regulations require that agreements for the provision of telecommunications services must be concluded and performed only by the licensee. This requirement has been an important factor in our recent acquisitions. As we are unable to buy licenses, we must instead purchase the company holding the license. We must also continue to operate through such company in its license area by entering into agency, lease, services and similar agreements.

We have entered into a series of agreements with a number of our subsidiaries for the provision of network construction services, the lease of wireless switching centers and related services. The government may change its position and view these agreements as violating the general prohibition on the transfer or assignment of licenses. For example, in 2003, the government challenged Vimpelcom on the grounds that it was illegally operating in Moscow pursuant to a license issued to its 100% owned subsidiary rather than to Vimpelcom itself.

Additionally, Russian law requires that, in the event of a merger, a license held by either of the merging entities must be reissued to the successor entity, rather than simply transferred. We intend to continue to merge with our wholly-owned subsidiaries as part of our efforts to integrate our networks; however, a failure to receive a new license as part of a merger would result in the loss of our ability to operate in that license area.

Restrictions on our ability to enter into contracts with our subsidiaries, or the failure to receive a new license in the event of a merger, would restrict our ability to create a single, unified GSM network, reducing our ability to attract and retain subscribers and compete with a federal, nation-wide licensee in the event that such a license was granted.

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

Under Russian legislation, the Federal Antimonopoly Service may categorize a company as a dominant force in a market. Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. As of December 31, 2004, MTS OJSC and its subsidiaries CJSC Kuban-GSM, Tomsk Cellular Communications LLC, CJSC Siberian Cellular System-900 and CJSC UDN-900 are categorized as companies with a market share exceeding 35%. This classification, in turn, gives the Federal Antimonopoly Service the power to impose certain restrictions on the businesses of those entities.

Additionally, UMC, which has over a 50% market share of the Ukrainian wireless communications market, can be categorized as a company with a dominant position in the market and become subject to specific government-imposed restrictions. While UMC is currently not categorized as a company with a dominant position in the market, it reduced certain of its tariffs at the recommendation of the AMC in April 2004. See "Item 4. Information on Our Company—B. Business Overview—Regulation in Ukraine—Competition" for additional information.

If we or any of our subsidiaries were classified as a dominant market force or as having a dominant position in the market, the imposition of government-determined tariffs could result in competitive disadvantages, and our business and results of operations could be materially adversely affected. Our refusal to adjust our tariffs according to such government-determined rates could result in the withholding of all our revenues by Russian authorities. Additionally, restrictions on expansion or government-mandated withdrawal from regions or markets could reduce our subscriber base and prevent us from implementing our business strategy. Moreover, we could be required to make additional license applications at an additional unexpected cost.

The public switched telephone networks have reached capacity limits and need modernization, which may inconvenience our subscribers and may require us to make substantial investments in public switched telephone networks.

Due to the recent growth in fixed and wireless telephone use in Moscow, the city's "095" code has reached numbering capacity limits and an additional code or codes are expected to be introduced in the future. Calls between a new code and another code will require callers to dial through "8," the long distance dialing prefix, which is also used by our "federal" number subscribers. The overtaxing of these long distance lines may inconvenience our federal number subscribers by causing incoming and outgoing calls to have lower completion rates. Resolving these issues will require additional investment. In addition, continued growth in local, long-distance and international traffic, including that generated by our subscribers, may require substantial investment in public switched telephone networks.

Although the operators of public switched telephone networks are normally responsible for these investments, their weak financial condition may prevent them from making these investments. Since we are financially strong relative to these public network operators, we may be compelled to make such investments on their behalf, placing an additional burden on our financial and human resources. Additionally, assuming we make such investments, we may not own the assets resulting from such investment. While we cannot estimate the financial and operating burdens associated with such investments, they may be substantial.

Additionally, to meet subscriber demand and provide for an adequate inventory of numbering capacity, we have entered into contracts with local fixed-line providers for allocation of numbering capacity to us. These contracts are now under review by the Ministry of Information Technologies and Communication and are subject to change in order to comply with new legislative requirements. The Ministry of Information Technologies and Communications may also require cellular communication service providers to allow their customers to retain their mobile number when switching from one

provider to another. These changes in our contracts and in the regulations may cause us to incur additional expenses and a loss of numbering capacity.

In Ukraine, new numbering capacity must first be established on the networks of Ukrainian public fixed-line operators before the numbers are made available for use by mobile operators. Thus, depending on the rate in which new numbers are established on the fixed-line networks, UMC may be constrained in its ability to allocate new phone numbers to potential customers which could hinder UMC's ability to attract new subscribers and cause its market share to decline.

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

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

Computer viruses may harm or disrupt our network.

As telecommunications and IT networks increase in size and complexity, they are becoming increasingly susceptible to computer viruses. These viruses can potentially spread throughout a network system, slowing the network and disrupting service. In the event that any of our telecommunications or IT networks are the target of a virus, we may be unable to maintain the integrity of such networks and software operations, which could have a material adverse effect on our business and results of operations.

Risks Relating to the Russian Federation and Ukraine

Economic Risks

Economic instability in Russia and Ukraine could adversely affect our business.

Since the dissolution of the Soviet Union, the Russian and Ukrainian economies have experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;

- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian and Ukrainian economies have been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of Russia stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. Certain other CIS countries, including Ukraine and Belarus, were similarly affected by these events.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian and Ukrainian economies have experienced positive trends, such as the increase in the gross domestic product, relatively stable national currencies, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

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

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Although the Central Bank of Russia has the mandate and authority to suspend banking licenses of insolvent banks, many insolvent banks still operate. Most Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, many banks do not follow existing Central Bank regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Further, bank deposits generally are not insured in Russia.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the Central Bank of Russia in 2004 revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of creditworthy Russian banks, most of which are located in Moscow. We have tried to reduce our risk by receiving and holding funds in a number of Russian banks, including subsidiaries of foreign banks. Nonetheless, we hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks, in part because we are required to do so by Central Bank regulations and because the ruble is not transferable or convertible

outside of Russia. There are few, if any, safe ruble-denominated instruments in which we may invest our excess ruble cash. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial conditions and results of operations.

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

The physical infrastructure in Russia and Ukraine largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks; power generation and transmission; communication systems; and building stock. For instance, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major outage in a large section of Moscow and some surrounding regions. The blackout also hit the ground electric transport, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many stores and markets were also halted. Road conditions throughout Russia and Ukraine are poor, with many roads not meeting minimum quality requirements. The Russian and Ukrainian governments are actively considering plans to reorganize the nations' rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of physical infrastructure in Russia and Ukraine harms the national economies, disrupts the transportation of goods and supplies, adds costs to doing business in these countries and can interrupt business operations. These difficulties can impact us directly; for example, we have needed to keep portable electrical generators available to help us maintain base station operations in the event of power failures. Further deterioration in the physical infrastructure could have a material adverse effect on our business and the value of our securities.

Fluctuations in the global economy may materially adversely affect the Russian and Ukrainian economies and our business.

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

Political and Social Risks

Political and governmental instability could materially adversely affect the value of our securities.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to

demands for autonomy from particular regional and ethnic groups. Moreover, the composition of the Russian government, the prime minister and the other heads of federal ministries has at times been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned. Vladimir Putin was subsequently elected president on March 26, 2000 and re-elected for a second term on March 14, 2004. Throughout his first term in office, President Putin has maintained governmental stability and even accelerated the reform process. In February 2004, President Putin dismissed his entire cabinet, including the prime minister. This was followed on March 12, 2004, by President Putin's announcement of a far-reaching restructuring of the Russian government, with the stated aim of making the government more transparent and efficient. The changes included, for example, reducing the number of ministries from 30 to 14 and dividing the government into three levels: ministries, services and agencies.

In addition to the restructuring of the Russian Federal government, the Russian parliament adopted legislation proposed by President Putin whereby the executives of sub-federal political units will no longer be directly elected by the population and will instead be nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. Further, President Putin has proposed to eliminate individual races in State Duma elections, so that voters would only cast ballots for political parties. These new structures are largely not yet finalized and implemented.

Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could also disrupt or reverse economic and regulatory reforms.

Similarly to Russia, Ukraine has experienced political instability since its independence in 1991, having seen nine changes in prime minister since 1991. The various state authorities, and the relations between them, as well as the Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change. For example, following the presidential elections in November 2004, mass demonstrations and strikes took place throughout Ukraine to protest the election process and results. While tensions in Ukraine appear to have subsided following the invalidation of the November election results and the new presidential election held on December 26, 2004, the long-term effects of these events and policy direction of the new government are not yet known.

Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on our business and the value of investments in Russia and Ukraine, and the value of our securities could decline.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering our long-term planning ability and could materially adversely affect the value of investments in Russia, including the value of our securities.

The Russian Federation is a federation of 89 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area, and recently, other parts of Russia have experienced violence related to the Chechen conflict. Violence and attacks relating to this conflict have also spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists throughout Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business and the value of investments in Russia, including the value of our securities.

In Ukraine, tensions between certain regional authorities and the central government were recently ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the regional authorities in three regions in eastern Ukraine threatened to conduct referendums on creating a separate, autonomous region within Ukraine. Though the regional authorities backed down from these threats, and tensions in Ukraine appear to have subsided following the invalidation of the November election results and the new presidential election held on December 26, 2004, the long-term effects of these events and their effect on relations among Ukrainians is not yet known.

Crime, corruption and negative publicity could disrupt our ability to conduct our business and could materially adversely affect our business, financial condition and results of operations or prospects.

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

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

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads. More recently, mass protests and strikes erupted across Ukraine following the country's presidential election in November 2004. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, with restrictions on foreign involvement in the economies of Russia

and Ukraine; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenue, materially adversely affecting our operations.

Major changes in Ukraine-Russia relations may adversely affect our business.

The relationship between Ukraine and Russia has been historically strained due, among other things, to Ukraine's failure to pay arrears relating to the supply of energy resources, Russia's introduction of a 20% VAT on Ukrainian imports and border disputes. In addition, the impact of the recent political crisis in Ukraine and the results of the December 26, 2004 presidential election on Ukraine-Russia relations is not yet clear.

In recent years, bilateral relations between Ukraine and Russia have improved, due in part to the conclusion in May 1997 of the Friendship and Cooperation Treaty, the conclusion in December 2000 of two inter-governmental agreements on the transit and supply of Russian natural gas, the conclusion in October 2002 of a framework agreement to ensure natural gas transit for the next 30 years and provide for the construction, modernization and operation of gas pipelines, and by Ukraine's ratification in September 2003 of an agreement with Russia, Kazakhstan and Belarus to create a "free trade" economic zone.

However, any major changes in Ukraine-Russia relations, in particular any such changes adversely affecting energy supplies from Russia to Ukraine and/or Ukraine's export of services and goods to Russia, could materially adversely impact the Ukrainian economy and our Ukrainian operations.

Legal Risks

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity in Russia and Ukraine, which could have a material adverse effect on an investment in our securities.

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

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

Additionally, several fundamental laws have only recently become effective. The recent nature of much of Russian and Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian and Ukrainian legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian and Ukrainian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and under our contracts, or to defend

ourselves against claims by others. Furthermore, we cannot assure you that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

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

The independence of the judicial system and its immunity from economic, political and nationalistic influences in each of Russia and Ukraine remain largely untested. The court system in each of Russia and Ukraine is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian and Ukrainian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian and Ukrainian judicial systems can be slow or unjustifiably swift. Enforcement of court orders can in practice be very difficult in Russia and Ukraine. All of these factors make judicial decisions in Russia and Ukraine difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes.

These uncertainties also extend to property rights. During Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, including UMC, potentially without adequate compensation, would have a material adverse effect on our business.

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

We operate in an uncertain regulatory environment. Governmental authorities in Russia and Ukraine have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, in 2003 and 2004, the Ministry for Taxes and Levies aggressively brought tax evasion claims on certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations or prospects.

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

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include

- the Federal Service for the Financial Markets;
- the Ministry of Finance;
- the Federal Antimonopoly Service;
- the Central Bank of Russia; and
- various professional self-regulatory organizations.

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

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

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

The Civil Code of the Russian Federation dated January 26, 1996, or the Civil Code, and the Federal Law on Joint Stock Companies of December 26, 1995, or the Federal Law on Joint Stock Companies, generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

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

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

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

Shareholder rights provisions under Russian law may impose additional costs on us, which could materially adversely affect our financial condition and results of operations.

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

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth between 25% and 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of our charter in a manner that limits shareholder rights.

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

Limitations on foreign investment could impair the value of your investment in our securities and could hinder our access to additional capital.

Russian and Ukrainian legislation governing foreign investment activities does not prohibit or restrict foreign investment in the telecommunications industry. However, a lack of consensus exists over the manner and scope of government control over the telecommunications industry. While draft legislation protecting the rights of foreign investors specifically in the telecommunications industry has been considered at various times, the Law on Foreign Investment in the Russian Federation does not provide any specific protections in this regard, nor are there specific protections in Ukraine. Because the telecommunications industry is widely viewed as strategically important to Russia and Ukraine, governmental control over the telecommunications industry may increase, and foreign investment in or control over the industry may be limited. Any such increase in governmental control or limitation on foreign investment could impair the value of your investment in our securities and could hinder our access to additional capital.

The implementation of the new Federal Law on Communications and the new Ukrainian Law on Telecommunications will impose an additional financial burden on us, which may materially adversely affect our financial condition and results of operations.

The new Federal Law on Communications came into force on January 1, 2004. Among other things, this law provides for the establishment of a "universal services reserve fund" for the purpose of supporting communications companies operating in less developed regions of Russia. This reserve fund will be funded by a levy imposed on all communication services providers, including us. According to a government decree enacted on April 21, 2005, such providers must make quarterly payments in the amount of 1.2% of the difference between their total revenues and revenues generated by interconnection services. However, the procedures for its collection and subsequent distribution have not yet been established. This additional levy, the amount of which may be changed by the Russian government at its own discretion, will increase our costs and may materially adversely affect our financial condition and results of operations.

In addition, the new Ukrainian Law on Telecommunications also came into force on January 1, 2004. However, regulations implementing the new law have not yet been promulgated and certain regulatory bodies established by the new law have not yet commenced their regulatory functions. For

example, the regulatory body tasked with regulating the telecommunications industry and issuing telecommunications licenses in Ukraine, the NCRC was formed in January 2005 but has not begun to perform its regulatory functions and no other regulatory authority has been designated or is permitted to perform these functions under the law. In addition, the new Ukrainian Law on Telecommunications, among other things, may require companies with a dominant position in the telecommunications market to develop public telecommunications services if directed to do so by the regulatory authorities. See "Item 4. Information on Our Company—B. Business Overview—Regulation in Ukraine—Competition." As UMC's estimated market share in mobile telecommunication services in Ukraine is over 50%, implementation of the new law may materially adversely affect our financial condition and results of operations.

Changes in the Russian tax system could materially adversely affect an investment in our securities.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax, or VAT;
- excise taxes and import duties;
- unified social tax; and
- property tax.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. For example, tax laws are unclear with respect to the deductibility of certain expenses and at times we have taken a position that may be considered aggressive by tax authorities, but that we consider to be in compliance with current law. This uncertainty potentially exposes us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of our telecommunications licenses.

Because of the political changes which have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, or the Tax Code, which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code.

In practice, the Russian tax authorities often interpret the tax laws in a way that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our group. In addition, payments of intercompany

dividends are subject to a withholding tax of 9% to 15%, though this tax does not apply to dividends paid out further up the ownership chain once they have already been taxed at the lower level.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could materially adversely affect our business and the value of our securities.

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

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

Although the Ukrainian Constitution prohibits retroactive enforcement of any newly enacted tax laws and the Law on Taxation System specifically requires legislation to adopt new tax laws at least six months prior to them becoming effective, such rules have largely been ignored. In addition, tax laws are often vaguely drafted, making it difficult for us to determine what actions are required for compliance. Differing opinions regarding the legal interpretation of tax laws often exist both among and within governmental ministries and organizations, including the tax administration, creating uncertainties and areas of conflict for taxpayers and investors. In practice, the Ukrainian tax authorities tend to interpret the tax laws in an arbitrary way that rarely favors taxpayers.

Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), may be subject to review and investigation by various administrative divisions of the tax authorities, which are authorized by law to impose severe fines, penalties and interest charges. These circumstances create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for a three-year period. However, this term may not be observed or may be extended under certain circumstances, including in the context of a criminal investigation. While we believe that we are currently in compliance with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues, which may result in a material adverse effect on our results of operations and financial condition.

We face similar risks in other countries of the CIS.

In addition to Russia and Ukraine, we currently have operations in other CIS countries, including Belarus and Uzbekistan. We may acquire additional operations in other countries of the CIS. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia and Ukraine, especially those risks set out above in "—Risks Relating to the Russian Federation and Ukraine."

Risks Relating to the ADSs and the Trading Market

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

Because Russian law may not recognize ADS holders as beneficial owners of the underlying shares, it is possible that you could lose all your rights to those shares if the depositary's assets in Russia are seized or arrested. In that case, you would lose all the money you have invested.

Russian law might treat the depositary as the beneficial owner of the shares underlying the ADSs. This would be different from the way other jurisdictions, such as the states of the United States, treat ADSs. In those jurisdictions, although shares may be held in the depositary's name or to its order and it is therefore a "legal" owner of the shares, the ADS holders are the "beneficial," or real owners. In those jurisdictions, no action against the depositary, the legal owner, would ever result in the beneficial owners losing their shares. Because Russian law may not make the same distinction between legal and beneficial ownership, it may only recognize the rights of the depositary in whose name the shares are held, not the rights of ADS holders, to the underlying shares.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. We do not know yet whether the shares underlying ADSs may be seized or arrested in Russian legal proceedings against a depositary. In the past a lawsuit has been filed against a depositary bank other than our depositary seeking the seizure of various Russian companies' shares represented by ADSs issued by that depositary. In the event that this type of suit were to be successful in the future, and the shares were to be seized or arrested, the ADS holders involved would lose their rights to the underlying shares.

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

You will be able to exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs and relevant requirements of Russian law. However, there are practical limitations upon your ability to exercise your voting rights due to the additional procedural steps involved in communicating with you. For example, our charter requires us to notify shareholders at least 30 days in advance of any meeting. Our shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

As an ADS holder, you, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary. The depositary has undertaken in turn, as soon as practicable thereafter, to mail to you the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by holders. To exercise your voting rights, you must then instruct the depositary how to vote its shares. Because of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for you than for holders of shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting.

In addition, although securities regulations expressly permit the depositary to split the votes with respect to the shares underlying the ADSs in accordance with instructions from ADS holders, this regulation remains untested, and the depositary may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. You may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs.

You may be unable to repatriate your earnings from our ADSs.

Russian currency control legislation pertaining to payment of dividends provides that ruble dividends on common stock may be paid to the depository or its nominee and converted into U.S. dollars by the depository for distribution to owners of ADSs without restriction. Also, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws as long as the buyer is not a Russian resident.

Under the terms of the deposit agreement, there is no restriction on the sale of our ADSs to Russian residents. However, Russian currency control legislation effectively limits the ability of a non-resident of Russia to sell our ADSs to a Russian resident. Without a special license or a general banking license granted by the Central Bank, either of which is in practice difficult to obtain:

- Russian legal entities must purchase securities for rubles and may not purchase foreign currency-denominated securities, such as our ADSs; and
- Russian individuals may only purchase up to \$75,000 worth of such securities in one calendar year.

Moreover, sales of ADSs (as opposed to sales of underlying shares) to Russian residents may violate Russian securities laws. Accordingly, an ADS holder seeking to sell its holding to a Russian resident may in practice need first to withdraw the shares underlying its ADSs and establish a special ruble account to receive the proceeds from the sale of the shares. The repatriation of sale proceeds may be subject to significant costs and delays.

The ability of the depository and other persons to convert rubles into U.S. dollars or another foreign currency is also subject to the availability of U.S. dollars or other foreign currency in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars and other foreign currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble-currency and ruble-denominated investments.

Future sales of common stock or ADSs may affect the market price of our common stock and ADSs.

Sales, or the possibility of sales, of substantial numbers of shares of our common stock or ADSs in the public market, including the Russian stock market, could have an adverse effect on the market trading prices of the ADSs. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Newly issued preferred stock may have rights, preferences or privileges senior to those of common stock.

You may not be able to benefit from the United States-Russia double tax treaty.

In accordance with Russian legislation, dividends paid to a nonresident holder generally will be subject to Russian withholding tax at a 15% rate for legal entities, and at the rate of 30% for individuals. This tax may be reduced to 5% or 10% under the United States-Russia income tax treaty for U.S. holders: a 5% rate applies for U.S. holders who are legal entities owning 10% or more of the company's outstanding shares, and a 10% rate applies to dividends paid to U.S. holders, including individuals and legal entities, owning less than 10% of the company's outstanding shares. However, the Russian tax rules applicable to U.S. holders are characterized by significant uncertainties and limited interpretive guidance. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States-Russia income tax treaty, in practice such relief may be difficult or impossible to obtain. See "Item 10. Additional Information—E. Taxation—Russian Income and Withholding Tax Considerations" for additional information.

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

Under Russian tax legislation, gains arising from the disposition of Russian shares and securities, such as our common stock, as well as financial instruments derived from such shares, such as our ADSs, may be subject to Russian income or withholding taxes. However, no procedural mechanism currently exists to withhold any capital gains or for subsequent remittance of such amounts to the Russian tax authorities with respect to sales made between non-residents or sales of ADSs on the New York Stock Exchange.

Foreign judgments may not be enforceable against us.

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

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

Other Risks

We have not independently verified information regarding our competitors, nor have we independently verified official data from Russian government agencies.

We have derived substantially all of the information contained in this document concerning our competitors from publicly available information, including press releases and filings under the U.S. securities laws, and we have relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this document has been derived from official data of Russian government agencies. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged in connection with their misuse of economic data.

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

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

Item 4. Information on Our Company

A. History and Development

Mobile TeleSystems CJSC, or MTS CJSC, our predecessor, was formed in 1993. The founding shareholders included MGTS and three other Russian telecommunications companies, which collectively held 53% of our original share capital, and two German companies, Siemens AG and T-Mobile Deutschland GmbH, an affiliate of Deutsche Telekom AG, which collectively held the remaining 47%. JSFC Sistema, or Sistema, currently owns 50.6% of our share capital. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

MTS CJSC inaugurated service in the Moscow license area in 1994 and began expanding into nearby regions in 1997. Since that time, we have continued to grow by applying for GSM licenses in new regions, investing in new GSM licensees, increasing our ownership percentage in these licensees and acquiring existing GSM license holders and operators.

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

We completed our initial public offering on July 6, 2000, and listed our shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT." Each ADS represents five underlying shares of our common stock. Prior to January 1, 2005, each ADS represented 20 shares.

In April 2003 and December 2004, T-Mobile completed offerings of approximately 5.0% and 15.1% of our shares, respectively, in the form of GDRs through an unsponsored GDR program.

Our legal name is Mobile TeleSystems OJSC, and we are incorporated under the laws of the Russian Federation. We operate in the Russian Federation under the commercial names "Mobile TeleSystems," "MTS" and "Jeans," in Ukraine through our subsidiary, Ukrainian Mobile Communications and in Uzbekistan through our subsidiary, Uzdunrobita. Mobile TeleSystems LLC, our 49%-owned joint venture, operates in Belarus. Our head office is located at 4 Marksistskaya Street, Moscow 109147, Russian Federation, and the telephone number of our investor relations department is +7 095 911-6553. We maintain a website at <http://www.mtsgsm.com>. The information on our website is not a part of this report. We have appointed Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19715 as our authorized agent for service of process for any suit or proceeding arising out of or relating to our shares, ADSs or the Deposit Agreement.

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing and operation of a radiotelephone mobile cellular network in the Russian

Federation. We are recorded in the Unified State Register of Legal entities with registration number 1027700149124.

Expansion

Russia

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

Belarus

In September 2001, we won a tender held by the Telecommunications Ministry of the Belarus Republic to form a joint venture with a GSM 900/1800 license to operate in Belarus. Belarus had a population of approximately 10 million and a nationwide mobile penetration rate of approximately 24% as of December 31, 2004, according to AC&M-Consulting. Pursuant to the tender conditions:

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

On June 26, 2002, MTS Belarus received all of the governmental approvals and licenses required to commence operations in Belarus and it began operations on June 27, 2002.

Under the terms of the tender, MTS Belarus' license will be valid for ten years, after which it may be prolonged an additional five-year period as long as the joint venture fulfills the terms of the license. At the time we won the tender, Cellular Digital Network, or Velcom, already held a GSM 900 license to operate in Belarus. Velcom's license was issued in 1998 and is also valid for ten years and may be renewed for an additional five-year period. Velcom is a joint venture between Beltelecom and Beltechexport, two Belarusian state enterprises which collectively have a controlling stake in Velcom, and several other companies.

MTS Belarus spent \$62.5 million in 2004 for network development in Belarus and expects to spend approximately \$75 million in 2005 for further network development. MTS Belarus has developed GSM 900 and 1800 networks in Belarus' major cities and regions, including Minsk and the Minsk region, the Gomel region, the Mogilev region and the Brest region, as well as throughout certain major highways, including the Moscow-Brest highway and train route. MTS Belarus has also developed its network in certain areas near Belarus' border with Ukraine and Russia, and plans to further extend and improve the technical capabilities of its network throughout Belarus.

Ukraine

In March 2003, we purchased a 57.7% stake in UMC for \$199.0 million. We purchased a 16.33% stake from KPN, a 16.33% stake from Deutsche Telekom, and a 25.0% stake from Ukrtelecom. In June 2003, we purchased an additional 26.0% stake in UMC from Ukrtelecom for \$87.6 million

pursuant to a call option agreement, which increased our ownership in UMC to 83.7%. We purchased the remaining 16.33% stake in UMC from TDC for \$91.7 million in July 2003 pursuant to a put and call option agreement. Prior to our entering into the agreements for the purchase of UMC, UMC did not make payments when due under certain loans from certain of its shareholders. In connection with our agreement to acquire UMC, UMC has agreed to restructure, and we have agreed to guarantee, such indebtedness. As December 31, 2004, these loans were fully repaid.

At the time of our acquisition, UMC had trailed the market leader, Kyivstar, in terms of subscribers, but had maintained market leadership in terms of revenue. Our main strategy for UMC for 2003 was to regain market leadership in terms of subscribers. By the end of the third quarter of 2003, UMC had regained the market leadership by subscribers, following four strong months of subscriber growth, in part, fuelled by the launch of the "Jeans" brand in mid-August 2003. UMC ended the year with 3.3 million subscribers, a growth of 97% during the year, and achieved a 51% overall market share in Ukraine. As of December 31, 2004, UMC had 7.4 million subscribers and a 53.4% market share, according to AC&M-Consulting. As of May 31, 2005, UMC had 8.9 million subscribers.

Uzbekistan

In August 2004, we acquired a 74% stake in Uzdunrobita, the largest wireless operator in Uzbekistan, for \$126.4 million in cash. We also entered into put and call option agreements with the existing shareholders to acquire the remaining 26% stake for not less than \$37.7 million. The exercise period for the call and put option is 48 months from the acquisition date. As of December 31, 2004, Uzdunrobita had 0.3 million subscribers and a 57.6% market share, according to our estimates. As of May 31, 2005, Uzdunrobita had 0.4 million subscribers.

B. Business Overview

We are a leading provider of mobile cellular communications services in the Russian Federation, Ukraine and certain other CIS countries, employing technology based primarily on Global System for Mobile Communications, or GSM. In 2004, we generated net revenues of \$3,887.0 million and had a subscriber base of 34.2 million (26.5 million in Russia, 7.4 million in Ukraine and 0.3 million in Uzbekistan) at December 31, 2004, making us the largest mobile operator in each of these three countries in terms of subscribers .

In addition to standard voice services, we offer our subscribers value-added services including voice mail, short message service, or SMS, general packet radio service, or GPRS, and various SMS- and GPRS-based information and entertainment services (including multi-media message service, or MMS). We also offer our subscribers the ability to roam automatically throughout Europe and in much of the rest of the world, and as of December 31, 2004 we had bilateral roaming agreements with 355 wireless operators in 186 countries.

We have grown rapidly since 1999 through organic growth, as well as acquisitions. The table below sets forth our total subscribers as of the end of, and net revenues for each of, the last five years:

Period	Subscribers ⁽¹⁾	Net revenues
	(in thousands)	
2000	1,194	\$535,712
2001	2,650	\$893,247
2002	6,644	\$1,361,756
2003	16,719	\$2,546,198
2004	34,224	\$3,886,994

⁽¹⁾ We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of the "Jeans" and "SIM-SIM" brand tariffs) and whose account does not have a negative balance for more than this period. Prior to October 1, 2004, UMC used a 90-day period for such purposes with respect to its "Jeans" and "SIM-SIM" subscribers.

According to AC&M-Consulting, we had a leading 36% market share of total wireless subscribers in Russia at December 31, 2004. Our market share in the Moscow license area, which encompasses the City of Moscow and the Moscow region, was higher at 45%. The Moscow license area accounts for approximately 22% of our total subscriber base. In Ukraine, we had a leading 53% market share at December 31, 2004, according to AC&M-Consulting. Our subscriber base continued to grow in the first quarter of 2005. At May 31, 2005, we had approximately 42.4 million subscribers, of which 33.0 million were in Russia, 8.9 million were in Ukraine and 0.4 million were in Uzbekistan.

Russia is our principal market, both in terms of subscribers and revenues. At December 31, 2004, approximately 77.6% of our subscriber base was in Russia and approximately 21.5% was in Ukraine. For the year ended December 31, 2004, approximately 78.1% of our revenues came from operations in Russia and 21.2% from operations in Ukraine.

Overall wireless penetration in Russia was at approximately 51% at December 31, 2004, and higher in Moscow at 99%, according to AC&M-Consulting. Mobile cellular penetration in Ukraine was lower than in Russia at approximately 29% at December 31, 2004, according to AC&M-Consulting. Mobile cellular penetration in Uzbekistan was at approximately 2% at December 31, 2004, according to the Uzbek Agency for Communications and Informatization. The relatively low level of mobile penetration in the markets in which we operate presents us with future growth opportunities.

As of December 31, 2004, we had licenses to operate in 87 regions of Russia with a population of approximately 142.6 million people, or approximately 98% of the country's total population, for the entire territory of Ukraine with a population of approximately 47.5 million people and for the entire territory of Uzbekistan with a population of approximately 26.5 million people. As of December 31, 2004, we had commercial operations in 77 regions of Russia, with a combined population of approximately 137.3 million people, in all of Ukraine and in selected areas of Uzbekistan. Since December 31, 2004, we have commenced operations in one additional region with a population of approximately 0.3 million people.

To maintain and increase our market share and brand awareness, we use a combination of print media, radio, television, direct mail and outdoor advertising, focusing on brand and image advertising as well as promotion of particular tariff plans. Supporting these efforts, we have developed an extensive distribution network comprised of 389 of our own sales and customer service centers and approximately 25,000 additional points of sale operated by our dealers, as of December 31, 2004.

We seek to minimize our exposure to the credit risk of our subscribers through our advance-payment billing system, which is used by over 98% of our subscribers in Russia and approximately 86% of our subscribers in Ukraine. Under this system, our subscribers prepay for their access, usage and value-added service fees.

MTS Belarus had 1.2 million subscribers and a leading market share of 50% at December 31, 2004, according to AC&M-Consulting. The subscriber base of MTS Belarus grew to 1.5 million at May 31, 2005. Belarus, a country with a population of approximately 9.8 million, had a mobile cellular penetration rate of 24% at December 31, 2004, according to AC&M-Consulting.

Business Strategy

Our primary goal is to maintain our position as a leading wireless operator in Russia and the CIS by strengthening our position across the markets in which we operate and deploying a customized approach to different customer segments. To accomplish this, we intend to implement the following strategies:

- Maintain our leading position through the continued development of our subscriber base by attracting new subscribers and retaining our existing subscribers.

- Continue to provide high quality service in order to maintain our status as a premium, high quality operator.
- Continue to provide clearly structured segmented market offerings which appeal to the various groups of subscribers within our customer base.
- Realize the benefits of our integrated company approach through the streamlining of regional operations and unifying the services offered across our entire license area under a single brand.
- Continue to enhance our market offerings by providing a wide range of value-added services based on SMS, GPRS and other technological platforms targeted at various market segments.
- Selectively expand our network to areas in which we do not already operate, focusing on high-density population areas and on areas along transportation routes.
- Further develop subscriber loyalty programs aimed at retaining our most valuable high-revenue subscribers.

In the past few years, we have rapidly expanded into the Russian regions and selected CIS countries through launches of operations in territories in which we had licenses and through acquisitions of other mobile operators. Starting in 2003, we have become particularly focused on the integration of our existing businesses into a single company with a unified marketing approach and centralized network and operations management. We are currently working to complete the implementation of a centrally-managed corporate function to enhance performance and efficiency at all levels of our operations and simultaneously integrate our operations. In addition, we intend to continue to consolidate our ownership in regional subsidiaries by acquiring remaining minority stakes.

Our capital expenditures (consisting of purchases of property, plant and equipment and intangible assets) in 2003 and 2004 were \$958.8 million and \$1,358.9 million, respectively, and we expect to invest approximately \$2.0 billion in 2005 . These investments are required to support the growth of our subscriber base (*i.e.* , to improve network capacity) and to develop our network in the new regions for which we received licenses in 2003 and 2004.

We may also expand our operations into other countries of the CIS through the acquisition of existing operators or new licenses as attractive opportunities arise.

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

Current Operations

Subsidiaries

For a list of our major subsidiaries and our ownership percentages in these subsidiaries, see Note 2 to our audited consolidated financial statements.

Consistent with our strategy, in November 2004, the general meeting of our shareholders approved a reorganization of MTS OJSC in the form of merger with Telecom XXI, Kuban-GSM, UDN-900, Dontelecom, MTS Barnaul, MTS-NN and Telecom-900.

License Areas

The following table shows, as of May 31, 2005, information with respect to the license areas in which we and our subsidiaries and associate provide or expect to provide GSM services:

License Region	GSM 900		GSM 1800	
	Licensee	Expiry date	Licensee	Expiry date
Moscow License Area				
Moscow	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Moscow region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
St. Petersburg License Area				
St. Petersburg	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Leningrad region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Russian Regional License Areas				
European Russia				
Adygeya Republic	Kuban-GSM	April 28, 2008	Kuban-GSM	April 28, 2008
Arkhangelsk region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Astrahansk region	MTS OJSC	December 11, 2013	Astrahan-Mobile	October 18, 2011
Bashkortostan Republic	BM-Telecom	August 22, 2007	BM-Telecom	August 22, 2007
Belgorod region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Belgorod region	ReCom	May 15, 2008	—	—
Bryansk region	ReCom	May 15, 2008	—	—
Bryansk region	—	—	MTS OJSC	April 28, 2008
Chuvashia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Dagestan Republic ⁽¹⁾	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Ivanovo region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Ingushetia Republic ⁽¹⁾	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Kabardino-Balkar Republic ⁽¹⁾	—	—	MTS OJSC	December 30, 2013
Kaliningrad region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Kalmykia Republic	MTS-RTK	January 25, 2011	MTS OJSC	December 30, 2013
Kaluga region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Karachaevo-Cherkesia Republic ⁽¹⁾	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Karelia Republic	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Kirov region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Komi Republic	MTS OJSC	August 22, 2007	MTS OJSC	April 28, 2008
Komi-Permyatsk Autonomous District	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Kostroma region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Krasnodar territory	Kuban-GSM	May 30, 2007	Kuban-GSM	May 30, 2007
Kursk region	—	—	MTS OJSC	April 28, 2008
Kursk region	ReCom	May 15, 2008	—	—
Lipetsk region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Lipetsk region	ReCom	May 15, 2008	—	—
Mari-El Republic	Mar Mobile GSM	January 15, 2012	Mar Mobile GSM	January 15, 2012
Mordovia Republic	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Murmansk region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Nenetsk Autonomous District	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Nizhny Novgorod region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Novgorod region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Orel region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Orel region	ReCom	May 15, 2008	—	—
Orenburg region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008

Perm region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Rostov region	Dontelecom	July 1, 2005	Dontelecom	July 1, 2005
Pskov region	MTS OJSC	October 1, 2006	—	—
Pskov region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Ryazan region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Samara region	MTS OJSC	December 30, 2012	MTS OJSC	December 30, 2012
Saratov region	MTS OJSC	July 11, 2012	MTS OJSC	July 11, 2012
Severnaya Osetia-Alania Republic	Telesot Alania	September 1, 2006	Telesot Alania	September 1, 2006
Severnaya Osetia-Alania Republic	—	—	MTS OJSC	December 30, 2013
Smolensk region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Stavropol territory	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Tambov region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Tatarstan Republic	TAIF Telcom	June 26, 2007	TAIF Telcom	June 26, 2007
Tula region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Tver region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Udmurt Republic	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Udmurt Republic	UDN-900	February 21, 2007	—	—
Ulyanovsk region	—	—	MTS OJSC	December 30, 2013
Vladimir region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Volgograd region	—	—	Volgograd-Mobile	October 4, 2011
Vologda region	Telecom XXI	April 28, 2008	Telecom XXI	April 28, 2008
Voronezh region	ReCom	May 15, 2008	—	—
Voronezh region	—	—	MTS OJSC	April 28, 2008
Yaroslavl region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Asian Russia				
Aginski-Buryatski Autonomous District	Sibintertelecom	July 1, 2013	—	—
Aginski-Buryatski Autonomous District	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Altai territory	MTS-Barnaul	September 8, 2010	MTS-Barnaul	September 8, 2010
Altai Republic	SCS-900	July 19, 2011	MTS OJSC	December 30, 2013
Amur region	ACC	January 10, 2007	ACC	January 10, 2007
Amur region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Buryatiya Republic	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Chelyabinsk region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Chita region	Sibintertelecom	January 1, 2006	—	—
Chita region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Chukotsk Autonomous District ⁽¹⁾	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Evenkia Autonomous District ⁽¹⁾	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Jewish Autonomous region ⁽¹⁾	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Irkutsk region	MTS OJSC	December 30, 2013	—	—
Irkutsk region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Kamchatka region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Kemerov region	MTS OJSC	December 30, 2013	MTS OJSC	December 30, 2013
Khabarovsk Territory	FECS-900	January 10, 2007	FECS-900	January 10, 2007
Khabarovsk Territory	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Khakassiya Republic	Sibchallenge	September 13, 2011	Sibchallenge	September 13, 2011
Khanty Mansiysk Autonomous District	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Koryakski Autonomous District ⁽¹⁾	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Krasnoyarsk Territory	Sibchallenge	December 21, 2010	Sibchallenge	September 13, 2011

Kurgan region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Magadan region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Novosibirsk region	SCS-900	February 21, 2007	SCS-900	February 21, 2007
Omsk region	MSS	December 20, 2006	MSS	December 20, 2006
Primorsky Territory	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Sakha Republic (Yakutia)	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Sakha Republic (Yakutia)	Gorizont-RT	July 1, 2005	Gorizont-RT	July 1, 2005
Sakhalin region	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Sverdlovsk region	Uraltel	March 1, 2006	Uraltel	March 1, 2006
Sverdlovsk region	—	—	MTS OJSC	April 28, 2008
Taimyr Autonomous District	Sibchallenge	December 21, 2010	Sibchallenge	September 13, 2011
Tomsk region	TSS	June 5, 2008	TSS	June 5, 2008
Tyumen region	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Tyva Republic ⁽¹⁾	MTS-RTK	July 19, 2011	MTS OJSC	December 30, 2013
Ust-Ordynski Buriatsk Autonomous District	Primtelefon	April 28, 2008	Primtelefon	April 28, 2008
Yamalo-Nenetsk Autonomous District	MTS OJSC	April 28, 2008	MTS OJSC	April 28, 2008
Ukraine				
Ukraine	UMC	December 3, 2013	UMC	December 3, 2013
Uzbekistan				
Uzbekistan	Uzdunrobita ⁽²⁾	June 30, 2016	Uzdunrobita	June 30, 2016
Belarus				
Belarus	MTS Belarus	April 30, 2012	MTS Belarus	April 30, 2012

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

⁽²⁾ Our GSM 900 license for Uzbekistan excludes the city of Tashkent.

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

Services Offered

Network Access

We primarily offer mobile cellular voice, data and facsimile communication services to our subscribers on the basis of various tariff plans. In general, subscribers pay a monthly subscription fee and a per-minute charge for usage. However, we also offer tariff plans that do not require subscribers to pay a monthly subscription fee.

Automatic Roaming

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

As of December 31, 2004, we had bilateral roaming contracts with 355 wireless operators in approximately 186 countries, including with regional operators in Russia. We continually seek to expand our roaming capability and are currently in negotiations with additional operators. In Russia, as of December 31, 2004, in addition to our network coverage area in 77 regions of Russia, GSM service is available to our subscribers in several regions of Russia where we do not currently operate through our roaming agreements with 13 regional operators.

Roaming agreements regulate the relations and billing procedures between operators. The host operator sends the roamer's home operator a bill for the roaming services provided to the roamer. The roamer's home operator pays the host operator directly for the roaming services and then includes the amount due for the provision of roaming services in the roamer's monthly bill.

Value-Added Services

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

- Call Divert/Forwarding;
- Call Barring;
- Caller ID Display;
- Call Waiting;
- Itemization of Monthly Bills;
- Voicemail;
- Information and Directory Service;
- International Access Service;
- Automatic Customer Care System;
- Customer Care System via the Internet;
- Short Message Service, or SMS;
- General Packet Radio Service, or GPRS;
- Multi-Media Message Service, or MMS;
- Wireless Application Protocol, or WAP;
- New technologies-based services, including wireless local area network, or WLAN, location based services, or LBS, and others; and
- SIM-browser.

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

Other Services

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

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

Sales and Marketing

Target Customers

Our target customers historically have included companies, professionals, high-income individuals, reporters, government organizations, businesspersons and diplomats. However, following the economic crisis in August 1998, we launched lower tariffs and widened our mobile cellular services market, aggressively targeting new customer segments. With mobile cellular penetration in Russia above 59%, as of March 31, 2005, mobile cellular services are now used by a much wider group of the population, including students and retirees. Though we have historically focused primarily on our core segment of business customers, we have now extended our focus more toward the general population, developing customized products for different market segments. We believe that we will be able to provide network capacity and expand our coverage area to serve these new customer segments.

Over time, we have adjusted our service model to provide differentiated levels of service to meet the needs of distinctive customer segments as such segments have developed. For example, we introduced prepaid tariffs marketed to young subscribers and low-volume subscribers under the "Jeans" brand name in 2002. Based on the popularity of our "Jeans" tariffs, we subsequently revised our service offerings marketed under the "Jeans" brand name to develop unique products for different customer segments. We also actively promote our prepaid services to family members of existing subscribers, students, retirees and other mass market customers.

Advertising and Marketing

Our advertising and public relations initiatives include:

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

We use a combination of newspaper, magazine, radio, television and outdoor advertising, including billboards and signs on buses and kiosks, and exhibitions to build brand awareness and stimulate demand. Our indirect advertising includes sponsorship of selected television programs, sporting events, concerts and other popular events. We also coordinate the advertising policies of our dealers with respect to joint marketing efforts to capitalize on the increased volume of joint advertising and preserve the integrity and high-quality image of the MTS brand. As we have expanded our network, we have concentrated a greater part of our advertising and marketing effort on positioning the MTS and Jeans brands as national brands. In addition, we focus our advertising and marketing on the affordability and variety of our tariff plans, on the broad coverage of our network and the use and availability of national roaming.

Sales and Distribution

As of December 31, 2004, we had 327 sales and customer service centers in Russia, 37 in Ukraine and 25 in Uzbekistan. In response to the demand shift to mass-market subscribers, we have developed an extensive distribution network through independent dealers that operate numerous outlets in places of high consumer activity, such as supermarkets and malls. Under our current policy, dealers receive a

commission per subscriber connected based on revenues generated during the first six months by subscribers that they enroll. The commission in the Moscow license area currently ranges between \$25 and \$120 per subscriber and the commission in St. Petersburg ranges between \$10 and \$50. Dealer commissions in the other regional license areas in Russia are between \$4 and \$54. Dealer commissions in Ukraine are calculated differently, ranging from 12% to 17% of the revenues generated by a newly enrolled subscriber during the first eighteen months. Dealers generally receive a commission of approximately \$40-50 for enrolling subscribers in our "VIP" tariff plan. We limit our credit exposure to dealers by controlling the cash flow from customers. If a new customer pays in cash, the dealer remits the full amount received to us within three days. If the customer chooses to pay by bank transfer or by credit card, the customer pays us directly, and we pay the dealer its commission after the end of the month.

In Russia, we pay the full amount of commission when a dealer activates a subscriber's contract. If such subscriber's usage of our voice and non-voice services over the following six-month period amounts to less than the amount of the dealer's commission, the dealer is required to reimburse the difference to us. Commencing on February 1, 2004 in the Moscow license area, dealer commission contracts have been gradually migrated to a new payment scheme. Specifically, we have begun linking commissions payable to a dealer on a monthly basis to the amount of revenues we receive during the twelve-month period from the date a subscriber is activated by such dealer, with the dealer receiving the lesser of the full commission amount or 50% of the revenues received from the subscriber during the year following enrollment. We believe that the new method for paying commissions to dealers provides dealers with greater incentives to renew subscriptions, reduces the risk of dealer fraud and improves our cash-flow management, as dealers are not credited for up to a year after a subscriber is activated.

During 2004, approximately 82.5% of our new subscribers enrolled through independent dealers in Russia and 90.0% in Ukraine, and we enrolled the remainder directly. We intend to continue expanding our internal distribution network, as well as our independent dealer distribution network. Independent dealers have also begun servicing some aspects of our subscribers' accounts, such as the switching on and off of additional services and payment collection.

As the geographic range of our network expands, we expect to increase the number of distribution points, primarily through increasing the number of dealers under contract with us and creating joint ventures with local partners to act as our dealers.

Competition

The Russian wireless telecommunications market

The Russian wireless telecommunications market is characterized by rapid growth in subscribers and revenues and increasing consolidation among a few large national operators. As of December 31, 2004, overall wireless penetration in Russia was 51%, or approximately 73.9 million subscribers, according to AC&M-Consulting.

Demand for wireless communications services in Russia grew rapidly over the last ten years due to rising disposable incomes, increased business activity and declining prices due to intensified competition among wireless communications providers. The number of wireless subscribers more than doubled in each of the last two years, with Russia's regional markets growing at almost triple the rate of Moscow and St. Petersburg. The Russian market has achieved high levels of penetration in Moscow and St. Petersburg, with more than 99 and 89 subscribers per 100 residents, respectively, at December 31, 2004, according to AC&M-Consulting. Regional markets remained relatively under-penetrated, with an average of less than 42 subscribers per 100 residents.

The following table sets forth key data on Russia's wireless telecommunications market:

	As of December 31,				
	2000	2001	2002	2003	2004
	(Amounts in millions, except for percentages)				
Subscribers ⁽¹⁾	3.5	8.0	18.0	36.2	74.4
Subscriber penetration	2%	4%	12%	25%	51%

Source: AC&M-Consulting.

⁽¹⁾ Based on registered subscribers. There is no uniform definition of active lines in service in the Russian fixed line market.

According to AC&M-Consulting and our own data, we accounted for 43% and 45% of subscribers in Moscow, 34% and 32% of subscribers in St. Petersburg and 37% and 36% of total Russian subscribers as of December 31, 2003 and 2004, respectively.

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

The following table illustrates the number of wireless subscribers for each network operator in Russia as of December 31, 2002, 2003 and 2004:

Operator	As of December 31,		
	2002	2003	2004
	(Amounts in millions)		
MTS ⁽¹⁾	6.6	13.4	26.5
Vimpelcom ⁽¹⁾	5.2	11.4	25.7
MegaFon group ⁽¹⁾	2.9	6.3	13.6
Others ⁽²⁾	3.3	5.1	8.0

⁽¹⁾ Subscriber information based the relevant operator's data.

⁽²⁾ Source: AC&M-Consulting.

Vimpelcom

Vimpelcom, which operates both D-AMPS and GSM 900/1800 networks, is one of our primary competitors in Russia, and it is the second largest GSM wireless operator in Russia in terms of subscribers. We believe that Vimpelcom will continue to be our primary competitor for the foreseeable future.

According to Vimpelcom, it had approximately 25.7 million subscribers in Russia at December 31, 2004, including 7.5 million in the Moscow license area. At December 31, 2004, according to AC&M-Consulting, Vimpelcom had a 44% market share in Moscow and a 35% market share of total wireless subscribers in Russia.

MegaFon

In addition to Vimpelcom, we also compete with MegaFon, which is the third largest operator in Russia in terms of subscribers. The MegaFon group holds GSM 900/1800 licenses to operate in all 89 regions of the Russian Federation.

According to MegaFon, it had a subscriber base of 13.6 million in Russia at December 31, 2004, including 1.8 million subscribers in the Moscow license area. At December 31, 2004, according to AC&M-Consulting, MegaFon had a 43% market share in St. Petersburg and an 18% market share of total wireless subscribers in Russia.

In addition, there has been speculation in the media of a merger between MegaFon and Vimpelcom following Alfa Group's August 2003 purchase of a 25.1% stake in MegaFon. For a description of the potential impact of such merger on us, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Industry—A merger between our two largest competitors would result in a competitor substantially larger than us with leading market shares in the Russian mobile communications market."

Other Operators

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

In certain regions of the Urals part of Russia, our primary competitor is Uralsvyazinform, which had approximately 2.0 million subscribers as of December 31, 2004. In certain regions of the Volga part of Russia, we compete with SMARTS, which had approximately 1.8 million customers as of December 31, 2004. The preceding subscriber numbers, in each case, are according to AC&M-Consulting.

The Ukrainian wireless telecommunications market

The Ukrainian wireless telecommunications market has, until recently, been characterized by low levels of penetration and historical under investment in wireless telecommunications infrastructure. Since 2000, the Ukrainian wireless telecommunications market has enjoyed rapid growth in part due to broader economic recovery in Ukraine, changes in ownership of the two major operators and the more recent introduction of calling-party pays billing arrangements. In 2004, overall wireless penetration in Ukraine increased from 13% to 29%, or approximately 13.8 million subscribers, according to AC&M-Consulting and World Mobile Subscriber Database, Informa (UK).

The following table shows the number of subscribers as of the dates indicated and the coverage area of UMC and our competitors in Ukraine:

Operator	December 31, 2003	December 31, 2004	Coverage Area
	(amounts in thousands)		
UMC	3,349	7,373	Nationwide
Kyivstar	3,036	6,252	Nationwide
Golden Telcom	41	60	Kiev, Odessa
DCC	85	85	20 major cities, including Kiev, Odessa, Dnepropetrovsk, Donesk, Lugansk, Crimea
Others	40	50	Major cities

Source: Subscriber information based the relevant operator's data.

In Ukraine, we compete primarily with Kyivstar, a GSM operator with 6.3 million subscribers as of December 31, 2004. Kyivstar is owned by Telenor and Alfa Group. Kyivstar offers wireless services

using GSM 900 and GSM 1800 technologies and was the market leader in terms of subscribers from July 2001 until September 2003, according to Kyivstar press releases. Golden Telecom Ukraine, which is beneficially owned by Alfa Group, Telenor and Rostelecom, offers wireless services using GSM 1800 technology. DCC holds a license to provide wireless cellular services using the D-AMPS standard and, through its subsidiary Astelit, holds a GSM-1800 license. According to press reports, Turkcell has acquired a controlling interest in DCC.

Tariffs

We customize our marketing efforts and pricing policies in each region of Russia in consideration of such factors as the average income levels, competitive environment and subscriber needs in a particular region, all of which vary from region to region. Consistent with our marketing strategy, we have developed new tariff plans to appeal to a broader market. All of our tariff plans combine different monthly network access fees (with the exceptions of the "Jeans" tariff plans discussed below), per minute usage charges and value-added services in packages designed to appeal to different market segments.

In February 2003, we launched a new unified system of tariff plans across our nationwide network in Russia. The new tariff plans are divided into four categories—"MTS Corporation," "MTS VIP," "MTS Business" and "MTS Optima"—with each category designed to target specific segments as follows:

- *MTS Corporation* : MTS Corporation tariff plans are available to corporate clients nationwide. They feature substantial discounts on calls within the group of subscribers under a particular contract, international roaming and voice traffic depending on the quantity of calls, as well as a variety of free value-added services.
- *MTS VIP* : MTS VIP tariff plans are geared toward heavy users who spend over \$100 per month on mobile communications.
- *MTS Business* : MTS Business tariff plans are designed for active users who spend \$40 to \$100 per month on mobile communications.
- *MTS Optima* : MTS Optima tariff plans are designed for mass-market users who spend up to \$40 per month on mobile communications.

Although we offer the same categories of tariff plans throughout Russia, the prices of these plans differ from region to region and are generally higher in the Moscow license area. We introduced a unified system of tariff plans to achieve such benefits as better perception of tariff plans and clarity, simplicity and transparency for prospective subscribers throughout Russia, as well as savings on our marketing and advertising expenses through unified advertising campaigns in Moscow and the regions.

We set prices with reference to market conditions and believe that our pricing is competitive as compared to other providers of mobile communications services. While we have traditionally designed our tariff plans to appeal to high- and medium-usage subscribers, we began to target the mass-market subscriber segment with a prepaid tariff plan launched in November 2002. We market this new tariff under the distinct brand name "Jeans" rather than "MTS" in order to maintain our core image as a premium mobile services provider. We expect that, as the mass market is penetrated and subscriber numbers increase, competition will place downward pressure on the prices we charge for our services.

Our tariff plans offer a variety of pricing schemes. The following description of tariffs and charges are, in each case, exclusive of VAT. As of December 31, 2004, the per-minute tariff for calls to Moscow from Moscow (excluding Jeans tariff plans) varied from \$0.15 per minute to \$0.18 per minute during peak periods and from \$0.075 per minute to \$0.09 per minute during off-peak periods, with some plans offering discounted rates at night, sometimes as low as \$0.075 per minute. The "Jeans" tariffs varied

from \$0.01 per minute to \$0.36 per minute in Moscow. The per minute prices in the regions outside of the Moscow license area (excluding Jeans tariff plans) ranged from \$0.01 per minute to \$0.20 per minute during peak periods, and from \$0.01 per minute to \$0.10 per minute during off-peak periods, with some plans offering discounted rates at night, sometimes as low as \$0.01 per minute; in St. Petersburg tariffs varied from \$0.05 per minute to \$0.17 per minute. The "Jeans" tariffs varied from \$0.01 per minute to \$0.27 per minute in the regions outside of Moscow. Higher rates apply to domestic long distance calls and we assessed a surcharge for all international calls that ranged from \$0.87 per minute for calls to Europe to \$2.55 per minute for calls to Africa. Our value-added services, such as Caller ID and Call Waiting, are sometimes included in the plan at no additional charge and sometimes carry a charge of up to \$3.00 per month, depending on the plan.

We also offer unified tariff plans in all territories of Ukraine in which we operate, including private contract, business and prepaid plans. In addition, we are developing new tariff plans for Ukraine that focus on the differing needs of subscribers in the various market segments.

As of December 31, 2004, the per minute prices in Ukraine varied from \$0.09 per minute to \$0.47 per minute during peak periods and from \$0.06 per minute to \$0.47 per minute during off-peak and night periods. Certain UMC plans also include special tariffs for intra-network calls that ranged from \$0.02 per minute to \$0.25 per minute. Higher rates applied to international calls ranging from \$0.44 per minute to \$11.23 per minute (excluding VAT).

In addition, in the Moscow license area, calls from one mobile cellular telephone to another within the same network are charged at no cost to the subscriber receiving the call and, depending on the tariff plan, at a discount of up to 75% to the subscriber placing the call. Similar discounts are also available to subscribers in other regions. In comparison, some of our competitors do not charge their subscribers for specific categories of incoming calls under certain of their tariff plans.

We launched our "Jeans" brand tariff plans geared at mass-market subscribers on November 15, 2002 in Moscow and in 37 other regions in Russia. "Jeans" tariffs were launched in Ukraine in August 2003. The "Jeans" brand is comprised of a set of prepaid tariffs that generally include features such as no monthly subscription fee, per-second billing, free incoming calls from MTS subscribers and, for certain tariff plans, advance payment credit expiration dates. Our "Jeans" tariff subscribers in Russia receive all incoming calls free of charge from other MTS subscribers and, in many regions, from subscribers of other mobile operators. As of December 31, 2004, Jeans subscribers accounted for 68.3% of our total subscribers and 77.0% and 39.1% of our subscribers in Russia and Ukraine, respectively. In addition, we offer a second set of prepaid tariffs in Ukraine marketed under the "Sim-Sim" brand. As of December 31, 2004, "Sim-Sim" subscribers accounted for 47.2% of our subscribers in Ukraine.

Customer Payments and Billing

We enroll new subscribers, except for certain corporate clients, in an advance-payment program, under which the subscriber prepays a specific amount of money to use our services. As of December 31, 2004, approximately 95% of our consolidated subscriber base was enrolled in the advance-payment program and 5% used the credit system.

Our advance-payment system monitors each subscriber account and sends a seven-day advance warning on the subscriber's mobile telephone when the balance on the subscriber's account decreases below a certain threshold, which is approximately the average consumption by the subscriber for a ten-day period. Then the system sends a telephonic reminder or SMS twice in the following seven-day period and an additional reminder one day prior to termination, including the current level of the subscriber's remaining balance and a recommendation as to the sum that should be advanced to us based on the subscriber's historical usage.

Under the credit payment system, customers are billed monthly in arrears for their network access and usage. If the invoice is not paid on time, the customer may be liable for a late payment charge of up to 0.3% of the amount due for each day payment is past due. We limit the amount of credit extended to customers based on the customer's payment history, type of account and past usage. As of December 31, 2004, subscribers using the credit system of payment had a maximum credit limit of \$500. When the limit is reached, the subscriber receives an invoice, which must be paid within five days. If the subscriber fails to do so, we block the telephone number until the invoice is settled. We actively manage our subscriber base to migrate existing credit payment customers to the advance-payment system. However, existing credit payment customers may continue to use their old tariff plan as long as their accounts remain in good standing.

We are currently in the process of migrating our "Jeans" subscribers onto a new billing system and plan to migrate our other subscribers in Russia onto this system during 2005.

Our tariffs are primarily quoted in currency units equivalent to U.S. dollars, except for some regions of Russia where tariffs are quoted in rubles. Invoices quoted in U.S. dollar-equivalent units specify the amount owed in such units and require translation into rubles in order to make payments. We offer our subscribers various ways to pay for our services, including by cash or credit card, wire transfer, on account, prepaid cards and express-payment cards.

All tariffs for UMC subscribers are quoted in hryvnias. We offer our subscribers in Ukraine various ways to pay for our services, including by cash or credit card, wire transfer, on account, prepaid cards.

Customer Service

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

With the aim of improving the quality of our customer service and optimizing our expenses, we began the reorganization of our call centers into consolidated macro-regional contact centers in 2004. The aim of the project is to transform our call centers into effective channels for client relationship management, or CRM, offering a full range of services and CRM functions.

In connection with this reorganization, we have established a Customer Retention Department in each macro-region, which develops and implements customer retention programs. Representatives of this department handle customer claims and follow up with customers who disconnected from our network to understand the reasons for the disconnection and properly respond to the changing needs of our customers. We also have a Credit Control Department in each macro-region, which manages the bad debts and credit restrictions. In addition, we have established walk-in centers and combined offices for sales and customer service in the regions. We plan to implement a segmentation approach to customer service in 2005.

Network Technology

We believe that geographic coverage, capacity and reliability of the network are key competitive factors in the sale of mobile cellular telecommunication services. Our network is based primarily on GSM 900 infrastructure, augmented by GSM 1800 equipment. We use GSM 1800 equipment in high-use areas, because 1800 MHz base stations are more efficient in relieving capacity constraints in high traffic areas. Although there is no difference in quality between GSM 900 and GSM 1800 services,

the higher-frequency 1800 MHz signals do not propagate as far as 900 MHz signals. As a result, more 1800 MHz base stations are typically required to achieve the same geographic coverage. Accordingly, in regions where geographic coverage, rather than capacity, is a limiting factor, networks based on GSM 900 infrastructure are typically superior to those based on GSM 1800, because they require fewer base stations to achieve coverage and, therefore, cost less. In most markets, including Russia and Ukraine, the most efficient application of GSM technology is to combine GSM 900 and GSM 1800 infrastructure in a unified network, which is commonly referred to as a dual-band GSM network.

Network Infrastructure

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

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

In St. Petersburg and the Leningrad region, we have allocated frequencies spanning 2×8.0 MHz of spectrum in the GSM 900 frequency band and 2×18.2 MHz of spectrum in the GSM 1800 frequency band for operation of a dual GSM 900/1800 network.

We have frequencies allocated to us for the operation of GSM 900 and GSM 1800 frequency bands in all regions of Ukraine. The radio frequencies allocated to us for the operation of GSM 900 span from 5.6 MHz of spectrum in the Kiev and Zakarpattya regions to 10.4 MHz in Kiev city. We also have been allocated frequencies spanning from 23.2 MHz in the Tchernigov region to 61.6 MHz in the Dnepropetrovsk region for operation of GSM 1800 base stations. In addition, we have applied for an additional 137.6 MHz of GSM 1800 frequency allocations for 19 major license areas in Ukraine and intend to apply for additional frequency allocations in the 1800 MHz band.

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

GPRS and Internet Access

In many regions we have upgraded our network to enable us to offer GPRS services, which permit our subscribers access to the Internet, WAP and MMS. As of December 31, 2004, GPRS services were available to our subscribers in 23 regions in Russia, including major metropolitan areas such as Moscow, St. Petersburg and Novosibirsk. We also offered GPRS services in all regions of Ukraine. In addition, we introduced international GPRS roaming to our subscribers in 2004, enabling them to use various GPRS-based services while traveling abroad.

In 2004, we entered into an exclusive strategic partnership with NTT DoCoMo under which we will launch the i-mode mobile internet platform in Russia by the end of 2005. Through i-mode, subscribers are offered easy access to numerous internet sites with premium content, email and other applications using specialized handsets developed especially for i-mode users. We plan to initially launch i-mode in Moscow and St. Petersburg, with gradual expansion into the other regions of Russia and into the other CIS countries where we operate.

We also entered into an agreement with In Motion in May 2005 to offer BlackBerry services to our subscribers in Russia. BlackBerry, which we plan to launch by the end of 2005, will enable our subscribers to easily access e-mail, phone, text messaging, Internet, organizer and corporate data applications from a single, integrated device. It will operate on our GSM/GPRS network in Russia with international roaming supported in the countries where we have GPRS roaming agreements.

In addition, we launched a trial program for our EDGE services in the Samara region in December 2004. EDGE is a high-speed, high-quality data transfer application capable of transmitting streamline video and TV programs onto mobile phones. We plan to expand EDGE services to cover the most developed markets where we operate.

Third-Generation Technology

Third-generation networks, using UMTS technology, will allow subscribers to send video images and access the Internet using their handsets at transmission speeds of up to 2 Mbps per second. We have conducted trials of third-generation networks utilizing rented network equipment. The 3G Association, an industry group charged with advising the Ministry of Information Technologies and Communications of the Russian Federation on the procedure for allocating third-generation licenses and regulating third-generation operations, has proposed that we, Vimpelcom and MegaFon each be issued a third-generation license, and that a fourth license be issued to a fourth operator. Although the government is expected to announce the license allocation procedure during 2005 and issue the licenses during 2006, to date, no allocation procedures have been announced. We currently do not include the costs for the initial buildout of our third-generation network in our capital expenditure plans and, at present, cannot estimate the expenditures that will be required.

Base Station Site Procurement and Maintenance

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

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

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

Interconnect Arrangements and Telephone Numbering Capacity

Cellular operators must interconnect with local, inter-city and international telephony operators to obtain access to their networks and, via these operators, to the networks of other operators around the world. We have local interconnection agreements, including agreements for the provision of telephone numbering capacity, with several telecommunications operators in Moscow and in the other regions and in Ukraine, including the public switched telephone network operator in the city of Moscow, MGTS, as well as MTU-Inform, majority owned by MGTS, Telmos, a joint venture of MGTS with Sistema and Rostelecom, and Ukrtelecom, UTEL, Golden Telecom and other public switched telephone network operators in Ukraine. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" for additional information regarding these operators. For use of 11-digit telephone numbering capacity and the associated interconnection, we have agreements with Rostelecom. Local interconnection typically entails payment of a one-time connection fee, a monthly fee per subscriber connected and a usage charge based on minutes of traffic, or some combination thereof.

To provide our subscribers in Russia with domestic long-distance services, we have interconnection agreements with Rostelecom and Interregional Transit Telecom and, to provide international services, with Rostelecom and Golden Telecom. MTU-Inform and Telmos also provide domestic long-distance and international services through interconnection with Rostelecom's network. Most interconnection fees are based on usage by minute and vary depending on the destination called.

Russian legislation requires that public switched telephone networks may not refuse to provide interconnection or discriminate against one operator in comparison to another; in practice, however, it has been our experience that some regional network operators do discriminate among mobile cellular operators by offering different interconnection rates to different mobile operators. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices and therefore lose market share and revenues." Certain interconnection fees are subject to government regulation, such as those set by Rostelecom.

The Ministry of Information Technologies and Communications has allocated special numbering codes for "federal" 11-digit telephone numbers on a non-geographical basis for all cellular operators. We believe that we have been allocated sufficient numbering capacity for the development of our network. However, a combination of regulatory, technological and financial factors has led to the limited availability of "local" 7-digit telephone numbering capacity in Moscow and the Moscow region. Moscow's "095" code and the Moscow region's "096" code have already reached numbering capacity limits. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Industry—The public switched telephone networks have reached capacity limits and need modernization, which may inconvenience our subscribers and may require us to make substantial investments in public switched telephone networks." To meet subscriber demand and provide for an adequate inventory of numbering capacity, we have entered into contracts with local fixed-line providers for allocation of numbering capacity to us. These contracts are now under review by the Ministry of Information Technologies and Communication and are subject to change in order to comply with new legislative requirements. Our right to use this numbering capacity ranges from five years to an unlimited period of time. As of December 31, 2004, we had numbering capacity (federal and local) for over 15.4 million subscribers in the Moscow license area. For a description of how we amortize the acquisition costs of numbering capacity, see Note 2 to our audited consolidated financial statements.

In accordance with legislation, interconnection and traffic transit between the networks of cellular operators in Russia is organized through the network of Interregional Transit Telecom, or MTT, one of the largest alternative operators in Russia, or through direct channels connecting the switches of the different cellular operators located in one city.

In Ukraine, mobile operators are allocated numbering capacity by the NCRC. We believe that we have been allocated sufficient numbering capacity in Ukraine for the development of our mobile network. However, the numbering capacity for fixed network development (if we decide to utilize a local license granted to UMC) is insufficient.

Network Monitoring Equipment

We have operation and maintenance centers in Moscow, St. Petersburg, Nizhny Novgorod, Samara, Ekaterinburg, Omsk, Tomsk, Novosibirsk, Irkutsk, Kazan, Ufa, Krasnoyarsk, Chita, Blagoveshchensk, Vladivostok and Yuzhno-Sakhalinsk. We constantly control and monitor the performance of our network, call completion rate and other major key technical performance indicators. We use monitoring systems to optimize our network and to locate and identify the cause of failures or problems, and also to analyze our network performance and obtain network statistics. We have agreements with different suppliers for technical support services that allow us to obtain their assistance in trouble shooting and correcting problems with our network within the warranty period.

Our networks in Ukraine and Uzbekistan are monitored by our Kiev and Tashkent operations and maintenance centers, respectively. In addition to monitoring performance of the network, our Kiev and Tashkent operations and maintenance centers analyze network quality parameters and provide reports and recommendations to management.

Handsets

To receive service from us, subscribers must have a handset that can be used on our network. New subscribers who do not own a GSM handset must buy one, either directly from us or from an independent dealer. We and our dealers also offer an array of mobile telephone accessories, with the average new subscriber spending between \$5 to \$50 on such accessories in addition to the cost of the handset.

Since July 1998, we have offered subscribers dual-band GSM 900/GSM 1800 handsets. These dual-band handsets are currently in widespread use on networks in Western Europe and, because they send and receive communications on both GSM 900 and GSM 1800 frequencies, they can relieve possible congestion on our network and increase the ability of our customers to roam. The share of dual-band handsets has increased from approximately 1% of our total handset sales in 1998 to approximately 100% in 2003. We also offer our subscribers tri-band handsets. These handsets, which function in the GSM 900, GSM 1800 and PCS-1900 standards, provide users with greater automatic roaming possibilities in Russia, Europe, the United States and Canada. During 2001, we responded to competitive pressure by introducing limited handset subsidies. Our handset subsidies in Russia for the year ended December 31, 2004, were not significant. For the year ended December 31, 2004, we provided net handset subsidies of \$52.7 million in Ukraine. These subsidiaries are expected to be compensated within two years of a subscriber's enrollment though the subscriber's usage of our services. However, in view of the experience and practice of mobile services providers in more mature markets, increased competition may compel us to more heavily subsidize handsets in the future. In December 2004, we launched a new marketing initiative in Russia under which we began to sell MTS-branded low-end handsets. These handsets are not subsidized.

We have entered into arrangements with Sony Ericsson, Nokia, Motorola, Philips, Panasonic, Samsung, Siemens, Benefon, Alcatel and others to purchase handsets. We offer approximately 80 GSM 900/GSM 1800 handset models, the majority of which are manufactured by Sony Ericsson, Nokia, Siemens and Motorola. We are not dependent on any particular supplier for handsets. The handset manufacturers provide training to our sales force, customer service personnel, dealers and engineering staff and cooperate with us on marketing and promotion. To ensure quality control and to maintain the MTS brand image, we encourage our dealers to purchase handsets for use on our network directly from us. Typical dual-band handsets range in cost from approximately \$50 to \$650.

Regulation in the Russian Federation

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

- licensing of telecommunications services;
- requirements for obtaining a radio frequency allocation;
- equipment certification;
- equal rights for individuals and legal entities, including foreign individuals and legal entities, to offer telecommunications services;
- fair competition;

- freedom of pricing other than pricing by companies with monopoly power; and
- liability for violations of Russian legislation on telecommunications.

The new Federal Law on Communications came into force on January 1, 2004 and replaced the law of 1995 regulating the same subject matter. The Federal Law on Communications creates a framework in which government authorities may enact specific regulations. Regulations enacted under the legislative framework in place prior to enactment of the Federal Law on Communications continue to be applied to the extent they do not conflict with the Federal Law on Communications. In the transition period before these regulations are put in compliance with the new law, it is not clear how they would interact with provisions of the new law.

The new law, which confers broad powers to the state to regulate the communications industry, including the allocation of frequencies, the establishment of fees for frequency use and the allocation and revocation of numbering capacity, significantly modifies the system of government regulation of the provision of communications services in Russia. In particular, while under the previous law the Ministry of Communications issued licenses for the provision of wireless communications services at its own discretion, under the new law, licenses to provide communications services in territories where frequency and numbering capacity are limited may be issued only on the basis of a tender. In addition, the new law provides for the establishment of a "universal services reserve fund" to be funded by a levy imposed on all telecommunications service providers, including us. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Russian Federation and Ukraine—Legal Risks—The implementation of the new Federal Law on Communications and the new Ukrainian Law on Telecommunications will impose an additional financial burden on us, which may materially adversely affect our financial condition and results of operations." The new law also attempts to simplify the succession of licenses to merged or otherwise reorganized companies by instituting a license re-issuance procedure, whereas under the previous law, merged or reorganized companies were required to apply to the Ministry of Communications for the issuance of a new license in such circumstances.

Regulatory Authorities

The Russian telecommunications industry is regulated by several governmental agencies. These agencies, whose functions are not always clearly defined, form a complex, multi-tier system of regulation that resulted, in part, from the implementation of the Federal Law on Communications, as well as from the March 2004 large-scale restructuring of the Russian government. The system of regulation is still evolving and further changes are expected. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Russian Federation and Ukraine—Political and Social Risks—Political and governmental instability could materially adversely affect the value of our securities."

The Ministry of Information Technologies and Communications is the federal executive body that develops and supervises the implementation of governmental policy in the area of communications and coordinates and controls the activities of its subordinate agencies. The Ministry may issue regulations in the area of communications if authorized to do so by federal legislation (including presidential and governmental decrees).

The following bodies, each of which is subordinate to the Ministry of Information Technologies and Communications, also regulate the telecommunications industry.

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

- the issuance of licenses and permissions in the area of communications and informatization;
- the registration of radio-electronic and high-frequency equipment;
- the technical supervision of networks and network equipment throughout Russia;

- the monitoring of compliance by network operators with applicable regulations, terms of their licenses and terms of the use of frequencies allocated to them; and
- the enforcement of equipment certification requirements.

The Federal Agency of Communications is a federal executive body that implements governmental policy, manages state property and provides public services in the area of communications, including:

- the allocation of radio frequencies based on decisions taken by the State Radio Frequencies Commission and registration of such allocations;
- the allocation of numerical resources;
- the certification of equipment for compliance with technical requirements;
- the examination of electromagnetic compatibility of equipment with existing civil radio-electronic equipment; and
- the organization of tenders with respect to licenses in the sphere of communications.

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

Other regulatory authorities. In addition, the Federal Antimonopoly Service supervises competition regulations and enforces the Federal Law on the Natural Monopolies and the regulations enacted thereunder. The Federal Tariffs Service regulates certain tariffs in the sphere of telecommunications, including the tariffs on the local and DLD calls by subscribers of PSTNs and installation and subscription fees. The Federal Service for Supervision in the Area of Consumer Rights Protection and Human Well-Being is responsible for the enforcement of sanitary regulations, including some authority over the location of telecommunications equipment, and supervises the compliance of companies with the regulations relating to the protection of consumer rights.

Licensing of Telecommunications Services and Radio Frequency Allocation

Telecommunications licenses are issued based on the Regulations on Licensing in the Field of Telecommunications in the Russian Federation, enacted in June 1994, as amended, and, with regard to wireless telecommunications services, on the Approval of Regulations for Holding a Competitive Tender for Receipt of Licenses Associated with the Provision of Cellular Radiotelephone Services, enacted in June 1998. Under these regulations, licenses for telecommunications services were issued and renewed for periods ranging from three to fifteen years. Under the new law, effective January 1, 2004, licenses may be issued and renewed for periods ranging from three to twenty-five years. Several different licenses to conduct different communication services may be issued to one entity. Provided the licensee has conducted its activities in accordance with the applicable law and terms of the license, renewals may be obtained upon application to the Federal Service for Supervision in the Area of Communications. Officials of the Federal Service for Supervision in the Area of Communications have broad discretion with respect to both issuance and renewal procedures.

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

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

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

Under the old Federal Law on Communications and related licensing regulations, the transfer of a license, including assignment or pledge of a license as collateral, was prohibited except for transfer of licenses for the provision of wireless telecommunications services awarded through a competitive tender. Effective January 1, 2004, the prohibitions on the transfer of licenses were relaxed and, in particular, in case of mergers, licenses may be re-issued upon application by a transferee as a new license holder following the transfer. Additionally, the Ministry of Communications has declared that agreements on the provision of telecommunications services must be concluded and performed by the license holder.

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

- failure to comply with Russian law or the terms and conditions of the license;
- failure to provide services for over three months from the start-of-service date set forth in the license; and
- annulment of a frequency allocation if it results in the inability to render communications services.

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

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

The license may also be terminated in a number of cases, including liquidation of a license holder or failure to pay a license fee on time. A suspension or termination of a license may be appealed in court.

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

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

In addition to licensing fees, a government decree enacted on June 2, 1998 requires payment of fees for the use of radio frequencies for cellular telephone services. The payment procedure was established by a government decree enacted on August 6, 1998, which requires that all wireless telecommunications services operators pay an annual fee set by the State Radio Frequencies Commission and approved by the Federal Antimonopoly Service for the use of their frequency spectrums. Additionally, as prescribed in government decree No. 223 on Reorganization of the System of State Surveillance over Telecommunications, dated April 26, 2004, operators must make monthly payments to fund supervisory services in the communications sphere. In 2004, this fee amounted to 0.3% of revenues generated from the provision of communications services. The fee was abolished from 2005. In addition, the new Federal Law on Communication contemplates an industry-wide levy to finance the provision of universal communication services. According to a government decree enacted on April 21, 2005, operators are required to make quarterly payments in the amount of 1.2% of the difference between their total revenues and revenues that resulted from interconnection services. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the Russian Federation and Ukraine—Legal Risks—The implementation of the new Federal Law on Communications and the new Ukrainian Law on Telecommunications will impose an additional financial burden on us, which may materially adversely affect our financial condition and results of operations."

The new Federal Law on Communications empowers the Russian government to determine and annually review the list of licensing conditions. Licenses also generally contain a number of other detailed conditions, including a date by which service must begin, technical standards and a schedule of the number of subscribers and percentage coverage of the licensed territory that must be achieved by specified dates. We have either commenced service by the applicable deadline or received an extension of the applicable deadline for all of our licenses.

Equipment Certification

Telecommunications equipment must be certified to be used in the interconnected communications network of the Russian Federation, which includes all fixed-line and wireless networks open to the public. All networks of our telecommunications subsidiaries must be certified. A government decree on Regulation of Use of Equipment in the Interconnected Telecommunications Network, enacted on August 5, 1999 gives the Ministry of Information Technologies and Communications and the Federal Antimonopoly Service the right to restrict the use of certain equipment, including equipment manufactured outside Russia, and to set the technical requirements for the equipment used in the interconnected telecommunications network. The Federal Agency of Communications issues certificates of compliance with technical requirements to equipment suppliers based on the Agency's internal review. In addition, a Presidential decree requires that licenses and equipment certifications be obtained from the Federal Security Service to design, produce, sell, use or import encryption devices. Some commonly used digital cellular telephones are designed with encryption capabilities and must be certified by the Federal Security Service.

Further, certain high-frequency equipment, a list of which was approved by Government Resolution No. 539 of October 12, 2004, manufactured or used in the Russian Federation requires special permission from the Federal Service for Supervision in the Area of Communications. These permissions are specific to the entity that receives them and do not allow the use of the equipment by other parties.

Competition, Interconnection and Pricing

The Federal Law on Communications requires federal regulatory agencies to encourage competition in the provision of communication services and prohibits the abuse of a dominant position to limit competition. The Federal Law on Communications provides that telecommunications tariffs may be regulated in cases provided for by legislation. Presidential Decree No. 221, enacted on

February 28, 1995, on Measures for Streamlining State Regulation of Prices (Tariffs), and a government decree enacted on October 11, 2001, allow for regulation of tariffs and other commercial activities of telecommunications companies that are "natural monopolies." Government Decree No. 332, dated June 30, 2004, authorized the Federal Tariffs Service to set the following tariffs for the natural monopolies in the communication market:

- installation fees;
- monthly subscription fees; and
- local call charges, including per-minute charges, if used by the operator.

In accordance with the Federal Law on Natural Monopolies, the Federal Tariffs Service maintains a Register of Natural Monopolies whose tariffs are controlled and regulated by the state. A telecommunications operator may be included in this register upon the decision of the Federal Tariffs Service based on the Service's analysis of the operator's activities and the market conditions. At present, none of our subsidiaries is included in the Register of Natural Monopolies.

The Federal Antimonopoly Service is authorized by law to maintain a register of companies holding a market share in excess of 35%. Companies entered in this register may become subject to certain restrictions in conducting their business, including limitations in decisions relating to price formation, geographical expansion, associations and agreements with competitors. Acquisitions of assets or shares in or by other entities involving such companies are subject to particular scrutiny by the Federal Antimonopoly Service. As of December 31, 2004, MTS OJSC and its subsidiaries CJSC Kuban-GSM, Tomsk Cellular Communications LLC, CJSC Siberian Cellular System-900 and CJSC UDN-900 are categorized by the Federal Antimonopoly Service as companies with a market share exceeding 35%. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Industry—If we are found to have a dominant position in our markets, the government may regulate our tariffs and restrict our operations."

The Federal Tariffs Service also has certain oversight authority with regard to rates between certain regional telephone operators, long-distance provider Rostelecom and mobile operators. In addition, Russian legislation requires that operators of PSTNs may not refuse to provide connections or discriminate against one operator in favor of another. However, a regional fixed-line operator may charge different interconnection rates to different mobile operators. Notwithstanding the above, fixed-line operators not included in the Register of Natural Monopolies, as well as mobile operators, are free to set their own tariffs.

Regulation in Ukraine

Regulatory Authorities

The State Department on Communications and Informatization, or SDCI (formerly the State Committee on Communications and Informatization, or SCCI), regulated the telecommunications industry through December 31, 2004 largely through the issuance of regulations, establishment of requirements relating to the quality of telecommunications services and technical requirements relating to telecommunications networks and facilities. The SDCI also oversaw the technical condition and development of the telecommunications industry, including the development of standards and technical rules and supervision of the GSM, D-AMPS, NMT and TDMA networks. The SDCI was established in September 2004 as a division of the Ministry of Transport and Communications of Ukraine, or MTCU. The MTCU was established in July 2004 as a result of the merger of the Ministry of Transport and the SCCI. The SDCI is headed by a director nominated by the Minister of Transport and Communications and appointed by the Cabinet of Ministers of Ukraine. Following the establishment of the NCRC in January 2005, which, as described below, assumed most of the SDCI's functions, the SDCI remains responsible mainly for establishing and overseeing technical policies and standards.

The National Commission for the Regulation of Communications, or NCRC, established by the new Telecommunications Law described in "—Legislation" below, is an independent regulatory body consisting of seven members and a chairperson. The members and chairperson of the NCRC are nominated by the Prime Minister and appointed by the President of Ukraine for a five-year term. The NCRC is responsible for issuing licenses for telecommunication services commencing January 1, 2005 as well as various other responsibilities of the SDCI from that date. The SDCI, on the other hand, remains responsible mainly for establishing and overseeing technical policies and standards. The appointment of the initial members of the NCRC in January 2005 by the former Prime Minister of Ukraine was challenged in court by the new Ukrainian government that came into power on January 23, 2005. As a result of this challenge, the NCRC has been unable to commence operations.

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

The State Inspection of Communications, or the SIC, established by the new Telecommunications Law, will be a division of the NCRC. The SIC will be responsible for the general supervision of the telecommunications market and the use of radio frequency resources. The SIC will also monitor compliance with license terms, physically inspect operators and providers of telecommunications services and, together with the SCRF, review cases relating to administrative violations in the areas of telecommunications and radio frequencies. The SCRF will perform the functions of the SIC until the SIC's establishment.

Legislation

The principal legislation regulating the telecommunications industry consists of the Law on Telecommunications dated November 18, 2003, or the Telecommunications Law, and the Radio Frequencies Law dated June 1, 2000, or the Radio Frequencies Law. The Radio Frequencies Law was amended in its entirety in June 2004.

The Telecommunications Law has yet to be implemented and the NCRC has yet to commence its duties. Thus, as of the date of this document, the NCRC has not commenced regulating the telecommunications area and issuing telecommunications licenses, and no other regulatory authority has been designated under the law to perform these functions. Regulations implementing the 1995 Communications Law (now repealed) and the Radio Frequencies Law prior to its amendment are still in effect, as are certain regulations enacted prior to the 1995 Communications Law and the Radio Frequencies Law. Telecommunications operators are required to comply with the Telecommunications Law and the Radio Frequencies Law, as well as with the older regulations to the extent that such regulations do not conflict with the Telecommunications Law or the 2004 amendments of the Radio Frequencies Law. Consequently, the current regulatory environment for telecommunications in Ukraine is complicated and uncertain.

The Telecommunications Law provides for, among other things, equal rights for individuals and legal entities, including foreign entities, to offer telecommunications services, fair competition and freedom of pricing. The Telecommunications Law also sets forth the legal, economic and organizational framework for the operation of companies, associations and government bodies forming part of the

telecommunications networks. The licensing of telecommunications services, the requirements for equipment certification and liability for violations of Ukrainian legislation on telecommunications are also determined by this legislation. The Telecommunications Law also governs the relations between the state and local governmental bodies, telecommunications operators and users of telecommunications services and radio frequencies.

The Telecommunications Law addresses new areas of telecommunications services in Ukraine, including numbering requirements, tariff and settlement regulations, interconnection, public telecommunication services, market access rules and licensing issuance and renewal. The Telecommunications Law also significantly expands the definition of the telecommunication services market, including in its scope Internet Protocol telecommunications, transmission of data and facsimile communications.

The Telecommunications Law also restructured the regulatory bodies governing the area of telecommunications. It provided for the creation of the NCRC, which, as of January 1, 2005, is assigned many functions previously held by the SDCI. The NCRC is authorized, *inter alia*, to issue regulations for the telecommunications services, issue telecommunications licenses to operators and providers, issue frequency licenses, request information from operators, providers and authorities, impose administrative penalties and maintain the register of the operators and providers. The NCRC is also authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks. The powers of the SDCI in the telecommunications area are now relegated primarily to that of technical standards overseer.

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

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

Licensing of Telecommunications Services and Radio Frequency Allocation

Ukrainian legislation provides for two types of telecommunications licenses: telecommunications licenses and frequency licenses. Prior to January 1, 2005, the SDCI issued telecommunications and frequency licenses based on the Law on Licensing Certain Types of Business Activity dated June 1, 2000, the Telecommunications Law and the Radio Frequencies Law. Commencing January 1, 2005, the NCRC has assumed responsibility for issuing telecommunications licenses and frequency licenses pursuant to the Telecommunications Law and the 2004 amendments to the Radio Frequencies Law.

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

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

Other telecommunications services do not require licenses.

An operator that is granted a telecommunications license may not commence the provision of wireless telecommunications services until it receives a frequency license. The issuance of a frequency

license is, in turn, subject to the availability of radio frequencies in the respective regions of Ukraine. Frequency licenses are issued for specific bandwidths within certain frequency spectrums in specific regions. The GSM spectrum is presently considered to be the most commercially attractive for telecommunications operators. It is currently deemed to be virtually impossible to obtain a license for GSM frequencies in major Ukrainian cities because most of the GSM radio frequencies in such cities are already licensed to the existing GSM operators, including us.

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

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

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

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

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

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

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

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

- failure to comply with the terms and conditions of the license, including failure to provide services within the period set forth in the license;

- provision of inaccurate information in the application or about the communications services rendered to consumers;
- refusal to provide documents requested by the NCRC or the SIC;
- failure to remedy in a timely manner the circumstances which resulted in a violation of the license terms;
- unfair competition by the license holder in providing the licensed services;
- repeated violation of the license terms;
- transfer or assignment of the license to a third party; and
- other grounds set forth by Ukrainian laws or international treaties.

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

- failure to commence using radio frequency resources within the time period specified in the license;
- termination of use of radio frequency resources specified in the license for more than one year; and
- failure to use radio frequency resources to the full extent within the time period specified in the license.

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

Equipment Certification

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

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

Competition

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

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

Ukrainian antimonopoly legislation prohibits a company operating in Ukraine from using its dominant position in its market to gain an unfair or anti-competitive advantage in the provision of its services or products. A legal entity is deemed to be in a dominant position if such entity has no competitor in the market or is not subject to substantial competition due to restricted access or entry barriers for other business entities. Moreover, Ukrainian antimonopoly legislation sets forth that a company having more than 35% of the market share in a given product market may be deemed to be in the dominant position on such market, unless it proves that it is subject to substantial competition.

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

- annually submit to the NCRC irrevocable public offers regarding interconnection with the other operators' telecommunications networks;
- comply with the regulations of the NCRC regarding the technical, organizational and commercial terms of interconnection with the other operators' telecommunications networks;
- comply with the calculation factors set by the NCRC for access to the operator's own network;
- not discriminate against other players in telecommunications market; and
- undertake to develop the "public telecommunications services" at the operator's own expense if the NCRC so decides based on the insufficient supply of such services in certain regions.

Although UMC currently has over a 35% market share of the wireless communications market in Ukraine, it has not been declared a dominant market force by the AMC. In September 2003, the AMC began a review of the telecommunications services market for the purpose of determining the status of competition and the existence of dominant market forces. In August 2004, the AMC notified UMC and its largest competitor, Kyivstar, that the preliminary results of its review of the wireless telecommunications industry indicated that each of UMC and Kyivstar qualified as having a dominant position in the market. The AMC offered UMC and Kyivstar the opportunity to submit their objections to these preliminary findings and indicated that it would issue a decision following its review thereof. On December 21, 2004, the AMC announced its issuance of a decision in which it confirmed that neither UMC nor Kyivstar qualified as having a dominant position in the wireless communications market.

In addition, following disruptions of UMC's service that occurred in the Kiev area on August 31, 2004 and on September 1-2, 2004, the AMC issued a recommendation to UMC to (i) restore trouble-free network operation and provision of cellular services of due quality; (ii) reimburse damages caused to UMC's subscribers; and (iii) take measures to prevent such disruptions in the future. According to an AMC press release, UMC carried out these recommendations by, inter alia, providing compensation to subscribers affected during the period of service disruptions and installing a new switchboard that would service 350,000 additional subscribers.

Tariffs

Telecommunications tariffs are regulated by the NCRC for:

- "public telecommunications" services; and
- access to the telecommunications networks (use of electric communications channels) of the operator with the dominant position on the market.

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

Prior to enactment of the Telecommunications Law, the SCCI set maximum tariffs for fixed-line public telecommunications services and for access to the wireless communications networks from local universal telephone networks. These tariffs will be revised or cancelled pursuant to the Telecommunications Law. There are currently no other tariff limits in respect of wireless telecommunications services or operators. It is not yet clear how the NCRC will regulate the tariffs for telecommunications services.

Also, where competition laws are violated, the AMC can find tariffs unfair and injurious to competition. In such cases, the AMC may request the violating telecommunications operator to remedy the situation, in particular, by amending its tariff schedule.

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

Interconnection

As of January 1, 2005, interconnection activity is to be regulated by the NCRC. Operators may provide offers for interconnection to the NCRC, and the NCRC is required to publish on an annual or regular basis a catalog of such offers. Operators with a dominant market position on the market are obligated to submit interconnection offers to the NCRC for each catalog.

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

The NCRC is authorized to conduct hearings and to resolve disputes among operators concerning the interconnection of telecommunications networks. The decision of NCRC is binding upon the parties in the dispute.

Seasonality

Our results of operations are impacted by certain seasonal trends. Generally, revenue is higher during the second and third quarter due to increased mobile phone use by subscribers who travel in the summer from urban areas to more rural areas where fixed line penetration is relatively low, as well as an increase in roaming revenues and guest roaming revenues during these quarters. In the fourth quarter, operating income and average revenue per user tend to be low as the increase in new subscribers tends to outpace the increase in phone usage. However, quarterly trends can be influenced by a number of factors, including promotions, and may not be consistent from year to year.

C. Organizational Structure

The table below presents our significant operating and holding entities and our ownership interests therein as of December 31, 2004. Our ownership interest and voting power in each of the entities is

identical. All of the entities, with the exception of MTS Belarus, UMC, Uzdurobita and Mobile TeleSystems Finance S.A. are organized and operate under the laws of the Russian Federation.

	Accounting Method	Ownership Interest
ACC	Consolidated	100.0%
Telecom XXI	Consolidated	100.0%
Telecom-900	Consolidated	100.0%
SCS-900	Consolidated	100.0%
FECS-900	Consolidated	100.0%
Uraltel	Consolidated	99.8%
MTS Finance	Consolidated	100.0% ⁽¹⁾
BM Telecom	Consolidated	100.0%
Kuban-GSM	Consolidated	100.0%
Dontelecom	Consolidated	100.0%
MTS-Barnaul	Consolidated	100.0%
MTS-Capital	Consolidated	100.0%
UMC	Consolidated	100.0%
Sibchallenge	Consolidated	100.0%
TSS	Consolidated	100.0%
Volgograd Mobile	Consolidated	100.0%
Astrakhan Mobile	Consolidated	100.0%
Mar Mobile GSM	Consolidated	100.0%
Primtelefon	Consolidated	100.0%
MSS	Consolidated	91.0%
ReCom	Consolidated	53.9%
TAIF Telcom	Consolidated	100.0%
UDN-900	Consolidated	100.0%
MTS Kostroma	Consolidated	100.0%
MTS-NN	Consolidated	100.0%
Novitel	Consolidated	100.0%
Uzdunrobita	Consolidated	74.0%
Sibintertelecom	Consolidated	93.5%
Gorizont-RT	Consolidated	76.0%
Telesot-Alania	Consolidated	52.5%
MTS-Komi Republic	Equity	26.0%
MTS-Tver	Equity	26.0%
MTS Belarus	Equity	49.0%

⁽¹⁾ Represents beneficial ownership interest.

D. Property, Plant and Equipment

We occupy premises in Moscow at 4 Marksistskaya Street, 5/2 Vorontsovskaya Street, 12/12 Pankratievskaya Street and 10 Teterinsky Pereulok, which we use for administration, as well as operation of mobile switching centers. The rights to use the Marksistskaya and Teterinsky premises were contributed to our charter capital by a founding shareholder. We intend to acquire additional buildings for placement of our switching systems, as well as for use by our sales and customer service, billing, financial control and technical services departments. We also lease buildings in Moscow for similar purposes, including marketing and sales and other service centers. We intend to build new technical and administrative offices in the future and to lease office space on an as-needed basis. We

also own office buildings in some of our regional license areas and in Ukraine, and we lease office space on an as-needed basis.

The primary elements of our network are base stations, base station controllers, transcoders and mobile switching centers. GSM technology is based on an "open architecture," which means that equipment from one supplier can be combined with that of another supplier to expand the network. Thus, there are no technical limitations to using equipment from other suppliers. Several major suppliers currently offer GSM 900/1800 mobile cellular equipment and the market for suppliers is competitive.

Of the 10,693 base stations comprising our network as of December 31, 2004, 6,803 operated in the 900 MHz band and 3,890 operated in the 1800 MHz band. We also operated 300 base station controllers in Russia and approximately 110 switches in Russia as of December 31, 2004.

Of the 3,817 base stations comprising our network in Ukraine as of December 31, 2004, 2,116 operated in the 900 MHz band and 1,701 operated in the 1800 MHz band. We also operated 106 base station controllers and 15 switches in Ukraine as of December 31, 2004.

Of the 334 base stations comprising our network in Uzbekistan, as of December 31, 2004, 144 operated in the 900 MHz band and 136 operated in the 1800 MHz band. We also operated 7 base station controllers and 7 switches in Uzbekistan as of December 31, 2004.

In addition, certain of our subsidiaries entered into capital lease agreements for network equipment with Invest-Svyaz Holding, a wholly-owned subsidiary of Sistema and our shareholder. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions."

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements, related notes and other information included elsewhere in this document. In particular, we refer you to the risks discussed in "Item 3. Key Information—D. Risk Factors" for information regarding governmental, economic, fiscal, monetary or political policies or factors that could materially adversely affect our operations or your investment in our shares and ADSs. In addition, this section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Item 3. Key Information—D. Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." Our reporting currency is the U.S. dollar and our consolidated financial statements have been prepared in accordance with U.S. GAAP.

Overview

We are the largest mobile operator in Russia and Ukraine in terms of subscribers and revenues. Revenues for the year ended December 31, 2004 were \$3,887.0 million, an increase of 52.7% from the year ended December 31, 2003. Net income for the year ended December 31, 2004 was \$1,022.7 million, up 97.7% from the year ended December 31, 2003. At December 31, 2004, we had a subscriber base of 34.2 million (26.5 million in Russia, 7.4 million in Ukraine and 0.3 million in Uzbekistan).

Our revenues have increased through organic growth, as well as through acquisitions. During March to July 2003, we acquired 100% of UMC, a mobile operator in Ukraine, for approximately \$378.3 million in cash and assumed debt of UMC in the amount of \$62.0 million. UMC's results of operations have been included in our consolidated financial statements beginning March 1, 2003. For the year ended December 31, 2003 and 2004, UMC accounted for approximately 15.5% and 21.4%, respectively, of our net revenues. We acquired a 74% stake in Uzdunrobita in August 2004, and Uzdunrobita's results of operations have been included in our audited consolidated financial

statements. For the period from August to December 31, 2004, Uzdunrobita had net revenues of \$26.8 million. We spent \$143.4 million, \$667.2 million and \$355.7 million in cash (net of cash acquired) in 2002, 2003 and 2004, respectively, to acquire businesses.

We require significant funds to support our subscriber growth, primarily for increasing network capacity and developing networks in new license areas. Our cash outlays for capital expenditures (consisting of purchases of property, plant and equipment and intangible assets) in 2002, 2003 and 2004 were \$574.3 million, \$958.8 million and \$1,358.9 million, respectively. We have financed our cash requirements through our operating cash flows and borrowings. Net cash provided by operating activities in 2002, 2003 and 2004 was \$412.8 million, \$966.0 million and \$1,711.6 million, respectively. Since 2002, we have raised a total of \$1.8 billion through six U.S. dollar-denominated unsecured notes offerings in international capital markets. In July 2004, a syndicate of international banks made available to us an unsecured loan facility in an aggregate amount of \$500.0 million, which is repayable in three years. In September 2004, this syndicated loan facility was increased to \$600.0 million, of which we have drawn \$600.0 million as of December 31, 2004. As of December 31, 2004, we had indebtedness of approximately \$1.9 billion, including capital lease obligations, and our interest expense for the year ended December 31, 2004 was \$108.0 million, net of amounts capitalized.

We hold a 49% equity investment in a mobile operator in Belarus, MTS Belarus, which had 1.2 million subscribers as of December 31, 2004. MTS Belarus is an equity investment, and its results are not consolidated in our financial statements. The remaining stake in MTS Belarus is owned by a Belarus state-owned enterprise.

Segments

We have several operating segments corresponding to separate legal entities within our group. For reporting purposes, we group them as follows: (1) our company, Mobile TeleSystems OJSC, or MTS OJSC, which holds licenses for and operates in the Moscow license area and a number of areas outside of Moscow; (2) our subsidiary, Telecom XXI, which holds licenses for and operates in St. Petersburg and a number of areas in northwest Russia; (3) our subsidiary, Kuban-GSM, which holds licenses for and operates in the Krasnodar region of Russia (4) our subsidiary, UMC, which holds licenses for and operates in Ukraine; and (5) several other smaller subsidiaries, which hold licenses for and operate in the different regions of Russia and our newly acquired subsidiary, Uzdunrobita, which holds licenses for and operates in Uzbekistan, which we call "Other regions." See Note 22 to our audited consolidated financial statements for segment information.

Subscriber Data

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

	At December 31,		
	2002	2003	2004
	(in thousands)		
Subscribers⁽¹⁾			
Russia, including:	6,644	13,370	26,540
MTS OJSC	3,746	6,529	13,398
Moscow license area	3,082	4,936	7,516
Telecom XXI	854	1,666	2,733
Kuban-GSM	844	1,396	2,543
Other Russian regions	1,200	3,779	7,866
Ukraine (UMC)	—	3,350	7,373
Uzbekistan (Uzdunrobota)	—	—	311
Total consolidated	6,644	16,720	34,224
MTS Belarus (unconsolidated)	43	465	1,214

⁽¹⁾ We define a subscriber as an individual or organization whose account shows chargeable activity within 61 days (or 183 days in the case of the "Jeans" and "SIM-SIM" brand tariffs) and whose account does not have a negative balance for more than this period. Prior to October 1, 2004, UMC used a 90-day period for such purposes with respect to its "Jeans" and "SIM-SIM" subscribers.

We had approximately 26.5 million subscribers in Russia at December 31, 2004 of which 7.5 million were in the Moscow license area that encompasses the City of Moscow and the Moscow region. According to AC&M-Consulting, approximately 23% of all mobile cellular subscribers in Russia reside in the Moscow license area, where penetration stood at approximately 99% as of December 31, 2004. Penetration in all of Russia was lower, at approximately 51%, according to AC&M-Consulting. Our subscribers in Russia outside of the Moscow license area totaled approximately 19.0 million as of December 31, 2004. According to AC&M-Consulting, as of December 31, 2004, we had a leading 36% market share of total mobile cellular subscribers in Russia. Our market share in the Moscow license area was higher at 45% as of December 31, 2004, according to AC&M-Consulting. We had approximately 7.4 million subscribers in Ukraine as of December 31, 2004 and, according to AC&M-Consulting, a 53% market share of total mobile cellular subscribers in Ukraine. In addition, we had approximately 0.3 million subscribers in Uzbekistan, representing a 58% market share, according to AC&M-Consulting.

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

	Year Ended December 31,		
	2002	2003	2004
Subscriber Churn			
Russia	33.9%	47.3%	27.5%
Ukraine	—	23.8% ⁽¹⁾	15.8% ⁽²⁾

⁽¹⁾ Annualized based on the months of March through December 2003.

⁽²⁾ We define our churn as the total number of subscribers who cease to be a subscriber (as defined above) during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request),

expressed as a percentage of the average number of our subscribers during that period. For Ukraine, the 2003 figure has been annualized based on the months of March through December 2003. The significant decrease in the 2004 churn rate in Ukraine is largely attributable to the change in our churn policy for "Jeans" and "Sim-Sim" subscribers in Ukraine. See note 8 above. Under the previous churn policy, the 2004 churn rate in 2004 was 23%.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. The decrease in our churn rate during 2004 occurred mainly due to successful marketing initiatives, focused on customer loyalty. Churn in Ukraine continued to be lower than in Russia due to several factors, including less competition, higher connection fees for subscribers and a higher percentage of contract subscribers.

While our subscribers and revenues have been growing, our average monthly service revenue per subscriber has been decreasing. We calculate our average monthly service revenue per subscriber by dividing our service revenues for a given period, including guest roaming fees, by the average number of our subscribers during that period and dividing by the number of months in that period. The following table shows our average monthly service revenue per subscriber and average monthly minutes of use per Russian and Ukrainian subscriber for the periods indicated.

	Year Ended December 31,		
	2002	2003	2004
Average monthly service revenue per subscriber			
Russia	\$23	\$17	\$12
Ukraine	—	\$15 ⁽¹⁾	\$13
Average monthly minutes of use per subscriber			
Russia	159	144	157
Ukraine	—	97 ⁽¹⁾	114

⁽¹⁾ Calculated based on the months of March through December 2003.

Average monthly service revenue per subscriber for Russia decreased from \$23 for the year ended December 31, 2002 to \$17 for the year ended December 31, 2003 and to \$12 for the year ended December 31, 2004. We expect a continued decline in average monthly service revenue per subscriber due to tariff decreases and the increasing ratio of mass-market subscribers with lower average monthly service revenue per subscriber in our subscriber mix. Average monthly minutes of use per subscriber is increasing due to tariff decreases and other general factors resulting in increased mobile use. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Increased competition and a more diverse subscriber base have resulted in decreasing average monthly service revenues per subscriber, which may materially adversely affect our results of operations."

The following table shows the mix between Jeans and non-Jeans subscribers for Russia and Ukraine for the periods indicated. The "Jeans" brand tariffs were introduced in November 2002. For a description of our Jeans and SIM-SIM brands, see "Item 4. Information on Our Company—B. Business Overview—Tariffs."

	At December 31,		
	2002	2003	2004
Russia			
Jeans	3%	44%	77%
Non-Jeans	97%	56%	23%
Ukraine			
Jeans (including SIM-SIM)	—	79%	86%
Non-Jeans	—	21%	14%

Revenues

Our principal sources of revenue are:

- service revenues, including usage fees, monthly subscription fees, roaming and value-added service fees, and connection fees; and
- revenues from sales of handsets and accessories.

We set our fees and prices with reference to the competitive environment and we expect price competition to increase in the future. Our fees are not currently regulated by any organization or governmental authority in Russia, while in Ukraine there have been cases where governmental authorities imposed restrictions on our tariffs.

Service Revenues and Connection Fees

Service revenues. Usage fees include amounts charged directly to our subscribers, both for their usage of our network and for their usage of other operators' GSM networks when roaming outside of our service area. We generally bill our subscribers for all incoming and outgoing calls, except for incoming local calls originated by one of our subscribers and received by another one of our subscribers. However, our "Jeans" tariff subscribers receive all incoming calls from certain other mobile providers in the same region free of charge.

The charges for outgoing calls to other cellular operators and to the public service telephone network are usually higher than charges for outgoing calls within our network. The usage fees charged for a call originating or terminating on our network depend on a number of factors, including the subscriber's tariff plan, call duration, the time of day when the call was placed, call destination and whether the call was incoming or outgoing. Usage fees as a percentage of total net revenues were 67.3% in 2002, 71.7% in 2003 and 70.5% in 2004, respectively. The further development of our "Jeans" tariff, which has no monthly subscription fee, will support growth of the usage fees as a percentage of total revenues. The percentage of total net revenues represented by usage fees as compared to monthly subscription fees will continue to be affected by changes in our tariff plans, as well as the relative product mix between usage fee-based tariff plans versus monthly subscription fee-based tariff plans.

Monthly subscription fees consist of fixed monthly charges for network access and access to additional services. Monthly subscription fees as a percentage of our total net revenues represented 18.2% in 2002, 17.9% in 2003 and 12.7% in 2004, respectively. The main reason for the decline of the monthly subscription fees as a percentage of total net revenues is a decrease in the share of subscribers with a monthly subscription fee in the subscriber mix. Many of our monthly subscription fee-based tariff plans also include a usage fee-based component for minutes used over a certain number of pre-paid minutes. The percentage of total net revenues represented by usage fees as compared to monthly subscription fees will continue to be affected by the factors discussed in the previous paragraph.

Roaming fees include amounts charged to other GSM operators for their subscribers, *i.e.*, guest roamers, utilizing our network while traveling in our service area. We bill other GSM operators for calls of guest roamers carried on our network. Roaming fees represented 6.7% of our total net revenues in 2002, 6.0% in 2003 and 2.4% in 2004, respectively. We generally expect roaming fees to decline as a percentage of total net revenues as we expect the increase in our subscribers to continue to outpace the increase in guest roamers. In addition, roaming tariffs between mobile operators have a tendency to decrease relative to the increase of total number of mobile users.

We offer our subscribers an array of value-added services, including SMS, call forwarding, call waiting, call barring, call identification, voice mail, itemized billing and content-based services. For the years ended December 31, 2002, 2003 and 2004 monthly average SMS usage was 10, 16 and 17 text messages sent per subscriber in Russia, respectively. These services have historically comprised

approximately 10% of total net revenues and are primarily reflected as usage fees, but we generally expect value-added services as a proportion of total net revenues to increase due to the introduction of new value-added services and an increase in the usage of value-added services by our subscribers. We expect that revenue from value-added services will vary based upon penetration rates, customer usage, pricing and advertising and promotional programs.

Connection fees. Connection fees consist of charges paid to us by subscribers for the initial connection to our network and sign-up for value-added services. We defer connection fees and recognize them as revenues over the estimated average subscriber life as described in Note 2 to our audited consolidated financial statements. Connection fees represented 1.8% of our total net revenues in 2002, 1.2% in 2003 and 1.2% in 2004, respectively. We expect connection fee revenues to remain at a low level as a percentage of total net revenues.

Sales of Handsets and Accessories

We sell handsets and accessories directly to subscribers in our sales offices and also to dealers for further resale. Since 1998, we have offered subscribers primarily dual-band and tri-band handsets that operate in the 900 and 1800 MHz bands and 900, 1800 and 1900 MHz bands, respectively. Revenue from the sale of handsets and accessories represented 4.6% of our total net revenue in 2002, 3.2% in 2003 and 2.2% in 2004, respectively. Our average selling price of handsets declined significantly between 2000 and 2003 and continued to decline in year ended December 31, 2004. We generally do not subsidize handset sales in Russia, but in Ukraine, we subsidize handsets for contract subscribers. See "*—Expenses—Cost of Handsets and Accessories*" below.

We expect the demand for our handsets and accessories to continue to decrease due to the availability of cheaper "grey" market handsets entering the market. In addition, many new subscribers already own handsets, either purchased on the grey market or because they are churn clients from other operators. We expect as subscribers are added to our network and the price of handsets continues to decrease, our sales of handsets and accessories as a percentage of total net revenues will decline.

Expenses

Our principal expenses are:

- cost of services, including interconnection, line rental and roaming expenses;
- cost of handsets and accessories;
- sales and marketing expenses;
- general and administrative expenses, such as salaries, rent and other general and administrative expenses;
- provision for doubtful accounts;
- depreciation of property, network equipment and amortization of telephone numbering capacity, license costs and other intangible assets;
- interest expenses; and
- provisions for income taxes.

Cost of Services

Interconnection and Line Rental. Interconnection and line rental charges include charges payable to other operators for access to, and use of their networks, which are necessary in the course of

providing service to our subscribers as described under "Item 4. Information on Our Company—B. Business Overview—Network Technology—Interconnect Arrangements and Telephone Numbering Capacity."

We expect unit interconnect costs payable by us to other operators will increase as our subscriber base and traffic volumes increase. We expect the cost of leasing telecommunication lines to vary based on the number of base stations, base station controllers, the number and capacity of leased lines utilized and competition among providers of leased lines, as well as availability and usability of substitutes such as microwave links owned by us.

Roaming Expenses. Roaming expenses consist of amounts charged by other GSM operators under agreements for roaming services provided to our subscribers while outside our service area.

Cost of Handsets and Accessories

This type of expense includes primarily the cost of handsets and accessories sold to dealers and subscribers, and the cost of SIM cards provided to our customers. We have entered into supply agreements with various producers and suppliers of handsets and accessories to satisfy our requirements at what we believe to be competitive prices. We expect the cost per handset to decline due to our ability to work directly with suppliers to secure volume discounts, technological advances and competitive pressures in the market for handsets.

In Ukraine, we subsidize handsets for contract subscribers. In the years ended December 31, 2003 and 2004, we provided net handset subsidies in Ukraine for a total cost of \$34.9 million and \$52.7 million, respectively, which are reported as a loss on sales of handsets. However, we do not subsidize handset sales in Russia.

Generally, we provide SIM cards to our customers free of charge. Cost of SIM cards used amounted to \$26.3 million in 2002, \$68.3 million in 2003 and \$80.6 million in 2004, respectively. The growth of SIM cards expense in 2004 was primarily the result of an increase in subscribers and internal churn within our subscriber base.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of:

- dealer commissions on new connections and advances collected from subscribers; and
- expenses for advertising and promotion.

Sales and marketing expenses reflect, among other things, advertising, promotions and other costs associated with the expansion of services in our license areas and are expected to increase as subscriber numbers and market competition increase. In addition, we expect these costs to increase as we further develop our brand and introduce value-added services.

In Russia, we pay the full amount of commission when a dealer activates a subscriber's contract. If such subscriber's usage of our voice and non-voice services over the following six-month period amounts to less than the amount of the dealer's commission, the dealer is required to reimburse the difference to us. Commencing on February 1, 2004 in the Moscow license area, dealer commission contracts have been gradually migrated to a new payment scheme. Specifically, we have begun linking commissions payable to a dealer on a monthly basis to the amount of revenues we receive during the twelve-month period from the date a subscriber is activated by such dealer. In addition, we have established caps or a maximum commission amount for our dealers. We believe that the new method for paying commissions to dealers provides dealers with greater incentives to renew subscriptions, reduces the risk of dealer fraud and improves our cash-flow management.

We measure subscriber acquisition costs, or SAC, to monitor the cost-effectiveness of our sales and marketing. We define SAC as total sales and marketing expenses and handset subsidies for a given period. Sales and marketing expenses include advertising expenses and commissions to dealers. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added by us during the period. The following table shows SAC in Russia and Ukraine for the periods indicated:

	Year Ended December 31,		
	2002	2003	2004
Subscriber Acquisition Costs (SAC)			
Russia	\$35	\$26	\$21
Ukraine	—	\$32 ⁽¹⁾	\$19

⁽¹⁾ Calculated based on the months of March through December 2003.

SAC continued to decline in 2004 reflecting the lower cost of attracting mass-market subscribers and increased economies of scale.

General and Administrative Expenses

Our general and administrative expenses consist primarily of:

- employee salaries and bonuses;
- social contributions payable to the state pension fund;
- taxes other than income taxes, *e.g.*, property taxes;
- office maintenance expenses;
- network repair and maintenance; and
- rental of premises.

Total general and administrative expenses are expected to increase over time to reflect the increasing costs and staff required to service our growing subscriber base, but we expect they will decline on a per subscriber basis.

Provision for Doubtful Accounts

We generally expect our provision for doubtful accounts as a percentage of net revenues to remain stable as a result of our continued use of our advance payment system, whereby subscribers' fees are debited from amounts paid by subscribers into their accounts in advance of line usage. In the future, our provision for doubtful accounts may increase if we increase the availability of tariff plans under the credit payment system. See "Item 4. Information on Our Company—B. Business Overview—Customer Payments and Billing." However, our expense for provision for doubtful accounts for the year ended December 31, 2003 totaled \$32.6 million in comparison with \$7.0 million of provision expense incurred in 2002 mainly due to dealer and subscriber fraud discovered in the first quarter of 2003 for the amount of \$16.7 million. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Our failure to implement the necessary infrastructure to manage our growth could have a material adverse effect on our business and results of operations." As a result of our corrective actions, our expense for provision for doubtful accounts decreased for the year ended December 31, 2004 to \$26.5 million compared to \$32.6 million in the year ended December 31, 2003.

Depreciation of Property, Network Equipment and Amortization of Intangibles

We expect depreciation expense, which is principally associated with the depreciation of network equipment, to continue to increase in line with our network development program and the buildout associated with our regional license areas. Correspondingly, we also expect amortization of telephone numbering capacity, license costs and other intangible assets to increase in line with our development programs and the expansion of our subscriber base, including subscribers in our regional license areas. From January 1, 2002, we no longer amortize goodwill.

Research and Development, Patents and Licenses, Etc.

Our research and development activities were not significant for the last three years and primarily included activities focused on new telecommunication technologies and evaluation of new or improved services and systems. Expenditures on research and development are recognized as expenses when they are incurred. We did not spend any significant amounts during the last three financial years on our research and development activities.

Interest Expense

We expect interest expense to continue to increase, which is principally associated with external debt incurred to finance our network development program and the buildout associated with our regional license areas.

Provision for Income Taxes

Taxation on income of Russian companies is regulated by a number of laws, government decrees and implementation instructions. From January 1, 2002, the new Chapter 25 "Income Tax of Organizations" of the Tax Code became effective, which to some extent consolidates and simplifies income tax regulations.

The income tax base for Russian companies is defined as income received from sales of goods, works and services and property rights and income from non-sale operations, reduced by the amount of certain business expenses incurred in such operations. Prior to 2002, these expenses were computed according to several special deductibility regulations. These regulations combined detailed guidance as to what can be deducted for income tax purposes with specified limitations and restrictions on deductibility. For example, there were ceilings on deductibility of advertising or entertainment expenses. Deductions were limited or denied for a number of items commonly seen as fully deductible under Western tax systems, such as:

- interest on loans;
- advertising and business travel expenses above a stated limit;
- non-mandatory insurance expenses; and
- training expenses.

The new income tax legislation significantly liberalized the deductibility rules for business expenses. Therefore, starting January 1, 2002, the following business expenses are deductible:

- interest on loans (with certain exceptions);
- management expenses;
- secondment expenses; and
- training expenses (with certain exceptions).

Interest paid on loans, including the loans from our subsidiary, Mobile TeleSystems Finance S.A., made to us in connection with our notes, is deductible to the extent the interest rate does not exceed 15%. The deductibility rules for advertising and business travel expenses were also revised and relaxed significantly.

The tax legislation that was in force prior to 2002 established certain benefits and concessions for companies engaged in the production and service industries. Notably, taxable income could be reduced by amounts reinvested for specific purposes. However, the total reduction from this form of incentive together with certain other reductions could not exceed 50% of the taxable income for the period. The most significant reinvestment purposes that benefited from these concessions were technical re-equipment, reconstruction, expansion and development of production facilities, and the installation of new facilities. We used these concessions extensively in prior years. The new income tax legislation does not provide for special tax concessions related to investments in infrastructure.

Effective January 1, 2002, the statutory income tax rate in Russia was established at 24%.

In 2003, the statutory income tax rate in Ukraine was 30%. From January 1, 2004, the Ukrainian statutory income tax rate changed to 25% as a result of changes in legislation. As the result of this reduction, we recognized a net deferred tax expense of approximately \$4.8 million in 2003.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. We believe that we have adequately provided for tax liabilities in our consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Acquisitions

Our results of operations for the periods presented are significantly affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements for the periods after their respective dates of acquisition.

Below is the list of our major acquisitions during 2002, 2003 and 2004.

Company	License area	Date of acquisition	Stake acquired	Purchase price* (in millions)
2002				
Kuban-GSM	Krasnodar region	March 2002	51.0%	\$71.4
Kuban-GSM	Krasnodar region	October 2002	1.7%	5.0
BM-Telecom	Bashkortostan Republic	May 2002	100.0%	41.0
MTS-Barnaul	Altai region	July 2002	100.0%	2.4
Dontelecom	Rostov region	October 2002	100.0%	22.5
BIT	4 regions in the Far East of Russia	October 2002	100.0%	0.9
Telecom-900	Controlling stake in 3 regional operators: (1) 60% of FECS-900 (several regions in the Far East of Russia); (2) 53% of Uraltel (Ural region); and (3) 51% of SCS-900 (several regions in the Siberian part of Russia)	November 2002	19.0%	6.9
				\$150.1
2003				
UMC	Ukraine	March 2003	57.7%	\$199.0
UMC	Ukraine	June 2003	26.0%	87.6
UMC	Ukraine	July 2003	16.3%	91.7
TAIF Telcom	Tatarstan Republic and Volga region	April 2003	51.0%	61.0
TAIF Telcom	Tatarstan Republic and Volga region	May 2003	1.7%	2.3
Sibchallenge	Krasnoyarsk region	August 2003	100.0%	45.5
Vostok Mobile BV	50% stake in Primtelefon (several regions in the Far East of Russia)	August 2003	100.0%	29.0
Uraltel	Ural region	August 2003	46.7%	35.7
TSS	Eastern Siberia	September 2003	100.0%	47.0
Kuban-GSM	Krasnodar region	September 2003	47.3%	107.0
				\$705.8
2004				
SCS-900	Several regions in the Siberian part of Russia	March 2004	11.0%	\$8.5
FECS-900	Several regions in the Far East of Russia	April 2004	40.0%	8.3
MSS	Eastern Siberia	April 2004	7.5%	2.2
Primtelefon	Several regions in the Far East of Russia	June 2004	50.0%	31.0
UDN-900	Udmurtiya Republic	August 2004	49.0%	6.4
Volgograd Mobile	Volga region	August 2004	50.0%	2.9
Astrakhan Mobile	Volga region	August 2004	50.0%	1.1
Uzdunrobita	Uzbekistan	July 2004	74.0%	126.4
TAIF Telcom	Tatarstan Republic	October 2004	47.3%	63.0
Sibintertelecom	Two regions in the Far East of Russia	November 2004	93.5%	37.4
Telesot Alania	Severnaya Osetia-Alania Republic	December 2004	52.5%	6.2
Gorizont-RT	Republic of Sakha (Yakutia)	December 2004	76.0%	53.2
				\$341.2

* Excluding acquisition-related costs and debt assumed.

See also Note 23 to our audited consolidated financial statements for additional acquisitions since December 31, 2004.

Results of Operations

The following table sets forth selected financial information by reportable segment.

	Year Ended December 31,		
	2004	2003	2002
	(in thousands)		
Revenues			
MTS OJSC	\$2,129,544	\$1,471,198	\$1,044,877
UMC	832,313	394,038	—
Telecom XXI	297,194	210,460	79,166
Kuban-GSM	225,350	168,401	79,317
Other	796,256	432,770	211,826
Eliminations ⁽¹⁾	(393,663)	(130,669)	(53,430)
Revenues as reported	<u>\$3,886,994</u>	<u>\$2,546,198</u>	<u>\$1,361,756</u>
Costs of services and cost of handsets and accessories, exclusive of depreciation and amortization shown separately below			
MTS OJSC	\$585,092	\$315,021	\$235,957
UMC	221,226	94,959	—
Telecom XXI	46,917	33,348	18,415
Kuban-GSM	22,963	20,870	11,376
Other	189,720	120,895	64,092
Eliminations ⁽¹⁾	(366,231)	(110,914)	(43,168)
Cost of services and cost of handsets and accessories as reported	<u>\$699,687</u>	<u>\$474,179</u>	<u>\$286,672</u>
Sundry operating expenses ⁽²⁾			
MTS OJSC	\$327,113	\$241,069	\$173,377
UMC	88,937	50,192	—
Telecom XXI	45,832	28,071	18,894
Kuban-GSM	37,091	25,385	11,197
Other	142,257	62,689	28,016
Eliminations ⁽¹⁾	(9,698)	(684)	(2,428)
Sundry operating expenses as reported	<u>\$631,532</u>	<u>\$406,722</u>	<u>\$229,056</u>
Sales and marketing expenses			
MTS OJSC	\$240,146	\$187,325	\$125,841
UMC	79,355	50,791	—
Telecom XXI	42,244	31,627	22,183
Kuban-GSM	22,534	15,249	7,795
Other	86,275	43,423	19,804
Eliminations ⁽¹⁾	(9,571)	(1,632)	(3,646)
Sales and marketing expenses as reported	<u>\$460,983</u>	<u>\$326,783</u>	<u>\$171,977</u>

Depreciation and amortization			
MTS OJSC	\$253,485	\$199,946	\$144,004
UMC	124,935	66,392	—
Telecom XXI	57,265	36,782	17,343
Kuban-GSM	68,140	32,299	21,224
Other	175,221	82,185	27,109
Eliminations ⁽¹⁾	(3,317)	(1,688)	—
Depreciation and amortization as reported	\$675,729	\$415,916	\$209,680
Operating Income			
MTS OJSC	\$728,101	\$527,837	\$365,698
UMC	317,860	131,704	—
Telecom XXI	104,936	80,632	2,331
Kuban-GSM	74,622	74,599	27,725
Other	198,390	123,577	72,806
Eliminations ⁽¹⁾	(4,846)	(15,751)	(4,189)
Operating income as reported	\$1,419,063	\$922,598	\$464,371

⁽¹⁾ Represents the elimination of intercompany sales, sundry operating expenses, sales and marketing expenses and the related operating income, primarily for intercompany roaming arrangements and management and marketing support provided by MTS OJSC to regional companies, as well as of other intercompany transactions.

⁽²⁾ For the purposes of this analysis "Sundry operating expenses" consists of general and administrative expenses and other operating expenses.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

Revenues and cost of services and cost of handsets and accessories

Consolidated revenues for the year ended December 31, 2004 increased by \$1,340.8 million, or 52.7%, to \$3,887.0 million from \$2,546.2 million for the year ended December 31, 2003. This increase was primarily due to the significant growth in our subscriber base from 16.72 million as of December 31, 2003 to 34.22 million as of December 31, 2004. As of December 31, 2003, UMC had 3.35 million subscribers, which grew to 7.37 million subscribers as of December 31, 2004. A portion of the growth in the subscriber base was due to acquisitions during the year ended December 31, 2004, including the two most significant acquisitions of Uzdunrobita with 0.31 million subscribers and Primteleon with 0.2 million subscribers. The growth was also attributable to our sales and marketing efforts and the expansion of our network, as well as improving general economic conditions and income levels in Russia and Ukraine. The increase in revenues from subscriber growth was partially offset by a decrease in tariffs in the Moscow and other highly competitive license areas, an increase of mass-market subscribers in our subscriber mix and our continued expansion into the regions of Russia outside of the Moscow license area where tariffs are lower. As a result, average monthly service revenue per subscriber in Russia decreased by 29% from \$17 per subscriber for the year ended December 31, 2003 to \$12 for the year ended December 31, 2004.

For the year ended December 31, 2004, service revenues and connection fees increased by \$1,335.2 million, or 54.2%, to \$3,800.3 million compared to \$2,465.1 million for the year ended December 31, 2003 due to the growth in the number of our subscribers, as explained above. Revenues from the sales of handsets and accessories increased by \$5.6 million, or 6.9%, for the year ended

December 31, 2004 compared to the year ended December 31, 2003, due to growth of handsets sale activity. This growth was partially offset by a decline in the average selling price of handsets.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2004 increased by 47.6% to \$699.7 million from \$474.2 million for the year ended December 31, 2003. The increase in costs was primarily attributable to subscriber growth and related growth of traffic related expenses and cost of handsets and accessories sold. For the year ended December 31, 2004, interconnection and line rental expenses grew to \$352.6 million from \$187.3 million for the year ended December 31, 2003 and roaming expenses grew to \$128.5 million from \$113.8 million, respectively. For the year ended December 31, 2004, cost of handsets and accessories sold, including SIM cards provided to customers, grew to \$218.6 million from \$173.1 million for the year ended December 31, 2003.

Consolidated gross margin was \$3,187.3 million, or 82.0% of consolidated revenues for the year ended December 31, 2004, compared to \$2,072.0 million, or 81.4% of consolidated revenues for the year ended December 31, 2003. This slight increase in our consolidated gross margin percentage is due to lower interconnection and line rental charges payable to other operators for access to their networks relative to our increasing revenues because, as we have expanded our network, more calls are placed and completed solely within our network, thereby avoiding the need to pay such charges to other operators while still fully earning the related revenues from such calls. We also believe that this increase can be explained, in part, by lower costs of leasing telecommunication lines relative to our increasing revenues as we build-out our own fiber-optics network in our license areas.

MTS OJSC revenues for the year ended December 31, 2004 increased by 44.7% to \$2,129.5 million from \$1,471.2 million for the year ended December 31, 2003. Our subscriber base in the MTS OJSC license areas increased by 106.2% from 6.5 million as of December 31, 2003 to 13.4 million as of December 31, 2004. The effect on revenues of the increase in our subscriber base was partially offset by a decrease in the average selling prices of handsets and accessories, a decrease in tariffs in the Moscow license area and an increase of mass-market subscribers share in our subscriber mix.

MTS OJSC cost of services and cost of handsets and accessories for the year ended December 31, 2004 increased by 85.7% to \$585.1 million from \$315.0 million for the year ended December 31, 2003. The growth occurred as a result of \$45.6 million and \$172.7 million increases in roaming expenses and cost of handsets and accessories, respectively. This was primarily driven by an increase in the number of subscribers and related growth of roaming traffic and cost of handsets and accessories sold (including SIM cards). Roaming expenses increased to \$172.3 million, or 8.1% of segment revenues, for the year ended December 31, 2004 from \$126.7 million, or 8.6% of segment revenues, for the year ended December 31, 2003. Cost of handsets and accessories increased to \$274.9 million, or 12.9% of segment revenues, for the year ended December 31, 2004 from \$102.2 million, or 6.9% of segment revenues, for the year ended December 31, 2003.

MTS OJSC gross margin increased by 33.6% to \$1,544.4 million in the year ended December 31, 2004 from \$1,156.2 million in the year ended December 31, 2003. MTS OJSC's gross margin percentage decreased to 72.5% in the year ended December 31, 2004 from 78.6% in the year ended December 31, 2003. The main reason for the decrease in the gross margin by 6.1% was the significant growth in sales of equipment and handsets from MTS OJSC to subsidiaries. MTS OJSC charges minimal mark-up, ranging from 3% to 10%, on these sales. The effect of these transactions is eliminated in the consolidated financial statements.

UMC revenues for the year ended December 31, 2004 were \$832.3 million, while for the year ended December 31, 2003, \$394.0 million of UMC's revenues were consolidated (representing revenues from the date of our acquisition of UMC in March 2003 to December 31, 2003). Growth in sales revenues occurred mainly due to an increase in UMC's subscriber base from 3.4 million as of December 31, 2003 to 7.4 million as of December 31, 2004.

UMC cost of services and cost of handsets and accessories for the year ended December 31, 2004 and for the period from March 1, 2003 to December 31, 2003 were \$221.2 million and \$95.0 million, respectively. The growth occurred primarily due to an increase of \$84.0 million in interconnection and line rental expenses and a \$33.9 million increase in cost of handsets and accessories. Interconnection and line rental expenses increased to \$112.8 million, or 13.6% of segment revenues, in the year ended December 31, 2004 from \$28.8 million, or 7.3% of segment revenues, in the year ended December 31, 2003 mainly due to an increase in the number of base stations in use and overall growth in traffic on the network. Cost of handsets and accessories increased to \$87.6 million, or 10.5% of segment revenues, in the year ended December 31, 2004 from \$53.8 million, or 13.7% of segment revenues, in the year ended December 31, 2003 mainly due to growth of sales of handsets and accessories and an increase in cost for SIM cards used by new subscribers.

UMC gross margin for the year ended December 31, 2004 grew to \$611.1 million from \$299.0 million for the period from March 1, 2003 to December 31, 2003. As a percentage of total revenues, gross margin decreased to 73.4% in the year ended December 31, 2004, from 75.9% in the same period in 2003. This decrease in gross margin was mainly due to the introduction in September 2003 of the calling party pays scheme. Under this scheme, starting from September 2003, UMC pays termination fees to other mobile operators for calls initiated by its subscribers. During the year ended December 31, 2004, this scheme had a full effect on financial results, while during the same period in 2003, only the months of September through December were included.

Telecom XXI revenues for the year ended December 31, 2004 increased by 41.2% to \$297.2 million from \$210.5 million for the year ended December 31, 2003. Our subscriber base in the Telecom XXI license areas increased by 58.8% from 1.7 million as of December 31, 2003 to 2.7 million as of December 31, 2004. The growth of subscribers in percentage terms is higher than the growth of revenues mainly because the newly acquired subscribers have lower average monthly service revenue per subscriber compared to subscribers already connected to our network. This trend is typical when we seek to expand our subscriber base in a competitive environment.

Telecom XXI cost of services and cost of handsets and accessories for the year ended December 31, 2004 increased by 40.8% to \$46.9 million from \$33.3 million for the year ended December 31, 2003. This was primarily due to a \$6.4 million increase in roaming expenses. Interconnection and line rental expenses increased to \$15.2 million, or 5.1% of segment revenues, in the year ended December 31, 2004 from \$14.0 million, or 6.7% of segment revenues, in the year ended December 31, 2003 mainly due to an increase of the number of base stations in use and overall growth in traffic on the network. Roaming expenses increased to \$18.9 million, or 6.4% of segment revenues, for the year ended December 31, 2004 from \$12.5 million, or 5.9% of segment revenues, for the year ended December 31, 2003 mainly due to subscriber growth and related traffic expenses.

Telecom XXI gross margin increased by 41.3% to \$250.3 million in the year ended December 31, 2004 from \$177.2 million in the year ended December 31, 2003. Telecom XXI gross margin percentage remained stable at 84.2% during the year ended December 31, 2004, as compared to the 84.2% during year ended December 31, 2003.

Kuban-GSM revenues for the year ended December 31, 2004 increased by 33.8% to \$225.4 million from \$168.4 million for the year ended December 31, 2003. Our subscriber base in the Kuban-GSM license area increased by 78.6% from 1.4 million as of December 31, 2003 to 2.5 million as of December 31, 2004. The growth of subscribers in percentage terms is higher than the growth of revenues mainly because the newly acquired subscribers have lower average monthly service revenue per subscriber compared to subscribers already connected to our network. This trend is typical when expanding s subscriber base in a competitive environment.

Kuban-GSM cost of services and cost of handsets and accessories for the year ended December 31, 2004 increased by 10.0% to \$23.0 million from \$20.9 million for the year ended December 31, 2003.

This was primarily due to a \$4.4 million increase in interconnection and line rental expenses to \$14.2 million, or 6.3% of segment revenues, in the year ended December 31, 2004 from \$9.8 million, or 5.8% of segment revenues, in the year ended December 31, 2003. This increase is mainly due to an increase in the number of base stations in use and overall growth in traffic on the network.

Kuban-GSM gross margin increased by 37.2% to \$202.4 million in the year ended December 31, 2004 from \$147.5 million in the year ended December 31, 2003. Kuban-GSM's gross margin percentage increased to 89.8% in the year ended December 31, 2004 from 87.6% in the year ended December 31, 2003 primarily as the result of continued expansion of the network in 2004 and the related economies of scale effect.

Other regions revenues for the year ended December 31, 2004 increased by 84.0% to \$796.3 million from \$432.8 million for the year ended December 31, 2003. Our subscriber base in these regions increased by 107.9% from 3.8 million as of December 31, 2003 to 7.9 million as of December 31, 2004, which is the result of our expansion into the regions both through organic growth and acquisitions. As of December 31, 2004, we had commenced commercial operations in 77 regions of Russia, compared to 60 as of December 31, 2003. The growth of subscribers in percentage terms is higher than revenue growth mainly due to the fact that newly acquired subscribers have lower average monthly service revenue per subscriber compared to subscribers already connected to our network. This is a usual trend for expanding subscribers' base in the competitive environment.

Other regions cost of services and cost of handsets and accessories for the year ended December 31, 2004 increased by 56.9% to \$189.7 million from \$120.9 million for the year ended December 31, 2003. The growth occurred primarily due to a \$37.1 million increase in interconnection and line rental expenses and a \$27.6 million increase in cost of handsets and accessories. Interconnection and line rental expenses increased to \$76.6 million, or 9.6% of segment revenues, in the year ended December 31, 2004 from \$39.5 million, or 9.1% of segment revenues, in the year ended December 31, 2003 mainly due to an increase in the number of base stations in use and overall growth in traffic on the network. Cost of handsets and accessories increased to \$63.6 million, or 8.0% of segment revenues, in the year ended December 31, 2004 from \$36.0 million, or 8.3% of segment revenues, in the year ended December 31, 2003 mainly due to a growth in sales of handsets and accessories and an increase in cost for SIM cards used by new subscribers.

Other regions gross margin increased by 294.7 million, or 94.5%, from \$311.9 million in the year ended December 31, 2003 to \$606.6 million in the year ended December 31, 2004, primarily due to the increase in the number of subscribers. Our gross margin percentage for the other regions segment increased to 76.2% in the year ended December 31, 2004 from 72.1% in the year ended December 31, 2003, which can be explained by the same factors discussed above with respect to the increase in the consolidated gross margin.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2004 increased by 55.3% to \$631.5 million from \$406.7 million for the year ended December 31, 2003. The increase in sundry operating expenses was largely attributable to a general increase in expenses caused by subscriber growth and the consolidation of a full year of UMC's operations, which together contributed \$88.9 million to consolidated sundry operating expenses for the year ended December 31, 2004 after intercompany elimination. For the year ended December 31, 2003, only 10 months of UMC's operations were consolidated, contributing \$50.2 million to sundry operating expenses in that period. In the year ended December 31, 2004, salary expenses and related social contributions increased by \$100.2 million due to an increase in personnel. In addition, network repair and maintenance expenses increased by \$42.1 million in the year ended December 31, 2004 due to the expansion and aging of our network, as compared to the same period in 2003. Generally, sundry operating expenses as a

percentage of net revenues slightly increased to 16.2% for the year ended December 31, 2004 from 16.0% in the year ended December 31, 2003.

MTS OJSC sundry operating expenses for the year ended December 31, 2004 increased by 35.7% to \$327.1 million from \$241.1 million for the year ended December 31, 2003. The major reason for this growth was an increase in salaries, bonuses and related social contributions for additional personnel of \$56.5 million. Sundry operating expenses as a percentage of segment revenues decreased to 15.4% for the year ended December 31, 2004 from 16.4% for the year ended December 31, 2003. This decrease was mainly attributable to economies of scale with respect to an increase in our overall volume of operations and a reduction in the bad debt provision expense from \$28.6 million for 2003, or 1.9% of segment revenues, to \$12.4 million for 2004, or 0.6% of segment revenues. The higher expense in 2003 was related to the dealer and subscriber fraud discovered in March 2003, as discussed above.

UMC sundry operating expenses for the year ended December 31, 2004 were \$88.9 million, or 10.7% of segment revenues, while for the year ended December 31, 2003, these expenses were \$50.2 million, or 12.7% of segment revenues. The increase in such expenses in absolute terms during 2004 was the result of an overall increase in UMC's activity. The main reason for the decrease in sundry operating expenses as a percentage of segment revenues was the economies of scale we achieved related mainly to rent and maintenance expenses.

Telecom XXI sundry operating expenses for the year ended December 31, 2004 increased by 63.0% to \$45.8 million from \$28.1 million for the year ended December 31, 2003. The most significant increases were in the areas of salaries and related social contributions for additional personnel of \$4.9 million, repair and maintenance of \$3.3 million and billing and processing expenses of \$3.5 million. The increases were primarily the result of the general expansion of our network in the region. Sundry operating expenses as a percentage of segment revenues increased to 15.4% for the year ended December 31, 2004, as compared to 13.3% for the year ended December 31, 2003. The main reason for this increase was one-off repair expenses incurred during the year ended December 31, 2004.

Kuban-GSM sundry operating expenses for the year ended December 31, 2004 increased by 46.1% to \$37.1 million from \$25.4 million for the year ended December 31, 2003. The most significant increases were in the areas of salaries and related social contributions for additional personnel of \$3.6 million and repair and maintenance of \$8.2 million. The increases were primarily the result of the general expansion of our network in the region. Sundry operating expenses as a percentage of segment revenues slightly increased to 16.5% for the year ended December 31, 2004, as compared to 15.1% for the year ended December 31, 2003.

Other regions sundry operating expenses for the year ended December 31, 2004 increased by 127.0% to \$142.3 million from \$62.7 million for the year ended December 31, 2003. The most significant increases were in the areas of salaries and related social contributions for additional personnel of \$27.3 million and administrative expenses of \$11.4 million for additional offices and expanded operations. Sundry operating expenses as a percentage of segment revenues increased to 17.9% for the year ended December 31, 2004, as compared to 14.5% for the year ended December 31, 2003 mainly due to start-up expenses in connection with our continuing expansion into the regions.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2004 increased by 41.1% to \$461.0 million from \$326.8 million for the year ended December 31, 2003. The increase in sales and marketing expenses was largely related to our strategy to develop our subscriber base through organic growth. The components of growth in sales and marketing expenses were an increase of \$77.2 million in commissions to dealers and an increase of \$57.0 million in advertising and promotion expenses. The increase in commissions to dealers was primarily due to an increase in the volume of sales through dealers. The increase in advertising and promotion expenses related to increased overall

marketing efforts and relatively higher costs of television commercials. Sales and marketing expenses as a percentage of net revenues decreased to 11.9% for the year ended December 31, 2004 from 12.8% for the year ended December 31, 2003. The main reason for this decrease was the introduction in Russia of the new dealer commission scheme in 2004 described above, which resulted in a decrease in dealers' commissions as a percentage of revenues from 8.8% to 7.8%.

MTS OJSC sales and marketing expenses for the year ended December 31, 2004 increased by 28.2% to \$240.1 million from \$187.3 million for the year ended December 31, 2003. Sales and marketing expenses as a percentage of segment revenues decreased to 11.3% for the year ended December 31, 2004 from 12.7% for the year ended December 31, 2003. MTS OJSC has traditionally incurred consolidated costs of national TV advertising campaigns, which have experienced significant inflation in the last few years. MTS does not allocate a portion of these advertising costs to Telecom XXI, Kuban-GSM and other regions segments even though sales in these regions benefit from this national advertising. The main reason for the decrease in sales and marketing expenses as a percentage of segment revenues was the introduction of the new dealer commission scheme in 2004, which resulted in a decrease in dealers' commissions as a percentage of revenues from 8.5% to 6.9%.

UMC sales and marketing expenses for the year ended December 31, 2004 were \$79.4 million, or 9.5% of segment revenues, while for the year ended December 31, 2003, these expenses were \$50.8 million, or 12.9% of segment revenues. Absolute growth in these expenses for the year ended December 31, 2004 occurred due to overall growth of UMC's activity. The decrease in sales and marketing expenses as a percentage of segment revenues was caused by two factors: a decrease in advertising and promotion expenses from 4.6% to 3.6% of segment revenues due to extensive advertising campaigns organized in the third quarter of 2003 related to the Jeans tariff launch and a decrease in dealers' commissions from 8.3% to 5.9% of segment revenues due to a change in the commission scheme in December 2003 (commission is calculated based on revenue received from subscribers contracted by the dealer).

Telecom XXI sales and marketing expenses for the year ended December 31, 2004 increased by 33.5% to \$42.2 million from \$31.6 million for the year ended December 31, 2003, as a result of the expansion of the operations into regions other than St. Petersburg and an increase in dealers' commissions due to general growth of sales volume through dealers. Sales and marketing expenses as a percentage of segment revenues decreased to 14.2% for the year ended December 31, 2004 from 15.0% for the year ended December 31, 2003. The main reason for this decrease was a decrease of dealers' commissions as a percentage of segment revenues from 11.5% to 11.0% for the year ended December 31, 2003 and 2004, respectively, which was primarily due to the introduction in the third quarter of 2003 of our Jeans tariff in the region, which became popular and has lower commission fees than our contract tariff plans.

Kuban-GSM sales and marketing expenses for the year ended December 31, 2004 increased by 48.0% to \$22.5 million from \$15.2 million for the year ended December 31, 2003, as a result of an increase in dealers' commissions due to a general increase in sales volume through dealers. Sales and marketing expenses as a percentage of segment revenues increased to 10.0% for the year ended December 31, 2004 from 9.0% for the year ended December 31, 2003. The main reason for this growth was an increase of dealers' commissions as a percentage of segment revenues to 8.7% for the year ended December 31, 2004 from 8.0% for the year ended December 31, 2003.

Other regions sales and marketing expenses for the year ended December 31, 2004 increased by 98.8% to \$86.3 million from \$43.4 million for the year ended December 31, 2003, as a result of our expansion of the regional operations. Sales and marketing expenses as a percentage of segment revenues increased to 10.8% for the year ended December 31, 2004 from 10.0% for the year ended December 31, 2003. The main reasons for this increase were the growth of advertising expenses (in order to promote our services in the regions and continue our regional expansion) and dealers' commissions caused by increases in our subscriber base.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2004 increased by 62.5% to \$675.7 million from \$415.9 million for the year ended December 31, 2003. Depreciation and amortization expenses as a percentage of net revenues slightly increased to 17.4% for the year ended December 31, 2004 from 16.3% for the year ended December 31, 2003. This increase was mainly due to a change of accounting policy with respect to the depreciation period for the cost of leasehold improvements related to base station sites that went into effect in 2004. The depreciation period was accelerated and as a result, an additional depreciation expense of approximately \$27.7 million was recognized in 2004, but not in prior periods.

MTS OJSC depreciation and amortization for the year ended December 31, 2004 increased by 26.8% to \$253.5 million from \$199.9 million for the year ended December 31, 2003, but declined as a percentage of segment revenues to 11.9% for the year ended December 31, 2004 from 13.6% for the year ended December 31, 2003 mainly due to expansion of our subscriber base in our existing network, which was partially offset by the effect of accelerated depreciation.

UMC depreciation and amortization for the year ended December 31, 2004 was \$124.9 million, or 15.0% of segment revenues, while for the year ended December 31, 2003 depreciation and amortization was \$66.4 million, or 16.9% of segment revenues. Absolute growth of depreciation and amortization expense was mainly due to the continued build-out of UMC's network in Ukraine. The decrease in depreciation and amortization expense as a percentage of segment revenues was mainly due to the effect of economies of scale, which was partly offset by the effect of accelerated depreciation.

Telecom XXI depreciation and amortization for the year ended December 31, 2004 increased by 55.7% to \$57.3 million from \$36.8 million for the year ended December 31, 2003 and slightly increased as a percentage of segment revenues to 19.3% from 17.5%. This increase was mainly the result of the acceleration of the depreciation period for leasehold improvements on the base station sites.

Kuban-GSM depreciation and amortization for the year ended December 31, 2004 increased by 110.8% to \$68.1 million from \$32.3 million for the year ended December 31, 2003 and increased as a percentage of segment revenues to 30.2% from 19.2% mainly due to significant investments in our network and an additional depreciation expense recognized in 2004 for leasehold improvements.

Other regions depreciation and amortization for the year ended December 31, 2004 increased by 113.1% to \$175.2 million from \$82.2 million for the year ended December 31, 2003 and increased as a percentage of segment revenues to 22.0% from 19.0%. The increase in the depreciation and amortization expense was driven primarily by two factors: the continued build-out of our network in the regions and assets acquired through acquisitions.

Operating Income

Consolidated operating income for the year ended December 31, 2004 increased by 53.8% to \$1,419.1 million, including \$317.9 million of UMC's results after intercompany elimination for the year ending December 31, 2004 from \$922.6 million for the year ended December 31, 2003, of which \$131.7 million was contributed by UMC. Operating income as a percentage of net revenues was relatively stable at 36.5% for the year ended December 31, 2004 and 36.2% for the year ended December 31, 2003.

MTS OJSC operating income for the year ended December 31, 2004 increased by 37.9% to \$728.1 million from \$527.8 million for the year ended December 31, 2003 and remained relatively stable as a percentage of segment revenues at 34.2% for the year ended December 31, 2004, as compared to 35.9% for the year ended December 31, 2003.

UMC operating income for the year ended December 31, 2004 was \$317.9 million, or 38.2% of segment revenues, while for the year ended December 31, 2003 operating income was \$131.7 million, or 33.4% of segment revenues. Absolute growth of operating income primarily was the result of the overall growth in UMC's subscriber base and the continued build-out of its network. In addition, for the year ended December 31, 2003, only 10 months of UMC's operations were consolidated into our results, as we did not acquire a controlling stake in UMC until March 2003. Growth of operating income as a percentage of segment revenues occurred mainly due to a decrease in expenses realized through economies of scale and the growth in UMC's subscriber base.

Telecom XXI operating income for the year ended December 31, 2004 increased by 30.1% to \$104.9 million, or 35.3% of segment revenues, from \$80.6 million, or 38.3% of segment revenues, for the year ended December 31, 2003. The main reason for the decrease in operating income as a percentage of segment revenues was the additional depreciation expense incurred as a result of accelerated depreciation for leasehold improvements.

Kuban-GSM operating income for the year ended December 31, 2004 remained stable at \$74.6 million, or 33.1% of segment revenues, and \$74.6 million, or 44.3% of segment revenues, for the year ended December 31, 2003. The main reason for the decrease of operating income as a percentage of segment revenues was the additional depreciation expense incurred as a result of accelerated depreciation for leasehold improvements.

Other regions operating income for the year ended December 31, 2004 increased by 60.5% to \$198.4 million, or 24.9% of segment revenues, from \$123.6 million, or 28.6% of segment revenues, for the year ended December 31, 2003. The main reason for the decrease in operating income as a percentage of segment revenues was the additional depreciation expense incurred as a result of accelerated depreciation for leasehold improvements.

Currency exchange and translation gain

Consolidated currency exchange and translation gain for the year ended December 31, 2004 was \$6.5 million, compared to \$0.7 million for the year ended December 31, 2003. We conduct our operations primarily within the Russian Federation and Ukraine. We are subject to currency fluctuations, including U.S. dollar versus ruble/hryvnia and U.S. dollar versus euro. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Continued or increased limitations on the conversion of rubles to foreign currency in Russia could increase our costs when making payments in foreign currency to suppliers and creditors and could cause us to default on our obligations to them." and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk."

Interest expense

Consolidated interest expense for the year ended December 31, 2004 increased by 1.3% to \$108.0 million from \$106.6 million for the year ended December 31, 2003, primarily as the result of additional interest expense incurred in conjunction with our \$300.0 million notes issued in August 2003 and \$400.0 million notes issued in October 2003.

Other income

Consolidated other expenses (income) for the year ended December 31, 2004 increased to a gain of \$33.5 million from a loss of \$3.4 million incurred for the year ended December 31, 2003. The main reason for this change relates to the significant growth in profitability of MTS Belarus. During the year ended December 31, 2003, \$1.5 million of MTS Belarus' loss was included in our results, while for the year ended December 31, 2004, \$23.2 million of income was included in our results.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2004 increased by 46.3% to \$354.7 million from \$242.5 million for the year ended December 31, 2003. The effective tax rate decreased to 25.8% in the year ended December 31, 2004 from 29.2% in the year ended December 31 2003 mainly as a result of an increase in deductible foreign currency exchange losses for purposes of our statutory accounts and a decrease in the statutory tax rate in Ukraine from 30% in 2003 to 25% in 2004.

Minority interest

Minority interest for the year ended December 31, 2004 decreased by \$41.4 million to \$30.3 million from \$71.7 million for the year ended December 31, 2003 as a result of purchases of additional stakes from minority shareholders in regional companies, the major ones being FECS-900, Uraltel, TAIF Telcom and SCS-900.

Net income

Net income for the year ended December 31, 2004 increased by \$470.7 million, or 91.0%, to \$987.9 million, compared to \$517.2 million for the year ended December 31, 2003, due to overall growth of our operations and the factors discussed above. Net income as a percentage of revenues was 25.4% in the year ended December 31, 2004 and 20.3% in the year ended December 31, 2003. The main reasons for the increase in net income as a percentage of revenues were the relative decrease as a percentage of revenues in sales and marketing expenses and costs of services, handsets and accessories and an increase in the profitability of MTS Belarus.

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Consolidated revenues for the year ended December 31, 2003 increased by \$1,184.4 million, or 87.0%, to \$2,546.2 million from \$1,361.8 million for the year ended December 31, 2002. This increase was primarily due to the significant growth in our subscriber base from 6.64 million as of December 31, 2002 to 16.72 million as of December 31, 2003. A portion of the growth in the subscriber base was due to acquisitions during 2003, including UMC. At the time of acquisition, UMC had 1.8 million subscribers, which grew to 3.3 million subscribers as of the end of the year. The increase in revenues from subscriber growth was partially offset by a decrease in tariffs in the Moscow license area, an increase of mass-market subscribers in our subscriber mix and our continued expansion into the regions of Russia outside of the Moscow license area where tariffs are lower. As a result, average monthly service revenue per subscriber in Russia decreased 26% from \$23 per subscriber for the year ended December 31, 2002 to \$17 for the year ended December 31, 2003. Our sales and marketing effort and the expansion of our network, as well as improving general economic conditions and income levels in Russia and Ukraine were primarily responsible for the growth in our subscriber base.

For the year ended December 31, 2003, service revenues increased by \$1,161.4 million, or 91.1%, to \$2,435.7 million compared to \$1,274.3 million for the year ended December 31, 2002 due to the growth in the number of our subscribers, as explained above. Connection fees increased by only \$4.5 million, or 18.2%, compared to the year ended December 31, 2002 due to the introduction of tariff plans without connection fees, including our Jeans tariff, and low connection fee tariff plans. Equipment revenues increased by \$18.5 million, or 29.5%, for the year ended December 31, 2003, compared to the year ended December 31, 2002 due to subscriber growth in 2003, although not as fast as subscriber growth because the average selling price of handsets declined as many of our subscribers already own handsets.

Consolidated cost of services and cost of handsets and accessories for the year ended December 31, 2003 increased by 65.4% to \$474.2 million from \$286.7 million for the year ended December 31, 2002.

The increase in costs was primarily attributable to subscriber growth and related growth of traffic related expenses and cost of equipment sold, as well as the inclusion of ten months of UMC's results, which added \$95.0 million to consolidated cost of services and products after intercompany eliminations.

Consolidated gross margin was 81.4% for the year ended December 31, 2003, compared to 78.9% for the year ended December 31, 2002. We believe that this increase in our consolidated gross margin is due to lower interconnection and line rental charges payable to other operators for access to their networks relative to our increasing revenues because, as we have expanded our network, more calls are placed and completed solely within our network, thereby avoiding the need to pay such charges to other operators while still fully earning the related revenues from such calls. We also believe that this increase can be explained, in part, by lower costs of leasing telecommunication lines relative to our increasing revenues as we build-out our own fiber-optics network in our license areas.

MTS OJSC revenues for the year ended December 31, 2003 increased by 40.8% to \$1,471.2 million from \$1,044.9 million for the year ended December 31, 2002. Our subscriber base in the MTS OJSC license areas increased by 74.3% from 3.7 million as of December 31, 2002 to 6.5 million as of December 31, 2003. The increase in the subscriber base was partially offset by a decrease in tariffs in the Moscow license area and an increase of mass-market subscribers in our subscriber mix.

MTS OJSC cost of services and cost of handsets and accessories for the year ended December 31, 2003 increased by 33.5% to \$315.0 million from \$236.0 million for the year ended December 31, 2002. This was primarily due to the \$37.8 million and \$27.6 million increases in roaming expenses and cost of handsets and accessories, respectively, resulting from an increase in the number of subscribers and related growth of roaming traffic and cost of equipment sold. Roaming expenses increased to \$126.7 million, or 8.6% of segment revenues, for the year ended December 31, 2003 from \$88.9 million, or 8.5% of segment revenues, for the year ended December 31, 2002. Cost of handsets and accessories increased to \$89.8 million, or 6.1% of segment revenues, for the year ended December 31, 2003 from \$62.2 million, or 6.0% of segment revenues, for the year ended December 31, 2002.

MTS OJSC gross margin increased by 42.9% to \$1,156.2 million in 2003 from \$808.9 million in 2002. MTS OJSC's gross margin percentage increased to 78.6% in 2003 from 77.4% in 2002, which can be explained by the same factors discussed above with respect to the increase in the consolidated gross margin.

UMC revenues for the year ended December 31, 2003 were \$394.0 million.

UMC cost of services and products for the year ended December 31, 2003 was \$95.0 million, resulting in a gross margin of \$299.0 million.

UMC gross margin percentage was 75.9% in 2003.

Telecom XXI revenues for the year ended December 31, 2003 increased by 165.8% to \$210.5 million from \$79.2 million for the year ended December 31, 2002, which was Telecom XXI's first year of operations. Our subscriber base in the Telecom XXI license areas increased by 95.1% from 0.9 million as of December 31, 2002 to 1.7 million as of December 31, 2003. We also increased our tariffs in 2003.

Telecom XXI cost of services and cost of handsets and accessories for the year ended December 31, 2003 increased by 81.1% to \$33.3 million from \$18.4 million for the year ended December 31, 2002. This was primarily due to the \$8.5 million and \$7.5 million increases in interconnection and line rental expenses and roaming expenses, respectively. Interconnection and line rental expenses increased to \$14.0 million, or 6.7% of segment revenues, in 2003 from \$5.5 million, or 6.9% of segment revenues, in 2002 mainly due to an increase in the number of base stations in use. Roaming expenses increased to \$12.5 million, or 5.9% of segment revenues, for the year ended December 31, 2003 from \$5.0 million,

or 6.3% of segment revenues, for the year ended December 31, 2002 mainly due to subscriber growth and related traffic expenses.

Telecom XXI gross margin increased by 191.3% to \$177.1 million in 2003 from \$60.8 million in 2002. Telecom XXI gross margin percentage increased to 84.2% in 2003 from 76.7% in 2002, which can be explained primarily by the increase in tariffs discussed above.

Kuban-GSM revenues for the year ended December 31, 2003 increased by 112.3% to \$168.4 million from \$79.3 million for the year ended December 31, 2002. This increase was primarily due to the significant growth in our subscriber base. Our subscriber base in the Kuban-GSM license areas increased by 75.0% from 0.8 million as of December 31, 2002 to 1.4 million as of December 31, 2003.

Kuban-GSM cost of services and cost of handsets and accessories for the year ended December 31, 2003 increased by 83.3% to \$20.9 million from \$11.4 million for the year ended December 31, 2002 primarily due to the \$4.2 million and \$4.1 million increases in interconnection and line rental expenses and cost of handsets and accessories, respectively. Interconnection and line rental expenses increased to \$9.8 million, or 5.8% of segment revenues, in 2003 from \$5.6 million, or 7.1% of segment revenues, in 2002 mainly due to an increase in the number of base stations in use. Cost of handsets and accessories increased to \$7.3 million, or 4.3% of segment revenues, for the year ended December 31, 2003 from \$3.2 million, or 4.0% of segment revenues, for the year ended December 31, 2002 mainly due to subscriber growth and the related growth of SIM cards costs.

Kuban-GSM gross margin increased by 117.2% to \$147.5 million in 2003 from \$67.9 million in 2002. Kuban-GSM gross margin percentage increased to 87.6% in 2003 from 85.6% in 2002, which was primarily the result of growth in our subscriber base.

Other regions revenues for the year ended December 31, 2003 increased by 104.3% to \$432.8 million from \$211.8 million for the year ended December 31, 2002. Our subscriber base in the other regions segment increased by 216.7% from 1.2 million as of December 31, 2002 to 3.8 million as of December 31, 2003, consistent with our expansion into the regions.

Other regions cost of services and cost of handsets and accessories for the year ended December 31, 2003 increased by 88.6% to \$120.9 million from \$64.1 million for the year ended December 31, 2002 due to subscriber growth and related growth of traffic related expenses.

Other regions gross margin increased by \$164.1 million, or 111.1%, from \$147.8 million in 2002 to \$311.9 million in 2003, primarily due to the increase in the number of subscribers. Our gross margin percentage for the other regions segment increased to 72.1% in 2003 from 69.7% in 2002, which can be explained by the same factors discussed above with respect to the increase in the consolidated gross margin.

Sundry operating expenses

Consolidated sundry operating expenses for the year ended December 31, 2003 increased by 77.5% to \$406.7 million from \$229.1 million for the year ended December 31, 2002. The increase in sundry operating expenses was largely attributable to subscriber growth and the acquisition of UMC, which contributed \$50.2 million to consolidated sundry operating expenses for the year ended December 31, 2003 after intercompany elimination. In 2003, we experienced an increase of \$72.1 million in salaries and related social contributions for additional personnel and an increase in network repair and maintenance expenses of \$19.0 million due to the expansion and aging of our network, as compared to the prior period. Our operating expenses for the year ended December 31, 2003 also included a \$16.7 million provision related to dealer and subscriber fraud. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Our failure to implement the necessary infrastructure to manage our growth could have a material adverse effect on our business and results of operations."

Operating expenses as a percentage of net revenues were, however, relatively stable at 16.0% and 16.8% for the year ended December 31, 2003 and 2002, respectively.

MTS OJSC sundry operating expenses for the year ended December 31, 2003 increased by 39.0% to \$241.1 million from \$173.4 million for the year ended December 31, 2002. The most significant increases were in the areas of bad debt, mainly related to dealer and subscriber fraud as discussed above (\$16.7 million), and salaries and related social contributions for additional personnel (\$28.6 million). Sundry operating expenses as a percentage of segment revenues remained relatively stable at 16.4% for the year ended December 31, 2003, as compared to 16.6% for the year ended December 31, 2002.

UMC sundry operating expenses for the year ended December 31, 2003 were \$50.2 million, or 12.7% of segment revenues.

Telecom XXI sundry operating expenses for the year ended December 31, 2003 increased by 48.7% to \$28.1 million from \$18.9 million for the year ended December 31, 2002. The most significant increases were in the areas of salaries and related social contributions for additional personnel (\$5.3 million). Sundry operating expenses as a percentage of segment revenues decreased to 13.3% for the year ended December 31, 2003, as compared to 23.9% for the year ended December 31, 2002 mainly due to the fact that 2002 was the first year of the commercial operations and we incurred more start-up operating expenses in that period.

Kuban-GSM sundry operating expenses for the year ended December 31, 2003 increased by 126.7% to \$25.4 million from \$11.2 million for the year ended December 31, 2002. The most significant increases were in the areas of salaries and related social contributions due to an increase in personnel (\$4.9 million) and billing and data processing expenses (\$4.5 million) due to growth in our subscriber base. Sundry operating expenses as a percentage of segment revenues increased to 15.1% for the year ended December 31, 2003, as compared to 14.1% for the year ended December 31, 2002.

Other regions sundry operating expenses for the year ended December 31, 2003 increased by 123.9% to \$62.7 million from \$28.0 million for the year ended December 31, 2002. The most significant increases were in the areas of salaries and related social contributions for additional personnel (\$16.4 million) and repair and maintenance expenses for expanded network (\$2.2 million). Sundry operating expenses as a percentage of segment revenues increased to 14.5% for the year ended December 31, 2003, as compared to 13.2% for the year ended December 31, 2002, primarily due to increased expenses incurred in connection with our continuing expansion into the regions.

Sales and marketing expenses

Consolidated sales and marketing expenses for the year ended December 31, 2003 increased by 90.0% to \$326.8 million from \$172.0 million for the year ended December 31, 2002. The increase in sales and marketing expenses was largely related to subscriber growth and the acquisition of UMC, which contributed \$50.8 million to the consolidated sales and marketing expenses for the year ended December 31, 2003. The components of growth in sales and marketing expenses were an increase of \$101.4 million in commissions paid to dealers and an increase of \$53.4 million in advertising and promotion expenses. The increase in commissions paid to dealers was primarily due to an increase in the volume of sales through dealers, partially offset by a decrease in the amounts payable to dealers for every customer connected to our network. The increase in advertising and promotion expenses related to the separate marketing effort for the "Jeans" brand, which was launched in November 2002, increased overall marketing efforts and higher costs of television commercials. Sales and marketing expenses as a percentage of net revenues remained relatively stable at 12.8% for the year ended December 31, 2003, as compared to 12.6% for the year ended December 31, 2002.

MTS OJSC sales and marketing expenses for the year ended December 30, 2003 increased by 48.9% to \$187.3 million from \$125.8 million for the year ended December 31, 2002. Sales and marketing expenses as a percentage of segment revenues increased to 12.7% for the year ended December 31, 2003 from 12.0% for the year ended December 31, 2002. This increase in sales and marketing expenses as a percentage of segment revenues can be explained by our strategy of pursuing distinct and separate marketing of our MTS and "Jeans" brand identities. Moreover, MTS OJSC has traditionally incurred the costs of our national television advertising campaign, which has experienced significant inflation in the last year. We do not allocate a portion of these television advertising costs to the Telecom XXI and other regions segments even though sales in these regions benefit from this national advertising.

UMC sales and marketing expenses for the year ended December 31, 2003 were \$50.8 million, or 12.9% of segment revenues.

Telecom XXI sales and marketing expenses for the year ended December 31, 2003 increased by 42.3% to \$31.6 million from \$22.2 million for the year ended December 31, 2002, as a result of the expansion of the operations into regions other than St. Petersburg and an increase in dealers' commission due to general growth of sales volume through dealers. Sales and marketing expenses as a percentage of segment revenues decreased to 15.0% for the year ended December 31, 2003 from 28.0% for the year ended December 31, 2002 mainly due to the start-up advertising campaign in 2002, the first year of commercial operations of Telecom XXI.

Kuban-GSM sales and marketing expenses for the year ended December 31, 2003 increased by 94.9% to \$15.2 million from \$7.8 million for the year ended December 31, 2002. This increase was largely attributable to an increase in dealers' commissions by \$6.5 million due to a growth in sales through dealers. Sales and marketing expenses as a percentage of segment revenues remained stable at 9.0% for the year ended December 31, 2003, as compared to 9.8% for the year ended December 31, 2002.

Other regions sales and marketing expenses for the year ended December 31, 2003 increased by 119.2% to \$43.4 million from \$19.8 million for the year ended December 31, 2002, as a result of our acquisitions during 2002 and 2003 and the expansion of the existing regional operations. Sales and marketing expenses as a percentage of segment revenues slightly increased to 10.0% for the year ended December 31, 2003, from 9.3% for the year ended December 31, 2002.

Depreciation and amortization expenses

Consolidated depreciation and amortization of property, network equipment, telephone numbering capacity, license costs and other intangible assets for the year ended December 31, 2003 increased by 98.3% to \$415.9 million from \$209.7 million for the year ended December 31, 2002. Depreciation and amortization expenses as a percentage of net revenues increased to 16.3% for the year ended December 31, 2003 from 15.4% for the year ended December 31, 2002. This increase was attributable to the increased asset base resulting from our continuing expansion of our network, especially with respect to Telecom XXI, and acquisitions of regional operations in Russia and the amortization of license costs, acquired customer base and tangible assets of UMC, which contributed \$66.4 million to consolidated depreciation and amortization during 2003.

MTS OJSC depreciation and amortization for the year ended December 31, 2003 increased by 38.8% to \$199.9 million from \$144.0 million for the year ended December 31, 2002 but remained relatively stable as a percentage of segment revenues at 13.6% for the year ended December 31, 2003, as compared to 13.8% for the year ended December 31, 2002.

UMC depreciation and amortization for the year ended December 31, 2003 was \$66.4 million, or 16.9% of segment revenues.

Telecom XXI depreciation and amortization for the year ended December 31, 2003 increased by 112.7% to \$36.8 million from \$17.3 million for the year ended December 31, 2002 and decreased as a percentage of segment revenues to 17.5% from 21.8%. This decrease is explained by the fact that 2002 was the first year of Telecom XXI commercial operations and therefore revenues were lower in 2002 compared to 2003 although extensive capital investments into network build-up resulted in a high depreciation expense in both years.

Kuban-GSM depreciation and amortization for the year ended December 31, 2003 increased by 52.4% to \$32.3 million from \$21.2 million for the year ended December 31, 2002 and decreased as a percentage of segment revenues to 19.2% from 26.8%. Absolute growth of depreciation and amortization expenses is mainly due to the continued build-out of our network in this region, while the decrease as a percentage of segment revenues was primarily the result of a large increase in revenue generated by the network.

Other regions depreciation and amortization for the year ended December 31, 2003 increased by 203.3% to \$82.2 million from \$27.1 million for the year ended December 31, 2002 and increased as a percentage of segment revenues to 19.0% from 12.8%. The increase in the depreciation and amortization expense is associated with assets of acquired businesses and amortization of license costs recognized in the acquisitions of Kuban-GSM, Dontelecom, BM-Telecom, TAIF Telcom and other regional operators.

Operating Income

Consolidated operating income for the year ended December 31, 2003 increased by 98.7% to \$922.6 million, including \$127.6 million of UMC's result after intercompany elimination for ten months ending December 31, 2003 from \$464.4 million for the year ended December 31, 2002. Operating income as a percentage of net revenues was at 36.2% for the year ended December 31, 2003 and 34.1% for the year ended December 31, 2002.

MTS OJSC operating income for the year ended December 31, 2003 increased by 44.3% to \$527.8 million from \$365.7 million for the year ended December 31, 2002 and remained relatively stable as a percentage of segment revenues at 35.9% for the year ended December 31, 2003, as compared to 35.0% for the year ended December 31, 2002.

UMC operating income for the year ended December 31, 2003 was \$131.7 million, or 33.4% of segment revenues.

Telecom XXI operating income for the year ended December 31, 2003 increased to \$80.6 million, or 38.3% of segment revenues, from \$2.3 million, or 2.9% of segment revenues, for the year ended December 31, 2002. Telecom XXI experienced higher profitability as large start-up expenses incurred in 2002 resulted in revenue growth in 2003 and due to higher tariffs that were implemented in 2003.

Kuban-GSM operating income for the year ended December 31, 2003 increased to \$74.6 million, or 44.3% of segment revenues, from \$27.7 million, or 35.0% of segment revenues, for the year ended December 31, 2002. Growth of operating income as a percentage of segment revenues is primarily due to a relative decrease in operating expenses realized through economies of scale and the growth in Kuban-GSM's subscriber base.

Other regions operating income for the year ended December 31, 2003 increased by 69.8% to \$123.6 million, or 28.6% of segment revenues, from \$72.8 million, or 34.4% of segment revenues, for the year ended December 31, 2002. The growth in operating income of the other regions segment occurred due to overall organic and acquisitional growth of the regional business (growth of subscriber base and revenues), followed by respective growth of cost of services and operating expenses.

Currency exchange and translation gain

Consolidated currency exchange and translation gain for the year ended December 31, 2003 was \$0.7 million, compared to a \$3.5 million loss for the year ended December 31, 2002. We conduct our operations primarily within the Russian Federation and Ukraine. We are subject to currency fluctuations, including U.S. dollar versus ruble/hryvnia and U.S. dollar versus euro. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Devaluation of the ruble against the U.S. dollar could increase our costs and reduce our revenues" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk."

Interest expense

Consolidated interest expense for the year ended December 31, 2003 increased by 140.1% to \$106.6 million from \$44.4 million for the year ended December 31, 2002 primarily as the result of interest expense related to our \$400.0 million notes issuance in January 2003, \$300.0 million notes issuance in August 2003, and \$400.0 million notes issuance in October 2003. In addition, debt assumed in our acquisitions of UMC, TAIF Telcom, Sibchallenge and TSS in 2003 amounted to \$88.3 million.

Provision for income taxes

Consolidated provision for income taxes for the year ended December 31, 2003 increased by 119.7% to \$242.5 million from \$110.4 million for the year ended December 31, 2002. The effective tax rate increased to 29.2% in 2003 from 25.8% in 2002 as a result of the UMC acquisition in 2003 (in Ukraine the tax rate was 30% in 2003) and a lower level of non-deductible expenses for the year ended December 31, 2003. In addition, the deferred income tax benefit increased by \$24.0 million to \$43.0 million for the year ended December 31, 2003 from \$19.0 million for the year ended December 31, 2002 as a result of the increase in the amortization of licenses and other intangible assets of the regional operators acquired during 2002 and 2003.

Minority interest

Minority interest for the year ended December 31, 2003 increased by \$32.0 million to \$71.7 million from \$39.7 million for the year ended December 31, 2002 as a result of growth in net income of regional operators, including \$23.4 million for Kuban-GSM, \$17.0 million for Telecom-900 and \$13.1 million for Recom, and due to regional operators acquired in 2003, including \$3.6 million for TAIF Telcom and \$10.6 million for UMC for the period prior to the purchase of 100% of UMC in July 2003.

Net income

Net income for the year ended December 31, 2003 increased by \$240.1 million, or 86.6%, to \$517.2 million, compared to \$277.1 million for the year ended December 31, 2002, due to overall growth of our operations and the factors discussed above. Net income as a percentage of revenues was 20.3% in 2002 and 2003.

Liquidity and Capital Resources

In July 2000, we completed our initial public offering on the New York Stock Exchange. The proceeds from the offering, net of underwriting discount, were \$349 million. Since that time, we have accessed the international capital markets through the sale of unsecured notes six times in an aggregate principal amount of \$1.8 billion. In July 2004, a syndicate of international banks made available to us an unsecured loan facility in an aggregate amount of \$500.0 million, which is payable in three years. In September 2004, this syndicated loan facility was increased to \$600.0 million, of which we have drawn \$600.0 million as of December 31, 2004. As of December 31, 2004, we had indebtedness of

approximately \$1,937.1 million, of which \$12.5 million was capital lease obligations. See Note 11 to our audited consolidated financial statements for a description of our indebtedness.

Capital Requirements

We need capital to finance the following:

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

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

Our cash outlays for capital expenditures in 2002, 2003 and 2004 were \$574.3 million, \$958.8 million and \$1,358.9 million, respectively. We expect to continue to finance most of our capital expenditure needs through our operating cash flows, and to the extent required, to incur additional indebtedness through borrowings or additional capital raising activities. Historically, a significant portion of our capital expenditures have been related to the installation and build out of our GSM network and expansion into new license areas. We expect that capital expenditures will remain a large portion of our cash outflows in connection with the continued installation and build out of our network. We expect our capital expenditures in 2005 to be at least comparable with or higher than our capital expenditures in 2004. These investments are required to support the growth of our subscriber base (*i.e.*, to improve network capacity) and to develop our network in the new regions for which we received licenses in late 2003. Our actual capital expenditures may vary significantly from our estimates.

In addition to capital expenditures, we spent \$143.4 million, \$667.2 million and \$355.7 million in 2002, 2003 and 2004, respectively, to acquire businesses. We may continue to expand our business through acquisitions. Our cash requirement relating to potential acquisitions can vary significantly based on market opportunities.

We expect to refinance our existing debt when it becomes due. In May 2004, we retired \$300 million in principal amount of our Floating Rate Notes due August 2004 with the proceeds of a \$200.0 million short-term bridge loan from Credit Suisse First Boston International and operating cash flows. This \$200.0 million bridge loan was repaid from our operating cash flows and drawings on the syndicated loan facility described above. In December 2004, we repaid our 10.95% notes due 2004 in principal amount of \$300.0 million from further drawings on the syndicated loan facility.

Sistema, which controls over 50% of our outstanding shares and consolidates our results in its financial statements, has a significant amount of outstanding debt and requires funds for debt service. These funds may come in part from dividends paid by its subsidiaries, including us. On June 30, 2003, our shareholders approved cash dividends totaling \$111.4 million (including dividends on treasury shares of \$0.4 million), which have been fully paid. On June 26, 2004, our shareholders approved cash dividends in the amount \$219.9 million (including dividends on treasury shares of \$1.1 million), which have also been fully paid. In May 2005, our Board of Directors recommended cash dividends in the amount of \$409.48 million (including dividends on treasury shares of \$1.5 million). Our shareholders will vote on this recommendation at the annual shareholders meeting on June 21, 2005. We generally intend to finance our dividend requirements through operating cash flows, and accordingly, our payment of dividends may make us more reliant on external sources of capital to finance our capital expenditures and acquisitions.

We expect that we will also need to incur certain expenditures and devote significant management resources over the next two years in relation to our system of internal controls to ensure our compliance with certain provisions of the Sarbanes Oxley Act of 2002 that will apply to us starting from the fiscal year starting January 1, 2006.

In addition, we are in the process of implementing an enterprise resource planning system that will require additional expenditures and devotion of significant management resources.

Capital Resources

We plan to finance our capital requirements through a mix of operating cash flows and financing activities, as described above. Our major sources of cash have been cash provided by operations and the proceeds of our U.S. dollar-denominated notes issuances. We expect that these sources will continue to be our principal sources of cash in the future. We do not depend on off-balance sheet financing arrangements.

The availability of financing is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We cannot assure you that we will be able to continue to obtain large amounts of financing in the future, through note offerings or otherwise.

At December 31, 2004, our indebtedness was comprised of the following:

Indebtedness	Currency	Annual interest rate (Actual rate at December 31, 2004)	Amount (in thousands)
9.75% notes due 2008	USD	9.75%	\$400,000
8.38% notes due 2010	USD	8.38%	400,000
Syndicated loan	USD	LIBOR + 2.50% (5.28%)	600,000
EBRD	USD	LIBOR + 3.10% (5.88%)	150,000
CSFB	USD	LIBOR + 2.20% (4.76%)	140,000
HSBC Bank plc & ING BHF-Bank	USD	LIBOR + 0.44% (3.21%)	77,003
Hermes Credit Facility	EUR	EURIBOR + 0.65% (2.86%)	63,851
ING Bank (Eurasia)	USD	LIBOR + 2.25%-4.15% (4.81%-6.71%)	46,667
HSBC	USD	LIBOR + 2.75% (5.24%)	17,500
Ericsson	USD	LIBOR + 4.00% (6.56%)	14,850
Nordea Bank Sweden	USD	LIBOR + 0.40% (3.18%)	6,499
West LB	EUR	EURIBOR + 2.00% (4.22%)	4,000
KFW	EUR	EURIBOR + 0.95% (3.16%)	1,478
Citibank	USD	LIBOR + 1.15% (3.71%)	868
Other ruble-denominated debt	RUR	4.30%-16.50%	1,924
Total debt			\$1,924,640
Less current portion			370,845
Total long-term debt			\$1,553,795

The following table presents aggregate scheduled maturities of debt principal outstanding as of December 31, 2004:

	Amount (in thousands)
Payments due in the year ended December 31,	
2005	\$370,845
2006	365,749
2007	227,195
2008	447,240
2009	40,100
Thereafter	473,511
	<u>\$1,924,640</u>

In addition, we had capital lease obligations in the amount of \$12.5 million and \$16.8 million as of December 31, 2004 and December 31, 2003, respectively. The terms of our material debt obligations and capital lease obligations are described in Notes 11 and 12, respectively, to our audited consolidated financial statements.

Our ability to incur further indebtedness is limited by the covenants in our outstanding notes, including a debt/cash flow incurrence test and restrictions on our ability to grant liens on our properties and to enter into sale and lease-back transactions." Our syndicated loan facility contains similar and other covenants, including debt/EBITDA and EBITDA/interest expense maintenance covenants. In addition, Sistema, which controls 50.6% of our outstanding shares and consolidates our results in its financial statements, is subject to various covenants in the indentures relating to its notes (in the aggregate principal amount of \$700 million), which impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, among others, incurrence of indebtedness and liens. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Financial Condition—Indentures relating to our notes and our controlling shareholder Sistema's notes contain, and our syndicated loan agreement contains, restrictive covenants, which limit our ability to incur debt and to engage in various activities."

A summary of our cash flows and cash outlays for capital expenditures and acquisitions of subsidiaries follows:

	Year Ended December 31,		
	2002	2003	2004
	(in thousands)		
Cash flows:			
Net cash provided by operating activities	\$412,772	\$965,984	\$1,711,589
Net cash used in investing activities	(697,921)	(1,910,087)	(1,543,201)
Net cash provided by financing activities	100,817	997,545	10,773
Net increase/(decrease) in cash	<u>\$(184,968)</u>	<u>\$55,715</u>	<u>\$183,774</u>
Cash outlays for:			
Capital expenditures ⁽¹⁾	\$(574,272)	\$(958,771)	\$(1,358,944)
Acquisition of subsidiaries, net of cash acquired	\$(143,396)	\$(667,206)	\$(355,744)

⁽¹⁾ Includes acquisitions of property, plant and equipment and intangible assets.

For the year ended December 31, 2004, net cash provided by operating activities was \$1,711.6 million, an increase of 77.2% from the year ended December 31, 2003. This increase was

primarily attributable to a growth in net revenues from subscribers, which was caused by an increase in our subscriber base.

Net cash used in investing activities in the year ended December 31, 2004 was \$1,543.2 million, a decrease of 19.2% from the year ended December 31, 2003. This decrease is the result of several factors, including a decrease in cash spent for the business acquisitions from \$667.2 million in the year ended December 31, 2003 to \$355.7 million in the year ended December 31, 2004 and net cash inflow resulting from disposals of short-term investments, *i.e.*, matured bank deposits of \$171.9 million during the year ended December 31, 2004. These factors were partially offset by an increase in cash spent on acquisition of property, plant and equipment and intangible assets from \$958.8 million for the year ended December 31, 2003 to \$1,358.9 million for 2004.

Net cash provided by financing activities in the year ended December 31, 2004 was \$10.8 million. In May 2004, we retired \$300.0 million in principal amount of our Floating Rate Notes due 2004 from the proceeds of a \$200.0 million short-term bridge loan and our operating cash flows. We paid dividends in the total amount of \$232.7 million during the year ended December 31, 2004, which also included dividends paid to minority shareholders of certain of our subsidiaries. These outflows were offset by net proceeds from the new loans, reduced by repayments of \$857.1 million.

In 2003, net cash provided by operating activities was \$966.0 million, an increase of 134.0% from the year ended December 31, 2002. The increase was primarily attributable to an increase in net revenues from subscribers, which was a result of an increase in our subscriber base.

Net cash used in investing activities in 2003 was \$1,910.1 million, of which \$958.8 million related to the purchase of property, plant and equipment and intangible assets; \$330.6 million were used to acquire the 100.0% stake in UMC; \$107.0 million were used to acquire the 47.3% stake in Kuban-GSM in order to obtain 100% control over it; \$62.9 million were used to acquire 52.7% of the common shares and 50% of the preferred shares of TAIF Telcom; \$47.0 million were used to acquire the 100.0% stake in Sibchallenge; and \$188.7 million were used for other acquisitions of stakes in regional operators and advances to our affiliates, primarily to MTS Belarus. See "Item 4. Information on Our Company—B. Business Overview," "Item 5. Operating and Financial Review and Prospects—Acquisitions" and "Item 4. Information on Our Company—A. History and Development—Expansion." We financed our acquisitions of UMC, Kuban-GSM, TAIF Telcom and other regional operators primarily from the proceeds of \$400 million of 9.75% notes due 2008 (issued in January 2003), \$300 million of Floating Rate Notes due 2004 (issued in August 2003) and \$400 million of 8.375% notes due 2010 (issued in October 2003).

Net cash provided by financing activities in 2003 was \$997.5 million. Net proceeds from the notes offerings during 2003 were \$1,087.4 million, which were used, in addition to the acquisitions listed above, for the purchase of network equipment and intangible assets and advances to affiliates. We paid dividends in the total amount of \$110.9 million during 2003, which also included dividends paid to minority shareholders of certain of our subsidiaries.

During the year ended December 31, 2002, net cash provided by operating activities was \$412.8 million, an increase of 22.1% from the year ended December 31, 2001. The increase was primarily attributable to an increase in net income, adjusted for non-cash items, offset by a decrease in trade accounts payable, a decrease in income tax payable, and an increase in inventory. Net cash used in investing activities was \$697.9 million, of which \$574.3 million related to purchases of property, plant and equipment and intangible assets. Net cash provided by financing activities was \$100.8 million, of which \$50.8 million related to the proceeds from the 10.95% notes due 2004 (issued in March 2002) and \$52.9 million was from loans.

Liquidity

As of December 31, 2004 and 2003, we had total cash and cash equivalents of \$274.2 million (\$93.1 million in rubles, \$152.5 million in U.S. dollars, \$10.2 million in Ukrainian hryvnias and \$18.4 million in other currencies) and \$90.4 million (\$60.8 million in rubles, \$21.0 million in U.S. dollars and \$8.6 million in other currencies), respectively. In addition, as of December 31, 2004, we had short-term investments of \$73.4 million mostly in U.S. dollar-denominated instruments at the Moscow Bank of Reconstruction and Development (MBRD), a related party. As of December 31, 2004, we had unused availability under our credit facilities to draw another \$167.1 million.

For details of external financing refer to Note 11 to our audited consolidated financial statements. For subsequent events related to our external financing, refer to Note 23 to our audited consolidated financial statements.

As of December 31, 2004, we had a working capital deficit of \$189.0 million compared to a deficit of \$457.5 million as of December 31, 2003. The decrease in working capital deficit was primarily attributable to the growth in the balance of total current assets as of December 31, 2004, compared to December 31, 2003 by \$200.5 million. This growth was primarily attributable to an increase in the trade receivables balance by \$62.5 million and an increase in the VAT receivables balance by \$62.9 million. Repayment of our \$300 million floating rate notes in May 2004 and repayment of the \$300 million 10.95% notes in December 2004, included in current liabilities as of December 31, 2003, was offset by a \$117.1 million increase in subscriber prepayments and a \$267.5 million increase in the current portion of our debt. As a result, the change in the current liabilities balance as of December 31, 2004 compared to the balance as of December 31, 2003 was not significant. We expect to repay all long-term debts as they become due from our operating cash flows or through re-financings. We believe that our working capital is sufficient for our present and future requirements.

As of December 31, 2003, we had a working capital deficit of \$457.5 million compared to a deficit of \$65.9 million as of December 31, 2002. The increase in working capital deficit was primarily attributable to the inclusion of \$300.0 million 10.95% notes due 2004 previously classified as long-term debt into current liabilities as of December 31, 2003 (these notes were repaid in December 2004), and the issuance of \$300 million of Floating Rate Notes due 2004 (which were repaid in May 2004). Cash and cash equivalents increased by \$55.7 million to \$90.4 million at December 31, 2003. Short-term investments held at MBRD increased by \$215.0 million at December 31, 2003. Accrued expenses and other current liabilities increased by \$174.5 million to \$387.8 million primarily due to first-time inclusion of respective balances of UMC as a result of its acquisition in 2003. We also experienced a \$76.9 million increase in subscriber prepayments and deposits as a result of growth in the subscriber base.

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

Inflation

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

Year	Inflation rate
2000	20.2%
2001	18.6%
2002	15.1%
2003	12.0%
2004	11.7%

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

Year	Inflation rate
2000	25.8%
2001	6.1%
2002	(0.6)%
2003	8.2%
2004	12.3%

In most of the regions in which we operate, except for Ukraine (UMC) and Krasnodar region (Kuban-GSM), we denominate our tariffs in units linked to the U.S. dollar. While a majority of our costs are denominated in U.S. dollars or are tightly linked to the U.S. dollar, certain of our costs, such as salaries and rents, are sensitive to rises in the general price level in Russia and Ukraine. When, however, the rate of inflation exceeds the rate of devaluation, this results in real appreciation of the local currency versus the U.S. dollar, as was the case with the ruble in 2003. Moreover, in 2003 and 2004, the ruble appreciated in nominal terms against the U.S. dollar, which combined with the rate of inflation in Russia, resulted in a real appreciation of the ruble against the U.S. dollar. We would expect inflation-driven increases in these costs to put pressure on our margins. While we could seek to raise our tariffs to compensate for such increase in costs, competitive pressures may not permit increases that are sufficient to preserve operating margins. Accordingly, high rates of inflation in Russia and Ukraine combined with the nominal appreciation of the ruble against the U.S. dollar could significantly increase our costs and materially adversely affect its results of operations.

Credit Rating Discussion

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

Our credit ratings as of the date of this document are as follows:

Rating Agency	Long-Term Debt Rating	Outlook/Watch
Moody's ⁽¹⁾	Ba3	Stable
Standard & Poor's ⁽²⁾	BB-	Stable

⁽¹⁾ Rated on December 10, 2001.

⁽²⁾ Rated on March 24, 2005.

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

Critical Accounting Policies

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see Note 2 of our audited consolidated financial statements.

Revenue Recognition

Revenues are recognized on an accrual basis, when services are actually provided or title to equipment passes to customer, regardless of when the resulting monetary or financial flow occurs.

We categorize the revenue sources in the statements of operations as follows:

- Service revenue and connection fees: (a) subscription fees, (b) usage fees, (c) value added service fees, (d) roaming fees charged to other operators for guest roamers utilizing our network, (e) connection fees and (f) prepaid phone cards;
- Sales of handsets and accessories.

We defer initial connection fees paid by subscribers from the time of the initial signing of the contract with a subscriber over the estimated average subscriber life in our network. We periodically evaluate actual churn of our subscribers and adjust our estimates of average subscriber lives accordingly. For example, effective January 1, 2004, we have changed our estimates of average subscriber lives which increased our income for the year ended December 31, 2004 by \$8.5 million. If we change our estimates of the average subscribers life in the future, the amounts of connection fees and amortization of the acquired customer base we recognize in income would change accordingly.

Management estimates

The preparation of our audited consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Examples of significant estimates include the provision for doubtful accounts and valuation allowance on deferred tax assets.

License Costs

We capitalize the cost of licenses acquired in business combinations and directly from the government. As the telecommunication industries in Russia, Ukraine and Uzbekistan do not have sufficient experience with renewal of licenses or extensions of license terms we amortize each license on a straight-line basis over the term of the license commencing from the date such license area becomes commercially operational. We review these licenses and their remaining useful life and, if necessary, revise the useful lives based on our actual utilization. The estimated useful lives of licenses may vary depending on market or regulatory conditions, and any revision to the estimated useful lives may result in a cost write off or an increase in amortization costs.

Most of our current licenses provide for payments to be made to finance telecommunication infrastructure improvements, which in the aggregate could total approximately \$103.0 million, as of December 31, 2004. According to the terms of licenses, such contributions are to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators. The Association is a nongovernmental, not-for-profit association, and their Board

of Directors comprises representatives of the major cellular communications companies, including us. The Association has not adopted any procedures for collecting such payments, nor have such procedures been established by Russian legislation. To date, we have not made any payments pursuant to any of the current operating licenses issued to us and our consolidated subsidiaries. Further, our management believes that we will not be required to make any such payments in the future. In relation to these uncertainties, we have not recorded a contingent liability in the accompanying audited consolidated financial statements.

Useful Lives of Property Plant and Equipment

We calculate depreciation expense for property, plant and equipment on a straight-line basis over their estimated useful lives. We establish useful lives for each category of property, plant and equipment based on our assessment of the use of the assets and anticipated technology evolution. We review and revise if appropriate the assumptions used in the determination of useful lives of property, plant and equipment at least on an annual basis.

As a result of recent financial statement restatements by numerous U.S. public companies and publication of a letter by the Chief Accountant of the SEC regarding the interpretation of longstanding lease accounting principles, we have corrected our accounting practices for leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements.

Impairment of Long-lived Assets

We periodically evaluate the recoverability of the carrying amount of our long-lived assets in accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, we compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, we record impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Further, the potential impact, if any, that the new Law on Telecommunications that came into effect in Russia on January 1, 2004, may have on estimated useful lives of long-lived assets will be assessed where appropriate regulations consistent with the new law are promulgated.

Translation Methodology

We use the U.S. dollar as the functional currency for us and most of our subsidiaries because the majority of our and their revenues, costs, property, plant and equipment and intangible assets purchases and debt are either priced, incurred, payable or otherwise measured in U.S. dollars. Each of the legal entities domiciled in Russia, Ukraine, Uzbekistan and Belarus maintains its records and prepares its financial statements in the local currency, either the Russian ruble, the Ukrainian hryvnia, the Uzbek som or the Belarusian ruble, in accordance with the requirements of local statutory accounting and tax legislation.

Translation (re-measurement) of financial statements denominated in local currencies into U.S. dollars has been performed in accordance with the provisions of SFAS No. 52 "Foreign Currency Translation."

For our subsidiaries where the functional currency is the U.S. dollar, monetary assets and liabilities have been translated at the period-end exchange rates. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have been translated at historical rates.

Translation differences resulting from the use of these rates have been accounted for as foreign currency exchange gains and losses in our consolidated statements of operations.

For UMC and Kuban-GSM, where the functional currency is the local currency, the Ukrainian hryvnia and the Russian ruble, respectively, all year-end balance sheet items have been translated into U.S. dollars at the period-end exchange rate. Revenues and expenses have been translated at the period-average exchange rate. In addition, a "new cost basis" for all non-monetary assets of Kuban-GSM has been established as of January 1, 2003, when the Russian economy ceased to be considered hyperinflationary. A cumulative translation adjustment, related to the translation of UMC and Kuban-GSM, in the amount of \$23.0 million was reported as accumulated other comprehensive income in our audited consolidated balance sheet.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of our tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 23 to our audited consolidated financial statements and "Item 8. Financial Information—B. Significant Changes" for information regarding a recent tax audit and related assessment by the tax authorities.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. We record valuation allowances for deferred tax assets when it is likely that these assets will not be realized.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51" ("FIN46"), to address perceived weaknesses in accounting for entities commonly known as special-purpose or off-balance-sheet. In addition to numerous FASB Staff Positions written to clarify and improve the application of FIN. 46, the FASB announced a deferral for certain entities, and an amendment to FIN. 46 entitled FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN. 46 establishes consolidation criteria for entities for which "control" is not easily discernable under Accounting Research Bulletin No. 51, "Consolidated Financial Statements," which is based on the premise that holders of the equity of an entity control the entity by virtue of voting rights.

FIN. 46 provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial interests rather than from voting interests. FIN 46 defines the term variable interest entity, or VIE, and is based on the premise that if a business enterprise absorbs a majority of the VIE's expected losses and/or receives a majority of its expected residual returns (measures of risk and reward), that enterprise (the primary beneficiary) has a controlling financial interest in the VIE. Under FIN 46, the assets, liabilities, and results of the activities of the VIE should be included in the consolidated financial statements of the primary beneficiary. We were required to apply the provisions of FIN. 46R in the first quarter 2004. As we did not have any VIEs during the year ended December 31, 2004, the adoption of this new method of accounting for VIEs did not affect our financial condition or results of operations as of December 31, 2004.

In September 2004, the Emerging Issues Task Force (or EITF) issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination." In this issue, the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. We do not anticipate that the adoption of EITF Issue No. 04-1 will have a material impact on our financial position or results of operations.

At the September 2004 meeting of the EITF, the SEC staff issued an announcement D-108 "Use of the residual method to value acquired assets other than goodwill" stating that companies must use the direct value method to determine the fair value of their intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing, must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004.

As of December 31, 2004, we performed our annual impairment test to measure the fair value of our 900 and 1800 MHz licenses in our national footprint using the residual value approach. Under this new accounting guidance, we performed an impairment test to measure the fair value of our 900 and 1800 MHz licenses as of January 1, 2005 using the direct value method. Based on the assessment, no impairment charge as of December 31, 2004 is required.

In December 2004, FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The statement focuses primarily on accounting for transactions in which we obtain employee services in share-based payment transactions. This statement requires a public company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This standard is scheduled to become effective in the first interim reporting period beginning after June 15, 2005. Assuming that the effective date is not delayed, we will apply this new standard to our interim reporting period beginning July 1, 2005. We have not yet determined the amount of impact on the consolidated statements of operations following adoption and subsequent to 2005 or the transition method we will use. We do not believe that results of the adoption of SFAS No. 123R will be significant to our consolidated financial position or results of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, "Share-Based Payments," or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R and the modification of employee share options prior to adoption of SFAS No. 123R.

In March 2005, FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity, in which the

timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation 47 is effective for us beginning January 1, 2006. We are currently in the process of assessing effects of Interpretation 47 on our consolidated financial position and results of operations.

Trend Information

Sales

In 2004, our revenues increased by 52.7% from \$2,546.2 million to \$3,887.0 million. Our subscriber base increased to 34.2 million subscribers as of December 31, 2004 from 16.7 million as of December 31, 2003, or by 104.8%. Our revenues for the year ended December 31, 2003 grew by 87.0% to \$2,546.2 million in comparison to \$1,361.8 million for the year ended December 31, 2002. Our subscriber base increased from 6.6 million subscribers as of December 31, 2002 to 16.7 million as of December 31, 2003, or by 153.0%.

Average monthly service revenue per subscriber in Russia fell from \$23 in 2002 to \$17 in 2003 due to the introduction of lower tariffs in the Moscow license area and generally lower tariffs in regions, as well as penetration to mass-market. This trend continued in the year ended December 31, 2004 as average monthly service revenue per subscriber in Russia decreased to \$12 for the year ended December 31, 2004.

In 2003 and 2004, more than half of our subscriber growth occurred outside of the Moscow license area. However, as a result of competition and the tariff structure providing for lower price levels in the Russian regions outside of the Moscow license area, average monthly service revenue per subscriber in the Russian regions remains lower than in the Moscow license area (though costs are generally lower there, as well). See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—Increased competition and a more diverse subscriber base have resulted in decreasing average monthly service revenues per subscriber, which may materially adversely affect our results of operations." We generally expect to see a continued decline in average monthly service revenue per subscriber due to the growth of the regional subscriber base outside Moscow and introduction of lower tariff plans or decrease in prices of the existing tariff plans in connection with our competitive marketing efforts.

UMC experienced subscriber growth from 1.7 million subscribers at December 31, 2002 to 3.4 million subscribers at December 31, 2003 and 7.4 million at December 31, 2004, and we expect this trend to continue, assuming the Ukrainian economy continues to grow. The significant increase in subscriber growth is also the result of a change in the definition of a subscriber with respect to UMC's prepaid tariff subscribers, which starting in the fourth quarter of 2004 includes an individual or organization whose account shows chargeable activity within 183 days, rather than the previous 90-day period. Average monthly service revenue per subscriber decreased in 2004 to \$13 from \$15 in 2003 as a result of an extensive marketing campaign that promoted various new tariff offerings. We generally expect to see a continued decline in average monthly service revenue per subscriber in Ukraine due to increased competition

Churn

Churn, as we define it, includes internal churn within our subscriber base, *i.e.*, it includes subscribers who disconnect from our network in order to enroll in another tariff plan offered by us. Internal churn increased following the launch in November 2002 of our "Jeans" tariff plan. See "—Subscriber Data" above. Our subscriber churn in Russia increased from 33.9% in 2002 to 47.3% in

2003. We believe that this trend reversed in the year ended December 31, 2004 as a result of decrease in internal churn and certain marketing initiatives we launched with the aim of increasing subscriber loyalty. Our subscriber churn for the year ended December 31, 2004 was 27.5%, as compared to 47.3% for 2003. Although our subscriber churn in Russia decreased for the year ended December 31, 2004, we believe that subscriber churn is highly dependent on competition and the number of mass-market subscribers in our overall subscriber mix. Mass-market subscribers generally choose to prepay their mobile phone usage by purchasing pre-paid packages and are more likely to switch providers to take advantage of low-tariff promotions. As a result, competition for these subscribers will likely lead to sustained downward pressure on tariffs. In order to decrease subscriber churn, in 2004, we launched a new marketing campaign that provides a 15% discount for services rendered to certain contract subscribers if they do not terminate their contracts within one year of activation. Other initiatives taken to limit the churn rate include preventive SMSs or call center calls to subscribers offering different packages and services.

Off-balance Sheet Arrangements

Obligations under guarantee contracts

As of December 31, 2004 and 2003, our off-balance sheet arrangements consisted of debt guarantees issued to related parties as follows:

	Guaranteed amount outstanding at December 31,	
	2004	2003
	(in millions)	
Invest-Svyaz Holding	\$21.6	\$21.6
MTS Belarus	25.0	14.5
Total	\$46.6	\$36.1

We issued guarantees to various financial institutions on behalf of Invest-Svyaz Holding, our shareholder and a wholly-owned subsidiary of Sistema. Invest-Svyaz Holding's primary business is leasing various types of telecommunications and other assets to us. See Note 17 to our audited consolidated financial statements for additional information regarding these transactions. We classify these leases as capital leases in our audited consolidated financial statements and the present value of future lease payments is reflected as a liability in our consolidated balance sheet.

We issued financial guarantees on behalf of MTS Belarus, our equity investee to assist it with its financing needs. See Note 19 to our audited consolidated financial statements. Under each of the guarantees outstanding as of December 31, 2004, we could be required to compensate financial institutions in the event of the borrower's default. We are currently not aware of any events, and do not anticipate that any event will occur, that would cause a default of the borrowers and, therefore, require us to fulfill our obligations to make payments under these guarantees. These guarantees are not reflected in our consolidated balance sheet due to the insignificance of their fair values.

Obligations under derivative contracts

In connection with our acquisition of 51% of the common shares and 50% of the preferred shares of TAIF Telecom in April 2003, we entered into call and put option agreements with shareholders of TAIF Telcom to acquire the remaining 49% of the common shares and 50% of the preferred shares of TAIF Telcom. The exercise periods for the call option on the common shares was 48 months from the acquisition date and for the put option on the common shares was 36 months following an 18-month period after the acquisition date. The call and put option agreements for the common shares stipulated

a minimum purchase price of \$49.0 million plus 8% per annum commencing from the acquisition date. The exercise periods for the call option on the preferred shares was 48 months following a 24-month period after the acquisition date and for the put option on the preferred shares was a 24-month period from the acquisition date. The call and put option agreements for the preferred shares stipulated a minimum purchase price of \$10.0 million plus 8% per annum commencing from the acquisition date. We exercised our call option to acquire the remaining shares in September 2004 and completed the acquisition in October 2004.

In connection with our acquisition of 74% of the shares in Uzdurobita in August 2004, we entered into call and put option agreements with the existing shareholders of the company to acquire the remaining 26% of the shares. See Note 3 to our audited consolidated financial statements. The exercise period for the option is 36 months from the acquisition date. The call and put option agreements stipulate a minimum purchase price of \$37.7 million plus 5% per annum commencing from the acquisition date. The fair value of the put option was approximately \$0.9 million as of December 31, 2004.

In December 2004, we entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank PLC to hedge our exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan. We agreed with ABN AMRO to pay a fixed rate of 3.27% and receive a variable interest of LIBOR on \$100.0 million for the period from October 7, 2004 up to July 27, 2007. We agreed with HSBC Bank PLC to pay a fixed rate of 3.25% and receive a variable interest of LIBOR on \$150.0 million for the period from October 7, 2004 up to July 27, 2007. These instruments qualify as cash flow hedges under the requirements of SFAS No. 133 as amended by SFAS No. 149. As of December 31, 2004, we recorded a liability of \$0.6 million in relation to these contracts in the accompanying consolidated balance sheet and a loss of \$0.5 million net of tax of \$0.1 million as other comprehensive income in the accompanying consolidated statement of changes in shareholders' equity in relation to the change in fair value of these agreements.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations (including capital lease interest) under these contracts due by the periods indicated as of December 31, 2004:

	2005	2006- 2007	2008- 2009	2010- thereafter	Total
Contractual Obligations:					
Notes payable	\$—	\$—	\$400,000	\$400,000	\$800,000
Bank loans	370,845	592,944	87,340	73,511	1,124,640
Interest payments	124,454	224,315	129,338	58,849	536,959
Capital leases	10,547	4,059	340	451	15,397
Operating leases and service agreements	45,889	32,053	18,028	35,475	131,445
Committed Investments: ⁽¹⁾					
Purchases of property, plant and equipment	164,700	—	—	—	164,700
Total	\$716,435	\$853,371	\$635,046	\$568,286	\$2,773,141

⁽¹⁾ Under non-binding purchase commitments.

In addition, as of December 31, 2004, we had guaranteed indebtedness of related parties not reflected in our financial statements, due to the insignificance of its fair value, under which we could be potentially liable for \$46.6 million. See Note 21 to our audited consolidated financial statements.

Since the commencement of our operations in 1994, a number of telecommunication licenses for the Russian Federation were issued to us and our now consolidated subsidiaries. These license agreements stipulate that certain fixed "contributions" be made to a fund for the development of telecommunication networks in the Russian Federation. Most of our current licenses provide for the payment of such fees, which in the aggregate could total approximately \$103.0 million as of December 31, 2004, which are not reflected in our financial statements. See Note 21 to our audited consolidated financial statements for additional information.

Item 6. *Directors, Senior Management and Employees*

A. Directors and Senior Management

Key Biographies

Our directors and executive officers, and their dates of birth and positions as of the date of this annual report were as follows:

Name	Year of Birth	Position
Vladimir S. Lagutin	1947	Chairman
Vassily V. Sidorov	1971	Director, President and CEO
Alexei N. Buyanov ⁽¹⁾	1968	Director
Fridbert Gerlach	1957	Director
Alexander U. Goncharuk	1956	Director
Michael Guenther ⁽¹⁾	1944	Director
Helmut Reuschenbach ⁽¹⁾	1948	Director
Dr. Yury A. Gromakov	1946	Vice President—Technology
Nikolai V. Tsekhomsky	1974	Vice President—Finance and Chief Financial Officer
Tatiana V. Evtushenkova	1976	Vice President—Investments and Corporate Development
Igor U. Stolyarov	1969	Vice President—Sales and Customer Service
Rainer Hennike	1943	Vice President—International Affairs
Sergey G. Aslanyan	1973	Vice President and Chief Information Officer

⁽¹⁾ Member of Audit Committee.

Vladimir S. Lagutin has served as Chairman of our Board of Directors since October 2003. He has also served as the General Director of Sistema Telecom since July 2003, and served as the General Director of MGTS from 1995 to July 2003. In addition, Mr. Lagutin serves as the Chairman of the Boards of Directors of MGTS, Telmos and Comstar, and serves on the Boards of Directors of Sistema Telecom and OJSC CSC. All of these companies are subsidiaries of Sistema. Mr. Lagutin also serves on the Board of Directors of Sistema.

Vassily V. Sidorov has served as our President since October 2003 and has served as a member of our Board of Directors since June 2004. From 2000 until August 2003, he served as First Vice President for Finance and Investments at Sistema Telecom, a subsidiary of Sistema. He also serves on the Board of Directors of Sistema Telecom, a subsidiary of Sistema, and our subsidiaries and affiliate ReCom, MSS, UMC, Uzdurobita, SCS-900 and MTS Belarus.

Alexei N. Buyanov has served as one of our Directors since June 2003. Mr. Buyanov has served as First Vice President of Sistema since September 2002. From 1998 to 2002, he served as our Vice President for Finance and Investments. He also serves on the board of directors of various other companies affiliated with Sistema.

Fridbert Gerlach has served as one of our Directors since June 2004. He is a member of the supervisory board of Polska Telefonica Cyfrowa Sp.z.o.o (PTC), which is affiliated with T-Mobile, and Zeta GmbH. He is Executive Vice President Joint Venture Management of T-Mobile International AG

and CoKG. He has also served as a member of the board of directors of T-Mobile Czech Republic a.s., T-Sistems PragoNet a.s., Slovak Telecom a.s., Eurotel Bratislava a.s. and Matav Mgyar Tavkozlesi Rt & T-Mobile Hungary, and as a member of the supervisory boards of Telecom Croatia LLC, and T-Mobile Austria GmbH, T-Mobile Hungary and Makedonski Telekomunikacii AD.

Alexander U. Goncharuk has served as one of our Directors since 1996. He also acted as our Chairman from June 2002 until October 2003 and in 1998, and as Deputy Chairman during 1997 and from January 1999 through June 1999. Mr. Goncharuk served as President of Sistema Telecom from 1998 until 2003. Since 2003, he has served as General Director of OJSC CSC, a subsidiary of Sistema. He also serves on the board of directors of various other companies affiliated with Sistema.

Michael Guenther has served as one of our Directors since October 2000. Mr. Guenther is a member of the Board of Management of T-Mobile International AG. He is also a member of the board of directors or supervisory board of the following companies affiliated with T-Mobile: T-Mobile Deutschland GmbH, T-Mobile Worldwide Holding GmbH, Zeta GmbH, Matav, T-Mobile Croatia LLC, Polska Telefonica Cyfrowa Sp., T-Mobile Hungary Co. Ltd., Eurotel Bratislava a.s. and Hrvatske Telekomunikacije d.d.

Helmut Reuschenbach has served as one of our Directors since November 2004. Mr. Reuschenbach has served as a Director at Lazard & Co. GmbH Frankfurt since 2001. Prior to that, he was at Deutsche Telekom AG where he served as Treasurer and Senior Executive Vice President for Finance for six years. Prior to 1994, he was the Chief Financial Officer and a member of the Board of Directors of Mercedes-Benz S.A. in Belgium and also served as Chief Executive Officer of Daimler-Benz Coordination Center S.A. and Daimler-Benz Financial Company S.A. From 1989 to 1993 Mr. Reuschenbach served as Vice President for Finance at Daimler-Benz AG in Stuttgart. Previously, he has served as Director of Finance at AEG Aktiengesellschaft in Frankfurt, Director of Finance and Administration at AEG Italiana S.p.A. in Milan and Corporate Finance Manager at AEG-TELEFUNKEN Aktiengesellschaft in Frankfurt.

Dr. Yury A. Gromakov has served as our Vice President—Technology since March 2002, and served as our Vice President of Technology and Network Development from 1994 until February 2002. He has been involved in mobile communications for over 30 years and holds a degree of Doctor of Technical Sciences, the highest scientific degree in Russia, and has been awarded a degree as Honorable Radio Operator of Russia. Dr. Gromakov is also a member of the International Academy of the Science of Information and Information Processes and Technologies.

Nikolai V. Tsekhomsky has served as our Vice President—Finance and Chief Financial Officer since July 2003. From September 2002 through June 2003, he served as our Finance Director. Prior to joining us, Mr. Tsekhomsky served as Finance Director at Renaissance Capital from August 1999 to September 2002 and as Financial Controller at Brunswick UBS from August 1998 to August 1999. He also worked as a senior auditor at Ernst & Young in London and St. Petersburg from March 1995 to August 1998. Mr. Tsekhomsky serves as Chairman of the Board of Directors of our subsidiaries MTS-RK (Syktyvkar), Uraltel (Ekaterinburg), Primtelefon (Vladivostok), Astrakhan Mobile (Astrakhan), Volgograd Mobile (Volgograd) and as a member of the Board of Directors of our subsidiaries Mobile TeleSystems (Omsk), MTS P, SCS-900 (Novosibirsk), UMC and our affiliate MTS Belarus. He also serves on the board of directors of the Moscow Bank for Reconstruction and Development, a subsidiary of Sistema.

Tatiana V. Evtushenkova has served as our Vice President—Investments and Corporate Development since October 2002. From December 1999 to October 2002, Ms. Evtushenkova served as the Director of the Investment Department at Sistema Telecom, a subsidiary of Sistema. Prior to joining Sistema Telecom, she worked in the investment banking division of Salomon Smith Barney. Ms. Evtushenkova is the daughter of Vladimir P. Evtushenkov, the controlling shareholder and President of Sistema.

Igor U. Stolyarov has served as our Vice President—Sales and Customer Service since May 2004. Prior to joining us, Mr. Stolyarov worked at Gillette International as Regional Director in charge of the CIS and Baltic States from July 2000 to May 2004. From 1995 to 1997, he worked for Duracell Russia, and from 1993 to 1995, he worked for Coca-Cola Moscow.

Rainer Hennike has served as our Vice President—International Affairs since September 2003. Prior to joining us, Mr. Hennike worked at DeTeMobil Deutsche Telekom MobilNet GmbH, a subsidiary of Deutsche Telekom AG, as a Managing Director and Head of the representative office in the Russian Federation from 1995 to 2003. He has also worked at Deutsche Post, DETECOM and other subsidiaries of Deutsche Telekom AG. Mr. Hennike served as Chairman of our Board of Directors during 2001 to 2002 and as Vice Chairman during 2000 to 2001 and 2002 to 2003. He currently serves on the Board of Directors of Uzdunrobita, MTS Belarus and UMC.

Sergey G. Aslanyan has served as our Vice President and Chief Information Officer since December 2003. Prior to joining us, Mr. Aslanyan worked at TNK-BP Management as the Deputy Director of Information Technology. He worked at PricewaterhouseCoopers from 1997 to 2001.

The terms of all of our directors expire on the date of our next annual shareholders meeting, which will take place on June 21, 2005.

The business address of each of our directors is 4 Marksistkaya Street, Moscow 109147, Russian Federation.

B. Compensation of Directors and Senior Management

Executive Compensation

Our officers and directors were paid during 2004 an aggregate amount of approximately \$12.8 million for services in all capacities provided to us; this amount was comprised of \$5.0 million in base salary and a \$7.8 million bonus paid pursuant to a bonus plan for the management and directors whereby bonuses are awarded annually based on our financial performance.

Management Stock Bonus and Stock Option Plans

On April 27, 2000, contingent on the closing of our initial public offering, we established a stock bonus plan and stock option plan for selected officers, key employees and key advisors. Under the plans, directors, key employees and key advisors received 3,587,987 shares of our common stock and will participate in a stock option plan under which they may receive options to purchase up to an additional 9,966,631 shares of our common stock. At the time of the initial public offering, we issued 13,554,618 shares of common stock to our subsidiary Rosico pursuant to these plans at a price of \$1.024 per share for the total amount of \$13.9 million. Following the merger of Rosico into us in June 2003, these shares were transferred to our wholly-owned subsidiary, MTS LLC.

Under the stock bonus plan, during the period from September 12, 2000, through September 22, 2000, 3,587,987 shares of common stock were purchased from Rosico at nominal price of 0.1 rubles per share as follows:

	Number of shares purchased	Percentage of total shares outstanding
Employees and Directors	3,049,786	0.153%
Key Advisors	538,201	0.027%
Total	3,587,987	0.180%

On the date the shares were granted, we recognized aggregate expenses under this plan as compensation and consulting expenses amounting to \$4.5 million and \$0.8 million, respectively, based on the fair value of the shares on the date they were granted.

Under the stock option plan, board members and key employees, upon being granted stock options, will have the right to purchase up to 9,966,631 shares of our common stock or, in lieu of shares, receive a cash award equal to the difference between the price per share fixed in the option agreement and the market price per share of our common stock on the date of exercise.

On August 14, 2001, pursuant to option agreements, we granted options in respect of 1,020,682 shares of our common stock to our board members and 808,529 shares of our common stock to our key employees. These options provided that, on July 15, 2003, board members and key employees could purchase shares of our common stock at \$1.31 per share, which represented the 100-day average sales price of the shares at August 14, 2001. The stock option agreement for a board member terminated if the board member was terminated as a board member prior to our 2002 annual shareholders meeting. The stock option agreement for a key employee terminated if the employee left us before July 15, 2003.

In July 2003, board members and key employees purchased a total of 37,557 shares pursuant to the August 2001 option agreements. Fifty-seven of the option holders elected cash awards in lieu of shares, and cash awards were granted in respect of 1,746,310 shares in the amount of \$1.633 per share (the difference between \$1.31, the price per share fixed in each agreement, and \$2.943, the market price per share on July 15, 2003). In addition, options relating to 45,344 shares were cancelled pursuant to the termination provisions described above.

On October 24, 2002, pursuant to option agreements, we granted options in respect of 1,739,640 shares of our common stock to our board members and 1,107,041 shares of our common stock to our key employees. These options have an exercise price of \$1.49 per share, which represents the 100-day average market price of the shares at the date of grant and will vest 21 months from the date of the grant. The stock option agreement for a board member would have terminated if the board member was terminated as a board member before our 2003 annual shareholders meeting. The stock option agreement for a key employee would have terminated if the employee left us before July 15, 2004.

In July-August 2004, board members and key employees purchased a total of 2,726,966 shares pursuant to the October 2002 option agreements. In addition, options relating to 119,715 shares were cancelled pursuant to the termination provisions described above.

In July 2003, pursuant to option agreements, we granted options in respect of 1,434,400 shares of our common stock to our board members and 518,232 shares of our common stock to our key employees. These options have an exercise price of \$2.43 per share, which represents the 100-day average market price of the shares at the date of grant and will vest 24 months from the date of the grant. The stock option agreement for a board member would have terminated if the board member was terminated as a board member before our 2004 annual shareholders meeting. The stock option agreement for a key employee would have terminated if the employee left us before July 15, 2005. We expect to recognize a compensation expense of approximately \$1.0 million based on the intrinsic value of these options over the 24-month period.

In August 2004, pursuant to option agreements, we granted options in respect of 745,436 shares of our common stock to our board members and 919,820 shares of our common stock to our key employees. These options have an exercise price of \$5.95 per share, which represents the 100-day average market price of the shares at the date of grant and will vest 23 months from the date of the grant. The stock option agreement for a board member will terminate if the board member is terminated as a board member before our 2005 annual shareholders meeting. The stock option agreement for a key employee will terminate if the employee leaves us before July 15, 2006. We expect

to recognize a compensation expense of approximately \$1.8 million based on the intrinsic value of these options over the 23-month period.

We account for stock options issued to employees, non-employee directors and consultants following the requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock Based Compensation—Transition and Disclosure, an amendment to FASB Statement No. 123." Under the requirements of these statements, we elected to use the intrinsic value of the options on the measurement date as a method for accounting for compensation to employees and non-employee directors. Compensation to consultants is measured based on the fair value of options on the measurement date as determined using a binomial option-pricing model.

In accordance with Russian legislation, our board members and key employees may be considered insiders with respect to us, and thus may be restricted from selling their shares.

C. Board Practices

Board of Directors

Members of our Board of Directors are elected by a majority vote of shareholders at the annual shareholders meeting using a cumulative voting system. Directors are elected for one year terms and may be re-elected an unlimited number of times. The Board currently consists of seven members, although it may be increased to nine members by shareholder resolution. The Board has the authority to make overall management decisions for us, except those matters reserved to the shareholders. It must meet at least once per quarter, though it may meet more often at its election. The members of our Board do not serve pursuant to a contract.

In 2004, the Board of Directors approved the establishment of, and guidelines for, three new Board committees: restructuring committee, budgeting committee and quality committee. The restructuring committee was established to oversee and address matters related to the development and implementation of a new organizational structure for our business. The budgeting committee was established to prepare recommendations to the Board of Directors on issues relating to the preparation, approval and supervision of our budgets, long-term business plans and investment plans. The quality committee was organized to manage issues relating to the quality of our cellular network's operation. The Board of Directors also approved a Code of Ethics applicable to our senior officers.

Audit Committee

Our Audit Committee consists of three members appointed by the Board of Directors. The current members are Alexei Buyanov, Helmut Reuschenbach and Michael Guenther. Mr. Reuschenbach, an independent member of the Board of Directors, serves as Chairman of the Audit Committee. The other two members not independent under SEC Rule 10A-3, as that rule and its requirements do not apply to foreign private issuers, including us, until July 31, 2005. The Audit Committee is primarily responsible for the integrity of our financial statements, our compliance with legal and regulatory requirements, assuring the qualifications and independence of our independent auditors and overseeing the audit process, including audit fees, resolving matters arising during the course of audits and coordinating internal audit functions.

President

The shareholders meeting, at the recommendation of the Board of Directors, appoints our President for a term of three years. The rights, obligations and the times and amounts of payment for the President's services are determined by a contract between him and us, as represented by our Chairman or by a person authorized by our Board of Directors. The President is responsible for day-to-day management of our activities, except for matters reserved to our shareholders or the Board

of Directors. The President reports to the shareholders meeting and to the Board of Directors and is responsible for carrying out decisions made by the shareholders and by the Board of Directors. Vassily Sidorov was appointed President on October 25, 2003 for a term of three years.

Review Commission

Our Review Commission supervises our financial and operational activities. Members of the Review Commission are nominated and elected by our shareholders for a term of one year. A Director may not simultaneously be a member of the Review Commission. As of December 31, 2004, our Review Commission had three members:

- Natalia G. Tomilina holds the position of Deputy Director of the Finance Department at Sistema Telecom.
- Vassily V. Platoshin holds the position of Chief Accountant at Sistema.
- Bernd Willmann holds the position of Head of Audit Competence Center Joint Ventures of T-Mobile International AG.

The members of our Review Commission do not serve pursuant to a contract, and their terms expire at the next annual shareholders meeting, which will take place on June 21, 2005.

Corporate Governance

We are required under the New York Stock Exchange listing rules to disclose any significant differences between the corporate governance practices that we follow under Russian law and applicable listing standards and those followed by U.S. domestic companies under New York Stock Exchange listing standards. This disclosure is posted on our website (<http://www.company.mtsgsm.com/profile/ethics/>).

D. Employees

At December 31, 2004, we had 23,385 employees. Over 20% of these employees, or 4,603, worked in Moscow (including employees of our corporate headquarters). Of our 20,818 employees in Russia, we estimate that 224 were executives (including the President and other officers); 3,383 were technical and maintenance employees; 10,590 were sales, marketing and customer service staff; and 6,321 were administration and finance staff.

As of December 31, 2004, 1,754 of our employees worked in Ukraine. Of these employees, we estimate that 7 were executives; 540 were technical and maintenance employees; 939 were sales, marketing and customer service staff; and 268 were administration and finance staff.

As of December 31, 2004, 813 of our employees worked in Uzbekistan. Of these employees, we estimate that 17 were executives; 300 were technical and maintenance employees; 224 were sales, marketing and customer service staff; and 272 were administration and finance staff.

The substantial growth in the number of our employees is attributable primarily to the continued expansion of our network in Russia and the CIS and our increased focus on customer care. In addition, in 2004 we added a new intermediate management level for "macro-regions" to our management structure. Our 10 macro-region offices are responsible for implementing the strategy developed by our

corporate headquarters in all regions falling within their specific macro-region. The following chart sets forth the number of our employees at December 31, 2002, 2003 and 2004:

	At December 31,		
	2002	2003	2004
Moscow license area (including employees of corporate headquarters)	3,388	4,067	4,603
Other regions in Russia	7,654	14,367	16,215
Ukraine	—	1,121	1,754
Uzbekistan	—	—	813
Total	11,042	19,555	23,385

Our future success will depend, in significant part, on the continued service of our key technical, sales and senior management personnel. To date, we have experienced a low level of departures, voluntary or otherwise. Our employees are not unionized, we have not experienced any work stoppages and we consider our relations with employees to be strong.

E. Share Ownership

We believe that the aggregate beneficial interest of our directors, senior management and employees as of December 31, 2004 was less than 1% of our outstanding common stock.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth, as of May 31, 2005, information regarding the beneficial ownership of our outstanding common stock by each person known by us to own beneficially any of our common stock and our directors and executive officers as a group. All shares of common stock have the same voting rights.

Name	Beneficial ownership as of May 31, 2005	
	Number	Percentage
Sistema ⁽¹⁾⁽²⁾	619,860,752	31.2%
Sistema Holding Limited ⁽²⁾	193,473,900	9.8%
Invest-Svyaz ⁽³⁾	160,247,802	8.1%
VAST ⁽⁴⁾	60,219,432	3.0%
T-Mobile Worldwide Holding GmbH	200,525,554	10.1%
ING Bank (Eurasia) ZAO ⁽⁵⁾	741,481,679	37.3%
Other Public Float (including our directors and executive officers) ⁽⁶⁾	10,314,911	0.5%
Total ⁽⁷⁾	1,986,124,030	100.0%

⁽¹⁾ Vladimir P. Evtushenkov has a controlling interest in Sistema, and would be considered under U.S. securities laws as the beneficial owner of our shares held by Sistema, Sistema Holding Limited, Invest-Svyaz and VAST. Mr. Evtushenkov is also President and member of the board of directors of Sistema.

⁽²⁾ In connection with its April 2003 Eurobond offering, Sistema pledged 193,473,900 shares of our common stock held by Sistema Holding Limited to Deutsche Trustee Company Limited.

⁽³⁾ Invest-Svyaz is a Russian closed joint stock company wholly-owned by Sistema. In 2005, Invest-Svyaz Holding was reorganized into two separate entities: Invest-Svyaz, which serves as a holding company of our shares and is one of our major shareholders and Invest-Svyaz Holding, a company also wholly-owned by Sistema, whose primary business is leasing various types of telecommunications and other assets to us.

- (4) VAST is a limited partnership formed under the laws of Russia. Sistema owns a 51% interest in VAST. ASVT OJSC, a Russian company engaged in telecommunications, owns the remaining 49% interest in VAST. An extract from our shareholders register dated May 31, 2005 contains an entry prohibiting any transfer of these shares.
- (5) ING Bank (Eurasia) is the local custodian for our sponsored ADR program and the unsponsored GDR programs.
- (6) We believe that our directors and executive officers as a group own less than 1% of our shares.
- (7) Our wholly-owned subsidiary, Mobile TeleSystems LLC, owns 7,202,108, or 0.4%, of our shares in connection with our Management Stock Bonus and Stock Option Plans.

In April 2003, Sistema acquired directly and indirectly from T-Mobile 199,322,614 shares of common stock amounting, in aggregate, to an additional 10% of our outstanding common stock. This included 120,811,184 shares of common stock acquired directly from T-Mobile and the acquisition of all the shares in Invest-Svyaz Holding previously held by T-Mobile, representing a beneficial interest in a further 78,521,430 shares of common stock.

In April 2003 and December 2004, T-Mobile sold an additional 5.0% and 15.1% of our common stock, respectively, in the form of GDRs through an unsponsored GDR program.

As of May 31, 2005, the total number of ADSs outstanding was 139,009,881 representing underlying ownership of 695,049,405 shares, or approximately 35.0% of our outstanding common stock. The shares underlying the ADSs are deposited with JPMorgan Chase Bank, formerly known as Morgan Guaranty Trust Company of New York and the local custodian is ING Eurasia.

B. Related Party Transactions

Transactions with Sistema and its Affiliates

Rosno OJSC

We arranged medical insurance for our employees and insured our property with Rosno OJSC, a subsidiary of Sistema. Insurance premiums paid to Rosno OJSC for the years ended December 31, 2004, 2003 and 2002 amounted to \$7.6 million, \$16.9 and \$4.9 million, respectively. Management believes that all of the insurance contracts with Rosno OJSC were entered into on market terms.

Maxima Advertising Agency

We have contracts for advertising services with Maxima Advertising Agency, a subsidiary of Sistema. Advertising fees paid to Maxima for the years ended December 31, 2004, 2003 and 2002 amounted to \$48.9 million, \$23.7 million and \$12.1 million, respectively. Management believes that these agreements were entered into on market terms.

Moscow City Telephone Network (MGTS)

We have line rental arrangements with MGTS, a subsidiary of Sistema. We also rent a cable plant from MGTS for the installation of fiber-optic cable, as well as buildings for administrative offices, sales and marketing offices and premises for switching and base station equipment. Rental expenses for the years ended December 31, 2004, 2003 and 2002 were \$5.9 million, \$4.5 million and \$3.4 million, respectively. Management believes that all of these transactions were entered into on market terms.

Moscow Bank for Reconstruction and Development (MBRD)

We maintain bank and deposit accounts with MBRD, a subsidiary of Sistema. As of December 31, 2004, our cash balance on current accounts at MBRD amounted to \$72 million. As of December 31, 2003, our cash position at MBRD amounted to \$279.7 million, including \$265.2 million in time deposits and \$14.5 million in current accounts.

During 2002, 2003 and 2004, the related interest accrued and collected on the deposits amounted to approximately \$5.1 million, \$9.9 million and \$6.8 million, respectively, which is reflected in our financial statements as a component of interest income.

In August 2004, one of our subsidiaries entered into a ruble-denominated credit facility with MBRD for approximately \$1.5 million with an interest rate of 15% per annum. The loan was fully repaid before the end of 2004. The amount of interest paid for this borrowing was not significant.

In 2003, one of our subsidiaries entered into a ruble-denominated loan agreement with MBRD. The amounts borrowed under this loan bore interest at a rate of 18.5%. During 2003 and 2004, this subsidiary paid interest of \$0.1 million and \$0.1 million, respectively. As of December 31, 2003, the total amount payable under this loan agreement was \$1.2 million. The loan was fully repaid in June 2004.

During 2003, we signed several short-term loan agreements with MBRD. Amounts borrowed were payable during the period of one to two months. During 2003, interest expense on these loans was approximately \$0.3 million.

In January 2003, we paid MBRD \$20,000 for acting as our financial advisor in connection with our January 2003 offering of 9.75% notes due 2008.

MTU-Inform

We have interconnection and line rental arrangements with MTU-Inform, a subsidiary of Sistema. Interconnection and line rental expenses for the years ended December 31, 2004, 2003 and 2002 were \$25.7 million, \$23.3 million and \$24.3 million, respectively. In 2003 and 2002, we also purchased telephone numbering capacity from MTU-Inform for \$2.0 million and \$2.6 million, respectively. Management believes that these purchases were, and all other arrangements have been entered into, on market terms.

Telmos

We have interconnection and line rental arrangements with, and receive domestic and international long-distance services from, Telmos, a subsidiary of Sistema. Interconnection and line rental expenses for the years ended December 31, 2004, 2003 and 2002 were \$1.6 million, \$1.6 million and \$1.8 million, respectively. Management believes that these arrangements were entered into on market terms.

Comstar

We have interconnection and line rental arrangements with Comstar, a subsidiary of Sistema. Amounts expensed under these arrangements for the years ended December 31, 2004, 2003 and 2002 were \$3.1 million, \$3.6 million and \$3.5 million, respectively. We also purchased telephone numbering capacity from Comstar for \$4.2 million in 2004. Management believes that these arrangements were entered into on market terms.

Invest-Svyaz Holding

We lease network equipment and a billing system from Invest-Svyaz Holding, a wholly-owned subsidiary of Sistema and one of our shareholders. These leases are classified as capital leases. The interest rate implicit in these leases varies from 14% to 44%, which management believes are market terms. The following table summarizes the future minimum lease payments under capital leases to

Invest-Svyaz Holding together with the present value of the net minimum lease payments as of December 31, 2004:

Payments due in the year ended December 31,	Amount (in thousands)
2005	\$8,174
2006	3,058
2007	653
Total minimum lease payments (undiscounted)	11,885
Less amount representing interest	(2,436)
Present value of net minimum lease payments	9,449
Less current portion of lease obligations	(6,103)
Non-current portion of lease obligations	\$3,346

Principal and interest paid to Invest-Svyaz Holding for the years ended December 31, 2004, 2003 and 2002 were \$6.4 million and \$4.1 million, \$5.4 million and \$3.3 million and \$2.9 million and \$1.4 million, respectively. Management believes that these agreements were entered into on market terms.

We have also guaranteed debt of Invest-Svyaz Holding in the amount of \$21.6 million to a third party, which is used by Invest-Svyaz Holding primarily to finance its leases to us.

STROM telecom

During 2004 and 2003, we entered into agreements with STROM telecom, a subsidiary of Sistema, for a total amount of up to \$116.5 million and \$32.3 million, respectively. Pursuant to these contracts, we purchased billing systems and communication software support systems for approximately \$9.1 million and \$23.7 million during the years ended December 31, 2004 and 2003, respectively. Advances paid under these agreements and outstanding as of December 31, 2004 and 2003 amounted to \$51.0 million and \$1.1 million, respectively. Management believes that these agreements were entered into on market terms.

MTT

In 2004, we had an interconnection and line rental agreements with MTT, a subsidiary of Sistema. Amounts expensed under these agreements for the year ended December 31, 2004 amounted to approximately \$16.1 million. Management believes that these agreements were entered into on market terms.

Kvazar-Micro Corporation (Kvazar)

In 2004, we signed agreements for software implementation services with Kvazar, a subsidiary of Sistema. Related fees for the year ended December 31, 2004 amounted to approximately \$9.7 million. Management believes that these agreements were entered into on market terms.

Transactions with T-Mobile and its Affiliates

T-Mobile

We have non-exclusive roaming agreements with T-Mobile, one of our shareholders. Roaming expenses under these agreements for the years ended December 31, 2004, 2003 and 2002 were \$6.1 million, \$1.7 million and \$1.1 million, respectively. Management believes that these agreements were entered into on market terms.

UMC Acquisition

In March to July 2003, we purchased 100% of UMC, including a 16.3% stake from Deutsche Telekom AG for \$55.0 million. Of this amount, \$27.5 million was payable to Cetel B.V., a wholly-owned subsidiary of Deutsche Telekom AG, within one year, which was paid in March 2004. The amount payable accrued interest at 9% per annum. The remaining amount was paid in cash at the closing of the transaction.

In addition, as part of the transaction, we guaranteed a shareholder loan from Deutsche Telekom AG to UMC in the amount of \$21.3 million. The amount payable accrued interest at LIBOR plus 5-7%. At December 31, 2003, the unpaid balance was \$8.0 million and during the year, we paid \$2.1 million in interest. This debt was repaid in April 2004.

See also Note 17 to our audited consolidated financial statements for related party accounts receivable and payable balances as of December 31, 2004 and 2003.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

8.A.1-6. See Item 18.

8.A.7. Litigation

On June 7, 2004, the General Prosecutor of Ukraine filed a claim against us and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to us. The complaint also sought an order prohibiting us from alienating 51% of our stake in UMC until the claim was resolved on the merits and on August 12, 2004, the Kiev Commercial Court rejected the General Prosecutor's claim. On August 26, 2004, the General Prosecutor requested the Constitutional Court of Ukraine to review whether certain provisions of the Ukrainian privatization law limiting the alienation of assets by privatized companies were applicable to the sale by Ukrtelecom of UMC shares to us. For a description of this lawsuit, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If our purchase of UMC is found to have violated Ukrainian law or the purchase is unwound, our business, prospects and results of operations would be materially adversely affected."

See also "—B. Significant Changes—Tax Audit" below for a description of a tax assessment that we are currently in the process of challenging in the Moscow Arbitration Court.

8.A.8. Dividend Distribution Policy

On June 30, 2003, our shareholders approved cash dividends totaling \$111.4 million (including dividends on treasury shares of \$0.4 million), which have been fully paid. On June 26, 2004, our shareholders approved cash dividends in the amount \$219.9 million (including dividends on treasury shares of \$1.1 million), which have also been fully paid. In May 2005, our Board of Directors recommended cash dividends in the amount of \$409.48 million (including dividends on treasury shares of \$1.5 million). Our shareholders will vote on this recommendation at the annual shareholders meeting on June 21, 2005. We expect that our shareholders will continue to approve annual cash dividends, although we do not have a formal dividend policy.

Annual dividend payments, if any, must be recommended by our Board of Directors and approved by our shareholders. We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depository in rubles and will be converted

into U.S. dollars by the depository and distributed to holders of ADSs, net of the depository's fees and expenses. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the dollar.

B. Significant Changes

Eurobond

On January 27, 2005, MTS Finance issued \$400.0 million 8.00% unsecured notes at 99.736%. These notes are fully and unconditionally guaranteed by us and mature on January 28, 2012. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 28 and July 28, commencing on July 28, 2005. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were \$398.9 million.

ADS Ratio Change

Effective January 3, 2005, the our ADS per ordinary shares ratio changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 shares of common stock.

Acquisition of Subsidiary

In February 2005, we signed an agreement to acquire a 74.9% stake in Sweet-Com LLC, a holder of 3.5GHz radio frequency allocation for the Moscow region, for cash consideration of \$2.0 million. Sweet-Com provides wide-range radio access services for the "last mile" based on Radio-Ethernet technology. The purchase price allocation for this acquisition has not yet been finalized.

Tax Audit

In March 2005, the Russian tax authorities audited our compliance with tax legislation for the year ended December 31, 2002. Based on the results of this audit, the Russian tax authorities assessed that 372,152 thousand rubles (approximately \$13.4 million as at December 31, 2004) of additional taxes, penalties and fines were payable by us. We have filed a petition with the Moscow Arbitration Court seeking the partial invalidation of the tax assessment. The amount of disputed taxes and fines equals 281,504 thousand rubles (approximately \$10.1 million).

CSFB Loan

In April 2005, a loan due to Credit Swiss First Boston in the amount of \$140.0 million was fully repaid.

Item 9. Offer and Listing Details

(Only Items 9.A.4 and 9.C are applicable.)

A.4. Market Price Information

The following table sets forth the annual high and low market prices per ADS on the New York Stock Exchange for each of the fiscal years ended December 31, 2000, 2001, 2002, 2003 and 2004; the high and low market prices per ADS for each full financial quarter during the fiscal years ended December 31, 2003 and 2004; and the high and low market prices per ADS for each of the most recent

six months. The table also sets forth the high and low market prices per share of common stock for the first full financial quarter and each of the most recent six months.

	Common Stock High	Common Stock Low	ADS High	ADS Low
May 2005	196.5 RUR	178.1 RUR	\$35.50	\$30.47
April 2005	209.4 RUR	182.0 RUR	\$38.00	\$32.36
March 2005	216.0 RUR	188.5 RUR	\$40.09	\$33.54
February 2005	222.0 RUR	199.0 RUR	\$40.20	\$34.93
January 2005 ⁽¹⁾	205.0 RUR	182.0 RUR	\$37.00	\$32.02
December 2004	197.8 RUR	162.0 RUR	\$142.00	\$117.35
First Quarter 2005	222.0 RUR	182.0 RUR	\$40.20	\$32.02
Fourth Quarter 2004			\$155.90	\$117.35
Third Quarter 2004			\$149.75	\$108.20
Second Quarter 2004			\$141.15	\$98.40
First Quarter 2004			\$131.70	\$83.00
Fourth Quarter 2003			\$87.50	\$72.20
Third Quarter 2003			\$76.49	\$50.56
Second Quarter 2003			\$61.10	\$41.18
First Quarter 2003			\$44.95	\$35.40
2004			\$155.90	\$83.00
2003			\$87.50	\$35.40
2002			\$41.50	\$23.75
2001			\$38.75	\$22.41
2000			\$32.00	\$21.25

⁽¹⁾ Effective January 3, 2005, the ADS ratio was changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares, a 1:4 ADS split.

C. Markets

Our common stock has been listed on the Moscow Interbank Currency Exchange since December 2003. American Depositary Shares, each representing five of our common stock, have been listed on the New York Stock Exchange under the symbol "MBT" since June 30, 2000. Our ADSs and GDRs are also traded on the London Stock Exchange under the symbols "MOBD" and "MBT" respectively, and on the Frankfurt Stock Exchange under the symbol "MKY." Our U.S. dollar-denominated notes are listed on the Luxembourg Stock Exchange.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Charter and Certain Requirements of Russian Legislation

We describe below material provisions of our charter in effect on the date of this document and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter to learn its complete terms.

Our Purpose

Article 2.1 of our charter provides that our principal purpose is to obtain profits through the planning, marketing, and operation of a radiotelephone mobile cellular network in the Russian Federation.

We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027700149124.

General Matters

Pursuant to our charter, we have the right to issue registered common stock, preferred stock, and other securities provided for by legal acts of the Russian Federation with respect to securities. Our capital stock currently consists of 2,096,975,792 authorized common shares, each with a nominal value of 0.1 rubles, of which 1,993,326,138 are fully paid, issued and outstanding. Under Russian legislation charter capital refers to the aggregate nominal value of the issued and outstanding shares. No preferred shares are authorized or outstanding. Preferred stock may only be issued if corresponding amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders. We have issued only common stock. The Federal Law on Joint Stock Companies requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares.

Rights Attaching to Shares

Holders of our common stock have the right to vote at all shareholders meetings. As required by the Federal Law on Joint Stock Companies and our charter, all shares of our common stock have the same nominal value and grant identical rights to their holders. Each fully paid share of common stock, except for treasury shares, gives its holder the right to:

- freely transfer the shares without consent of other shareholders;
- receive dividends;
- participate in shareholders meetings and vote on all matters within shareholder competence;
- transfer voting rights to other Company's shareholders or a representative on the basis of a power of attorney;
- elect and dismiss members of the board of directors and audit commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 105 days after the end of our fiscal year, make proposals for the annual shareholders' meeting and nominate candidates to the board of directors, the counting commission, the audit commission and for company president;
- if holding, alone or with other holders, 10% or more of the voting stock, demand that the board of directors call an extraordinary shareholders meeting or an unscheduled audit by the audit commission or an independent auditor;
- demand, under the following circumstances, repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
 - reorganization;
 - conclusion of a major transaction, as defined under Russian law; and
 - amendment of our charter that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;

- have free access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents; and
- exercise other rights of a shareholder given by our charter, Russian legislation and decisions of shareholders meeting approved in accordance with its competence.

Preemptive Rights

The Federal Law on Joint Stock Companies and our charter provide shareholders with a preemptive right to purchase shares or convertible securities during an open subscription in the amount proportionate to their existing shareholdings. In addition, the Federal Law on Joint Stock Companies provides shareholders with a preemptive right to purchase shares or convertible securities during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The preemptive right does not apply to a closed subscription to the existing shareholders provided that such shareholders may each acquire a whole number of shares or convertible securities being placed in proportion to their existing holding of such securities. We must provide shareholders with written notice of the proposed sale of shares at least 45 days prior to the offering, during which time shareholders may exercise their preemptive rights.

Dividends

The Federal Law on Joint Stock Companies and our charter set forth the procedure for determining the quarterly and annual dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our first quarter, six month, nine month or annual results. Dividends are recommended to a shareholders meeting by a majority vote of the board of directors and approved by the shareholders meeting by a majority vote. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective quarter at the shareholders meeting; and a decision on annual dividends must be taken at the annual general shareholders meeting. The dividend approved at the shareholders meeting may not be more than the amount recommended by the board of directors. Dividends to be paid based on the shareholders decision shall be paid within one year from the date on which the decision to make the payment has been adopted, unless the shareholders decision provides for a lesser term. Dividends are distributed to holders of our shares as of the record date for the shareholders meeting approving the dividends. See "General Shareholders Meetings—Notice and Participation." Dividends are not paid on treasury shares.

The Federal Law on Joint Stock Companies allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;
- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred stock of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Federal Law on Joint Stock Companies and our charter allows us to be liquidated:

- by a three-quarters majority vote of a shareholders meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by shareholders meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code of the Russian Federation, or Civil Code, gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths;
- employees;
- creditors with obligations secured by a pledge;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred stock and the liquidation value of the preferred stock determined by the company's charter, if any; and
- payments to holders of common and preferred stock.

Liability of Shareholders

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

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

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Alteration of Capital

Share Capital Increase

We may increase our charter capital by

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting 25% or more of the number of issued common shares, requires a three-quarters majority vote by our shareholders. Otherwise, a decision to increase the charter capital by issuing additional shares or increasing the nominal value of issued shares requires a majority vote of a shareholders meeting. In certain circumstances provided in our charter, a decision to increase the charter capital may be taken by our board of directors. In addition, the issuance of shares above the number provided in our charter necessitates a charter amendment, which requires a three-quarters affirmative vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires that newly issued shares be sold at market value, except in limited circumstances where (i) existing shareholders exercise a preemptive right to purchase shares at not less than 90% of the price paid by third parties, or (ii) fees up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The board of directors shall value any in-kind contributions for the new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- prior registration of a share issuance with the Federal Service for the Financial Markets;
- public disclosure of information relating to the share issuance; and
- following the placement of the shares, registration and public disclosure of the results of the placement of shares.

Share Capital Decrease; Share Buy-Backs

The Federal Law on Joint Stock Companies does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made by a majority vote of a shareholders meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue a written notice to our creditors and publish this decision. Our creditors

would then have the right to demand, within 30 days of such notice or the publication, repayment of all amounts due to them, as well as compensation for damages.

The Federal Law on Joint Stock Companies and our charter allow our shareholders or the board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares pursuant to a board decision must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital.

A shares repurchase pursuant to a decision of our shareholders meeting to decrease the overall number of shares are cancelled at their redemption.

The Federal Law on Joint Stock Companies allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having a right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law; or
- amendment of our charter in a manner which results in restrictions of the holder's rights.

We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis. Repurchase of the shares is at a price agreed on by the board of directors, but shall not be less than the market price determined by an independent appraiser.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered common shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Since May 10, 2000, Registrar NIKoil OJSC has maintained our register of shareholders.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the share register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to that which is required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed and may be disputed.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 15% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodic basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders and depository, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business activity;
- filing with the FSFM and publishing in the FSFM's periodical print publication, as well as in other media, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding as well as shareholder resolutions;
- disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;
- disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of our affiliated companies and individuals; and
- other information as required by applicable Russian securities legislation.

General Shareholders Meetings

Procedure

The powers of a shareholders meeting are set forth in the Federal Law on Joint Stock Companies and in our charter. A shareholders meeting may not decide issues that are not included in the list of its competence by the Federal Law on Joint Stock Companies and our charter. Among the issues which the shareholders have the exclusive power to decide are:

- charter amendments;
- reorganization or liquidation;
- election and removal of members of the board of directors;
- determination of the amount of compensation for members of the board of directors;
- appointment and removal of the company's president;
- determination of the number, nominal value, class/type of authorized shares and the rights granted by such shares;
- changes in our charter capital;

- appointment and removal of our external auditor and of the members of our internal audit commission and the counting commission;
- approval of certain interested party transactions and major transactions;
- decision on our participation in holding companies, commercial or industrial groups, or other associations of commercial entities;
- approval of certain internal documents and corporate records;
- distribution of profits and losses, including approval of dividends; and
- redemption by the company of issued shares.

Voting at a shareholders meeting is generally based on the principle of one vote per share of common stock, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company;
- determination of the number, nominal value, and type of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares of common stock by closed subscription; or
- issuance by open subscription of shares of common stock or securities convertible into common stock, in each case, constituting 25% or more of the number of issued shares of common stock.

The quorum requirement for our shareholders meetings is met if holders of shares (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders meeting with the same agenda may (and, in case of an annual shareholders meeting must) be scheduled and the quorum requirement is satisfied if holders of shares (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- determination of the number and election of the members of the board of directors;
- election of the president of the company and the counting commission, if their terms are expiring;
- approval of the annual report and the annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of dividends;
- approval of an independent auditor; and
- appointment of the members of an internal audit commission.

A shareholder or group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the annual shareholders meeting and may nominate candidates for the board of directors, counting commission, audit commission and company president. Any agenda proposals or nominations must be provided to the company no later than 105 calendar days after the preceding financial year end.

Extraordinary shareholders meetings may be called by the board of directors on its own initiative, or at the request of the audit commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request. The decision by the board of directors to call or reject the call for an extraordinary shareholders meeting shall be sent to the party that requested the meeting within three days after such a decision was made.

A general meeting of shareholders may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of collecting shareholders' opinions on issues of the agenda by means of a written poll.

The following issues cannot be decided by a shareholders meeting by absentee ballot:

- election of directors;
- election of the internal audit commission;
- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distribution of profits, including approval of annual dividends and losses, if any.

Notice and Participation

All shareholders entitled to participate in a general shareholders meeting must be notified of a meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders meeting to elect the board of directors, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders meeting.

If a nominal holder of the shares registers in the register of shareholders, then a notification of the shareholders meeting shall be sent to the nominal holder. The nominal holder must notify its clients in accordance with Russian legislation or an agreement with the client.

The list of shareholders entitled to participate in a general shareholders meeting is to be compiled on the basis of data in our shareholders register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders meeting to elect the board of directors, not later than 65 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by submitting a written ballot reflecting the shareholders voting on the agenda items; or
- by delegating the right to submit such written ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders meeting. Our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders meeting.

The Federal Law on Joint Stock Companies requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting stock, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting stock. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter or a decision of the shareholders meeting. Our charter provides that our board of directors consists of seven members, which number may be increased to nine pursuant to a decision of the general meeting of shareholders.

The Federal Law on Joint Stock Companies prohibits a board of directors from acting on issues that fall within the exclusive competence of the general shareholders meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determination of our business priorities;
- convening annual and extraordinary shareholders meetings, except in certain circumstances specified in the Federal Law on Joint Stock Companies;
- approval of the agenda for the shareholders meeting and determination of the record date for shareholders entitled to participate in a shareholders meeting;
- placement of our bonds and other securities in cases specified in the Federal Law on Joint Stock Companies;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Federal Law on Joint Stock Companies;
- repurchase of our shares, bonds, and other securities in certain cases provided for by the Federal Law on Joint Stock Companies;
- recommendations on the amount of the dividend and the payment procedure thereof;

- recommendations on the amount of remuneration and compensation to be paid to the members of our internal audit commission and on the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- approval of our internal documents, except for those documents whose approval falls within the competence of our shareholders or the president;
- the creation and liquidation of branches and representative offices;
- approval of major and interested party transactions in certain cases provided for by the Federal Law on Joint Stock Companies;
- increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstances specified in our charter;
- approval of our share registrar and the terms of the agreement with it; and
- other issues, as provided for by the Federal Law on Joint Stock Companies and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described therein. A board meeting is considered duly assembled and legally competent to act when at least six directors are present.

The special Regulation "About the Board of Directors of OJSC Mobile TeleSystems" was approved by the general shareholders meeting on November 11, 2004. In accordance with clause 1.8 of the Regulation, the members of the board of directors have the right to:

- receive information regarding our operations;
- propose issues to be discussed by the board of directors;
- review the minutes of the board of directors meetings;
- express their own point of view during the board of directors meetings;
- request to include in the minutes of the meetings their personal opinion concerning issues on the agenda and decisions made with respect thereto; and
- receive a remuneration and/or compensation of expenses related to the execution of their duties as members of the board of directors in accordance with decisions of the general shareholders meeting.

In accordance with clause 1.9 of the Regulation, the members of the board of directors must:

- act in our interests;
- execute their duties in a confident and scrupulous manner;
- act within their rights and in accordance with the purposes of the board of directors;
- not distribute confidential information concerning us and protect such information from unlawful and improper use and publishing, and not use such confidential information in their own or third parties' commercial purposes;
- participate in the work of the board of directors;
- participate in the voting process during the board of directors meetings;
- complete the tasks assigned by the board of directors;

- evaluate the risks and consequences of the decisions made;
- inform us on a timely basis about their participation in the management of other companies and changes in such participation;
- refrain from voting on issues of personal interest;
- inform the board of directors about future deals in which they may have a personal interest;
- disclose information about the holding, disposal or acquisition of our shares and other securities; and
- refrain from actions, which could lead to a conflict between their personal and our interests.

Interested Party Transactions

Under the Federal Law on Joint Stock Companies, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive office and/or the company's managing organization), any person that owns, together with any affiliates, at least 20% of a company's issued voting shares or any person who is able to direct the actions of the company, if that person and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Federal Law on Joint Stock Companies requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, a general director/president, a member of any executive body or an affiliate of the company, or a member of the board of directors or any management body of the company's management organization. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not occupy positions in the executive bodies of the company or its management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be adopted by a majority vote of directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or a secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;

- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their preemptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares; or
- the company mergers with another company, and the latter owns more than three-fourths of the voting capital stock of the company.

Major Transactions

The Federal Law on Joint Stock Companies defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposition, or a possibility of disposition (whether directly or indirectly) of property having the value of 25% or more of the balance sheet value of the assets of a company determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of common stock, or securities convertible into common stock. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority vote of a shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires that any person that intends, either individually or together with its affiliates, to acquire 30% or more (including, for such purposes, the shares already owned by this person or its affiliates) of the common stock of a company having more than 1,000 holders of common stock, must give at least 30, but no more than 90, days' prior written notice to the company. Additionally, the Federal Law on Joint Stock Companies provides that a person that has acquired either individually, or together with its affiliates, 30% or more (including, for such purposes, the shares already owned by this person or its affiliates) of the common stock of a company with more than 1,000 holders of common stock, within 30 days of acquiring the shares, must offer to buy all of the common stock or securities that are convertible into common stock at a market price which shall not be lower than the weighted average price of the common stock over the six month period before the date of acquisition. These requirements also apply to any acquisitions of each subsequent 5% or more of the

issued common stock of a company by a person already holding (together with its affiliates) over 30% of the issued common stock of such company. If the acquirer fails to observe these requirements, it will be limited to voting only those shares it purchased in compliance with these requirements. The requirement to make a buyout offer of securities may be waived in a company's charter or by a resolution adopted by a majority vote of a shareholders meeting, excluding the votes of the acquirer (and its affiliates). New Russian securities regulations strongly discourage listed companies from waiving the buyout offer requirement, and regulators have advised Russian companies to abandon any waiver of this requirement by July 1, 2005. Our charter does not contain a waiver of this requirement.

Approval of the Federal Antimonopoly Service

Pursuant to Russian antimonopoly legislation, transactions involving companies with a combined value of assets under Russian accounting standards that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, which would result in a shareholder (or a group of affiliated shareholders) holding more than 20% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, must be approved in advance by the Federal Antimonopoly Service.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition if they are already registered with the Russian tax authorities at the time of acquisition. Russian law is unclear as to whether foreign persons and companies that are not registered with the Russian tax authorities at the time of their share acquisitions must register solely for the reason of such share acquisitions. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of shares.

C. Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business:

Syndicated Loan

In July 2004, MTS OJSC entered into a \$500.0 million syndicated loan agreement with ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank PLC, Raiffeisen Zentralbank Oesterreich AG ZAO, Bank Austria Creditanstalt AG, Commerzbank Aktiengesellschaft and others. The credit facility bears interest of LIBOR +2.50% per annum and matures in July 2007. The proceeds of the Syndicated Loan were used by us for corporate purposes, including refinancing our existing indebtedness. In September 2004, the total amount available under the Syndicated Loan was increased by \$100.0 million to \$600.0 million. The commitment fee for the Syndicated Loan amounted to \$0.5 million. The debt issuance costs in the amount of \$10.2 million have been capitalized. At December 31, 2004, \$600.0 million remained outstanding under the Syndicated Loan. The Syndicated Loan is subject to restrictive covenants including, but not limited to, certain financial ratios. As of December 31, 2004, we were in compliance with all existing covenants.

Notes Indentures and Guarantees

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on January 30, 2003. The 9.75% notes were issued under an indenture dated January 30, 2003. Interest on the notes is payable in arrears on January 30 and July 30 of each year, commencing on July 30, 2003.

These notes are guaranteed by us and mature on January 30, 2008. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$396.1 million were used for general corporate purposes, including the acquisition of 57.7% and 26.0% stakes in Ukrainian Mobile Communications in March and June 2003, respectively, and other acquisitions of mobile operators in Russia.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on October 14, 2003. The 8.375% notes were issued under an indenture dated October 14, 2003. Interest on the notes is payable in arrears on April 14 and October 14 of each year, commencing on April 14, 2003. These notes are guaranteed by us and mature on October 14, 2010. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$395.4 million were used for general corporate purposes, including dividend payments, capital expenditures, and repayment of existing indebtedness incurred in connection with our acquisitions of mobile operators in Russia and Ukraine.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. January 28, 2005. The 8.00% notes were issued under an indenture dated January 28, 2005. Interest on the notes is payable in arrears on January 28 and July 28 of each year, commencing on July 28, 2005. These notes are guaranteed by us and mature on January 28, 2012. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$398.9 million were used to repay a \$140 million loan we received from Credit Suisse First Boston International in October 2004 for general corporate purposes. We intend to use the remaining net proceeds from the offering for general corporate purposes, including for potential acquisitions and for potentially increasing our interests in certain wireless telecommunications providers.

Each of the indentures sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding notes may, under circumstances set forth in the indenture, rescind the acceleration if all events of default, other than the nonpayment of principal of the notes which have become due solely because of the acceleration, have been cured or waived as provided in the indenture. If an event of default arising from events of our bankruptcy, insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes will automatically become immediately due and payable without any declaration or other act on the part of the holders of notes or the trustee.

Each of the indentures contains covenants limiting: (a) the ability of the issuer, us and our subsidiaries to incur debt; (b) the ability of the issuer, us and our subsidiaries to create liens; (c) the ability of the issuer, us and our subsidiaries to lease properties sold or transferred by us; (d) our ability to merge or consolidate with another person or convey our properties and assets to another person; and (e) our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow and St. Petersburg license areas, the GSM license for the Krasnodar license area, and UMC's licenses for Ukraine.

Pursuant to the guarantees contained in each indenture, we fully and unconditionally guaranteed all payments of principal and interest on the notes. These guarantees are our general unsecured obligation, senior to all our existing and future subordinated obligations, equal to all our existing and future unsecured obligations, and effectively junior to all our existing and future secured obligations and all existing and future obligations of our subsidiaries.

D. Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect as of June 18, 2004, empowers the government and the Central Bank of Russia to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities (including ADSs) and domestic securities (including our common shares), as well as certain types of settlements in rubles between residents and non-residents of Russia. As the new regulatory regime is very recent and untested, it is currently unclear how it will be applied in practice. In particular, it remains uncertain whether it will be more or less restrictive than the prior laws and regulations it replaced.

Capital import and export restrictions

Pursuant to the Federal Law on Currency Regulation and Currency Control, the government and the Central Bank of Russia have the power to restrict, in particular, the following operations:

- investments (not involving the acquisition of securities) by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors;
- acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- grants or receipts of loans and credits between residents and non-residents of Russia;
- payments for export-import transactions with settlement over 180 days (and in limited cases, from over three to five years) following completion; and
- the opening by Russian residents of bank accounts outside Russia and the transfers by Russian residents to such accounts of their funds from domestic accounts.

Restrictions that may be introduced include:

- the requirement for Russian residents to register their accounts in foreign banks with the Russian tax authorities prior to the opening of such accounts (the "prior registration requirement");
- the requirement to perform the operations listed above through special banking accounts with authorized Russian banks (the "requirement to use a special account"); and
- the requirement to deposit in a special non-interest bearing account with an authorized Russian bank (the "reservation requirement") a monetary sum of:
 - up to 100% of the amount of the foreign currency operation in question for a period of time not exceeding 60 days; or
 - up to 20% of the amount of the foreign currency operation in question for a period of time not exceeding one year.

As of the date hereof, the prior registration requirement has been introduced in respect of foreign currency accounts in banks located in countries which are not members of the Organization for Economic Co-operation and Development, or OECD, and the Financial Action Task Force on Money Laundering, or FATF, established by the G-7, and in respect of ruble accounts in banks located in countries which are members of the OECD or FATF.

As of the date hereof, the requirement to use a special account has been introduced in respect of acquisitions of Russian securities by foreign investors and foreign securities by Russian investors and in

respect of the grant or receipt of loans and credits between residents and non-residents of Russia. In particular, the following operations are subject to the requirement to use special accounts:

- receipt by residents of Russia from non-residents of foreign currency and ruble loans and credits with maturities of less than three years;
- acquisition of foreign securities (such as ADSs) by Russian investors; and
- acquisition of Russian securities (such as our shares) by foreign investors.

As of the date hereof, the reservation requirement has been introduced, in particular, in respect of:

- investments by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors in the amount of 25% of the sum of the performed currency transaction for 15 days;
- receipt by residents of Russia of foreign currency and ruble loans and credits with maturities of less than three years in the amount of 2% of the loan/credit for one year;
- acquisition of foreign securities (such as ADSs) by Russian investors in the amount of 25% of the sum payable for the securities for 15 days; and
- pre-payment by Russian residents for the import of works, services and rights to intellectual property to be transferred by non-residents more than 180 days following the pre-payment, in the amount of 10% of the sum of pre-payment excluding the value of the consideration received from non-residents, for a period of time not exceeding 15 days; and
- transfer of funds by Russian companies and individual entrepreneurs from their accounts in Russian banks to their accounts in foreign banks, in the amount of 25% of the sum of the transfer for 15 days (except for transfers to support foreign representative offices of Russian companies).

Up to \$150,000 worth of foreign securities in one calendar year may be purchased by Russian individuals from non-residents without any of the above restrictions.

While at present restrictions imposed on foreign currency operations are limited in scope, the statutory powers of the government and the Central Bank of Russia enable them to:

- increase the reservation requirements by an increase in the amount and/or the period of reservation; and/or
- extend the reservation requirements and other restrictions to other types of foreign currency operations envisaged by the Federal Law on Currency Regulation and Currency Control.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exemptions, covering, in particular, certain types of secured financing) and convert 10% of export receivables in foreign currency into rubles within seven days of the date on which they were received (also with a limited number of exemptions). Furthermore, certain types of cross-border operations may be performed only in rubles, including, for example, transactions with domestic securities, such as our shares, between residents and non-residents of Russia. These requirements increase balances in our ruble-denominated accounts and, consequently, our exposure to currency devaluation risk.

Restrictions on the remittance of dividends, interest or other payments to non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble and ruble-denominated investments.

E. Taxation

The following discussion describes the material United States federal and Russian income and withholding tax consequences to you if you are a U.S. holder of common stock or ADSs and a resident of the United States for purposes of the United States-Russia income tax treaty and are fully eligible for benefits under the United States-Russia income tax treaty. Subject to certain provisions of the United States-Russia income tax treaty relating to limitations on benefits, you generally will be a resident of the United States for treaty purposes that is entitled to treaty benefits if you are:

- liable, under the laws of the United States, to U.S. tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income); and
- not also a resident of the Russian Federation for Russian tax purposes.

The benefits under the United States-Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs or common stock in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States-Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office, and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

The following discussion is based on:

- the United States Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof;
- Russian legislation; and
- the United States-Russia income tax treaty (and judicial and administrative interpretations thereof);

all as in effect on the date of this document. All of the foregoing are subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to

Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

We believe, and the following discussion assumes, that for United States federal income tax purposes, we were not a passive foreign investment company, foreign personal holding company or foreign investment company for the taxable year ending in 2004, we are not a passive foreign investment company for the current taxable year and we will not become a passive foreign investment company in the future.

However, passive foreign investment company, foreign personal holding company and foreign investment company determinations are made annually and may involve facts that are not within our control. If we or one of our subsidiaries were a foreign personal holding company, a U.S. holder would be treated as receiving a dividend at the end of each taxable year in an amount equal to its pro rata share of that corporation's undistributed foreign personal holding company income and would be subject to other adverse U.S. federal tax consequences. The American Jobs Creation Act of 2004, or the Act, was recently enacted into law. The Act repeals the foreign personal holding company and foreign investment company rules for taxable years of foreign corporations beginning after December 31, 2004, and taxable years of U.S. holders with or within which such taxable years of foreign corporations end.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential United States federal or Russian income and withholding tax consequences to you of ownership of common stock or ADSs. We urge you to consult your own tax adviser regarding the specific United States federal, state, and local and Russian tax consequences of the ownership and disposition of the common stock or ADSs under your own particular factual circumstances.

Russian Income and Withholding Tax Considerations

The Russian tax rules applicable to U.S. holders are characterized by significant uncertainties and limited interpretive guidance. Russian tax authorities have provided limited guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In 2005, the Russian Ministry of Finance stated that ADS holders must be treated as the beneficial owners of the underlying shares for purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares. However, double tax treaty relief is available only if, before the transfer of dividends to the depository, the latter has provided the issuer with a list of ADS holders accompanied by each holder's tax residency certificate (confirmation of the country of tax residence). It is currently unclear whether depositories will be willing or able to provide residency certificates for ADS holders or implement procedures for holders to benefit from applicable tax treaties. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States-Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

However, if the Russian tax authorities were not to treat U.S. holders as the beneficial owners of the underlying shares, then the benefits discussed below regarding the United States-Russia income tax treaty would not be available to U.S. holders. Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

Taxation of Dividends

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate for legal entities and up to a 30% rate for individual holders. This tax may be reduced to 5% to 10% under the United States-Russia income tax treaty for U.S. holders; a 5% rate applies for U.S. holders who are legal entities owning 10% or more of the company's outstanding shares, and a 10% rate applies to dividends paid to U.S. holders, including individuals and legal entities, owning less than 10% of the company's outstanding shares. See "—United States-Russia Income Tax Treaty Procedures."

If the appropriate documentation has not been provided to us before the dividend payment date, we are required to withhold tax at the full rate, and U.S. holders qualifying for a reduced rate under the United States-Russia income tax treaty then would be required to file claims for refund within three years with the Russian tax authorities. There is significant uncertainty regarding the availability and timing of such refunds.

Taxation of Capital Gains

U.S. holders generally should not be subject to any Russian income or withholding taxes in connection with the sale, exchange, or other disposition of ADSs or common stock outside of Russia if the shares or ADSs are not sold to a Russian resident. Sales or other dispositions of ADSs or common stock to Russian residents, however, may be subject to Russian income or withholding taxes, and for such a sale by a U.S. holder, the Russian resident purchaser may be required to withhold 20% to 30% of any gain realized on the sale. However, there is no mechanism by which a Russian purchaser would be able to effect this withholding upon purchasing ADSs from a U.S. holder in connection with the sale of ADSs on the New York Stock Exchange.

U.S. holders may be able to claim the benefits of a reduced rate of withholding under the United States-Russia income tax treaty on the disposition of shares of common stock or ADSs to Russian residents, or obtain a refund of any withheld amounts at rates different from provided in the treaty, by relying on the United States-Russia income tax treaty and complying with the appropriate procedures described below.

Regardless of the residence of the purchaser, a U.S. holder which is a legal entity should not be subject to any Russian income or withholding taxes in connection with the sale, exchange, or other disposition of ADSs if immovable property situated in Russia constitutes 50% or less of our assets or if ADSs are sold via foreign exchanges where they are legally circulated.

United States-Russia Income Tax Treaty Procedures

Under current rules, to claim the benefit of a reduced rate of withholding under the United States-Russia income tax treaty, a non-resident generally must provide official certification from the U.S. tax authorities of eligibility for the treaty benefits in the manner required by Russian law.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, social security number, tax return form number and the tax period for which certification is required, to: IRS-Philadelphia Service Center, Foreign Certification Request, P.O. Box 16347, Philadelphia, Pennsylvania 19114-0447. The procedures for obtaining certification are described in greater detail in Internal Revenue Service Publication 686. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

If tax is withheld by a Russian resident on dividends or other amounts at a rate different from provided in the tax treaty, a U.S. holder may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted within three years from the withholding date for U.S. holders which are legal entities, and within one year from the end

of the year in which the withholding occurred for individual U.S. holders. The package should include the appropriate form (1011DT (2002) for non-dividend income and 1012DT (2002) for dividend income), confirmations of residence of the foreign holder (IRS Form 6166), a copy of the agreement or other documents substantiating the payment of income, documents confirming the beneficial ownership of the dividends recipient and the transfer of tax to the budget. Under the provisions of the Tax Code, the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

Neither the depository nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

United States Federal Income Tax Considerations

The following is a general description of the material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs or common stock who is a citizen or resident of the United States, a corporation (including any entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or a political subdivision thereof, an estate the income of which is subject to U.S. tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions or, if the trust was in existence on August 20, 1996 and has properly elected to continue to be treated as a United States person. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of ADSs or common stock, the United States federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Since your United States federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- an insurance company;
- a tax-exempt organization;
- a financial institution;
- a person subject to the alternative minimum tax;
- a person who is a broker-dealer in securities;
- an S corporation;
- an expatriate subject to Section 877 of the United States Internal Revenue Code;
- an owner of, directly, indirectly or by attribution, 10 percent or more of the outstanding shares of common stock; or
- an owner holding ADSs or common stock as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is generally limited to you if you will hold common stock or ADSs as "capital assets" within the meaning of Section 1221 of the United States Internal Revenue Code and your functional currency is U.S. dollar. The discussion below also does not address the effect of any United States state or local tax law or foreign tax law.

For purposes of applying United States federal income and withholding tax law, a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS.

The United States Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by United States persons of ADSs, of foreign tax credits for United States federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate United States persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate United States persons, could be affected by future actions that may be taken by the United States Treasury.

Taxation of Dividends on Common Stock or ADSs

For United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to common stock or ADSs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. For taxable years beginning after December 31, 2002 and before January 1, 2009, if you are a non-corporate taxpayer such dividends may be taxed at the lower applicable capital gains rate provided (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States-Russia income tax treaty, and (3) we are not, for the taxable year in which the dividend was paid, or in the preceding taxable year, a "foreign personal holding company," a "foreign investment company" or a "passive foreign investment company." The Act repeals the foreign personal holding company and foreign investment company rules for taxable years of foreign corporations beginning after December 31, 2004, and taxable years of U.S. holders with or within which such taxable years of foreign corporations end. Non-corporate U.S. holders are strongly urged to consult their own tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to ADSs or shares of common stock. Distributions in excess of our current or accumulated earnings and profits will be applied against and will reduce your tax basis in common stock or ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such common stock or ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on common stock or ADSs, which is generally available for dividends paid by U.S. corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the U.S. dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is includible in income by you, regardless of whether the payment is actually converted into U.S. dollars. Any gain or loss resulting from currency exchange rate fluctuations during the period from the date the dividend is includible in your income to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss. You may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States-Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian withholding tax at the rate applicable to you under the United States-Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If, however, the holder of an ADS is not treated as the

owner of the underlying common stock represented by the ADS for U.S. federal income tax purposes, then Russian withholding tax would not be treated as a foreign income tax eligible for credit as described in the preceding sentence. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

A dividend distribution will be treated as foreign source income and will generally be classified as "passive income" or, in some cases, "financial services income" for United States foreign tax credit purposes. The Act modifies the foreign tax credit limitation by reducing the number of classes of foreign source income to two for taxable years beginning after December 31, 2006. Under the Act, dividends generally constitute "passive category income" but could, in the case of certain U.S. holders, constitute "general category income." The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your own tax advisors with respect to those rules.

Taxation on Sale or Exchange of Common Stock or ADSs

The sale of common stock or ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale and your adjusted basis in such common stock or ADSs. That gain or loss will be capital gain or loss if the common stock or ADSs are capital assets in your hands and will be long-term capital gain or loss if the common stock or ADSs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Deposits and withdrawals of common stock by you in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain realized on the sale of common stock or ADSs will generally be treated as U.S. source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of common stock or ADSs.

Information Reporting and Backup Withholding

Dividends and proceeds from the sale or other disposition of common stock or ADSs that are paid in the United States or by a U.S.-related financial intermediary will be subject to U.S. information reporting rules and U.S. backup withholding tax, unless you are a corporation or other exempt recipient. In addition, you will not be subject to backup withholding if you provide your taxpayer identification number and certify that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding, but such holders may be required to provide certification as to their non-U.S. status.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at www.sec.gov. Information about Mobile TeleSystems OJSC is also available on the web at www.mts GSM.com. Information included in our website does not form part of this document.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign exchange risks exist to the extent our costs are denominated in currencies other than dollars. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing.

Interest Rate Risk

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2004, \$1,122.7 million, or 58% of our total indebtedness, including capital leases, was variable interest rate debt, while \$814.4 million, or 42.0% of our total indebtedness, including capital leases, was fixed interest rate debt.

For indebtedness with variable interest rates, the table below presents principal cash flows and related weighted average interest rates by contractual maturity dates as of December 31, 2004.

Contractual Maturity Date as of December 31, 2004

Bank	Currency	2005	2006	2007	2008	2009	Thereafter	Total	Annual interest rate (Actual interest rate at December 31, 2004)
(amounts in thousands of U.S. dollars)									
Syndicated loan	USD	\$140,000	\$280,000	\$180,000	\$—	\$—	\$—	\$600,000	LIBOR+2.50% (5.28%)
EBRD	USD	11,538	23,077	23,077	23,077	23,077	46,154	150,000	LIBOR+3.10% (5.88%)
CSFB	USD	140,000	—	—	—	—	—	140,000	LIBOR+2.20% (4.76%)
HSBC Bank plc & ING-BHF-Bank HECF (Hermes Credit Facility)	USD	9,929	9,929	9,929	9,929	9,929	27,358	77,003	LIBOR+0.44% (3.21%)
ING Bank Eurasia	EUR	14,189	14,189	14,189	14,189	7,095	—	63,851	EURIBOR+0.65% (2.86%)
	USD	26,667	20,000	—	—	—	—	46,667	LIBOR+2.25%-4.15% (4.81%-6.81%)
HSBC	USD	10,000	7,500	—	—	—	—	17,500	LIBOR+2.75% (5.24%)
Ericsson	USD	11,700	3,150	—	—	—	—	14,850	LIBOR+4.00% (6.56%)
Nordea Bank Sweden	USD	3,250	3,249	—	—	—	—	6,499	LIBOR+0.40% (3.18%)
WestLB	EUR	—	4,000	—	—	—	—	4,000	EURIBOR+2.00% (4.21%)
KFW	EUR	1,478	—	—	—	—	—	1,478	EURIBOR+0.95% (3.16%)
Citibank	USD	479	389	—	—	—	—	868	LIBOR+1.15% (3.17%)
Total variable debt		\$369,230	\$365,483	\$227,195	\$47,195	\$40,101	\$73,512	\$1,122,716	
Weighted average interest rate		5.00%	5.17%	5.10%	4.41%	4.68%	4.89%	5.03%	

We would experience an additional interest expense of approximately \$11.2 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current rate as of December 31, 2004. The fair value of our publicly traded fixed-rate long-term notes as of December 31, 2004 ranged from 102.4% to 105.5% of the notional amount. As of December 31, 2004, the difference between the carrying value and the fair value of other fixed rate debt was immaterial and the majority

of capital lease obligations is current. For details of our fixed-rate debt, refer to Note 11 to our audited consolidated financial statements. The fair value of variable rate debt is equivalent to carrying value.

In December 2004, we entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank plc to hedge our exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan. For details of these contracts, see Note 11 of our audited consolidated financial statements.

We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations.

Foreign Currency Risk

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

	Rubles per U.S. dollar			Period End
	High	Low	Average ⁽¹⁾	
Year ended December 31,				
2000	28.87	26.90	28.13	28.16
2001	30.30	28.16	29.22	30.14
2002	31.86	30.14	31.39	31.78
2003	31.88	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75

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

	Rubles per U.S. dollar	
	High	Low
December 2004	28.15	27.75
January 2005	28.16	27.75
February 2005	28.19	27.75
March 2005	27.83	27.46
April 2005	27.94	27.78
May 2005	28.09	27.78

Source: Central Bank of Russia.

On June 15, 2005, the exchange rate between the ruble and the U.S. dollar was 28.62 rubles per U.S. dollar.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of

Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

	Hryvnias per U.S. dollar			Period End
	High	Low	Average ⁽¹⁾	
Year ended December 31,				
2000	5.60	5.22	5.44	5.43
2001	5.43	5.27	5.37	5.30
2002	5.33	5.30	5.33	5.33
2003	5.33	5.33	5.33	5.33
2004	5.33	5.31	5.32	5.31

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

	Hryvnias per U.S. dollar	
	High	Low
December 2004	5.31	5.31
January 2005	5.31	5.30
February 2005	5.30	5.30
March 2005	5.30	5.28
April 2005	5.28	5.05
May 2005	5.05	5.05

Source: National Bank of Ukraine.

On June 15, 2005, the exchange rate between the hryvnia and the U.S. dollar was 5.05 hryvnias per U.S. dollar.

Our principal exchange rate risk involves changes in the value of the ruble and the euro relative to the U.S. dollar. As a result of inflation in Russia and Ukraine, we link our monetary assets and transactions, when possible, to the U.S. dollar, which under SFAS No. 52 is reported in this document as our functional currency. We have not entered into any significant currency hedging arrangements.

Substantially all of our capital expenditures and operating and borrowing costs are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate. These include salaries, interconnection costs, roaming expenses, cost of customer equipment, capital expenditures and borrowings. In order to hedge against a risk of exchange rate currency fluctuations, we also denominate a majority of our tariffs in Russia, which are payable in rubles, in units linked to the U.S. dollar and require accounts to be settled at the official exchange rate of the Central Bank of Russia on the date of payment.

If either of the ruble or the hryvnia declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our operating margins could be adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness.

Our investment in monetary assets denominated in rubles and hryvnias is also subject to risk of loss in U.S. dollar terms. In particular, we are unable mostly due to virtually absence of the respective market in Russia to hedge the risks associated with our ruble and hryvnia bank or deposit accounts. Generally, as the value of the ruble or the hryvnia declines, our net ruble and hryvnia monetary asset position results in currency remeasurement losses.

The potential decline in the value of the ruble or hryvnia against the U.S. dollar also reduces the U.S. dollar value of tax savings arising from the depreciation of our property, plant and equipment

since their basis for tax purposes is denominated in rubles or hryvnias at the time of the investment or acquisition.

A portion of our capital expenditures, operating and borrowing costs are denominated in euro. These include cost of customer equipment, capital expenditures and certain borrowings. We currently do not hedge against the risk of decline in the U.S. dollar against the euro because settlements denominated in euros are not significant.

We would experience a loss of \$18.6 million in the fair value of our ruble and hryvnia-denominated net monetary assets as a result of a hypothetical 10% increase in the ruble/hryvnia to U.S. dollar exchange rate at December 31, 2004. We would experience a loss of \$9.4 million in the fair value of our euro-denominated monetary liabilities as a result of a hypothetical 10% increase in the U.S. dollar to euro exchange rate at December 31, 2004. We are unable to estimate future loss of earnings as a result of such changes.

Item 12. *Description of Securities Other Than Equity Securities*

Not applicable.

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

None.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

A.-E. Not Applicable.

Item 15. *Controls and Procedures*

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in this report is recorded, processed, summarized and reported on a timely basis. Our President and Chief Financial Officer, with the assistance of other members of management, performed an evaluation of our disclosure controls and procedures as of December 31, 2004. Based on that evaluation, they concluded that our disclosure controls and procedures were effective as of December 31, 2004, to achieve their intended objectives.

There were no changes in our internal control over financial reporting during the fiscal year 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. *Audit Committee Financial Expert*

Our Board of Directors has determined that Michael Guenther is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Guenther is not independent under SEC Rule 10A-3, as that rule and its requirements do not apply to foreign private issuers, including us, until July 31, 2005.

Item 16B. *Code of Ethics*

We have adopted a Code of Ethics that applies to our senior officers. A copy of our Code of Ethics is available on our Internet website, <http://www.mts GSM.com>.

Item 16C. *Principal Accountant Fees and Services*

ZAO Deloitte & Touche CIS has served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2004, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the aggregate fees paid for professional services and other services to ZAO Deloitte & Touche CIS in 2004 and 2003.

	Year ended December 31,	
	2004	2003
	(in thousands)	
Audit Fees	\$1,532.2	\$1,508.8
Audit-Related Fees	220.5	—
Tax Fees	19.5	26.3
All Other Fees	—	12.5
Total	\$1,722.2	\$1,547.6

Audit Fees

The Audit Fees for the years 2004 and 2003 were for services associated with the consolidated U.S. GAAP audits, the quarterly reviews, several statutory audits, involvement with three U.S. dollar-denominated notes offerings including the preparation of comfort letters and reviews of the related offering memoranda.

Audit-Related Fees

We did not pay ZAO Deloitte & Touche CIS any Audit-Related Fees in 2003. The Audit-Related Fees paid in 2004 mainly included fees for due diligence, accounting consultations and audits in connection with acquisitions and internal control review.

Tax Fees

The Tax Fees for the years 2004 and 2003 were mainly for services associated with tax compliance and other tax consulting services.

All Other Fees

All Other Fees for the year 2003 were for services associated with training on accounting matters. No such fees were paid in 2004.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS for all services performed for the fiscal year ended December 31, 2004.

Item 16D. *Exemption from the Listing Standards for Audit Committees*

Not Applicable.

Item 16E. *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

No purchases were made by or on behalf of us or any affiliated purchaser of shares or other units of any class of our equity securities during the period covered by this annual report.

PART III

Item 17. *Financial Statements*

See instead Item 18.

Item 18. *Financial Statements*

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

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Item 19. Exhibits

No.	Description
1.1	Charter of Mobile TeleSystems OJSC (English Translation)
2.1	Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
4.1	Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by ABN AMRO Bank N.V., HSBC Bank PLC, ING Bank N.V., Raiffeisen Zentralbank Oesterreich AG as Original Mandated Lead Arrangers and Bank Austria Creditanstalt AG, Commerzbank Aktiengesellschaft as New Mandated Lead Arrangers, with ING Bank N.V., London Branch acting as Agent dated 26 July 2004.
4.2	Amendment and Transfer Agreement dated 30 September 2004 relating to a Facility Agreement dated 26 July 2004.
4.3	Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank.
4.4	Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
4.5	Indenture dated as of January 30, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
4.6	License No. 000612 permitting activities in the field of communication in the territory of Ukraine (English Translation) is incorporated herein by reference to Exhibit 4.13 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
4.7	License No. 000613 permitting activities in the field of communication in the territory of Ukraine (English Translation) is incorporated herein by reference to Exhibit 4.14 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
4.8	MTS license No. 24134 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band (CMC-1800) in the territory of the Urals region, the Republic of Komi, the Udmurt Republic; the Kirov, Kurgan, Orenburg, Perm, Sverdlovsk, Tyumen, and Chelyabinsk oblasts; and the Komi-Permyak, Khanty-Mansyisk, and Yamalo-Nenets autonomous okrugs (English Translation) is incorporated herein by reference to Exhibit 4.15 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
4.9	Amendment No. 1 to license No. 24134 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 900-MHz band on the same territory is incorporated herein by reference to Exhibit 4.15 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.

- 4.10 MTS license No. 24135 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band (CMC-1800) in the territory of the Central and Central-Chernozem regions and the Bryansk, Vladimir, Ivanovo, Tver, Kaluga, Kostroma, Orlov, Ryazan, Smolensk, Tula, Yaroslavl, Belgorod, Voronezh, Kursk, Lipetsk, Tambov, and Nizhny Novgorod oblasts (English Translation) is incorporated herein by reference to Exhibit 4.16 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
- 4.11 Amendment No. 1 to license No. 24135 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 900-MHz band on the same territory is incorporated herein by reference to Exhibit 4.17 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.12 MTS license No. 24136 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band (CMC-1800) in the territory of the city of Moscow and the Moscow oblast (English Translation) is incorporated herein by reference to Exhibit 4.17 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2002, on Form 20-F.
- 4.13 Amendment No. 1 to license No. 24136 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 900-MHz band on the same territory is incorporated herein by references to Exhibit 4.19 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.14 Far East Cellular Systems-900 License No. 5607 for provision of cellular radiotelephone communications services in the 900-MHz band in the territory of the Khabarovsk Krai is incorporated herein by reference to Exhibit 10.9 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.15 Amendment No. 5 to license No. 5607 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band on the same territory is incorporated herein by reference to Exhibit 4.21 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.16 Far East Cellular Systems-900 License No. 17765 for leasing of communications channels in the territory of the Khabarovsk Krai is incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.17 Kuban-GSM License No. 12039 for provision of data transmission services in the territory of the Krasnodar Krai is incorporated herein by reference to Exhibit 10.11 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.18 Kuban-GSM License No. 6731 for provision of cellular radiotelephone communications services in the 900-MHz band in the territory of the Krasnodar Krai is incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).

- 4.19 Amendment No. 8 to license No. 6731 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band on the same territory is incorporated herein by reference to Exhibit 4.25 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.20 Kuban-GSM License No. 9830 for provision of cellular radiotelephone communications services in the 900-MHz band in the territory of the Adyghe Republic is incorporated herein by reference to Exhibit 10.13 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.21 Amendment No. 6 to license No. 9830 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 1800-MHz band on the same territory is incorporated herein by reference to Exhibit 4.27 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.22 Kuban-GSM License No. 11957 for provision of telematic services in the 900-MHz band in the territory of the Krasnodar Krai is incorporated herein by reference to Exhibit 10.14 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.23 Kuban-GSM License No. 11947 for leasing of communications channels in the territory of the Krasnodar Krai is incorporated herein by reference to Exhibit 10.15 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.24 Telecom XXI license No. 10004 for the provision of cellular radiotelephone communications services in the 1800-MHz band in the territories of St. Petersburg, Petrozavodsk, Arkhangelsk, Vologda, Murmansk, Novgorod, Pskov, Kaliningrad and Naryan-Mar is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.25 Amendment No. 2 to license No. 10004 to provide cellular radiotelephone communications services of the public communications network using GSM equipment in the 900-MHz band on the same territory is incorporated herein by reference to Exhibit 4.31 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.
- 4.26 MTS license No. 15282 for the provision of local and interurban telephone services in the territories of Vladimir, Kaluga, Pskov, Ryazan, Smolensk and Tula is incorporated herein by reference to Exhibit 4.2 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.27 MTS license No. 15403 for the provision of telematic services in the territories of Vladimir, Kaluga, Pskov, Ryazan, Smolensk and Tula is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.28 MTS license No. 16245 for the provision of lease of communications channels in the territories of Ivanovo, Kirov, Nizhny Novgorod and Yaroslavl is incorporated herein by reference to Exhibit 4.4 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.

- 4.29 MTS license No. 17169 for the provision of videoconferencing services in the Republic of Komi and the Udmurt Republic; the regions of Komi-Permyatsky, Khanty-Mansyisk, Yamalo-Nenetsky, Amur, Belgorod, Bryansk, Vladimir, Voronezh, Ivanovo, Kaluga, Kirov, Kostroma, Kurgan, Kursk, Lipetsk, Moscow, Nizhny Novgorod, Omsk, Orenburg, Orlov, Perm, Pskov, Ryazan, Sverdlovsk, Smolensk, Tambov, Tver, Tula, Tyumen, Chelyabinsk and Yaroslavl; and the City of Moscow is incorporated herein by reference to Exhibit 4.5 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.30 MTS license No. 17333 for the provision of telematic services in the Republic of Komi and the Udmurt Republic; the regions of Komi-Permyatsky, Khanty-Mansyisk, Yamalo-Nenetsky, Amur, Belgorod, Bryansk, Vladimir, Voronezh, Ivanovo, Kaluga, Kirov, Kostroma, Kurgan, Kursk, Lipetsk, Moscow, Nizhny Novgorod, Omsk, Orenburg, Orlov, Perm, Pskov, Ryazan, Sverdlovsk, Smolensk, Tambov, Tver, Tula, Tyumen, Chelyabinsk and Yaroslavl; and the City of Moscow is incorporated herein by reference to Exhibit 4.6 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.31 MTS license No. 14667 for the provision of telematic services in the Republic of Komi; the regions of Kostroma, Moscow and Tver; and the City of Moscow is incorporated herein by reference to Exhibit 4.7 to the Annual Report filed pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.32 MTS GSM-900 license No. 14665 for the territory of the City of Moscow and Moscow region is incorporated herein by reference to Exhibit 10.1 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.33 MTS GSM-900 license No. 14662 for the territory of Tver region is incorporated herein by reference to Exhibit 10.2 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.34 MTS GSM-900 license No. 14664 for the territory of Kostroma region is incorporated herein by reference to Exhibit 10.3 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.35 MTS GSM-900 license No. 14663 for the territory of the Komi republic is incorporated herein by reference to Exhibit 10.4 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.36 MTS GSM-900 license No. 14452 for the territory of Smolensk region is incorporated herein by reference to Exhibit 10.5 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.37 MTS GSM-900 license No. 14453 for the territory of Vladimir region is incorporated herein by reference to Exhibit 10.6 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.38 MTS GSM-900 license No. 14454 for the territory of Pskov region is incorporated herein by reference to Exhibit 10.7 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.39 MTS GSM-900 license No. 14455 for the territory of Tula region is incorporated herein by reference to Exhibit 10.8 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).

- 4.40 MTS GSM-900 license No. 14456 for the territory of Kaluga region is incorporated herein by reference to Exhibit 10.9 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.41 MTS GSM-900 license No. 14457 for the territory of Ryazan region is incorporated herein by reference to Exhibit 10.10 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.42 Supplement No. 2 to Rosico license No. 10011 in order to provide GSM-900/1800 in the regions of Perm and Chelyabinsk is incorporated herein by reference to Exhibit 4.24 to the Annual Report filed pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F.
- 4.43 ReCom GSM-900 license No. 10015 for the territory of Oryol region is incorporated herein by reference to Exhibit 10.14 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.44 ReCom GSM-900 license No. 10020 for the territory of Kursk region is incorporated herein by reference to Exhibit 10.15 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.45 ReCom GSM-900 license No. 10021 for the territory of Belgorod region is incorporated herein by reference to Exhibit 10.16 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.46 ReCom GSM-900 license No. 10022 for the territory of Bryansk region is incorporated herein by reference to Exhibit 10.17 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.47 ReCom GSM-900 license No. 10023 for the territory of Lipetsk region is incorporated herein by reference to Exhibit 10.18 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.48 ReCom GSM-900 license No. 10024 for the territory of Voronezh region is incorporated herein by reference to Exhibit 10.19 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.49 Loan Agreement, dated as of December 20, 1996, by and between Rosico and Ericsson Project Finance AB is incorporated herein by reference to Exhibit 10.24 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 4.50 Interconnection Agreement, dated as of December 29, 1995, as amended, by and between MTS and Rostelecom is incorporated herein by reference to Exhibit 10.54 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.51 Interconnection Agreement, dated as of November 4, 1996, as amended, by and between MTS and MGTS is incorporated herein by reference to Exhibit 10.55 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.52 Interconnection Agreement, dated as of December 25, 2001, by and between MTS and MGTS is incorporated herein by reference to Exhibit 10.56 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.53 Interconnection Agreement, dated as of June 30, 1998, by and between MTS and MTU-Inform is incorporated herein by reference to Exhibit 10.28 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).

- 4.54 Interconnection Agreement, dated as of February 26, 1999, by and between MTS and Sovintel is incorporated herein by reference to Exhibit 10.58 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.55 Interconnection Agreement, dated as of August 28, 2000, by and between MTS and Sovintel is incorporated herein by reference to Exhibit 10.59 to Amendment No. 1 to the Registration Statement on Form F-4 (Registration No. 333-86974).
- 4.56 Software License Agreement, dated as of August 13, 1999, by and between MTS and Motorola, Inc. is incorporated herein by reference to Exhibit 10.33 to Amendment No. 5 to the Registration Statement on Form F-1 (Registration No. 333-12032).
- 8.1 List of Subsidiaries of Mobile TeleSystems OJSC (See Note 2 to our audited consolidated financial statements).
- 12.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
- 13.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

MOBILE TELESYSTEMS OJSC

Date: June 17, 2005

By: /s/ Vassily V. Sidorov

Vassily V. Sidorov

Title: President and Chief Executive Officer

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OJSC Mobile TeleSystems and Subsidiaries

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of OJSC Mobile TeleSystems:

We have audited the accompanying consolidated balance sheets of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (the "Group") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ ZAO Deloitte & Touche CIS

March 22, 2005, except for Note 23,
as to which the date is May 24, 2005

Moscow, Russia

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2004 and 2003

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

	December 31,	
	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	\$ 274,150	\$ 90,376
Short-term investments, including related party amounts of \$73,100 and \$245,000 as of December 31, 2004 and 2003, respectively (Note 5)	73,360	245,000
Trade receivables, net (Note 6)	162,525	99,951
Accounts receivable, related parties (Note 17)	17,768	3,356
Inventory (Note 7)	89,518	67,291
Prepaid expenses	79,971	46,679
Deferred tax asset, current portion (Note 14)	49,850	44,423
VAT receivable	272,578	209,629
Other current assets	21,235	33,774
Total current assets	1,040,955	840,479
PROPERTY, PLANT AND EQUIPMENT , net of accumulated depreciation of \$901,416 and \$532,268, respectively (Note 8)	3,234,318	2,256,076
LICENSES , net of accumulated amortization of \$417,158 and \$257,024, respectively (Notes 3 and 20)	771,271	703,103
GOODWILL (Notes 3 and 22)	108,329	8,533
OTHER INTANGIBLE ASSETS , net of accumulated amortization of \$277,905 and \$148,052, respectively (Notes 3 and 9)	328,533	304,144
DEBT ISSUANCE COSTS , net of accumulated amortization of \$9,345 and \$4,586, respectively (Note 11)	16,546	9,431
INVESTMENTS IN AND ADVANCES TO ASSOCIATES (Note 19)	81,235	103,585
Total assets	\$ 5,581,187	\$ 4,225,351

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

AT DECEMBER 31, 2004 and 2003
 (Amounts in thousands of U.S. dollars, except share and per share amounts)

	December 31,	
	2004	2003
CURRENT LIABILITIES:		
Accounts payable, related parties (Note 17)	\$ 17,009	\$ 31,904
Trade accounts payable	242,495	168,039
Deferred connection fees, current portion (Note 10)	45,083	21,467
Subscriber prepayments and deposits	308,859	191,768
Debt, current portion (Note 11)	370,845	103,312
Notes payable, current portion (Note 11)	—	597,836
Capital lease obligations, current portion (Notes 12 and 17)	8,561	9,122
Income tax payable	22,567	11,128
Accrued liabilities (Note 13)	180,677	143,789
Other payables	33,872	19,604
Total current liabilities	1,229,968	1,297,969
LONG-TERM LIABILITIES:		
Notes payable, net of current portion (Note 11)	800,000	800,000
Debt, net of current portion (Note 11)	753,795	142,418
Capital lease obligations, net of current portion (Notes 12 and 17)	3,947	7,646
Deferred connection fees, net of current portion (Note 10)	47,665	25,177
Deferred taxes (Note 14)	160,390	180,628
Total long-term liabilities	1,765,797	1,155,869
Total liabilities	2,995,765	2,453,838
COMMITMENTS AND CONTINGENCIES (Note 21)	—	—
MINORITY INTEREST	62,099	47,603
SHAREHOLDERS' EQUITY:		
Common stock: (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of December 31, 2004 and 2003, 432,414,940 of which are in the form of ADS (Note 1))	50,558	50,558
Treasury stock (7,202,108 and 9,929,074 common shares at cost as of December 31, 2004 and 2003, respectively) (Note 16)	(7,396)	(10,197)
Additional paid-in capital	564,160	559,911
Unearned compensation (Note 16)	(1,780)	(869)
Shareholder receivable (Note 11)	(18,237)	(27,610)
Accumulated other comprehensive income (Note 2)	22,444	7,595
Retained earnings	1,913,574	1,144,522
Total shareholders' equity	2,523,323	1,723,910
Total liabilities and shareholders' equity	\$ 5,581,187	\$ 4,225,351

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
 (Amounts in thousands of U.S. dollars, except share and per share amounts)

	Years ended December 31,		
	2004	2003	2002
NET OPERATING REVENUE			
Services revenue and connection fees	\$ 3,800,271	\$ 2,465,089	\$ 1,299,141
Sales of handsets and accessories	86,723	81,109	62,615
	<u>3,886,994</u>	<u>2,546,198</u>	<u>1,361,756</u>
Cost of services, excluding of depreciation and amortization shown separately below (including related party amounts of \$56,722, \$37,680 and \$31,607, respectively)	481,097	301,108	196,445
Cost of handsets and accessories	218,590	173,071	90,227
General and administrative expenses (including related party amounts of \$14,557, \$11,002 and 9,602, respectively) (Note 18)	575,296	355,230	215,942
Provision for doubtful accounts (Note 6)	26,459	32,633	7,047
Other operating expenses	29,777	18,859	6,067
Sales and Marketing expenses (including related party amounts of \$59,113, \$23,668 and \$12,140, respectively)	460,983	326,783	171,977
Depreciation and Amortization expenses	675,729	415,916	209,680
	<u>1,419,063</u>	<u>922,598</u>	<u>464,371</u>
Net operating income			
CURRENCY EXCHANGE AND TRANSACTION (GAINS)/LOSSES	(6,529)	(693)	3,474
OTHER EXPENSES/(INCOME) (including related party amounts of \$5,303, \$6,161 and \$5,141, respectively):			
Interest income	(21,792)	(18,076)	(8,289)
Interest expense	107,956	106,551	44,389
Other (income) expenses, net	(33,456)	3,420	(2,454)
	<u>52,708</u>	<u>91,895</u>	<u>33,646</u>
Total other expenses, net			
Income before provision for income taxes and minority interest	1,372,884	831,396	427,251
PROVISION FOR INCOME TAXES (Note 14)	354,664	242,480	110,417
MINORITY INTEREST	30,342	71,677	39,711
	<u>987,878</u>	<u>517,239</u>	<u>277,123</u>
NET INCOME	\$	\$	\$
Weighted average number of common shares outstanding	1,984,497,348	1,983,374,949	1,983,359,507
Earnings per share, basic and diluted:			
Net income	\$ 0.50	\$ 0.26	\$ 0.14

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
 (Amounts in thousands of U.S. dollars, except share amounts)

	Common Stock		Treasury Stock		Other comprehensive income	Additional Paid-in Capital	Unearned Compensation	Shareholder Receivable	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
BALANCES, December 31, 2001	1,993,326,138	\$ 50,558	(9,966,631)	\$ (10,206)	\$ —	\$ 555,794	\$ —	\$ (38,958)	\$ 461,091	\$ 1,018,279
Receivable from Sistema (Note 11):	—	—	—	—	—	—	—	—	—	—
Increases for interest	—	—	—	—	—	2,073	—	(2,073)	—	—
Payments from Sistema	—	—	—	—	—	—	—	6,619	—	6,619
Issuance of stock options (Note 16)	—	—	—	—	—	235	(235)	—	—	—
Amortization of deferred compensation (Note 16)	—	—	—	—	—	—	23	—	—	23
Dividends declared	—	—	—	—	—	—	—	—	—	—
Translation adjustment	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	277,123	277,123
BALANCES, December 31, 2002	1,993,326,138	\$ 50,558	(9,966,631)	\$ (10,206)	\$ —	\$ 558,102	\$ (212)	\$ (34,412)	\$ 738,214	\$ 1,302,044
Receivable from Sistema (Note 11):	—	—	—	—	—	—	—	—	—	—
Increases for interest	—	—	—	—	—	807	—	(807)	—	—
Payments from Sistema	—	—	—	—	—	—	—	7,609	—	7,609
Issuance of stock options (Note 16)	—	—	—	—	—	1,002	(1,002)	—	—	—
Stock options exercised (Note 16)	—	—	37,557	9	—	—	—	—	—	9
Amortization of deferred compensation (Note 16)	—	—	—	—	—	—	345	—	—	345
Dividends declared (Note 1)	—	—	—	—	—	—	—	—	(110,931)	(110,931)
Translation adjustment	—	—	—	—	7,595	—	—	—	—	7,595
Net income	—	—	—	—	—	—	—	—	517,239	517,239
BALANCES, December 31, 2003	1,993,326,138	\$ 50,558	(9,929,074)	\$ (10,197)	\$ 7,595	\$ 559,911	\$ (869)	\$ (27,610)	\$ 1,144,522	\$ 1,723,910
Receivable from Sistema (Note 11):	—	—	—	—	—	—	—	—	—	—
Increases for interest	—	—	—	—	—	1,190	—	(1,190)	—	—
Payments from Sistema	—	—	—	—	—	—	—	10,563	—	10,563
Issuance of stock options (Note 16)	—	—	—	—	—	1,811	(1,811)	—	—	—
Stock options exercised (Note 16)	—	—	2,726,966	2,801	—	1,248	—	—	—	4,049
Amortization of deferred compensation (Note 16)	—	—	—	—	—	—	900	—	—	900
Dividends declared (Note 1)	—	—	—	—	—	—	—	—	(218,826)	(218,826)
Translation adjustment	—	—	—	—	15,361	—	—	—	—	15,361
Change in fair value of interest rate swaps, net of taxes	—	—	—	—	(512)	—	—	—	—	(512)
Net income	—	—	—	—	—	—	—	—	987,878	987,878
BALANCES, December 31, 2004	1,993,326,138	\$ 50,558	(7,202,108)	\$ (7,396)	\$ 22,444	\$ 564,160	\$ (1,780)	\$ (18,237)	\$ 1,913,574	\$ 2,523,323

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
 (Amounts in thousands of U.S. dollars)

	Years ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 987,878	\$ 517,239	\$ 277,123
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	30,342	71,677	39,475
Depreciation and amortization	675,729	415,916	209,680
Amortization of deferred connection fees	(46,978)	(29,372)	(24,854)
Equity in net income of associates	(24,146)	(2,670)	—
Inventory obsolescence expense	4,610	3,307	5,614
Provision for doubtful accounts	26,459	32,633	7,047
Deferred taxes	(76,023)	(43,001)	(18,989)
Non-cash expenses associated with stock bonus and stock options	900	213	23
Changes in operating assets and liabilities:			
Increase in accounts receivable	(101,223)	(64,384)	(20,305)
Increase in inventory	(24,179)	(14,737)	(18,186)
Increase in prepaid expenses and other current assets	(18,571)	(19,151)	(10,056)
Increase in VAT receivable	(55,044)	(50,230)	(64,154)
Increase in trade accounts payable, accrued liabilities and other current liabilities	331,835	148,544	30,354
Net cash provided by operating activities	1,711,589	965,984	412,772
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of subsidiaries, net of cash acquired	(355,744)	(667,206)	(143,396)
Purchases of property, plant and equipment	(1,204,400)	(839,165)	(502,054)
Purchases of intangible assets	(154,544)	(119,606)	(72,218)
Purchases of short-term investments	(114,440)	(215,000)	—
Proceeds from sale of short-term investments	286,340	—	55,304
Investments in and advances to associates	(413)	(69,110)	(35,557)
Net cash used in investing activities	(1,543,201)	(1,910,087)	(697,921)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock options exercised	4,049	—	—
Proceeds from issuance of notes	—	1,097,000	50,808
Repayment of notes	(600,000)	—	—
Notes and debt issuance cost	(12,039)	(9,556)	(649)
Capital lease obligation principal paid	(15,274)	(22,646)	(1,804)
Dividends paid including taxes	(232,662)	(110,864)	—
Proceeds from loans	1,177,556	712,716	52,851
Loan principal paid	(320,511)	(677,374)	(7,008)
Payments from Sistema	9,654	8,269	6,619
Net cash provided by financing activities	10,773	997,545	100,817
Effect of exchange rate changes on cash and cash equivalents	4,613	2,273	(636)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	183,774	55,715	(184,968)
CASH AND CASH EQUIVALENTS, beginning of year	90,376	34,661	219,629
CASH AND CASH EQUIVALENTS, end of year	\$ 274,150	\$ 90,376	\$ 34,661
SUPPLEMENTAL INFORMATION:			
Income taxes paid	\$ 430,109	\$ 286,016	\$ 147,346
Interest paid	\$ 142,899	\$ 79,824	\$ 43,438
Non-cash investing activities:			
Additions to network equipment and software under capital lease	\$ 2,861	\$ 10,928	\$ 18,917
Payable related to business acquisition (Note 3)	\$ —	\$ 27,500	\$ —
Additions to network through Hermes financing	\$ 8,800	\$ —	\$ —

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

1. DESCRIPTION OF BUSINESS

Business of the Group—

OJSC Mobile TeleSystems and its subsidiaries ("MTS" or the "Group") is the leading provider of wireless telecommunication services in the Russian Federation ("RF"), Ukraine and Uzbekistan in terms of the number of subscribers and revenues. The Group has operated primarily in the GSM standard since 1994.

Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC" or the "Company") was created on March 1, 2000, through the merger of Closed Joint-Stock Company Mobile TeleSystems ("MTS CJSC") and RTC CJSC, a wholly-owned subsidiary. MTS CJSC was formed in 1993 to design, construct and operate a cellular telecommunications network in Moscow and the Moscow region. The development of the network was achieved through green-field build-out in the regions for which the company was granted 900 or 1800 MHz ("GSM-900" and "GSM-1800") cellular licenses or through the acquisition of majority stakes in local GSM operators (see Note 20 Operating Licenses and Note 3 Businesses Acquired).

The Company's shares are traded in the form of American Depositary Shares ("ADS"). Each ADS represents 20 shares of common stock of the Company. The Company issued a total of 17,262,204 ADS, representing 345,244,080 common shares.

Ownership—

As of December 31, 2004 and December 31, 2003, MTS' shareholders of record and their respective percentage direct interests were as follows:

	December 31,	
	2004	2003
Joint-Stock Financial Corporation "Sistema" ("Sistema")	41.0%	41.0%
T-Mobile Worldwide Holding GmbH ("T-Mobile")	10.1%	25.4%
VAST, Limited Liability Company ("VAST")	3.1%	3.1%
Invest-Svyaz-Holding, Closed Joint-Stock Company	8.0%	8.0%
ADS Holders	21.7%	17.4%
GDR Holders and Others	16.1%	5.1%
	<u>100.0%</u>	<u>100.0%</u>

In March 2003, Sistema and T-Mobile (together, "the Shareholders") entered into a call option agreement, pursuant to which T-Mobile granted Sistema the option to acquire from it 199,332,614 shares of MTS, representing 10.0% of outstanding common stock of MTS. On April 26, 2003, Sistema exercised its option with T-Mobile to purchase an additional 6.0% of the outstanding common stock of MTS and purchased T-Mobile's 49.0% interest in Invest-Svyaz-Holding, bringing its interest in Invest-Svyaz-Holding to 100.0%. Concurrently with this transaction, T-Mobile sold its holding of 5.0% in MTS on the open market in the form of Global Depositary Receipts ("GDRs") listed on the London Stock Exchange.

In December 2004 T-Mobile sold 15.09% stake in MTS on the open market in form of the GDRs.

Sistema owns a 51.0% equity interest in VAST, a limited liability company incorporated under the laws of the Russian Federation; the remaining 49.0% interest is held by ASVT, a Russian open joint-stock company. Sistema's effective ownership in MTS is 50.6% at December 31, 2004 and December 31, 2003.

In April 2003, Sistema issued \$350.0 million 10.25% notes, due in 2008. These notes are collateralized by 193,473,900 shares of common stock of MTS OJSC.

On June 30, 2003, the Group approved cash dividends of \$1.12 per ADS (\$0.056 per share) for a total of \$111.0 million. As of December 31, 2004 dividends were fully paid.

On November 28, 2003, common shares of MTS OJSC were included by the Board of Moscow Interbank Currency Exchange ("MICEX") into the MICEX "B" Quotation List.

On June 24, 2004, MTS' shareholders approved cash dividends totaling \$220.0 million (\$2.2 per ADS), including \$1.1 million related to treasury stock, which were fully paid by December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Accounting Principles—

MTS maintains its accounting books and records in Russian rubles for its subsidiaries located in the Russian Federation ("RF"), in Ukrainian hryvnias for Ukrainian Mobile Communications ("UMC"), and Uzbek som for Uzdurobita based on respective local accounting and tax legislations. The accompanying consolidated financial statements have been prepared in order to present MTS' financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and expressed in terms of U.S. dollars.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect various adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting and depreciation and valuation of property and equipment and intangible assets.

Basis of Consolidation—

Wholly-owned subsidiaries and majority-owned subsidiaries where the Company has operating and financial control are consolidated. Those ventures where the Company exercises significant influence, but does not have operating and financial control are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated upon consolidation. The Company's share in net income of unconsolidated affiliates is included in other income in the accompanying consolidated statements of operations and disclosed in Note 19. Results of operations of subsidiaries acquired are included in the consolidated statements of operations from the date of their acquisition.

As of December 31, 2004 and 2003, MTS has investments in the following significant legal entities:

	Accounting Method	December 31,	
		2004	2003
ACC	Consolidated	100.0%	100.0%
Telecom XXI	Consolidated	100.0%	100.0%
Telecom-900	Consolidated	100.0%	100.0%
SCS-900	Consolidated	100.0%	88.5%
FECS-900	Consolidated	100.0%	60.0%
Uraltel	Consolidated	99.8%	99.8%
MTS Finance ⁽¹⁾	Consolidated	100.0%	100.0%
BM Telecom	Consolidated	100.0%	100.0%
Kuban-GSM	Consolidated	100.0%	100.0%
Dontelecom	Consolidated	100.0%	100.0%
MTS-Barnaul	Consolidated	100.0%	100.0%
BIT	Consolidated	100.0%	100.0%
MTS-Capital	Consolidated	100.0%	100.0%
UMC	Consolidated	100.0%	100.0%
Sibchallenge	Consolidated	100.0%	100.0%
TSS	Consolidated	100.0%	100.0%
Volgograd Mobile	Consolidated/Equity	100.0%	50.0%
Astrakhan Mobile	Consolidated/Equity	100.0%	50.0%
Mar Mobile GSM	Consolidated	100.0%	100.0%
Primtelefon	Consolidated/Equity	100.0%	50.0%
MSS	Consolidated	91.0%	83.5%
ReCom	Consolidated	53.9%	53.9%
TAIF Telecom	Consolidated	100.0%	52.7%
UDN-900	Consolidated	100.0%	51.0%
Novitel	Consolidated	100.0%	51.0%
MTS-Kostroma	Consolidated	100.0%	100.0%
MTS-NN	Consolidated	100.0%	65.0%
Uzdunrobita	Consolidated	74.0%	—
Sibintertelecom	Consolidated	93.5%	—
Gorizont-RT	Consolidated	76.0%	—
Telesot Alania	Consolidated	52.5%	—
MTS-Komi Republic	Equity	26.0%	26.0%
MTS Belarus	Equity	49.0%	49.0%
MTS-Tver	Equity	26.0%	26.0%

⁽¹⁾ Represents beneficial ownership.

Translation Methodology—

Management uses the U.S. dollar as the functional currency for MTS OJSC and the most of its subsidiaries because the majority of their revenues, costs, property, plant and equipment and intangible assets purchases, and debt are either priced, incurred, payable or otherwise measured in U.S. dollars.

Each of the legal entities domiciled in Russia, Ukraine, Uzbekistan and Belarus maintains its records and prepares its financial statements in the local currency, either Russian ruble, Ukrainian hryvnia, Uzbek som or Belarusian ruble, in accordance with the requirements of local statutory accounting and tax legislation.

Translation (re-measurement) of financial statements denominated in local currencies into U.S. dollars has been performed in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 52 "Foreign currency translation":

- For subsidiaries of the Group, where functional currency is the U.S. dollar, monetary assets and liabilities have been translated at the period end exchange rates. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have been translated at historical rates. Translation differences resulting from the use of these rates have been accounted for as foreign currency gains and losses in the accompanying consolidated statements of operations.
- For UMC and Kuban-GSM where functional currency is the local currency, Ukrainian hryvnia and Russian ruble, respectively, all year end balance sheet items have been translated into U.S. dollars at the period end exchange rate. Revenues and expenses have been translated at period average exchange rate. In addition, a "new cost basis" for all non-monetary assets of Kuban-GSM has been established as of January 1, 2003, when the Russian economy ceased to be considered hyperinflationary. Cumulative translation adjustment; related to the translation of UMC and Kuban-GSM, in the amount of \$22.4 million, net of income taxes, was reported as accumulated other comprehensive income in the accompanying consolidated balance sheet at December 31, 2004.

Management Estimates—

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

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

Cash and Cash Equivalents—

Cash represents cash on hand and in MTS' bank accounts and short-term investments having original maturities of less than three months.

Short-term Investments—

Short-term investments represent investments in term deposits, which have original maturities in excess of three months but less than twelve months. These investments are being accounted for at cost.

Allowance for Doubtful Accounts—

MTS provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable from customers and other receivables.

Prepaid Expenses—

Prepaid expenses are primarily comprised of advance payments made for inventory and services to vendors.

Inventory—

Inventory, accounted for at cost, determined by the first-in, first-out, or FIFO method, consists of telephones and accessories held for sale and spare parts to be used for equipment maintenance within next twelve months and other inventory items.

Telephones and accessories held for sale are written down to their market values based on specific periodic reviews and are expensed as cost of equipment sold.

Value-added Tax ("VAT")—

Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Property, Plant and Equipment—

Property, plant and equipment, including improvements that extend useful lives, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life as follows:

Network and base station equipment	5-12 years
Leasehold improvements	shorter of 8-10 years or lease term
Office equipment and computers	5 years
Buildings	50 years
Vehicles	4 years

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use.

Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

As a result of recent financial statement restatements by numerous U.S. public companies and publication of a letter by the Chief Accountant of the SEC regarding the interpretation of longstanding lease accounting principles, MTS has corrected its accounting practices for the leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements.

These corrections resulted in a cumulative, net charge to net income of \$34.9 million in the fourth quarter of 2004, of which \$21.5 million relates to the years 1998 through 2003. The net cumulative charge is comprised of a \$44.5 million increase in depreciation expense related primarily to depreciation of capitalized leasehold improvements expenses for base stations; a decrease of \$1.4 million in the equity net income from the MTS-Belarus also related to depreciation of capitalized leasehold improvements expenses for base stations positions; and increase of \$11.0 million related to additional deferred tax benefit due to the change in accounting base for property, plant and equipment.

All components of the net charge are non-cash and do not impact historical or future cash flows or the timing of payments under the related leases.

Asset Retirement Obligations—

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 143, "Accounting for Asset Retirement Obligations, the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2004 the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

License Costs—

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

Current operating licenses of the Group do not provide for automatic renewal upon expiration. As the Group and the industry do not have sufficient experience with the renewal of licenses, license costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over three to ten years starting from the date such license becomes commercially operational.

Other Intangible Assets and Goodwill—

Intangible assets represent various purchased software costs, telephone numbering capacity, acquired customer base and rights to use premises. A part of the rights to use premises was contributed by shareholders to the Group's charter capital. Telephone numbering capacity costs with finite contractual life are being amortized over five to ten years and the rights to use premises are being amortized over ten years. Amortization of numbering capacity costs starts immediately upon the purchase of numbering capacity. Telephone numbering capacity with unlimited contractual life is not amortized, but is reviewed, at least annually, for impairment in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets. ("SFAS No. 142")

Software costs are amortized over four years. Acquired customer bases are amortized over their estimated average subscriber life from 20 to 76 months. Other intangible assets are being amortized over three to four years. All finite-life intangible assets are being amortized using the straight-line method.

Goodwill represents an excess of the cost of business acquired over the fair market value of identifiable net assets at the date of acquisition.

Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with SFAS No. 142, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. To date, no impairment of goodwill has occurred.

Leasing Arrangements—

The Group accounts for leases based on the requirements of SFAS No. 13, "Accounting for Leases." Certain subsidiaries of the Group lease operating facilities, which include switches, base stations and other cellular network equipment, as well as billing systems. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the balance sheet. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

Subscriber Acquisition Costs—

Subscriber acquisition costs represent the direct costs paid for each new subscriber enrolled through MTS' independent dealers. MTS expenses these costs as incurred.

Investments Impairment—

Management periodically assesses the realizability of the carrying values of the investments and if necessary records impairment losses to write the investment down to fair value. For the three years in the period ended December 31, 2004, no such impairment has occurred.

Debt Issuance Costs—

Debt issuance costs are amortized using the effective interest method over the terms of the related debt.

Impairment of Long-Lived Assets—

MTS periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, MTS compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, MTS records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. No impairment of long-lived assets has occurred during the three years in the period ended December 31, 2004.

Subscriber Prepayments—

MTS requires the majority of its customers to pay in advance for telecommunication services. All amounts received in advance of service provided are recorded as a subscriber prepayment liability and are not recorded as revenues until the related services have been provided to the subscriber.

Revenue Recognition—

Revenues are recognized on an accrual basis, when services are actually provided or title to equipment passes to customer, regardless of when the resulting monetary or financial flow occurs.

MTS categorizes the revenue sources in the statements of operations as follows:

- Service revenue and connection fees: (a) subscription fees, (b) usage charge, (c) value added service fees, (d) roaming fees charged to other operators for guest roamers utilizing MTS' network, (e) connection fees and (f) prepaid phone cards;
- Sales of handsets and accessories.

Subscription Fees—

MTS recognizes revenues related to the monthly network fees in the month that the wireless service is provided to the subscriber.

Usage Charges and Value Added Services Fees—

Usage charges consist of fees based on airtime used by subscriber, the destination of the call and the service utilized.

Value added service fees are based on usage of airtime or volume of data transmitted for value added services, such as short message services, internet usage and data services. MTS recognizes revenues related to usage charges and value added services in the period when services are rendered.

Roaming Fees—

MTS charges roaming per-minutes fees to other wireless operators for non-MTS subscribers utilizing MTS' network. MTS recognizes such revenues when the services are provided.

Connection Fees—

MTS defers initial connection fees on its prepaid and postpaid tariff plans from the moment of initial signing of the contract with subscribers over the estimated average subscriber life. Prior to December 31, 2003 the Group estimated that the average expected term of the subscriber relationship ranged from 39 to 47 months.

Based on management analysis of the subscriber base in the regions the Group operates, churn periods effective January 1, 2004, have been changed accordingly. Commencing January 1, 2004 the Group calculates an average expected term of the subscriber relationship for each region and amortizes regional connection fees accordingly. Average expected subscriber life ranges from 20 to 76 months. The effect of change in estimate in 2004 was approximately \$8.5 million, net of income tax or \$0.004 per share.

Prepaid Phone Cards—

MTS sells prepaid phone cards to subscribers, separately from the handsets. These cards allow subscribers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and sending or receiving faxes.

At the time that the prepaid phone card is purchased by a subscriber, MTS records the receipt of cash as a subscriber prepayment. The Group recognizes revenues from the sale of phone cards in the period when the subscriber uses airtime under the phone card. Unused airtime on sold phone cards is not recognized as revenues until the related services have been provided to the subscriber or the prepaid phone card expired.

Recently MTS introduced a new line of prepaid service tariff plans, whereby a customer may purchase a package that allows a connection to the MTS network and a predetermined allotment of wireless phone calls and/or other services offered by the Group. Revenues under these plans are allocated between connection fees and service fees based on their relative fair values.

Sales of Handsets and Accessories—

MTS sells handsets and accessories to customers who are entering into contracts for service and also as separate distinct transactions. The Group recognizes revenues from the sale of handsets and accessories when a title for product passes to the customer. MTS records estimated returns as a direct reduction of sales at the time the related sales are recorded. The costs of handsets and accessories, whether sold to subscribers through the distribution channel or as part of the service contract, are expensed when title passes to the customer.

In Ukraine, MTS also from time to time sells handsets at prices below cost. MTS recognizes these subsidies in cost of equipment when the sale is recorded.

Expense Recognition—

Expenses incurred by MTS in relation to the provision of wireless communication services mainly relate to interconnection and line rental costs, roaming expenses, costs of handsets and other accessories sold, depreciation and amortization and maintenance of the network.

Calls made by subscribers from areas outside of territories covered by the Group licenses are subject to roaming fees charged by the wireless provider in those territories. These fees are recorded as roaming expenses, as MTS acts as the principal in the transaction with subscriber and bears the risk of non-collection from the subscriber. Roaming fees are charged to MTS subscribers based on Group's existing tariffs and are recorded as service revenues.

Any fees paid to dealers as commissions are recorded as a component of sales and marketing expenses.

Taxation—

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely that these assets will not be realized.

Advertising Costs—

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2004, 2003 and 2002 were \$159,035, \$102,018 and \$48,624, respectively, and are reflected as a component of sales and marketing expenses in the accompanying consolidated statements of operations.

Government Pension Fund—

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

In Russia, starting from January 1, 2001 all social contributions, including contributions to the pension fund, were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 28% to 2%, respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

In Ukraine, the subsidiary of the Group is required to contribute a specified percentage of each employee payroll up to a fixed limit to the Ukrainian pension fund, unemployment fund and social security fund.

The Group does not participate in any pension funds other than described above.

Earnings per Share—

Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the year. Diluted EPS reflect the potential dilution of stock options, granted to employees. There are 3,530,970 stock options outstanding as at December 31, 2004.

The following is the reconciliation of the share component for basic and diluted EPS with respect to the Group's net income:

	December 31,		
	2004	2003	2002
Weighted average number of common share outstanding	1,984,497,348	1,983,374,949	1,983,359,507
Dilutive effect of stock options, as if exercised	1,168,573	1,727,131	405,946
Weighted average number of common shares and potential shares outstanding	1,985,665,921	1,985,102,080	1,983,765,453

Fair Value of Financial Instruments—

The fair market value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, which are included in current assets and liabilities, approximates the carrying value of these items due to the short term nature of these amounts. As of December 31, 2004 the \$400 million Notes due in 2008 have fair value of 105.5% or \$422 million and the \$400 million Notes due in 2010 have fair value of 102.4% or \$410 million. As of December 31, 2004, fair value of other fixed rate debt including capital lease obligation approximated its carrying value. The fair value of variable rate debt approximates carrying value.

Derivative Financial Instruments and Hedging Activities—

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, in December 2004, the Group entered into two variable-to-fixed interest rate swap agreements to manage its exposure to changes in fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate fluctuations. The Group does not use derivatives for trading purposes.

The Group accounts for its derivative financial instruments following the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." All derivatives are recorded as either assets or liabilities in the consolidated balance sheets and measured at their respective fair values. The Group's interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense when the hedged debt affects the interest expense. Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges.

At the inception of the hedge and on a quarterly basis, the Group performs an analysis to assess whether changes in cash flows of its interest rate swap agreements are deemed highly effective in offsetting changes in cash flows of the hedged debt. If at any time the correlation assessment will indicate that the interest rate swap agreements are no longer effective as a hedge, the Group will discontinue hedge accounting and all subsequent changes in fair value will be recorded in net income.

Comprehensive income—

Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources. The following is the reconciliation of other comprehensive income, net of tax for the years ended December 31, 2004, 2003 and 2002:

	December 31,		
	2004	2003	2002
Net Income	\$ 987,878	\$ 517,239	\$ 277,123
Translation Adjustment	15,361	7,595	—
Change in fair value of interest rate swaps, net of tax of \$123	(512)	—	—
Total Comprehensive Income	\$ 1,002,727	\$ 524,834	\$ 277,123

Comparative Information—

Certain prior year amounts have been reclassified to conform to the current period presentation.

Stock-based Compensation—

MTS accounts for stock options issued to employees, non-employee directors and consultants following the requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock Based Compensation — Transition and Disclosure, an amendment to FASB

Statement No. 123. Under the requirements of these statements, the Company elected to use intrinsic value of options on the measurement date as a method for accounting for compensation to employees and non-employee directors. Compensation to consultants is measured based on the fair value of options on the measurement date as determined using a binomial option-pricing model.

If the Group had elected to recognize compensation costs based on the fair values of options at the date of the grant, net income and earning per share amounts would have been as follows:

	December 31,		
	2004	2003	2002
Net income as reported	\$ 987,878	\$ 517,239	\$ 277,123
Pro-forma effect of the application of fair value method of accounting	(1,078)	(727)	(460)
Pro-forma net income	\$ 986,800	\$ 516,512	\$ 276,663
Earnings per share—basic and diluted			
As reported	\$ 0.50	\$ 0.26	\$ 0.14
Pro-forma	\$ 0.50	\$ 0.26	\$ 0.14

New and Recently Adopted Accounting Pronouncements—

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51" ("FIN 46"), to address perceived weaknesses in accounting for entities commonly known as special-purpose or off-balance-sheet. In addition to numerous FASB Staff Positions written to clarify and improve the application of FIN 46, the FASB announced a deferral for certain entities, and an amendment to FIN 46 entitled FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46 establishes consolidation criteria for entities for which "control" is not easily discernable under Accounting Research Bulletin No. 51, "Consolidated Financial Statements," which is based on the premise that holders of the equity of an entity control the entity by virtue of voting rights.

FIN 46 provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial interests rather than from voting interests. FIN 46 defines the term variable interest entity, or VIE, and is based on the premise that if a business enterprise absorbs a majority of the VIE's expected losses and/or receives a majority of its expected residual returns (measures of risk and reward), that enterprise (the primary beneficiary) has a controlling financial interest in the VIE. Under FIN 46, the assets, liabilities, and results of the activities of the VIE should be included in the consolidated financial statements of the primary beneficiary. The Group was required to apply the provisions of FIN 46R in the first quarter 2004. As the Group did not have any VIEs during the year ended December 31, 2004, the adoption of this new method of accounting for VIEs did not affect its financial condition or results of operations as of December 31, 2004.

In September 2004, EITF issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination". In this issue the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This Issue requires certain additional disclosures for business combinations between parties with a preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. The Group does not

anticipate that the adoption of EITF Issue No. 04-1 will have a material impact on its financial position or results of operations.

At the September 2004 meeting of the Emerging Issues Task Force, the SEC staff issued an announcement D-108 "Use of the residual method to value acquired assets other than goodwill" stating that companies must use the direct value method to determine the fair value of their intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing, must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004.

As of December 31, 2004, the Group performed the annual impairment test to measure the fair value of our 900 and 1800 megahertz or MHz, licenses in its national footprint using the residual value approach. Under this new accounting guidance, the Group performed an impairment test to measure the fair value of our 900 and 1800 MHz licenses as of January 1, 2005 using the direct value method. Based on the assessment no impairment charge as of December 31, 2004 is required.

In December 2004, Financial Accounting Standards Board ("FASB") issued SFAS No. 123R (revised 2004), "Share-Based Payment." The statement is a revision of FASB Statement No. 123, "Accounting for Stock Based Compensation," and supersedes Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees." The statement focuses primarily on accounting for transactions in which the Group obtains employee services in share-based payment transactions. This statement requires a public company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This standard is scheduled to become effective in the first interim reporting period beginning after June 15, 2005. Assuming that the effective date is not delayed, the Group will apply this new standard to its interim reporting period beginning July 1, 2005. The Group has not yet determined the amount of impact on the consolidated statements of operations following adoption and subsequent to 2005 or the transition method the Group will use. The Group does not believe that results of the adoption of SFAS No. 123R will be significant to the consolidated financial position or results of operations.

In March 2005, the U.S. Securities and Exchange Commission, or SEC, released Staff Accounting Bulletin 107, "Share-Based Payments", or SAB 107. The interpretations in SAB 107 express views of the SEC staff, or staff, regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, the modification of employee share options prior to adoption of SFAS No. 123R.

In March 2005, FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity, in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation 47 is effective for us beginning January 1, 2006. The Group is currently in the process of assessing effects of Interpretation 47 on its consolidated financial position and result of operations.

3. BUSINESSES ACQUIRED

Gorizont—RT Acquisition—

In December 2004, MTS completed transaction to acquire a 76.0% stake in Gorizont-RT, a GSM mobile phone operator in the Republic of Sakha (Yakutia) in the Far East of Russia, for cash consideration of \$53.2 million. Gorizont-RT holds licenses to provide GSM-900/1800 services in the Republic of Sakha (Yakutia). Commencing from the date of acquisition, MTS consolidates financial results of Gorizont-RT. The Gorizont-RT's customer base as at the date of acquisition was approximately 100,000 subscribers.

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

Current assets	\$ 3,820
Non-current asset	17,501
License costs	26,362
Customer base cost	1,050
Trade mark	153
Goodwill	20,214
Current liabilities	(4,949)
Non-current liabilities	(529)
Deferred taxes	(6,814)
Minority interest	(3,604)
	<hr/>
Purchase price	\$ 53,204

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition.

Sibintertelecom Acquisition—

In November 2004, MTS acquired a 93.53% stake in Sibintertelecom, mobile phone operator in Chita region and Aginsk-Buryatsk District in the Far-East of Russia, for cash consideration of

\$37.4 million. Sibintertelecom holds license to provide 900 MHz services in Chita region and Aginsk-Buryatsk District in the Far-East of Russia. Sibintertelecom is the sole mobile service provider in two regions with a total population of 1.23 million. Commencing from the date of acquisition, MTS consolidates financial results of Sibintertelecom. The company's customer base as at the date of acquisition was approximately 100,000 subscribers.

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

Current assets	\$ 5,939
Non-current asset	6,966
License costs	29,555
Customer base cost	1,488
Trademark	465
Goodwill	10,376
Current liabilities	(9,523)
Deferred taxes	(7,668)
Minority interest	(190)
	<hr/>
Purchase price	\$ 37,408

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition.

Telesot Alania Acquisition—

In December 2004, MTS purchased a 52.5% stake in Telesot Alania, a GSM mobile phone operator in the Republic of North Ossetia in the Southern part of Russia, for cash consideration of \$6.2 million. Telesot Alania holds license to provide 1800/900 MHz services in the Republic of North Ossetia in the Southern part of Russia. Commencing from the date of acquisition, MTS consolidates financial results of Telesot Alania. Telesot Alania's customer base as at the date of acquisition was approximately 54,000 subscribers.

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

Current assets	\$ 2,229
Non-current asset	5,085
License costs	3,606
Customer base cost	90
Current liabilities	(767)
Deferred taxes	(887)
Minority interest	(3,110)
	<hr/>
Purchase price	\$ 6,246

License costs are amortized over the remaining contractual terms of the licenses of approximately 2 years and customer base is amortized over the average subscriber's life of approximately 60 months.

Uzdunrobita Acquisition—

In July 2004, MTS entered into an agreement to acquire 74.0% of Uzbekistan mobile operator JV Uzdunrobita ("Uzdunrobita") for a cash consideration of \$126.4 million, including transaction costs of \$5.4 million. Acquisition was completed on August 1, 2004 and starting from this date Uzdunrobita's financial results are consolidated. Uzdunrobita holds licenses to provide GSM-1800 mobile communication services in the whole territory of Uzbekistan, which has a population of approximately 25.2 million. Uzdunrobita's customer base as of the date of acquisition was approximately 230,000 subscribers.

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

Current assets	\$ 5,950
Non-current assets	67,293
License costs	40,861
Customer base cost	958
Trademark	3,622
Goodwill	46,470
Current liabilities	(14,705)
Non-current liabilities	(1,356)
Deferred taxes	(6,384)
Minority interest	(16,308)
	<hr/>
Purchase price	\$ 126,401

Goodwill is mainly attributable to economic potential of the market assuming low penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 12 years and customer base is amortized over the average remaining subscriber's life of approximately 39 months.

MTS also entered into call and put option agreements with the existing shareholders of Uzdunrobita to acquire the remaining 26.0% of common shares of the company. The exercise period for the call and put option is 36 months from the acquisition date. The call and put option agreements stipulate a minimum purchase price of \$37.7 million plus 5% per annum commencing from the acquisition date. Fair value of the option was \$4.0 million at December 31, 2004 and included in other current assets on the consolidated balance sheet.

Primtelefon Acquisition—

In June 2004, MTS purchased 50.0% of Far-Eastern operator CJSC Primtelefon ("Primtelefon") for cash consideration of \$31.0 million, increasing its effective ownership to 100%, as 50% of Primtelefon's shares were controlled through Vostok Mobile, a wholly-owned subsidiary of MTS. Commencing from the date of acquisition of the second stake, MTS consolidates financial results of Primtelefon. Primtelefon holds licenses to provide GSM 900/1800 mobile cellular communications in the Far-East region of Russia. The company's customer base as of the date of acquisition of the controlling stake was approximately 216,000 subscribers.

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

Current assets	\$ 11,041
Non-current assets	16,809
License costs	21,891
Current liabilities	(7,488)
Non-current liabilities	(5,671)
Deferred taxes	(5,582)
Purchase price	<u>\$ 31,000</u>

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 7 years and customer base is amortized over the average remaining subscriber's life of approximately 41 months.

Telecom-900 Acquisition—

In August 2001, MTS acquired 81% of the outstanding common stock of Telecom-900, a Russian closed joint-stock company, for a cash consideration of \$26.8 million from Sistema. Telecom-900 is the holding company for three regional mobile phone operators, Siberia Cellular System 900 CJSC ("SCS-900"), Uraltel CJSC ("Uraltel"), and Far East Cellular Systems 900 CJSC ("FECS-900").

At the date of acquisition these companies had approximately 96,000 subscribers and licenses to provide GSM 900/1800 mobile services in the Novosibirsk region, Altai Republic, Sverdlovsk region and Khabarovsk region.

Telecom-900 acquisition was accounted for using the purchase method of accounting. The purchase price was allocated as follows:

Current assets	\$ 12,136
Non-current assets	29,297
License costs	31,542
Current liabilities	(21,883)
Non-current liabilities	(10,626)
Deferred taxes	(7,754)
Minority interest	(5,900)
Purchase price	<u>\$ 26,812</u>

In November 2002, MTS acquired the remaining 19% of Telecom-900 from Invest-Svyaz-Holding, a shareholder of the Group and a wholly-owned subsidiary of Sistema, for a cash consideration of \$6.9 million. The acquisition was accounted for using the purchase method of accounting. The allocation of the purchase price increased recorded license costs by \$2.7 million.

On August 13, 2003, Telecom-900, completed the purchase of the 43.7% and 2.95% stakes in Uraltel for a cash consideration of \$35.7 million. The transaction increased Telecom-900's ownership in

Uraltel to 99.85%. The acquisition was accounted using purchase method of accounting. The allocation of purchase price increased recorded license cost by \$24.5 million.

In November 2003, the Group completed the purchase of the 30.0% stake in SCS-900 from Sibirtelecom for cash consideration of \$28.6 million. The Group's acquisition of this stake increased its ownership in SCS-900 to 81.0%. On December 29, 2003, the Group acquired for cash consideration of \$9.3 million a 100% stake in ILIT LLC, a company which owns a 7.5% stake in SCS-900, increasing its ownership in SCS-900 to 88.5%. The acquisition was accounted using purchase method of accounting. The allocation of purchase price increased recorded license cost by \$25.7 million.

In March 2004, the Group acquired 11.0% stake in SCS-900 from CJSC Sibirskie Zvezdy for cash consideration of \$8.5 million, increasing its ownership in SCS-900 to 99.5%. The acquisition was accounted for using a purchase method of accounting. The allocation of purchase price increased recorded license cost by \$2.6 million.

In April 2004, the Group acquired 40.0% stake in FECS-900 from OJSC Dalnevostochnaya Kompaniya Electrosvyazi for cash consideration of \$8.3 million, increasing its ownership in FECS-900 to 100.0%. The acquisition was accounted for using a purchase method of accounting. The allocation of purchase price increased recorded license cost by \$4.1 million.

License costs are amortized over the remaining contractual terms of the respective license, ranging from 6 to 10 years at the date of the first acquisition. Customer base is amortized over the average remaining subscribers life ranging from 32 to 40 months.

Tomsk Cellular Communications Acquisition—

In September 2003, MTS purchased 100.0% of Siberian operator Tomsk Cellular Communications ("TSS") for cash consideration of \$47.0 million. TSS holds licenses to provide GSM 900/1800 mobile cellular communications in the Tomsk region. The company's customer base as of the date of acquisition was approximately 183,000 subscribers.

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

Current assets	\$ 3,299
Non-current assets	11,412
License costs	49,282
Current liabilities	(4,543)
Non-current liabilities	(105)
Deferred taxes	(12,345)
	<hr/>
Purchase price	\$ 47,000
	<hr/>

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers life of approximately 76 months.

Sibchallenge Acquisition—

On August 22, 2003, MTS completed the purchase of 100.0% of Sibchallenge, a cellular operator in the Krasnoyarsk region, for cash consideration of \$45.5 million, paid a finder's fee of \$2.0 million and assumed net debt of approximately \$6.6 million. Sibchallenge holds licenses to provide GSM 900/1800 and DAMPS mobile services in the Krasnoyarsk region of Siberia, the Republic of Khakasiya, and in the Taimyr Autonomous region, all of which are located in the Siberian part of Russia. At the date of acquisition, Sibchallenge had approximately 132,000 subscribers.

The purchase price allocation was as follows:

Current assets	\$ 4,078
Non-current assets	16,678
License costs	52,625
Current liabilities	(6,405)
Non-current liabilities	(6,628)
Deferred taxes	(12,894)
	<hr/>
Purchase price	\$ 47,454

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers life of approximately 36 months.

Kuban-GSM Acquisition—

In March 2002, MTS acquired 51% of Kuban-GSM, a Russian closed joint-stock company, for cash consideration of \$71.4 million. At the date of acquisition, Kuban-GSM had approximately 500,000 subscribers and it operates in thirteen major cities throughout the south of the European part of the Russian Federation, including Sochi, Krasnodar and Novorossiisk. The Kuban-GSM acquisition was accounted for using the purchase method of accounting.

The purchase price was allocated as follows:

Current assets	\$ 11,751
Non-current assets	80,848
License costs	62,549
Customer base cost	3,561
Current liabilities	(31,289)
Non-current liabilities	(19,827)
Deferred taxes	(15,866)
Minority interest	(20,327)
	<hr/>
Purchase price	\$ 71,400

In October 2002, MTS exercised its option to acquire additional 353 shares for \$5.0 million payable in cash, increasing its ownership in Kuban-GSM to 52.7%. The acquisition of the additional interest was accounted for using the purchase method of accounting. The allocation of the purchase

price increased recorded license costs by \$4.4 million, increased customer base cost by \$0.2 million, and decreased minority interest by \$0.5 million.

In September 2003, the Group acquired 100.0% of Kubtelesot for cash consideration of \$107.0 million. Kubtelesot owned 47.3% of Kuban-GSM, and the Group's purchase of this stake increased its ownership in Kuban-GSM to 100.0%. Kubtelesot was a holding company with no operational activities. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by \$57.5 million, increased customer base cost by \$8.4 million, and decreased minority interest by \$59.0 million.

In May 2004, Kubtelesot was liquidated and all its shares in Kuban-GSM were transferred to OJSC MTS as the only shareholder.

License costs are amortized over the remaining contractual term of the license of approximately 5 years at the date of the acquisition. Acquired customer base is amortized over the average remaining subscribers life of approximately 48 months.

UMC Acquisition—

On March 4, 2003, MTS acquired 57.7% of the outstanding voting interest of UMC, a provider of mobile services in Ukraine, for cash consideration of \$199.0 million, including the acquisition of 16.3% of the outstanding voting interest from Deutsche Telekom AG, a related party, for \$55.0 million. Acquisition costs relating to the transaction of \$1.4 million were capitalized. In connection with the acquisition, MTS also assumed debt of UMC with face value of approximately \$65.0 million, with the fair value of approximately \$62.0 million. At the date of acquisition, UMC had approximately 1.8 million subscribers and was one of the two leading mobile operators in Ukraine, operating under nationwide GSM 900/1800 and NMT 450 licenses.

The acquisition was accounted for using the purchase method. For convenience, MTS consolidated UMC from March 1, 2003. Purchase price allocation is as follows:

Current assets	\$ 82,293
Non-current assets	272,721
License costs	82,200
Customer base cost	30,927
Current liabilities	(63,551)
Non-current liabilities	(78,580)
Deferred taxes	(27,425)
Minority interest	(99,581)
Purchase price	<u>\$ 199,004</u>

MTS paid \$171.5 million of the purchase price in cash and agreed to pay the balance of the purchase price of \$27.5 million to Cetel B.V., a wholly-owned subsidiary of Deutsche Telekom AG, within one year. The amount payable accrued interest of 9% per annum. In March 2004, MTS cash settled the balance payable to Cetel B.V.

MTS also had an option agreement with Ukrtelecom to purchase its remaining 26.0% stake in UMC, exercisable from February 5, 2003 to November 5, 2005, with an exercise price of \$87.6 million.

On June 4, 2003, MTS exercised its call option. As a result of the transaction, MTS' ownership in UMC increased from 57.7% to 83.7%. The acquisition was accounted for using purchase method of accounting. The allocation of purchase price increased recorded license cost by \$10.2 million, increased customer base cost by \$13.9 million, and decreased minority interest by \$66.4 million.

In addition, MTS entered into a put and call option agreement with TDC Mobile International A/S ("TDC") for the purchase of its 16.3% stake in UMC. The exercise period of the call option was from May 5, 2003 to November 5, 2004, and the put option was exercisable from August 5, 2003 to November 5, 2004. The call option price was \$85.0 million plus interest accrued from November 5, 2002 to the date of the exercise at 11% per annum; the price of the put option was calculated based on reported earnings of UMC prior to the exercise and was subject to a minimum amount of \$55.0 million. On June 25, 2003, MTS notified TDC of its intent to exercise its rights under the put and call option agreement. The purchase was completed during July 2003. MTS paid cash consideration of approximately \$91.7 million to purchase the remaining 16.3% stake in UMC. The acquisition was accounted for using purchase method of accounting. The allocation of purchase price increased recorded license cost by \$52.7 million, increased customer base cost by \$8.7 million, and decreased minority interest by \$43.8 million.

The UMC license costs are amortized over the remaining contractual terms of the licenses of approximately 9 to 13 years at the date of the acquisition, acquired customer base is amortized over the average remaining subscriber's life of approximately 32 months. Other acquired intangible assets, represented mostly by software, are amortized over their respective useful lives of 3 to 10 years.

In accordance with SFAS No. 141 "Business Combinations," the Group recognized \$8.0 million of goodwill relating to workforce-in-place.

TAIF Telcom Acquisition—

In April 2003, MTS acquired 51.0% of the common shares of TAIF Telcom, a Russian open joint-stock company, for cash consideration of \$51.0 million and 50.0% of the preferred shares of TAIF Telcom for cash consideration of \$10.0 million. In May 2003, MTS acquired an additional 1.7% of the common shares of TAIF Telcom for cash consideration of \$2.3 million. In connection with the acquisitions, MTS also assumed indebtedness of approximately \$16.6 million that was collateralized by telecom equipment.

MTS also entered into call and put option agreements with the existing shareholders of TAIF Telcom to acquire the remaining 47.3% of common shares and 50.0% of preferred shares of TAIF Telcom.

The exercise period for the call option on common shares is 48 months from the acquisition date and for the put option on common shares is 36 months following an 18 months period after the acquisition date. The call and put option agreements for the common shares stipulate a minimum purchase price of \$49.0 million plus 8% per annum commencing from the acquisition date. The exercise period for the call option on preferred shares is 48 months following a 24 months period after the acquisition date and for the put option on preferred shares it is a 24 months period after the acquisition date. The call and put option agreements for the preferred shares stipulate a minimum purchase price of \$10.0 million plus 8% per annum commencing from the acquisition date. Fair value of the option was \$3.5 million at December 31, 2003.

The purchase price allocation for initial stake acquired was as follows:

Current assets	\$ 3,870
Non-current assets	48,391
License costs	68,407
Current liabilities	(26,099)
Non-current liabilities	(5,550)
Deferred taxes	(16,814)
Minority interest	(8,965)
	<hr/>
Purchase price	\$ 63,240
	<hr/>

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 4 years and customer base is amortized over the average remaining subscribers' life of approximately 38 months.

TAIF Telcom provides mobile services in the GSM-900/1800 standard in the Republic of Tatarstan and in the Volga region of Russia. At the date of acquisition, TAIF Telcom had approximately 240,000 subscribers.

In September 2004, MTS exercised its option to acquire the remaining 47.3% of common shares and 50.0% of preferred shares in TAIF Telcom for cash consideration of \$63.0 million, increasing its ownership to 100.0%. The Group received title to the acquired shares in October 2004. The purchase price allocation increased recorded license cost by \$35.8 million, increased acquired customer base by \$4.2 million; goodwill was recorded in the amount of \$21.2 million. Goodwill is mainly attributable to economic potential of the market.

Dontelecom Acquisition—

On September 26, 2002, MTS completed its acquisition of 66.7% of the outstanding common stock of Dontelecom, a closed joint-stock company, for cash consideration of \$15.0 million (including 33.3% acquired from Sistema for \$7.5 million). At the date of acquisition, Dontelecom had approximately 39,000 subscribers. Dontelecom holds a GSM-900/1800 license to operate in the Rostov region. This acquisition was accounted for using the purchase method.

The purchase price was allocated as follows:

Current assets	\$ 3,422
Non-current assets	8,401
License costs	14,739
Current liabilities	(5,849)
Non-current liabilities	(357)
Deferred taxes	(3,675)
Minority interest	(1,681)
	<hr/>
Purchase price	\$ 15,000
	<hr/>

In October 2002, the Group completed the acquisition of the remaining 33.3% of the outstanding common stock of Dontelecom for \$7.5 million. The acquisition was accounted for using the purchase method of accounting. The purchase increased the recorded license costs by \$7.3 million.

License costs are amortized over the remaining contractual term of the license of approximately 3 years at the date of the acquisition. Customer base is amortized over the average remaining subscribers life of approximately 20 months.

BM Telecom Acquisition—

In May 2002, MTS completed its acquisition of 100% of the outstanding common stock of Ufa-based BM Telecom, a closed joint-stock company, for \$41.0 million in cash. At the date of acquisition, BM Telecom had approximately 100,000 subscribers and it holds a GSM-900/1800 license to operate in Bashkortostan Republic of Russia. This acquisition was accounted for using the purchase method. The purchase price was allocated as follows:

Current assets	\$ 3,312
Non-current assets	14,736
License costs	48,932
Current liabilities	(3,603)
Non-current liabilities	(10,227)
Deferred taxes	(12,150)
	<hr/>
Purchase price	\$ 41,000

License costs associated with the acquisition of BM Telecom are amortized over the remaining term of the license of approximately 5 years. Customer base is amortized over the average remaining subscribers life of approximately 30 months.

Acquisitions of Various Regional Companies—

In August 2003, the Group reached an agreement to acquire, in a series of related transactions, equity interests in five Russian regional mobile phone operators from MCT Corporation for a total of \$71.0 million. The Group agreed to purchase a 43.7% stake in Uraltel (described above) and 100.0% of Vostok Mobile BV, which holds a 50.0% stake in Primtelefon.

The Group also agreed to purchase Vostok Mobile South, which holds 50.0% stakes in Astrakhan Mobile and Volgograd Mobile, as well as an 80.0% stake in Mar Mobile GSM. The Group also entered into agreements to acquire the remaining 20.0% of Mar Mobile GSM and another 2.95% stake in Uraltel from existing shareholders unrelated to MCT Corporation for approximately \$1.0 million.

On August 26, 2003, the Group completed the acquisition of Vostok Mobile and recorded a 50.0% stake investment in Primtelefon using the equity method of accounting.

On October 14, 2003, the Group completed the purchase of Vostok Mobile South and thus acquired a 50.0% stake in Volgograd Mobile and Astrakhan Mobile and an 80.0% stake in Mar Mobile GSM. Also, in a separate transaction the Group completed the acquisition of the remaining 20.0% stake in Mar Mobile GSM from existing shareholders unrelated to MCT Corporation, thus consolidating a 100.0% ownership in the company.

In August 2004, MTS acquired from UTK the remaining 50% stakes in Astrakhan Mobile and Volgograd Mobile, increasing its ownership to 100%. An acquisition price was paid in cash and amounted to \$1.1 million and \$2.9 million, respectively. Commencing from the date of acquisition financial results of both companies are consolidated into MTS financial statements. Astrakhan Mobile holds a 800/1800 MHz licenses covering Astrakhan region (population of approximately 1 million) and Volgograd Mobile holds a 800/1800 MHz licenses covering Volgograd region (population of approximately 2.7 million). As of July 31, 2004, two companies provided AMPS/DAMPS services to around 10 thousand subscribers. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price for the first and second stakes in both companies resulted in an increase in license cost by \$16.5 million.

In April 2004, MTS acquired from OJSC Sibitelecom additional 7.5% stake in MSS, a company, which operates in the Omsk region, for \$2.2 million in cash. This acquisition increased MTS's ownership in MSS to 91%. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by \$1.1 million.

In April and May of 2004, MTS acquired the remaining stakes in the following subsidiaries:

- 35% of MTS-NN (a service provider in Nizhny Novgorod) for \$0.5 million, and
- 49% of Novitel (handsets dealer in Moscow) for \$1.3 million.

Both acquisitions increased MTS's share in the respective companies to 100%. The acquisitions were accounted for using the purchase method of accounting. The allocation of purchase price increased recorded goodwill by \$1.8 million.

In August 2004, MTS acquired from OJSC Volgatelecom remaining 49% stake in UDN-900 for \$6.4 million in cash. This acquisition increased MTS's ownership in UDN to 100%. The allocation of purchase price increased recorded license cost by \$0.3 million. UDN-900 provides GSM 900 services under the MTS brand in Udmurtia Republic (population 1.6 million). UDN's subscriber base as of July 31, 2004 was 219,760.

Pro Forma Results of Operations (unaudited)—

The following unaudited pro forma financial data for the years ended December 31, 2004 and 2003, give effect to the acquisitions of Uzdurobita, Primtelefon and other various regional companies as if they had occurred at January 1, 2003.

	December 31,	
	2004	2003
Pro forma:		
Net revenues	\$ 3,986,932	\$ 2,636,072
Net operating income	1,440,480	936,174
Net income	972,362	495,411
Earnings per share, basic and diluted	\$ 0.49	\$ 0.25

The pro forma information is based on various assumptions and estimates. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2003, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue

enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included in the consolidated financial statements of the Group only from the respective dates of acquisition.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2004 and 2003 comprised of the following:

	December 31,	
	2004	2003
U.S. dollar current accounts	\$ 107,172	\$ 20,130
U.S. dollar term deposits	45,295	886
Ruble current accounts	90,527	40,597
Ruble deposits	2,596	20,201
Hryvnia current accounts	10,190	1,371
Uzbek som deposit accounts	15,106	—
Uzbek som current accounts	715	—
Other	2,549	7,191
Total cash and cash equivalents	\$ 274,150	\$ 90,376

5. SHORT-TERM INVESTMENTS

Short-term investments, denominated in U.S. dollars, as of December 31, 2004 comprised of the following:

	Annual interest rate	Maturity date	December 31, 2004
OJSC Moscow Bank of Reconstruction and Development	8.4%	December 9, 2005	\$ 30,000
East-West United Bank S.A.	2.0%	April 04, 2005	23,100
OJSC Moscow Bank of Reconstruction and Development	8.4%	October 10, 2005	10,000
OJSC Moscow Bank of Reconstruction and Development	8.4%	December 14, 2005	10,000
Other			260
Total short-term investments			\$ 73,360

Short-term investments, denominated in U.S. dollars, as of December 31, 2003 comprised of the following:

	Annual interest rate	Maturity date	December 31, 2003
OJSC Moscow Bank of Reconstruction and Development	4.8 %	February 2, 2004	\$ 200,000
OJSC Moscow Bank of Reconstruction and Development	8.4 %	October 21, 2004	19,100
OJSC Moscow Bank of Reconstruction and Development	8.0 %	October 4, 2004	10,000
OJSC Moscow Bank of Reconstruction and Development	8.4 %	November 23, 2004	5,000
OJSC Moscow Bank of Reconstruction and Development	8.4 %	December 5, 2004	5,900
OJSC Moscow Bank of Reconstruction and Development	8.4 %	December 20, 2004	5,000
Total short-term investments			\$ 245,000

OJSC Moscow Bank of Reconstruction and Development is a related party (see also Note 17).

6. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2004 and 2003 were as follows:

	December 31,	
	2004	2003
Accounts receivable, subscribers	\$ 154,453	\$ 87,149
Accounts receivable, roaming	24,731	26,500
Allowance for doubtful accounts	(16,659)	(13,698)
Trade receivables, net	\$ 162,525	\$ 99,951

The following table summarizes the changes in the allowance for doubtful accounts for the years ended December 31, 2004, 2003 and 2002:

	December 31,		
	2004	2003	2002
Balance, beginning of the year	\$ 13,698	\$ 6,270	\$ 5,187
Provision for doubtful accounts	26,459	32,633	7,047
Accounts receivable written off	(23,498)	(25,205)	(5,964)
Balance, end of the year	\$ 16,659	\$ 13,698	\$ 6,270

7. INVENTORY

Inventory as of December 31, 2004 and 2003 comprised of the following:

	December 31,	
	2004	2003
Spare parts for base stations	\$ 14,775	\$ 26,635
Handsets and accessories	30,574	23,499
Other inventory	44,169	17,157
Total Inventory	\$ 89,518	\$ 67,291

Obsolescence expense for the years ended December 31, 2004, 2003 and 2002 amounted to \$4,610, \$3,307 and \$5,614, respectively, and was included in General and administrative expenses in the accompanying consolidated statements of operations. Spare parts for base stations included in inventory are expected to be utilized within 12 months period.

8. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2004 and 2003 was as follows:

	December 31,	
	2004	2003
Network and base station equipment (including leased network and base station equipment of \$67,905 and \$66,311, respectively) and related leasehold improvements	\$ 2,538,240	\$ 1,775,180
Office equipment, computers, software and other (including leased office equipment, computers and software of \$1,613 and \$1,923, respectively)	249,458	147,395
Buildings and related leasehold improvements	202,095	151,262
Vehicles	15,658	11,611
Property, plant and equipment, at cost	3,005,451	2,085,448
Accumulated depreciation (including accumulated depreciation on leased equipment of \$30,304 and \$23,343)	(901,416)	(532,268)
Equipment for installation	275,010	334,264
Construction in-progress	855,273	368,632
Property, plant and equipment, net	\$ 3,234,318	\$ 2,256,076

Depreciation expenses during the years ended December 31, 2004, 2003 and 2002 amounted to \$385.7, \$233.1 and \$116.0 million, respectively, including depreciation expenses for leased property, plant and equipment in the amount of \$5.4, \$7.6 and \$3.4 million, respectively.

9. OTHER INTANGIBLE ASSETS

Intangible assets at December 31, 2004 and 2003 comprised of the following:

	Useful lives	December 31, 2004			December 31, 2003		
		Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets							
Acquired customer base	20 to 76 months	\$ 94,632	\$ (50,276)	\$ 44,356	\$ 81,289	\$ (18,307)	\$ 62,982
Rights to use premises	10 years	19,638	(12,393)	7,245	19,638	(10,476)	9,162
Numbering capacity with finite contractual life, software and other	3 to 10 years	474,921	(215,236)	259,685	338,222	(119,269)	218,953
		<u>589,191</u>	<u>(277,905)</u>	<u>311,286</u>	<u>439,149</u>	<u>(148,052)</u>	<u>291,097</u>
Unamortized intangible assets:							
Numbering capacity with indefinite contractual life		17,247	—	17,247	13,047	—	13,047
Total other intangible assets		<u>\$ 606,438</u>	<u>\$ (277,905)</u>	<u>\$ 328,533</u>	<u>\$ 452,196</u>	<u>\$ (148,052)</u>	<u>\$ 304,144</u>

As a result of a limited availability of local telephone numbering capacity in Moscow and the Moscow region, MTS has been required to enter into agreements for the use of telephone numbering capacity with several telecommunication operators in Moscow. Costs of acquiring numbering capacity with finite contractual life are amortized over period of five to ten years in accordance with the terms of the contract entered into to acquire such capacity. Numbering capacity with indefinite contractual life is not amortized.

The significant component of MTS' right to use premises was obtained in the form of contributions to its charter capital in 1993. These premises included MTS' administrative offices and facilities utilized for mobile switching centers. In addition and simultaneously with acquisition of UMC in 2003 the Group obtained some additional property rights.

Amortization expense for the years ended December 31, 2004, 2003 and 2002 amounted to \$129.9, \$69.2 and \$30.0 million, respectively. Based on the amortizable intangible assets existing at December 31, 2004, the estimated amortization expense is \$130.5 million during 2005, \$82.6 million during 2006, \$54.3 million during 2007, \$37.6 million during 2008, \$2.8 million during 2009 and \$3.5 million thereafter. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

10. DEFERRED CONNECTION FEES

Deferred connection fees for the years ended December 31, 2004 and 2003 were as follows:

	December 31,	
	2004	2003
Balance at beginning of the year	\$ 46,644	\$ 41,904
Payments received and deferred during the year	93,082	34,112
Amounts amortized and recognized as revenue during the year	(46,978)	(29,372)
Balance at end of the year	92,748	46,644
Less current portion	45,083	21,467
Non-current portion	\$ 47,665	\$ 25,177

MTS defers initial connection fees paid by subscribers for the first time activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (see Note 2).

11. DEBT

At December 31, 2004 and 2003 debt comprised of the following:

	Currency	Annual interest rate (Actual rate at December 31, 2004)	December 31, 2004	December 31, 2003
9.75% Notes due 2008	USD	9.75%	\$ 400,000	\$ 400,000
8.38% Notes due 2010	USD	8.38%	400,000	400,000
10.95% Notes due 2004	USD	10.95%	—	299,640
Floating Rate Notes due 2004	USD	—	—	298,196
Total notes			\$ 800,000	\$ 1,397,836
Less current portion			—	597,836
Total long-term notes			\$ 800,000	\$ 800,000
Syndicated loan	USD	LIBOR+2.50% (5.28%)	\$ 600,000	\$ —
EBRD	USD	LIBOR+3.10% (5.88%)	150,000	—
CSFB	USD	LIBOR+2.20% (4.76%)	140,000	—
HSBC Bank plc & ING-BHF-Bank	USD	LIBOR+0.44% (3.21%)	77,003	—
Hermes Credit Facility	EUR	EURIBOR+0.65% (2.86%)	63,851	55,550
ING Bank (Eurasia)	USD	LIBOR+2.25%-4.15% (4.81%-6.71%)	46,667	60,000
HSBC	USD	LIBOR+2.75% (5.24%)	17,500	25,000
Ericsson	USD	LIBOR+4.00% (6.56%)	14,850	23,400
Deutsche Telekom AG and TDC Mobile International A/S	USD	—	—	14,819
Nordea Bank Sweden	USD	LIBOR+0.40% (3.18%)	6,499	—
West LB	EUR	EURIBOR+2.00% (4.22%)	4,000	5,092
KFW	EUR	EURIBOR+0.95% (3.16%)	1,478	4,313
Citibank	USD	LIBOR+1.15% (3.71%)	868	10,000
Dresdner	USD	—	—	15,400
AVAL bank	UAH	—	—	10,890
International Moscow Bank	RUR	—	—	10,864
MBRD	RUR	—	—	1,220
Ruble denominated debt	RUR	4.30%-16.50%	1,924	5,860
Other debt	USD	—	—	3,322
Total debt			\$ 1,124,640	\$ 245,730
Less current portion			370,845	103,312
Total long-term debt			\$ 753,795	\$ 142,418

The Notes—

On December 21, 2001, MTS Finance S.A. ("MTS Finance"), a 100% beneficially owned subsidiary of MTS, registered under the laws of Luxembourg, issued \$250.0 million 10.95% (effective interest rate of 11.25%) notes at the price of 99.254%. Proceeds received from the notes, net of underwriting discount, were \$248.1 million. Related debt issuance costs in the amount of \$3.9 million were capitalized. On March 20, 2002, MTS Finance issued additional \$50.0 million 10.95% (effective interest rate of 10.25%) notes at a price of 101.616%. Proceeds received from these notes, including the offering premium, were \$50.8 million. Related debt issuance costs in the amount of \$0.6 million

were capitalized. All the notes are fully and unconditionally guaranteed by MTS OJSC. MTS Finance made interest payments on the notes semi-annually in arrears on June 21 and December 21 of each year, commencing on June 21, 2002. The notes were listed on the Luxemburg Stock Exchange. In May 2002, these notes were registered with the SEC under the Securities Act of 1933. In December 2004, the Group redeemed all outstanding notes, mentioned above, in the principal amount plus accrued interest thereon to the date of redemption.

On January 30, 2003, MTS Finance issued \$400.0 million 9.75% notes at par. These notes are fully and unconditionally guaranteed by MTS OJSC and mature on January 30, 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 30 and July 30, commencing on July 30, 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were \$400.0 million and related debt issuance costs of \$3.9 million were capitalized.

On August 5, 2003, MTS Finance issued \$300.0 million notes bearing interest at floating rate 3 months LIBOR + 4.00% at the price of 99%. These notes were fully and unconditionally guaranteed by MTS OJSC and matured on August 7, 2004. MTS Finance was required to make interest payments on the notes quarterly, commencing on November 5, 2003. The notes were listed on the Luxembourg Stock Exchange. Proceeds received from the notes, net of underwriting discount, were \$297.0 million and related debt issuance costs of \$1.8 million were capitalized. On May 5, 2004, the Group redeemed all outstanding floating rate notes, mentioned above, in the principal amount plus accrued interest thereon to the date of redemption.

On October 14, 2003, MTS Finance issued \$400.0 million notes bearing interest at 8.38% at par. The cash proceeds, net of issuance costs of approximately \$4.6 million, amounted to \$395.4 million. These notes are fully and unconditionally guaranteed by MTS OJSC and will mature on October 14, 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears on April 14 and October 14 of each year, commencing on April 14, 2004. The notes are listed on the Luxembourg Stock Exchange.

Subject to certain exceptions and qualifications, the indentures governing the notes contain covenants limiting the Group's ability to:

- incur debt;
- create liens;
- lease properties sold or transferred by the Group;
- enter into loan transactions with affiliates;
- merge or consolidate with another person or convey its properties and assets to another person; and
- sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

In addition, if the Group experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest. The Group is also required to take all commercially reasonable

steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by Sistema, the shareholder of the Group.

If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Management believes that the Group is in compliance with all restrictive debt covenants provisions during the three year period ended as of December 31, 2004.

Syndicated Loan—

In July 2004, MTS OJSC entered into a \$500.0 million syndicated loan agreement ("Syndicated Loan") with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank PLC, Raiffeisen Zentralbank Oesterreich AG ZAO, Bank Austria Creditanstalt AG, Commerzbank Aktiengesellschaft and other. The credit facility bears interest of LIBOR +2.50% per annum and matures in 3 years. The proceeds were used by OJSC MTS for corporate purposes, including refinancing of its existing indebtedness. In September 2004, MTS extended the total amount available under the Syndicated Loan for an additional \$100.0 million to a total amount of \$600.0 million. Commitment fee for the Syndicated Loan amounted to \$0.5 million. The debt issuance costs in the amount of \$10.2 million has been capitalized. At December 31, 2004, \$600.0 million was outstanding under this credit facility. The Syndicated Loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. As of December 31, 2004, the Group is in compliance with all existing covenants.

EBRD Loan—

In December 2004, MTS OJSC entered into a credit facility with European Bank for Reconstruction and Development ("EBRD") for the total amount of \$150.0 million. The facility bears interest at LIBOR +3.10%. Commitment fee of 0.50% per annum should be paid in accordance with the credit agreement. The final maturity of this agreement is December 15, 2011. As of December 31, 2004, the balance outstanding under the loan was \$150.0 million. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. As of December 31, 2004 the Group is in compliance with all existing covenants.

CSFB Loans—

In April 2004, MTS OJSC entered into a short-term bridge loan facility with Credit Swiss First Boston for the total amount of \$200.0 million. The proceeds were used to repay the floating rate notes originally due in August 2004. Amounts outstanding under the loan agreement bear interest at LIBOR+2.25%. The MTS OJSC repaid \$110.0 million and \$90.0 million due under the loan in June 2004 and July 2004, respectively.

In October 2004, MTS Finance entered into a short-term loan facility with CSFB for the total amount of \$140.0 million. Amounts outstanding under the loan agreement bear interest at LIBOR+2.20%. The final maturity of this short-term loan facility was April 29, 2005. As of December 31, 2004 the balance outstanding under the loan was \$140.0 million. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. As of December 31, 2004, the Group is in compliance with all existing covenants.

HSBC Bank plc and ING BHF-BANK AG—

In October 2004, MTS OJSC entered into two credit facility agreements with HSBC Bank plc and ING BHF-BANK AG for the total amount \$122.3 million. The funds were used to purchase telecommunication equipment and software from Siemens AG and Alcatel SEL AG for the technical upgrade and expansion of network. Euler Hermes Kreditversicherungs-AG, the German credit export agency, is providing export credit cover in respect to both facilities. The facility bears interest at LIBOR + 0.44%. A commitment fee of 0.20% per annum and an arrangement fee of 0.25% should be paid in accordance with the loan agreement. The principal and interest amounts are to be repaid in seventeen equal half year installments, starting July 2005 for the first agreement and September 2005 for the second one. As of December 31, 2004, the outstanding balance under these agreements was \$77.0 million. The final maturity of these agreements is in July and September 2013. The loan facility is subject to certain restrictive covenants. As of December 31, 2004, the Group is in compliance with all existing covenants.

Hermes Credit Facility ("HECF")—

On December 30, 2003, UMC entered into Hermes Credit Facility with ING BHF Bank and Commerzbank Aktiengesellschaft to finance the acquisition of GSM equipment from Siemens AG. The aggregate amount available under this credit facility is EUR 47.4 million (\$64.5 million at December 31, 2004). In 2004, the agreement was amended to increase the amount available under the facility by EUR 9.2 million (\$12.5 million as of December 31, 2004). The loan is guaranteed by MTS OJSC and bears interest at EURIBOR+0.65%. The amount outstanding is redeemable in 10 equal semi-annual installments starting on July 31, 2004. As of December 31, 2004 and 2003, the amounts outstanding under the loan were \$63.9 million and \$55.6 million, respectively. The available credit facility as at December 31, 2004 and 2003 was \$0.6 million and \$3.7 million, respectively.

ING Bank ("Eurasia")—

In September 2003, UMC entered into a \$60.0 million syndicated credit facility with ING Bank ("Eurasia") ZAO, ZAO Standard Bank and Commerzbank Aktiengesellschaft with an interest rate of LIBOR + 2.25%-4.15%. The loan is guaranteed by MTS OJSC. The proceeds were used by UMC to refinance its existing indebtedness. The loan is payable in 8 equal quarterly installments starting from September 2004. As of December 31, 2004 and 2003, \$46.7 million and \$60.0 million were outstanding, respectively, under this credit facility.

HSBC Bank LLC—

In October 2003, TAIF Telcom entered into a \$25.0 million credit facility with HSBC Bank LLC, which is guaranteed by MTS OJSC. The facility bears interest at LIBOR + 2.75% and is redeemable in ten equal quarterly installments commencing on June 2004. The funds were used to purchase telecommunication equipment and general corporate purposes. The loan is subject to certain restrictive covenants including, but not limited to, restriction on the amount of dividends paid by TAIF Telcom until MTS owns 100% of TAIF Telcom's outstanding common stock. As of December 31, 2004 and 2003 the outstanding balances under the credit facility were \$17.5 million and \$25.0 million, respectively.

Ericsson Debt Restructuring—

In December 1996, Rosico, a wholly-owned subsidiary merged into MTS OJSC in June 2003, entered into a credit agreement with Ericsson Project Finance AB ("Ericsson") that provided for a credit facility with an aggregate principal amount of \$60.0 million and had a maximum term of five years (the "Ericsson Loan"). The loan was repayable in ten equal consecutive quarterly payments of \$6.0 million commencing in 1999. On July 24, 2001, MTS, Rosico and Ericsson signed an amendment to the credit agreement rescheduling Rosico principal payments in nineteen consecutive quarterly installments. The amounts advanced under the agreement bear interest of LIBOR + 4.00%. If Rosico fails to pay any amount under this facility, the overdue interest would bear interest at a rate of an additional 6.00% per annum. The credit agreement contains covenants restricting Rosico's ability to encumber its present and future assets and revenues without lender's express consent.

Concurrent with the Group's acquisition of Rosico, Sistema agreed to fund the full and timely repayment of the Ericsson Loan and to indemnify Rosico and MTS for any costs incurred by either Rosico or MTS in connection with the repayment of the Ericsson Loan. During 2000, Sistema and MTS agreed on a method that would allow Sistema to fund its obligation in a manner that minimizes the total costs of meeting this obligation (including related tax costs). Under this method, MTS enters into a long-term, ruble-denominated promissory notes with 0% interest and maturities from 2049 to 2052 to repay a portion of the funding from Sistema. The carrying value of these notes is insignificant at December 31, 2004 and 2003. The Group records interest expense on these notes over the term, such that the full amount of the obligation will be reflected as a liability at the date of repayment. Through December 31, 2004, Sistema has made payments under this obligation in the amount of \$60.0 million, \$45.1 million of which are repayable in the form of long-term, ruble denominated promissory notes with 0% interest. Amounts receivable from Sistema under this indemnification are recorded as shareholder receivable in the accompanying consolidated balance sheets.

On February 25, 2003, Ericsson assigned all of its rights and obligations under the Ericsson Loan to Salomon Brothers Holding Company, Inc.

At December 31, 2004 and 2003, \$14.9 million and \$23.4 million were outstanding, respectively, under the Ericsson Loan.

Deutsche Telekom AG and TDC Mobile International A/C—

The credit facilities with Deutsche Telekom AG and TDC Mobile International A/C bear interest at LIBOR + 5.00%-7.00% and were redeemable in five equal quarterly installments commencing April 2003. At December 31, 2003 the unpaid balance under these loans was \$14.8 million. The debt was fully repaid in April 2004.

Nordea Bank Sweden loan—

In September 2003, Primtelefon entered into a long-term loan facility with Nordea Bank Sweden for the total amount of \$9.8 million. Amounts outstanding under the loan agreement bear interest at LIBOR+0.40% and mature in October 2006. The loan is guaranteed by MTS OJSC. As of December 31, 2004 and 2003, the amounts outstanding under the loan were \$6.5 million and nil, respectively.

WestLB International loan—

In July 2002, MTS-P entered into a credit facility agreement with WestLB International S.A. Amounts outstanding under this agreement bear interest of EURIBOR + 2.00% per annum for the first two years for each advance and 4.00% per annum for the remaining interest periods for each advance until maturity. The final maturity of this agreement is December 28, 2006. The loan is guaranteed by MTS OJSC. As of December 31, 2004 and 2003, the balances outstanding under the loan were \$4.0 million and \$5.1 million, respectively.

KFW—

On December 21, 1998, UMC entered into two loan agreements with KWF, a German bank, for EUR 1.9 million and EUR 10.9 million. These loans bear interest at EURIBOR + 0.95% per annum and mature on March 31, 2004 and February 28, 2005, respectively. As of December 31, 2004 and 2003 the outstanding balances under these loans were \$1.5 million and \$4.3 million, respectively.

Citibank credit facility—

In November 2002, Telecom XXI entered into a credit facility with Citibank. Amounts borrowed under the credit facility bear interest of LIBOR + 3.50% per annum. Overdue amounts bear an additional 3.00% per annum. The \$10.0 million outstanding under this facility as of December 31, 2003, was fully repaid in July 2004.

The balance outstanding as at December 31, 2004, in the amount of \$0.9 million is comprised of the amounts borrowed by Primtelefon and Astrakhan Mobile, which bear interest at LIBOR + 1.15% and are payable in 2006.

Dresdner Bank Credit Facilities—

In December 2001 and April 2002, UDN-900 entered into credit agreements with Dresdner Bank ("Dresdner"), maturing in April 2004. As of December 31, 2003 the amount outstanding under these agreements was \$5.4 million. These borrowings bear interest at LIBOR + 3.20% per annum and are guaranteed by MTS OJSC. In April 2004, the loans were fully repaid.

In October 2002, MSS entered into a credit agreement with Dresdner to borrow up to \$10.0 million. As of December 31, 2004 and 2003, \$nil and \$10.0 million, respectively were outstanding under this agreement. Borrowings under this agreement bear interest of LIBOR + 3.20%-3.35% per annum. The loan was guaranteed by MTS OJSC.

AVAL Bank—

On December 31, 2003, UMC had the balance of \$10.9 million of overdraft with AVAL bank. The short-term overdraft facility was limited to 110.0 million hryvnias (\$20.6 million at December 31, 2003), bore interest at 10.00-16.00% per annum and matured on June 30, 2004. The balance of overdraft was fully repaid in January 2004.

International Moscow Bank—

On June 9, 2003, Kuban-GSM entered into a 350.0 million ruble (\$12.6 million at December 31, 2004) credit facility with International Moscow Bank. Amounts borrowed under this facility mature in June 2005, bear an interest rate of 13.4% per annum and are collateralized by equipment with a book value of 458.1 million rubles (approximately \$16.5 million at December 31, 2004). As of December 31, 2003, approximately \$10.9 million was outstanding under this facility. The loan was fully repaid in March 2004. As of December 31, 2004, the available credit facility was \$12.6 million.

ABN AMRO loan—

In November 2004, MTS signed a loan agreement with ABN AMRO Bank N.V. (Stockholm branch) for \$56.6 million and EUR 8.4 million. These funds will be used to purchase telecommunication equipment from Ericsson AB for expansion of the network. The loan is repayable on a biannual basis in equal installments over 9 years and bears an interest rate of USD LIBOR/EURIBOR+0.35% per annum. As of December 31, 2004, \$nil was outstanding under the facility.

MBRD—

In August 2004, Novitel entered into ruble-denominated credit facility with Moscow Bank for Reconstruction and Development ("MBRD"), a related party. The facility allows borrowings of up to 60.0 million ruble (\$2.2 million at December 31, 2004). The loan bears interest at 15.00% per annum and is collateralized by equipment with a book value of 63.0 million rubles (approximately \$2.3 million at December 31, 2004). The facility was fully repaid by December 2004.

In 2003, Dontelecom entered into a ruble-denominated loan agreement with MBRD. The amounts borrowed bore interest at 18.5% and were payable in June 2004. As of December 31, 2003, \$1.2 million were outstanding under the facility. The loan was fully repaid in June 2004.

During the year 2003, MTS OJSC signed several short-term loan agreements with MBRD. Amounts borrowed were payable during the period of one to two months. During 2003, interest expense on these loans was approximately \$0.3 million.

The following table presents aggregate scheduled maturities of debt principal outstanding as of December 31, 2004:

Payments due in the year ended December 31,	
2005	\$ 370,845
2006	365,749
2007	227,195
2008	447,240
2009	40,100
Thereafter	473,511
	<u>\$ 1,924,640</u>

In December 2004, the Group entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank PLC to hedge MTS' exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan. MTS agreed with

ABN AMRO to pay a fixed rate of 3.27% and receive a variable interest of LIBOR on \$100.0 million for the period from October 7, 2004 up to July 27, 2007. MTS agreed with HSBC Bank PLC to pay a fixed rate of 3.25% and receive a variable interest of LIBOR on \$150.0 million for the period from October 7, 2004 up to July 27, 2007. These instruments qualify as cash flow hedges under the requirements of SFAS No. 133 as amended by SFAS No. 149. As of December 31, 2004, the Group recorded a liability of \$0.6 million in relation to these contracts in the accompanying consolidated balance sheet and a loss of \$0.5 million, net of tax of \$0.1 million, as other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements. In 2004, there were no amounts reclassified from other comprehensive income to income due to hedge ineffectiveness.

12. CAPITAL LEASE OBLIGATIONS

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2004:

Payments due in the year ended December 31,	
2005	\$ 10,547
2006	3,233
2007	826
2008	171
2009	169
Thereafter	451
	<hr/>
Total minimum lease payments (undiscounted)	15,397
Less amount representing interest	(2,889)
	<hr/>
Present value of net minimum lease payments	12,508
Less current portion of lease payable	(8,561)
	<hr/>
Non-current portion of lease payable	\$ 3,947
	<hr/>

For a schedule by years of future minimum lease payments under capital leases to Invest-Svyaz-Holding, a related party, together with the present value of the net minimum lease payments as of December 31, 2004, see Note 17.

13. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2004 and 2003 were comprised of the following:

	December 31,	
	2004	2003
Accrued payroll and vacation	\$ 44,673	\$ 6,595
VAT	32,174	33,545
Interest payable	31,177	32,911
Taxes other than income	23,706	31,139
Other accruals	48,947	39,599
	<hr/>	<hr/>
Total accrued liabilities	\$ 180,677	\$ 143,789
	<hr/>	<hr/>

14. INCOME TAX

MTS' provision for income taxes was as follows for the years ended December 31, 2004, 2003 and 2002:

	December 31,		
	2004	2003	2002
Current provision for income taxes	\$ 430,687	\$ 285,481	\$ 129,406
Deferred income tax benefit	(76,023)	(43,001)	(18,989)
Total provision for income taxes	\$ 354,664	\$ 242,480	\$ 110,417

Effective January 1, 2002, the statutory income tax rate in Russia was set at 24%. From January 1, 2004, UMC statutory income tax rate changes from 30% to 25% as a result of changes in Ukrainian tax legislation.

The statutory income tax rate reconciled to MTS' effective income tax rate is as follows for the years ended December 31, 2004, 2003 and 2002:

	December 31,		
	2004	2003	2002
Statutory income tax rate for year	24.0%	24.0%	24.0%
Adjustments:			
Expenses not deductible for tax purposes	1.0	2.3	2.1
Effect of higher tax rate of UMC	0.2	0.9	—
Currency exchange and transaction gains	1.2	1.6	—
Other	(0.6)	0.4	(0.3)
Effective income tax rate	25.8%	29.2%	25.8%

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities at December 31, 2004 and December 31, 2003:

	December 31,	
	2004	2003
Assets (liabilities) arising from tax effect of:		
Deferred tax assets		
Depreciation of property, plant and equipment	\$ 48,829	\$ 19,171
Deferred connection fees	22,598	8,805
Subscriber prepayments	18,151	12,030
Accrued expenses	18,934	7,316
Allowance for doubtful accounts	5,220	14,157
Inventory obsolescence	2,759	3,906
Amortization of intangible assets	9,148	5,444
Loss carryforward (Rosico and MSS)	7,171	7,113
Other	4,328	5,683
	<u>137,138</u>	<u>83,625</u>
Valuation allowance	(7,171)	(7,113)
	<u>129,967</u>	<u>76,512</u>
Deferred tax liabilities		
Licenses acquired	\$ (179,935)	\$ (168,889)
Depreciation of property, plant and equipment	(31,429)	(14,084)
Customer base	(10,746)	(15,506)
Other intangible assets	(9,797)	(11,980)
Other	(8,600)	(2,258)
	<u>(240,507)</u>	<u>(212,717)</u>
Total deferred tax liabilities	(240,507)	(212,717)
Net deferred tax liability	<u>(110,540)</u>	<u>(136,205)</u>
Net deferred tax assets, current	\$ 49,850	\$ 44,423
Net deferred tax liability, long term	\$ (160,390)	\$ (180,628)

As of December 31, 2004, the Group had a tax loss carryforward in the amount of \$29,879 related to operations of Rosico. As of December 31, 2003, the Group had taxable losses carryforwards in the amount of \$29,638 related to operations of Rosico and MSS. These loss carryforwards resulted in deferred tax assets at December 31, 2004 and December 31, 2003 in the amounts of \$7,171 and \$7,113, respectively. As Russian companies are required to file tax declarations on a standalone basis, MTS is not able to utilize these losses to offset its taxable income. While Rosico was merged into MTS OJSC in June 2003, the Group has still recorded a valuation allowance for the entire amount of the available tax loss carryforward related to Rosico as MTS has not yet performed all procedures necessary to determine what amounts will be available for deductions in the future.

The Group does not record a deferred tax liability related to undistributed earnings of UMC, as it intends to permanently reinvest these earnings. The undistributed earnings of UMC amounted to \$559.5 and \$327.8 million as of December 31, 2004 and 2003, respectively.

15. SHAREHOLDERS' EQUITY

In accordance with Russian laws, earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations, denominated in rubles, after certain deductions. Net income of MTS OJSC for the years ended December 31, 2004, 2003 and 2002 that is distributable under Russian legislation totaled 15,209 million rubles (\$527.9 million), 13,423 million rubles (\$437.4 million) and 10,759 million rubles (\$343.3 million), respectively.

In December 2004, the shareholder of the Group T-Mobile Worldwide Holding GMBH sold 15.09% stake in MTS on the open market in the form of GDRs.

16. STOCK BONUS AND STOCK OPTION PLANS

In 2000, MTS established a stock bonus plan and stock option plan (the "Option Plan") for selected officers, key employees and key advisors. During its initial public offering in 2000 (see Note 1) MTS allotted 9,966,631 shares of its common stock to fund the Option Plan.

During 2004, 2003 and 2002, MTS made several grants pursuant to its stock option plan to employees and directors of the Group. These options generally vest over a two year period from the date of the grant, contingent on continued employment of the grantee with the Company.

A summary of the status of the Group's Option Plan is presented below:

	Shares	Weighted average exercise price, U.S. dollar
Outstanding at January 1, 2002	1,829,221	1.31
Granted	2,846,681	1.49
Forfeited	(27,481)	1.31
Outstanding at December 31, 2002	4,648,421	1.42
Granted	1,952,632	2.43
Exercised	(37,557)	1.31
Exchanged for cash award	(1,746,310)	1.31
Forfeited	(19,776)	1.31
Outstanding at December 31, 2003	4,797,410	1.87
Granted	1,665,256	5.95
Exercised	(2,726,966)	1.49
Forfeited	(204,730)	1.92
Outstanding at December 31, 2004	3,530,970	4.09

As of December 31, 2004, the Group had the following stock options outstanding:

Exercise prices	Number of shares	Remaining weighted average life (years)
2.43	1,868,214	0.54
5.95	1,662,756	1.54
	3,530,970	

None of the options outstanding at December 31, 2004 and 2003 were exercisable.

According to the terms of the Option Plan, the exercise price of the options equals the average market share price during the hundred day period preceding the grant date. The difference in the exercise price of the option and the market price at the date of grant is shown as unearned compensation in the consolidated statements of changes in shareholders' equity and is amortized to expense over the vesting period of 2 years. This amount historically had been insignificant to the consolidated financial statements.

The Group's Option Plan does not routinely allow a grantee to receive cash in lieu of shares, however due to the lack of liquidity for the Group's stock in the Russian market, 1,746,310 options were cancelled by MTS in 2003 and exchanged for a cash award of \$2.9 million.

The fair value of options granted during the three years in the period ended December 31, 2004 were estimated using the binomial option pricing model based on the following assumptions:

	2004	2003	2002
Risk free rate	4.5%	5.2%	6.1%
Expected dividend yield	3%	3%	3%
Expected volatility	48.8%	40.0%	50.0%
Expected life (years)	2	2	2
Fair value of options (per share)	\$ 2.36	\$ 1.02	\$ 0.50

In accordance with the Russian legislation, MTS Board members and key employees may be considered insiders with respect to the Group and thus may be restricted from selling their shares.

17. RELATED PARTIES

Related party balances as of December 31, 2004 and 2003, comprised of the following:

	December 31,	
	2004	2003
Accounts receivable:		
Rosno for insurance	\$ 9,065	\$ —
Kvazar-Micro for information systems consulting	2,161	—
MTT for interconnection	1,497	822
T-Mobile for roaming	1,198	853
Maxima for advertising	884	83
STROM telecom for software	—	1,074
Receivables from investee companies	2,963	524
Total accounts receivable, related parties	\$ 17,768	\$ 3,356
Accounts payable:		
Strom Telecom for software	\$ 7,070	\$ —
MTT for interconnection	2,964	—
T-Mobile for roaming	1,580	—
MTU-Inform for interconnection	2,398	2,398
MGTS for interconnection	607	704
Cetel B.V. for UMC shares	—	27,500
Other	2,390	1,302
Total accounts payable, related parties	\$ 17,009	\$ 31,904

Transactions with major related parties are described below.

Moscow Bank of Reconstruction and Development ("MBRD")—

Starting August 2000, MTS has been keeping certain bank and deposit accounts with MBRD, whose major shareholder is Sistema. As of December 31, 2004, MTS' cash position at MBRD amounted to \$72.0 million in current accounts. As of December 31, 2003, MTS' cash position at MBRD amounted to \$279.7 million, including \$265.2 million in time deposits and \$14.5 million in current accounts. The related interest accrued and collected on the deposits for the years ended December 31, 2004 and 2003 amounted to \$6.8 million and \$9.9 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

Borrowing transactions with MBRD are described in Note 11.

Rosno OJSC—

MTS arranged medical insurance for its employees and property with Rosno OJSC, whose significant shareholder is Sistema. Insurance premium paid to Rosno OJSC for the years ended December 31, 2004, 2003 and 2002 amounted to \$7.6 million, \$16.9 million and \$4.9 million, respectively. Management believes that all of the insurance contracts with Rosno OJSC have been entered at market terms.

Kvazar-Micro Corporation ("Kvazar")—

Kvazar, a Ukrainian based company providing solutions, services, and business consulting in the field of information and communication technologies. Since July 2004, Sistema is a controlling shareholder of Kvazar. In 2004, MTS signed agreements for software implementation services with Kvazar. Related fees for the year 2004 amounted to approximately \$9.7 million. Management believes that these agreements are at market terms.

Maxima Advertising Agency ("Maxima")—

In 2004, 2003 and 2002, MTS had agreements for advertising services with Maxima, a subsidiary of Sistema. Advertising costs related to Maxima for the years ended December 31, 2004, 2003 and 2002 amounted to \$48.9 million, \$23.7 million and \$12.1 million, respectively. Management believes that these agreements are at market terms.

Telmos—

In 2004, 2003 and 2002, MTS had interconnection and line rental arrangements with, and received domestic and international long-distance services from Telmos, a subsidiary of Sistema. Interconnection and line rental expenses for the years 2004, 2003 and 2002 comprise \$1.6 million, \$1.6 million and \$1.8 million, respectively. Management believes that these arrangements are at market terms.

Moscow City Telephone Network ("MGTS")—

In 2004, 2003 and 2002, MTS had line rental agreements with MGTS and rented cable plant from MGTS for installation of optic-fiber cable. MTS also rented buildings for administrative office, sales and marketing offices as well as premises for switching and base station equipment. Rental expenses for the years 2004, 2003 and 2002 amounted to \$5.9 million, \$4.5 million and \$3.4 million, respectively. Management believes that all these transactions were made at market terms. Sistema is the majority shareholder of MGTS.

MTU-Inform—

In 2004, 2003 and 2002, MTS had interconnection and line rental agreements with MTU-Inform, a subsidiary at Sistema. Interconnection and rental expenses for the years 2004, 2003 and 2002, were \$25.7 million, \$23.3 million and \$24.3 million, respectively. In 2003 and 2002, MTS also purchased telephone numbering capacity from MTU-Inform for \$2.0 million and \$2.6 million, respectively. Management believes that these agreements are at market terms.

Comstar—

In 2004, 2003 and 2002, MTS had interconnection and line rental agreements with Comstar, a subsidiary of Sistema. Cost of interconnecton and line rental services rendered by Comstar for the years 2004, 2003 and 2002 amounted to \$3.1 million, \$3.6 million and \$3.5 million, respectively. In 2004, MTS also purchased telephone numbering capacity from Comstar for \$4.2 million. Management believes that these agreements are at market terms.

T-Mobile—

In 2004, 2003 and 2002, the Group had non-exclusive roaming agreements with T-Mobile, a shareholder of the Group. Roaming expenses for the years ended December 31, 2004, 2003 and 2002 amounted to \$6.1 million, \$1.7 million and \$1.1 million, respectively. Management believes that these agreements are at market terms.

Invest-Svyaz-Holding—

In 2004 and 2003, MTS entered into agreements with Invest-Svyaz-Holding, a shareholder of MTS and a wholly-owned subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases in compliance with requirements of SFAS No. 13, "Accounting for Leases." The present value of future lease payments due within one year are classified as current liabilities, and the remaining balance as long-term liabilities. The interest rate implicit in these leases varies from 14% to 44%, which management believes are market terms.

The following table summarizes the future minimum lease payments under capital leases to Invest-Svyaz-Holding together with the present value of the net minimum lease payments as of December 31, 2004:

Payments due in the year ended December 31,	
2005	\$ 8,174
2006	3,058
2007	653
	<hr/>
Total minimum lease payments (undiscounted)	11,885
Less amount representing interest	(2,436)
	<hr/>
Present value of net minimum lease payments	9,449
Less current portion of lease obligations	(6,103)
	<hr/>
Non-current portion of lease obligations	\$ 3,346

In addition to the above lease transactions, the Group guarantees debt of Invest-Svyaz-Holding in the amount of \$21.6 million to a third party, which is used by Invest-Svyaz-Holding primarily to finance its leases to the Group.

For the year ended December 31, 2004, principal and interest paid to Invest-Svyaz-Holding were \$6.4 and \$4.1, respectively. Principal and interest paid to Invest-Svyaz-Holding for the year ended December 31, 2003, were \$5.4 million and \$3.3 million, respectively. Principal and interest paid for the year ended December 31, 2002, were \$2.9 million and \$1.4 million, respectively. Management believes that these agreements are at market terms.

STROM telecom—

During 2004 and 2003, the Group entered into a number of agreements with STROM telecom, a subsidiary of Sistema, for a total amount up to \$116.5 and \$32.3 million, respectively. Pursuant to these contracts, the Group purchased in 2004 and 2003 billing systems and communication software support systems for approximately \$9.1 and \$23.7 million, respectively. Advances paid under these agreements and outstanding as of December 31, 2004 and 2003, amount to \$51.0 million and \$1.1 million, respectively.

MTT—

In 2004, MTS had interconnection and line rental agreements with MTT, a subsidiary at Sistema. Interconnection expenses for the year 2004 amounted to \$16.1 million. Management believes that these agreements are at market terms.

See Note 3 for other related parties transactions.

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2004, 2003 and 2002 consisted of the following:

	December 31,		
	2004	2003	2002
Salaries and social contributions	\$ 256,989	\$ 156,808	\$ 84,706
Repair and maintenance	81,538	39,406	20,361
General and administrative	72,586	42,530	26,549
Rent	54,054	31,968	15,578
Billing and data processing	28,238	22,067	9,549
Taxes other than income	50,033	40,432	39,119
Consulting expenses	19,694	11,361	7,692
Insurance	7,554	7,351	6,774
Inventory obsolescence expense	4,610	3,307	5,614
General and administrative expenses	<u>\$ 575,296</u>	<u>\$ 355,230</u>	<u>\$ 215,942</u>

19. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

At December 31, 2004 and 2003, the Group's investments in and advances to associates included, respectively, the following:

	December 31,	
	2004	2003
MTS Belarus—loans receivable	\$ 51,894	\$ 51,481
MTS Belarus—equity investment	27,699	5,884
Primtelefon—equity investment	—	31,174
Astrakhan Mobile and Volgograd Mobile—equity investment	—	5,806
Astrakhan Mobile and Volgograd Mobile—loans receivable	—	6,850
Volgograd Mobile—loans receivable	—	204
MSS—note receivable	—	827
Receivables from other investee companies	1,642	1,359
Total investments in and advances to associates	<u>\$ 81,235</u>	<u>\$ 103,585</u>

MTS Belarus—

As of December 31, 2004 and 2003, the Group provided MTS Belarus with a total of \$51.9 million and \$51.5 million in loans, respectively. These loans bear interest at 3.00% to 11.00% per annum. In addition, the Group guarantees the debt of MTS Belarus in the amount of \$25.0 million to several banks.

Primtelefon, Astrakhan Mobile and Volgograd Mobile—

As described in Note 3, in August 2003 the Group purchased equity interests in various Russian regional mobile operators, including stakes in Primtelefon, Astrakhan Mobile and Volgograd Mobile, as a part of its strategic business plans.

Following the acquisition in 2004 of the additional stakes in Primtelefon, Astrakhan Mobile and Volgograd Mobile, those companies have been consolidated starting June 30, 2004 for Primtelefon and September 1, 2004 for both Astrakhan Mobile and Volgograd Mobile.

The Group's share in net income of unconsolidated affiliates is included in other income in the accompanying consolidated statements of operations. For the years ended December 31, 2004, 2003 and 2002, this share amounted \$24.2 million, \$2.7 million and nil net income, respectively.

20. OPERATING LICENSES

In connection with providing telecommunication services, the Group has been issued various operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group was granted access to various telecommunication licenses through acquisitions. At December 31, 2004 and 2003, the recorded values of the Group's telecommunication licenses were as follows:

	December 31,	
	2004	2003
Moscow license area (MTS OJSC)	\$ 255,812	\$ 255,812
Ukraine (UMC)	171,815	151,857
Krasnodar and Adigeys regions (Kuban-GSM)	124,396	124,396
Five regions of Asian Russia (Telecom-900)	91,202	84,395
North-Western region (Telecom XXI)	74,639	74,639
Tatarstan Republic (TAIF Telcom)	104,159	68,407
Krasnoyarsk region, Taimyr region and Khakassia Republic (Sibchallenge)	52,625	52,625
Tomsk region (TSS)	49,282	49,282
Bashkortostan Republic (BM Telecom)	48,932	48,932
Far East (Primtelefon)	48,107	—
Uzbekistan (Uzdunrobita)	40,861	—
Rostov region (Dontelecom)	22,067	22,067
Seven regions of European Russia	19,503	19,503
Other	85,029	8,212
Licenses, at cost	1,188,429	960,127
Accumulated amortization	(417,158)	(257,024)
Licenses, net	\$ 771,271	\$ 703,103

Amortization expense for the years ended December 31, 2004, 2003 and 2002, amounted to \$160.1 million, \$113.6 million and \$63.7 million, respectively.

Based on the amortizable intangible assets existing at December 31, 2004, the estimated future amortization expenses are \$222.9 million during 2005, \$168.5 million during 2006, \$125.6 million during 2007, \$75.8 million during 2008, \$37.3 million during 2009 and \$140.8 million thereafter. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

Each of the Group's licenses, except the licenses covering the Moscow license area and Uzbekistan, contains a requirement for service to be commenced and for subscriber number and territorial coverage targets to be achieved by a specified date. The Group has met these targets or received extensions to these dates in those regional license areas in which the Group has not commenced operations. Management believes that the Group is in compliance with all material terms of its licenses.

The Group's operating licenses do not provide for automatic renewal. The Group has limited experience with the renewal of its existing licenses. However, management believes that licenses required for the Group's operations will be renewed upon expiration.

21. COMMITMENTS AND CONTINGENCIES

Capital Commitments—

As of December 31, 2004, the Group had executed non-binding purchase agreements in the amount of approximately \$164.7 million to subsequently acquire property, plant and equipment.

Operating Leases—

The Group has entered into lease agreements of space for telecommunication equipment and offices, which expire in various years up to 2053. Rental expenses under these operating leases of \$54.0 million, \$32.0 million and \$15.6 million for the years ended December 31, 2004, 2003 and 2002, respectively, are included in general and administrative in the accompanying statements of operations. Future minimum lease payments due under non-cancelable leases at December 31, 2004 are as follows:

Payments due in the years ended December 31,	
2005	\$ 33,459
2006	17,787
2007	14,021
2008	10,670
2009	7,261
Thereafter	35,475
Total	<u>\$ 118,673</u>

Operating Licenses—

Since the commencement of MTS' operations in 1994, a number of telecommunication licenses for the Russian Federation were issued to MTS and its now consolidated subsidiaries. These license agreements stipulate that certain fixed "contributions" are to be made to a fund for the development of telecommunication networks in the Russian Federation. Most of MTS' current licenses provide for the

payment of such fees, which in the aggregate could total approximately \$103.0 million, as at December 31, 2004. According to the terms of licenses, such contributions are to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators (the "Association"). The Association is a non-governmental, not-for-profit association, and its Board of Directors comprises of representatives of the major cellular communications companies, including MTS.

The Association has not adopted any procedures enforcing such payments and no such procedures have been established by the Russian legislation. To date, MTS has not made any such payments pursuant to any of the current operating licenses issued to MTS and its consolidated subsidiaries. Further, the management of MTS believes that MTS will not be required to make any such payments in the future. In relation to these uncertainties, MTS has not recorded a contingent liability in the accompanying consolidated financial statements.

Provision for Doubtful Accounts—

In 2003, MTS incurred a loss of \$16.7 million due to dealers and subscriber fraud. In 2003, the Group's management took measures to prevent further fraud of that nature. No significant losses from the dealers' fraud were incurred during year ended December 31, 2004.

Issued Guarantees—

As of December 31, 2004, the Group has issued guarantees to third party banks for the loans taken by Invest-Svyaz-Holding, a shareholder of the Group for a total amount of \$21.6 millions (see also Note 17). The guarantees expire by May 2006.

The Group issued additional guarantees on behalf of MTS-Belarus, an equity investee, for the total amount of \$25.0 million. Under these guarantees, the Group could be potentially liable for a maximum amount of \$46.6 in case of the borrower's default under the obligations. The guarantees expire by April 2007.

As of December 31, 2004, no event of default has occurred under any of the guarantees issued by the Group.

Contingencies—

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be subject to the government's continued actions with regard to supervisory, legal, and economic reforms.

On January 1, 2004, a new Law on telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The Group cannot predict with any certainty how the new law will affect MTS. The new law creates a new interconnect pricing regime in 2004 that should be more transparent and unified and it creates a universal service charge calculated as a percentage of revenue, which will be introduced from 2005. The new law may increase the regulation of the MTS operations

and until the time when appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

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

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted and effective January 1, 2002, new regulations, relating to federal income tax were enacted. The new tax system is generally intended to reduce the number of taxes, the overall tax burden on businesses, and to simplify the tax laws.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2004, tax declarations of the Group for the preceding three fiscal years were open to further review.

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

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

UMC—

On June 7, 2004, the General Prosecutor of Ukraine filed a claim against MTS and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to MTS. The complaint also seeks an order that would prohibit MTS from alienating 51% of its stake in UMC until the claim is resolved.

On August 12, 2004, the Kiev Commercial Court rejected a claim of General Prosecutor of Ukraine against MTS. No appeal was filed to the Court by the office of General Prosecutor of Ukraine within an established period. As of the date of these statements an office of General Prosecutor of Ukraine filed a request to the Constitutional Court of Ukraine to clear out terms of the State Privatization Plan for 2000-2002 and respond whether Ukrtelecom had a right to sell 51% stake in UMC.

MTS believes that it acquired a stake in UMC in full compliance with the Ukrainian law and, if required, intends to vigorously defend its acquisition of UMC.

22. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance. The Group's business is organized based on geographical operations. Management of the Group regularly reviews certain operational and statistical information by license area, however currently no discrete financial information is available on this basis, therefore the performance is measured and decisions about resource allocation are made by management based on operating income by legal entities as an aggregate of the license area information.

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

At December 31, 2004, the Group has several operating segments, of which four are reportable segments—MTS OJSC, UMC, Telecom XXI and Kuban-GSM.

	Year ended December 31,		
	2004	2003	2002
Revenue:			
MTS OJSC	\$ 2,129,544	\$ 1,471,198	\$ 1,044,877
UMC ⁽¹⁾	832,313	394,038	—
Telecom XXI	297,194	210,460	79,166
Kuban-GSM	225,350	168,401	79,317
Other	796,256	432,770	211,826
Intercompany eliminations	(393,663)	(130,669)	(53,430)
Total revenue	\$ 3,886,994	\$ 2,546,198	\$ 1,361,756
Depreciation and amortization:			
MTS OJSC	\$ 253,485	\$ 199,946	\$ 144,004
UMC	124,935	66,392	—
Telecom XXI	57,265	36,782	17,343
Kuban-GSM	68,140	32,299	21,224
Other	175,221	82,185	27,109
Intercompany eliminations	(3,317)	(1,688)	—
Total depreciation and amortization	\$ 675,729	\$ 415,916	\$ 209,680
Operating income:			
MTS OJSC	\$ 728,101	\$ 527,837	\$ 365,698
UMC	317,860	131,704	—
Telecom XXI	104,936	80,632	2,331
Kuban-GSM	74,622	74,599	27,725
Other	198,390	123,577	72,806
Intercompany eliminations	(4,846)	(15,751)	(4,189)
Total operating income	\$ 1,419,063	\$ 922,598	\$ 464,371
Total operating income	\$ 1,419,063	\$ 922,598	\$ 464,371
Currency exchange and transaction losses (gains)	(6,529)	(693)	3,474
Interest income	(21,792)	(18,076)	(8,289)
Interest expense	107,956	106,551	44,389
Other (income)/expenses	(33,456)	3,420	(2,454)
Income before provision for income taxes and minority interest	\$ 1,372,884	\$ 831,396	\$ 427,251
Additions to long-lived assets:			
MTS OJSC	\$ 679,023	\$ 389,446	\$ 360,598
UMC ⁽¹⁾	303,761	900,465	—
Telecom XXI	62,333	174,128	175,361
Kuban-GSM	69,689	172,949	199,225
Other	714,344	393,526	169,378
Total additions to long-lived assets	\$ 1,829,150	\$ 2,030,514	\$ 904,562

⁽¹⁾ Acquired in March 2003.

	December 31,	
	2004	2003
Long-lived assets:		
MTS OJSC	\$ 1,891,869	\$ 1,454,570
UMC, including goodwill in the amount of \$8,000 as of December 31, 2004 and 2003	838,020	648,812
Telecom XXI	295,505	288,256
Kuban-GSM	279,883	276,883
Other, including goodwill in amounts of \$100,329 and \$533 as of December 31, 2004 and 2003, respectively	1,174,582	623,037
Intercompany eliminations.	(37,408)	(19,702)
Total long-lived assets	<u>\$ 4,442,451</u>	<u>\$ 3,271,856</u>
Total assets:		
MTS OJSC	\$ 2,717,814	\$ 2,328,426
UMC	993,997	772,792
Telecom XXI	363,888	345,784
Kuban-GSM	393,656	319,546
Other	1,573,239	727,600
Intercompany eliminations	(461,407)	(268,797)
Total assets	<u>\$ 5,581,187</u>	<u>\$ 4,225,351</u>

23. SUBSEQUENT EVENTS

The Notes—

On January 27, 2005, MTS Finance issued \$400.0 million 8.00% unsecured notes at 99.736%. These notes are fully and unconditionally guaranteed by MTS OJSC and mature on January 28, 2012. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 28 and July 28, commencing on July 28, 2005. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were \$398.9 million.

ADS Ratio Change—

In December 2004, the Group announced that it will be changing its current ADS ratio effective January 3, 2005, the first trading day in 2005. The ratio has changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares.

Acquisition of Subsidiary—

In February 2005, MTS signed an agreement to acquire a 74.9% stake in Sweet-Com LLC, a holder of 3.5GHz radio frequency allocation for Moscow region, for a cash consideration of \$2.0 million. The Company is providing wide-range radio access services for the "last mile" based on the Radio-Ethernet technology.

The purchase price allocation for this acquisition has not been yet finalized at the date of these statements.

Tax Audit—

In March 2005, the Russian tax authorities audited MTS OJSC's compliance with tax legislation for the year ended December 31, 2002. Based on the results of this audit, the Russian tax authorities assessed that 372,152 thousand roubles (approximately \$13.4 million as at December 31, 2004) of additional taxes, penalties and fines were payable by the Group. The Group has prepared and filed with the Arbitrary Court of Moscow a petition to recognize the tax authorities' resolution as partially invalid. The amount of disputed taxes and fines equals 281,504 thousand roubles (approximately \$10.1 million).

CSFB Loan—

In April 2005, the loan due to Credit Swiss First Boston in the amount of \$140.0 million was fully repaid.

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Exhibit 1.1

[Stamp:

REGISTERED AND ENTERED IN THE
STATE REGISTER BY THE STATE
REGISTRATION CHAMBER UNDER THE
RF MINISTRY OF JUSTICE,

28 June, 2002

No. P-7882.16.5

First Deputy Chairman *[signature]* N.D.

Makarova

Approved by the Annual General
Meeting of Shareholders
of Mobile TeleSystems Open Joint Stock Company

Protocol No 6 of 21 June, 2002

Round Seal:

STATE REGISTRATION CHAMBER UNDER THE
MINISTRY OF
JUSTICE OF THE RUSSIAN FEDERATION]

**CHARTER
OF
MOBILE TELESYSTEMS
OPEN JOINT STOCK COMPANY**

(Restated version No 2)

Moscow, 2002

1. General Provisions

1.1. Mobile TeleSystems Open Joint Stock Company (hereinafter the "Company") registered by the State Registration Chamber on March 1, 2000, registration No P-7882.16. The Company has been created and operates in accordance with the Civil Code of the Russian Federation, the Federal Law "On Joint Stock Companies", the Federal Law "On Foreign Investments in the Russian Federation" and other current legislation of the Russian Federation and this Charter.

The Company was created by the consolidation of Mobile TeleSystems Closed Joint Stock Company (registered on October 28, 1993, by the Moscow Registration Chamber, registration number 027.941, and by the State Registration Chamber on September 21, 1994, registration number R-3566.16) and Russian Telephone Company Closed Joint Stock Company (registered by the Moscow Registration Chamber on July 21, 1995, registration number 634.535, and by the State Registration Chamber on August 19, 1996, registration number R-6068.16).

The Company is the legal successor in respect of all rights and obligations of Mobile TeleSystems Closed Joint Stock Company and Russian Telephone Company Closed Joint Stock Company.

The Company shall carry out its economic activity on the basis of current legislation of the Russian Federation and this Charter.

This edition of the Charter has been approved in connection with bringing the Charter of the Company into conformity with Federal Law No. 120-FZ of 07 August 2001 "On the Incorporation of Amendments and Addenda to the Federal Law "On Joint Stock Companies".

1.2. The full trade name of the Company in the Russian language shall be: [text in Russian]

The full trade name of the Company in the English language shall be: Mobile TeleSystems Open Joint Stock Company.

The abbreviated trade name of the Company in Russian shall be: [text in Russian]

The abbreviated trade name of the Company in English shall be: MTS OJSC

1.3. The Company shall be a legal entity under the legislation of the Russian Federation and have its own property and funds, an independent balance sheet, a settlement account and other accounts at banks (including a foreign currency account), a seal specifying the name of the Company in the Russian and English languages, letterhead bearing its name, its own logo and trademark, and other requisites.

1.4. The Company shall acquire the rights of a legal entity upon its state registration.

1.5. The duration of the Company shall be unlimited.

1.6. The shareholders of the Company ("Shareholders") shall not be liable for the obligations of the Company and shall bear the risk of losses associated with the Company's activity to the extent of the value of the Shares owned by them, and the Company shall not be liable for the obligations of the Shareholders.

1.7. The Company shall not be liable for the obligations of the State, nor shall the State be liable for the obligations of the Company.

1.8. In the course of its activity the Company may create branches and representative offices in accordance with current legislation in the territory of the Russian Federation and abroad, as well as participate in the capital of other organizations.

1.9. The official languages of the Company shall be English and Russian. The Company's documents shall be in the Russian language. The board of directors of the Company ("Board of Directors") shall, taking into account the provisions of this Charter, approve the list of the Company's documents that must be prepared in the English and Russian languages. The texts of such documents shall be authentic and have identical force.

1.10. The location of the Company shall be: Russia, 109147, Moscow, ul. Marksistskaya, d. 4.

2. Purpose and Principal Lines of Activity

2.1. The purpose of the Company's economic activities shall be to obtain profits through the planning, marketing, and operation of a radiotelephone mobile cellular network in the regions specified in licenses issued by the Ministry of Communication of the Russian Federation. In order to achieve this purpose, the Company's activities shall include:

- cooperation with national and/or international operators of the Global System for Mobile Communications (GSM) in the territory of the Russian Federation and elsewhere to provide for an optimum level of service to clients of the Company;
- cooperation with particular operators of telephone networks in Moscow and the Russian Federation, as well as with the operators of international communication networks;
- performance of settlements with clients, as well as commercial and financial management of the network in accordance with accepted international practice;
- performance and marketing of additional services of mobile communication systems;
- import, sales, leasing, installation and maintenance of terminals and related devices;
- operation and maintenance of monitoring equipment for GSM networks; and
- conduct of any other activity in accordance with resolutions of the Board of Directors and the Meeting of Shareholders that facilitate the achievement of the Company's principal goals.

2.2. The Company shall carry out foreign economic activities both independently and through other organizations entitled to operate on the foreign market in accordance with current legislation.

2.3. The Company may carry out activities for which a license is required only if it holds a valid license to carry out such activity or has entered into contractual relations with a holder of the appropriate license.

3. Rights of the Company

3.1. In accordance with its purpose and lines of activity, the Company shall have the right:

- to enter, both within the Russian Federation and elsewhere, into any legal transactions and to execute other legally significant actions regarding legal entities or individuals;
 - in the interests of the Company to own, use, and dispose of material assets and other assets transferred to the Company's ownership or use or acquired in the course of its economic activities, as well as monetary funds held in bank accounts, subject to the requirements of this Charter and current legislation;
 - to independently use profits that remain after taxes and other compulsory payments and settlements have been paid;
 - to acquire property rights and personal non-property rights and bear responsibilities; to be a claimant or respondent in a court or arbitration court or before an arbitral tribunal, and to perform other actions not contrary to legislation;
 - to acquire, alienate, and rent, in the Russian Federation and elsewhere, enterprises and movable and immovable property necessary for the Company's activity;
 - to independently plan its production and economic activities and the social development of its employees;
 - to use loans in rubles and in foreign currency at banks, organizations, and enterprises in the Russian Federation and elsewhere; to acquire foreign currency at auctions, on currency exchanges, and from legal entities and citizens on the terms established by current legislation;
-

- to invest monetary funds in domestic loan bonds, bank certificates, and other securities in circulation; to hold auctions, lotteries, and exhibitions; and to conduct operations on commodity and stock exchanges;
- to engage legal entities and individuals to work in the lines of its activity on the basis of civil-law contracts at wages agreed by the parties;
- to independently set the total number of employees and their professional and qualification standards; to approve the permanent staff of the Company and the branches, representatives offices, and divisions created by it; to determine forms and systems of wages and the shift system of work, and to adopt resolutions on the implementation of combined accounting of work hours;
- to use all non-prohibited means of communication (including international, telex, telephone, and facsimile);
- to enjoy other rights provided for by current legislation.

4. Rights and Obligations of the Company's Shareholders

4.1. In addition to the rights provided for by other articles of this Charter, the Shareholders shall have the right:

- to freely assign the shares owned by them, including by way of sale, gift, bequest, pledge, or otherwise alienate or encumber their shares in any way, without the consent of the other Shareholders in accordance with applicable legislation, on condition of compliance with the provisions of this Charter;
 - to receive dividends;
 - to participate in direct or remote voting at the general meeting of shareholders of the Company ("General Meeting of Shareholders") on all issues within its competence;
 - to transfer voting right to other Shareholders or to their own representatives pursuant to power of attorney;
 - to nominate and elect candidates to the management and supervisory bodies of the Company in the manner and on the terms established by this Charter;
 - in the manner and on the terms established by this Charter, to submit for consideration by the management bodies of the Company, in accordance with their competence, proposals concerning the Company's activities, the state of its property, and the size of its profits and losses;
 - to elect and be elected to the management and supervisory bodies of the Company;
 - in the cases provided for by the Charter, to elect the working bodies of the General Meeting of Shareholders;
 - to demand the calling of an extraordinary General Meeting of Shareholders or an unscheduled audit of the Company's activities by the audit commission of the Company ("Audit Commission") or by an independent auditor in the manner and on the terms established by the legislation of the Russian Federation and this Charter;
 - to demand the redemption by the Company of some or all of the shares owned by them in the manner and in the cases established by the legislation of the Russian Federation and the Company's Charter.
 - in the event that the Company is liquidated, to receive a portion of its property;
 - to have free access to the Company's documents, in the manner established by the legislation of the Russian Federation and this Charter, and to receive copies thereof for a reasonable fee;
-

- to exercise other rights provided for by this Charter, the legislation of the Russian Federation, and resolutions of the General Meeting of Shareholders adopted in accordance with its competence.
- 4.2. In addition to the obligations stipulated in other articles of this Charter, the Shareholders shall be obligated:
- to pay for shares in the manner and amount and by the means established by the Civil Code of the Russian Federation, the Federal Law of the Russian Federation "On Joint Stock Companies," other legislation of the Russian Federation, the Company's Charter, and the Decision on Issuance of Securities;
 - to fulfill the requirements of the Charter and the resolutions of the General Meeting of Shareholders;
 - to refrain from any intentional activities that might cause harm to the Company;
 - not to divulge confidential information concerning the Company's activities.

Shareholders who have not paid for their shares in full shall bear joint and several liability for the Company's obligations to the extent of the unpaid value of the shares belonging to them.

5. Charter Capital of the Company

5.1. The Company shall have a charter capital equal to 199 332 613 rubles 80 kopecks (one hundred ninety-nine million three hundred thirty-two thousand six hundred thirteen rubles eighty kopecks), divided into 1 993 326 138 (one billion nine hundred ninety-three million three hundred twenty-six thousand one hundred thirty-eight) registered common shares with a par value of 0.1 (one-tenth) of one ruble (or 10 (ten) kopecks) each, acquired by shareholders.

The charter capital shall consist of the aforesaid par value of registered common shares acquired by the Shareholders (placed shares), namely, 1 993 326 138 (one billion nine hundred ninety-three million three hundred twenty-six thousand one hundred thirty-eight) shares. The charter capital of the Company has been fully paid.

5.2. The charter capital may be changed pursuant to a resolution of the General Meeting of Shareholders or the Board of Directors in accordance with the Federal Law "On Joint Stock Companies" and other current legislation.

5.3. The charter capital of the Company shall be deemed to have been changed after the state registration of such change.

5.4. Increase of the charter capital.

5.4.1. The Company shall be entitled to increase the charter capital of the Company by increasing the par value of all placed shares or by placing additional shares.

5.4.2. Additional shares may be placed by the Company only within the limit of the number of authorized shares established by the Charter.

5.5. In addition to the placed registered common shares, the Company declares (shall have the right to place) 103 649 654 (one hundred and three million six hundred forty-nine thousand six hundred fifty-four) registered common shares with a par value of 0.1 (one-tenth) of one ruble each to a total par value of 10 364 965 rubles 40 kopecks (ten million three hundred sixty-four thousand nine hundred sixty-five rubles forty kopecks).

After the placement the declared registered common shares of the Company grant the equal volume of rights, as provided for the placed registered shares of the Company by the article 4 of this Charter.

5.6. Decrease in the charter capital.

5.6.1. The charter capital of the Company may be decreased by decreasing the par value of all placed shares of the Company equally or by reducing their total number, including by acquiring and canceling some of the placed shares.

6. Property and Funds of the Company

6.1. The property of the Company shall consist of fixed assets and working capital, material assets, securities, and other financial resources whose value is reported on the independent balance sheet of the Company.

The sources for forming the property of the Company shall be:

- funds received by legal succession in conjunction with the creation of the Company;
- funds received from Shareholders in payment for shares;
- income from the sale of products (work, services) produced by the Company;
- loans from banks and other creditors;
- other sources not prohibited by current legislation.

6.2. Profits remaining after the payment of taxes and other compulsory payments (net profit) shall be at the complete disposition of the Company.

The Company may independently form the funds required for its activity. The Company shall independently determine the composition, purpose, sources of formation, and manner of use of funds.

The Company establishes a reserve fund equal to 15 percent of the charter capital.

Annual contributions to the reserve fund must be at least 5 percent of the Company's net profit until the level of 15 percent of the charter capital is attained.

6.3. The Company shall sell the products (works, services) produced by it at prices and tariffs set independently or contractually, or, in the cases provided for by current legislation of the Russian Federation, at prices set by the state.

6.4. Losses arising in the course of the Company's activity shall be covered out of the reserve fund and, in case of the insufficiency thereof, out of other sources.

7. Shares

7.1. The Company shall have the right to issue registered common shares, preferred shares, and other securities provided for by legal acts of the Russian Federation. Preferred shares may be issued only after corresponding amendments have been made to the Charter of the Company pursuant to a resolution of the General Meeting of Shareholders. Owners of shares shall be registered in a Register of Shareholders, which must include the data required by legislation.

7.2. All common shares of the Company shall have the same par value and grant to the Shareholders who own them an identical amount of rights.

7.3. Common shares of the Company shall be voting shares in respect of all issues within the competence of the General Meeting of Shareholders.

7.4. In the event that the Company is liquidated, the Shareholders shall share in the distribution of its assets in the order of priority established by current legislation of the Russian Federation.

7.5. Shares shall be issued in uncertificated form, and payment for shares shall be made in accordance with the resolution respecting their placement.

7.6. In the event that it is impossible for a Shareholder to acquire a whole number of shares when exercising its preemptive right to acquire additional shares or during the consolidation of shares,

parts of shares are formed ("fractional shares"). A fractional share grants the Shareholder who owns it the rights conferred by shares of the same category (class) in a volume corresponding to that fraction of a whole share which it represents.

For the purposes of reflecting in the Charter of the Company the total number of placed shares, all placed fractional shares shall be summed up. If this does not yield a whole number, the number of placed shares shall be reflected in the Charter of the Company as a non-integral.

Fractional shares shall circulate on a par with whole shares. In the event that one party acquires two or more fractional shares of the same category (class), such shares shall form one whole share and (or) a fractional share, equal to the sum of such fractional shares.

7.7. Procedure for alienation of shares of the Company.

7.7.1. Shares of the Company may be alienated in favor of third parties. A Shareholder may alienate his shares in the manner established by legislation without the consent of the other Shareholders at the price determined by agreement of the parties.

7.7.2. Unless otherwise established by law, the Company may acquire shares placed by it in accordance with the provisions of the Federal Law "On Joint Stock Companies" pursuant to a resolution of the General Meeting of Shareholders to reduce the charter capital of the Company by acquiring some of the placed shares for the purpose of decreasing their total number. Shares acquired by the Company on the basis of such a resolution shall be cancelled upon the acquisition thereof.

The Company shall have the right to acquire shares it has placed by resolution of the Board of Directors.

The Company shall not have the right to adopt a resolution on acquisition of shares by the Company if the par value of shares of the Company which are in circulation is less than 90 percent of the charter capital of the Company.

Shares acquired by the Company in accordance with the second paragraph of this clause shall not confer the right to vote, shall not be counted when votes are tallied and no dividends shall accrue on them. Such shares shall be sold at their market value no later than one year from the date of their acquisition. If such is not the case, the General Meeting of Shareholders of the Company is obligated to adopt a resolution on reducing the charter capital of the Company by redeeming the aforementioned shares.

A resolution on acquiring shares shall specify the category (class) of shares that are to be acquired, the number of shares of each category (class) being acquired by the Company, the purchase price, the form and period of payment, and the period within which the shares are to be acquired.

Shares may be paid for with money or other property. The period within which shares are acquired cannot be less than 30 days.

The shareholder of the Company, who owns the shares of the category (class) of shares that are to be acquired by the Company, shall have a right to sell such shares to the Company and the Company is obligated to buy them. In the event that the total number of shares offered for sale to the Company by the shareholders is more than the total number of shares to be acquired by the Company, considering the restrictions imposed by current legislation of the Russian Federation, the shares shall be acquired on pro rata basis.

7.7.3. In the event of the reorganization or liquidation of a Shareholder that is a legal entity or the death of a Shareholder who is an individual, the successors (heirs) thereof shall become Shareholders of the Company. Inheritance or succession of shares shall take place in accordance with the general civil procedure.

7.7.4. A new owner of shares and other securities of the Company shall be obligated to communicate, within a reasonable period of time, all necessary details about himself for the purposes of their entry into the Register of Shareholders and Owners of Registered Securities of the Company.

7.8. Consolidation and splitting of shares.

7.8.1. The Company shall have the right, pursuant to a resolution of the General Meeting of Shareholders, to carry out a consolidation of placed shares, thereby causing two or more shares of the Company to be converted into one new share of the same category (class). Therewith, corresponding amendments regarding the par value and number of placed and authorized shares of the Company of respective category (class) shall be made to the Charter of the Company.

7.8.2. The Company shall have the right, pursuant to a resolution of the General Meeting of Shareholders, to conduct a split of placed shares of the Company, thereby causing one share of the Company to be converted into two or more shares of the Company of the same category (class). Therewith, corresponding amendments regarding the par value and number of placed and authorized shares of the Company of respective category (class) shall be made to the Charter of the Company.

8. Placement of Shares and Other Securities of the Company.

8.1. Procedure and methods of placement of shares and other securities.

8.1.1. The Company shall place shares at the time of the Company's creation and when issuing additional shares.

8.1.2. The Company may effect the placement of additional shares and other securities through open subscription (public placement) or closed subscription (private placement) and conversion.

In the event of the increase of the charter capital of the Company out of the Company's property the Company implements the placement of additional shares through distribution among shareholders in proportion to the number of shares owned by them.

The methods of placement by the Company of additional shares and other securities shall be established by the resolution respecting their placement.

A resolution on placement by closed subscription of shares and other securities convertible into shares as well as a resolution on placement by open subscription of shares and securities convertible into common shares constituting over 25 percent of previously placed common shares shall be adopted by the General Meeting of Shareholders by three quarters of votes of Shareholders of the voting shares that participate in the General Meeting of Shareholders.

The increase of the charter capital of the Company out of the Company's property by the placement of additional shares through distribution among shareholders within the limit of the number and category (class) of the authorized shares only among shareholders in the number proportional to the number of shares owned by them, as well as the placement by open subscription of common shares constituting no more than 25 percent of previously placed common shares of the Company shall be carried out pursuant to a resolution unanimously adopted by all members elected to the Board of Directors of the Company. If an unanimity respecting the issue of the increase of the charter capital of the Company has not been reached by the Board of Directors of the Company, then by resolution of the Board of Directors the issue of the increase of the charter capital may be referred to the General Meeting of Shareholders of the Company for decision.

8.1.3. In the cases established by legal acts of the Russian Federation, the placement of additional shares and other securities by the Company shall be done only through open subscription.

8.1.4. Additional shares may be placed by the Company only within the limits of the number of authorized shares established by this Charter.

The Company may not adopt a resolution to place additional shares of a category (class) not established in the Charter of the Company for authorized shares.

A resolution on increasing the charter capital of the Company through the placement of additional shares may be adopted by the General Meeting of Shareholders of the Company at the same time as a

resolution is adopted on incorporating provisions in the Charter of the Company on authorized shares or on incorporating provisions in the Charter of the Company on declared registered common shares.

8.1.5. Shareholders of the Company shall have the preemptive right to acquire additional shares of the Company placed by open subscription and other securities of the Company convertible into shares in a number proportional to the number of voting shares of the same category (class) which they own.

Shareholders of the Company who have voted against or who have not participated in voting on the placement by closed subscription of shares or other securities convertible into shares shall have the preemptive right to acquire additional shares and other securities convertible into shares, to be placed by closed subscription in a number proportional to the number of voting shares of the same category (class) which they own. This right shall not apply to the placement of shares and other securities convertible into shares carried out by closed subscription only among Shareholders if the Shareholders have the possibility of acquiring a whole number of shares placed or other securities convertible into shares in a number proportional to the number of voting shares of the same category (class) which they own.

The list of persons having the preemptive right to acquire additional shares and other securities convertible into shares is prepared on the basis of information from the register of Shareholders as of the date of adoption of the resolution which constitutes the grounds for placing the additional shares or other securities convertible into shares. For the purpose of preparing the list of persons having the preemptive right to acquire additional shares or other securities convertible into shares, a nominal holder of shares shall submit information on the persons in whose interests he holds the shares.

8.1.6. Persons included in the list of persons having the preemptive right to acquire additional shares or other securities convertible into shares of the Company shall be notified of the possibility of exercising such preemptive right, envisaged in clause 8.1.5 hereof, in accordance with the procedure for serving notice that a General Meeting of Shareholders is to be held, set forth in clause 12.12.1 hereof.

The notice shall contain information on the number of shares or other securities convertible into shares which are being placed, the placement price or the procedure for determining the placement price (including the placement price or the procedure for determining the placement price for placement among Shareholders of the Company who exercise their preemptive right of acquisition), the procedure for determining the number of securities each Shareholder has the right to acquire, and the effective period of the preemptive right, which cannot be less than 45 days from the time of sending (delivery) or publication of such notice. The Company shall not have the right to place additional shares or other securities convertible into shares to persons not included in the list of persons having the preemptive right to acquire additional shares or other securities convertible into shares prior to the expiry of the aforementioned period.

8.1.7. A person that has the preemptive right to acquire additional shares or other securities convertible into shares shall have the right to exercise such preemptive right, wholly or in part, by submitting to the Company a written application for the acquisition of shares or other securities convertible into shares and a document on payment for the shares or other securities convertible into shares which are being acquired. Such application shall contain the name (trade name) and place of residence (location) of the Shareholder, and the number of shares being acquired thereby.

8.2. Procedure for payment for shares and other securities being placed.

8.2.1. Shares and other securities of the Company may be paid for with money, securities, other property, property rights, or other rights having a monetary valuation.

If a resolution constituting the grounds for placement of the additional shares or other securities convertible into shares stipulates payment for them in means other than money, persons exercising their preemptive right shall be entitled at their discretion to pay for them with money.

8.2.2. The form of payment for additional shares of the Company shall be specified in the resolution on their placement. Payment for other securities of the Company may only be effected with money.

The placement of additional shares and other securities of the Company which are placed through subscription shall be conditional on payment for them in full.

8.2.3. Where additional shares of the Company are paid for with means other than money, the monetary value of the property contributed in payment for the shares shall be appraised by the Board of Directors of the Company in accordance with the current legislation. Where additional shares of the Company are paid for with means other than money, the monetary value of the property contributed in payment for the shares shall be appraised by the independent appraisal.

8.2.4. Additional shares of the Company shall be paid for at the price determined by the Board of Directors of the Company in accordance with current legislation, but not below their par value.

The placement price for the additionally issued shares of the Company to be placed with the persons included in the list of persons having the preemptive right to acquire additional shares may be less than the placement price to other persons but no more than on 10 (ten) percent.

8.2.5. The Company may not impose restrictions on the acquisition by nonresidents of shares and other securities convertible into shares except where explicitly provided for by the legislation of the Russian Federation.

9. Dividends

9.1. Pursuant to a resolution of the Meeting of Shareholders, dividends may be paid once a year. Annual dividends shall be announced by the annual General Meeting of Shareholders according to the results of the year.

9.2. The amount of the annual dividend, calculated for one common share, shall be determined by the General Meeting of Shareholders at the recommendation of the Board of Directors. The amount of the annual dividend may not exceed the amount recommended by the Board of Directors of the Company.

9.3. The Company shall be obligated to pay dividends that have been announced. As a rule, dividends shall be paid in money. A dividend may also be paid in the form of other property, shares (capitalization of profits), other types of securities, property, or the assignment of property rights or other rights having a monetary valuation. The amount of the dividend and the form of payment thereof on shares shall be established in the resolution to pay dividends on shares.

The General Meeting of Shareholders may adopt a resolution not to pay dividends on shares.

9.4. Dividends shall neither accrue nor be paid on shares that have not been issued into circulation or have been taken onto the Company's balance sheet pursuant to a resolution of the Board of Directors.

9.5. Dividends shall accrue and be paid only on fully paid shares.

9.6. Interest shall not accrue on dividends that have not been paid out or received.

9.7. The date of payment of annual dividends shall be set by a resolution of the General Meeting of Shareholders. If the date when annual dividends are to be paid is not specified by resolution of the General Meeting of Shareholders of the Company, the period within which they are to be paid shall not exceed 60 days from the day of adoption of the resolution on payment of annual dividends.

9.8. For each payment of annual dividends the Board of Directors shall prepare a list of persons entitled to receive annual dividends.

The list of persons entitled to receive annual dividends shall be prepared on the day of preparation of the list of persons entitled to participate in the annual General Meeting of Shareholders of the

Company. For the purpose of preparing the list of persons entitled to receive annual dividends, a nominal holder of shares of the Company shall submit information on the persons in whose interests he holds the shares of the Company.

9.9. In the cases established by current legislation, the Company shall not have the right to adopt a resolution to pay (announce) dividends on shares.

9.10. The Company shall not have the right to pay off dividends on shares, in the cases established by current legislation.

10. Bonds and Other Securities of the Company

10.1. The Company shall have the right to place bonds and other securities provided for by the legal acts of the Russian Federation respecting securities.

10.2. The placement of bonds and other securities by the Company shall be done pursuant to a resolution of the Board of Directors.

The placement by the Company of bonds convertible into shares and other securities convertible into shares shall be effected by resolution of the General Meeting of Shareholders of the Company or by resolution of the Board of Directors of the Company, in accordance with the Clause 8.1.2. of the Charter of the Company.

10.3. A bond shall certify the right of its owner to demand redemption of the bond (payment of the par value or payment of the par value and interest) at the established times.

A resolution to issue bonds must define the form, the maturity date and method of cancellation of the bonds.

10.4. Bonds may be placed by the Company only after the charter capital has been fully paid in.

10.5. The par value of all bonds issued by the Company may not exceed the size of the Company's charter capital or the amount of security provided to the Company by third parties for the purposes of the bond issue.

10.6. The Company may place bonds with a single maturity date or bonds redeemable in series on certain dates.

Bonds may be redeemed in monetary form or in other property in accordance with the resolution to issue the bonds.

The Company may provide for the possibility of early redemption of bonds at the option of the owners thereof. In such case, the redemption value and the earliest date on which the bonds may be presented for redemption shall be specified in the resolution to issue the bonds.

10.7. The Company may place bonds secured by certain property of the Company, bonds under security provided to the Company by third parties for the purpose of the issue, and debenture bonds.

10.8. Debenture bonds may not be placed before the third year of the Company's existence, and only after two annual balance sheets of the Company have been duly approved.

10.9. Bonds may be registered or bearer. When registered bonds are issued, the Company shall be required to keep a register of their holders. A lost registered bond shall be replaced by the Company for a reasonable fee. The rights of the owner of a lost bearer bond shall be restored by a court in the manner established by civil procedural legislation of the Russian Federation for the restoration of a right in respect of a lost bearer instrument.

11. Managerial bodies of the Company

The management bodies of the Company shall be:

- the General Meeting of Shareholders;
 - the Board of Directors;
 - the President (one-person executive body).
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12. General Meeting of Shareholders

12.1. The General Meeting of Shareholders shall be the highest management body of the Company.

The following issues shall be within the competence of the General Meeting of Shareholders:

1. making of amendments to the Charter of the Company or approval of a restated version of the Charter;
 2. reorganization of the Company;
 3. liquidation of the Company, appointment of a liquidation commission, and approval of interim and final liquidation balance sheets;
 4. determination of the size of the Board of Directors, election of its members, and early termination of their powers;
 5. determination of the number, par value, category (class) of authorized shares and rights granted by such shares;
 6. increase of the Company's charter capital by way of an increase in the par value of shares or the placement of additional shares;
 7. decrease of the Company's charter capital by way of a decrease in the par value of shares, by way of the acquisition by the Company of some shares for the purposes of reducing their total number as well as by the cancellation of shares acquired or redeemed by the Company;
 8. appointment of the President of the Company and early termination of his powers;
 9. determination of the size of the Audit Commission (internal auditor) of the Company, election of its members, and early termination of their powers;
 10. approval of the external auditor of the Company ("External Auditor");
 11. approval of annual reports and balance sheets, including statements of profits and losses (profit and loss accounts) of the Company, and distribution of the profits, including payment (declaration) of dividends, and losses of the Company based on the results of the fiscal year;
 12. determination of the procedure for conducting the General Meeting of Shareholders;
 13. election of members to the Counting Commission and early termination of their powers;
 14. splitting and consolidation of shares;
 15. Adoption of resolutions on approval of transactions in whose performance there is an interest, in the cases provided for by article 83 of the Federal Law "On Joint Stock Companies" and other legislation of the Russian Federation;
 16. Adoption of resolutions on approval of major transactions associated with the acquisition or alienation of property by the Company, in the cases provided for by article 79 of the Federal Law "On Joint Stock Companies" and other legislation of the Russian Federation;
 17. acquisition by the Company of placed shares in the cases provided for by the legislation of the Russian Federation;
 18. adoption of a resolution on participation in holding companies, financial-industrial groups, and other associations of commercial organizations;
 19. approval of internal documents regulating the activities of the Company's bodies.
 20. other issues provided for by this Charter, the Federal Law "On Joint Stock Companies," and other current legislation of the Russian Federation.
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Matters assigned to the competence of the General Meeting of Shareholders cannot be transferred to the executive body of the Company to be resolved.

Matters assigned to the competence of the General Meeting of Shareholders cannot be transferred to the Board of Directors (Supervisory Board) of the Company to be resolved, with the exception of those issues envisaged by the current legislation.

12.2. General Meetings of Shareholders may be annual or extraordinary.

12.3. Annual General Meeting of Shareholders.

12.3.1. The Company shall be required to hold an annual General Meeting of Shareholders no earlier than two months before and no later than six months after the end of the preceding fiscal year of the Company. The specific date of the annual General Meeting of Shareholders shall be set by a resolution of the Board of Directors.

All meetings other than the annual meeting shall be extraordinary.

12.3.2. The annual General Meeting of Shareholders shall be called by the Board of Directors. A resolution to call such meeting must be adopted by a majority of votes of members of the Board of Directors attending the respective meeting.

When adopting a resolution to call an annual General Meeting of Shareholders, the Board of Directors shall establish the form in which the meeting is to be held and approve the provisions set forth in clause 12.9.3 of the Company's Charter.

12.3.3. The following issues shall be decided each year at the annual General Meeting of Shareholders:

1. Election of members of the Board of Directors of the Company;
2. Approval of annual reports and balance sheets, including statements of profits and losses (profit and loss accounts) of the Company, and distribution of the profits, including payment (declaration) of dividends, and losses of the Company based on the results of the fiscal year;
3. Election of the members of the Audit Commission (internal auditor) of the Company;
4. Approval of the External Auditor of the Company;

Upon the end of the terms of authority stipulated by the Company's Charter for the bodies and officers named below, the following issues shall also be decided:

5. Election of a one-person executive body of the Company (the President);
6. Election of the members of the Counting Commission of the Company.

At the proposal of Shareholders, the Board of Directors, the Audit Commission, or the External Auditor, other issues may be included on the agenda of the annual General Meeting of Shareholders in the manner and within the times established by the Company's Charter.

12.4. Extraordinary General Meeting of Shareholders.

12.4.1. An extraordinary meeting of the General Assembly of Shareholders shall be held pursuant to a resolution of the Board of Directors on the basis of:

- its own initiative;
 - a request by the Audit Commission (internal auditor) of the Company;
 - a request by the External Auditor of the Company;
 - a request by a Shareholder (Shareholders) owning at least 10 (ten) percent of the voting shares of the Company on the date the demand is made.
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Such requests must be made in the manner and within the periods established by this Charter and include:

- the wording of the agenda items;

Such a request may also contain:

- the wording of the resolutions on each item on the agenda contained in the request;
- a proposal on the form in which the meeting of Shareholders should take place.

In the event that a request initiating the calling of an extraordinary meeting of Shareholders of the Company contains a proposal nominating candidates to the Company's bodies, the relevant provisions of the legislation and of the Charter of the Company shall apply to such request.

12.4.2. A resolution of the Board of Directors initiating the calling of an extraordinary meeting of Shareholders shall be adopted by a two-thirds majority of votes of members of the Board of Directors participating in the respective meeting. Such resolution must approve:

- the wording of issues on the agenda;
- the form of holding the meeting.

The minutes of a meeting of the Board of Directors that adopts such a resolution must specify the names of the members of the Board of Directors who, in the voting on the resolution, voted in favor, against, and abstained.

12.4.3. A request of the Audit Commission of the Company to call an extraordinary General Meeting shall be adopted by a simple majority of votes of the members of the Audit Commission attending the respective meeting and be sent to the Board of Directors. Said request shall be signed by the members of the Audit Commission who voted in favor of its adoption.

A request by the External Auditor initiating the calling of an extraordinary General Meeting shall be signed by him and be sent to the Board of Directors.

12.4.4. Shareholders owning in aggregate at least 10 percent of the voting shares of the Company who initiate the calling of an extraordinary meeting shall send to the Board of Directors a written request specifying, in addition to the information specified in clause 12.4.1, the following information:

- The names of the Shareholders and information about the shares owned by them.

Such request shall be signed by the Shareholder or an agent thereof. If the request is signed by an agent, a power of attorney shall be attached thereto.

If the request is signed by a representative of the legal entity who acts on its behalf under a power of attorney, the power of attorney shall be attached to the request.

12.4.5. A request to call an extraordinary General Meeting shall be submitted in writing by registered letter to the Company's address with notification of receipt or be submitted to the Company's office.

The date of submission of a request to call an extraordinary General Meeting shall be defined as the date of notification of receipt thereof or the date of its submission to the Company's office.

12.4.6. Within 5 days of the date of submission of a request, the Board of Directors shall adopt a resolution to call or a resolution to refuse to call an extraordinary General Meeting.

12.4.7. The Board of Directors may adopt a resolution refusing to call an extraordinary General Meeting of Shareholders, or a resolution not to include on the agenda certain issues proposed by the initiators of a meeting, exclusively in the cases provided for by the legislation of the Russian Federation.

12.4.8. An extraordinary General Meeting of Shareholders called at the request of the Audit Commission (internal auditor) of the Company, External Auditor or Shareholders (a Shareholder)

owning at least 10 percent of the voting shares of the Company must be held within 40 days from the time when such request that the extraordinary General Meeting of Shareholders of the Company be held is made.

If the proposed agenda of the extraordinary General Meeting of Shareholders contains an item on election of the members of the Board of Directors (Supervisory Board) of the Company, such General Meeting of Shareholders must be held within 70 days from the time when the request that the extraordinary General Meeting of Shareholders of the Company be held is made, provided a shorter period is not stipulated in the Charter of the Company.

12.4.9. When adopting a resolution to convene an extraordinary General Meeting, the Board of Directors shall, depending on the form in which the meeting is to be held, approve the provisions set forth in clause 12.9.3 hereof for the respective form of the meeting.

12.4.10. A resolution of the Board of Directors of the Company to call an extraordinary General Meeting of the Company shareholders or a substantiated resolution on refusal to call an extraordinary General Meeting or refusal to include certain issues on the agenda of a meeting shall be sent to the persons who requested to call an extraordinary meeting within 3 (three) days of the time the corresponding resolution is adopted.

12.4.11. A resolution of the Board of Directors to refuse to call an extraordinary General Meeting of Shareholders or to include a proposed issue on the agenda may be appealed to a court.

12.4.12. The Company shall begin all measures relating to the calling, preparation, and holding of an extraordinary General Meeting of Shareholders only after financing therefore has been arranged in the manner established by this Charter.

After the Board of Directors has adopted a resolution to call a General Meeting of Shareholders, the President of the Company shall be obligated to immediately arrange financing for the holding of the meeting.

12.5. A Shareholder's representative at the General Meeting of Shareholders shall act in accordance with powers granted to him under a power of attorney executed in writing.

A power of attorney to vote must contain information about the principal and the representative (name, place of residence or location, passport data), as well as information about the representative's powers. A power of attorney to vote must be executed in accordance with the requirements of article 185, clauses 4 and 5 of the Civil Code of the Russian Federation or notarized.

12.6. Voting at the General Meeting shall be conducted according to the principle, "one share equals one vote," except in the election of members of the Board of Directors in accordance with clause 13.2 hereof. Resolutions of the General Meeting of Shareholders shall be adopted by a simple majority of votes of those attending the meeting.

Resolutions on issues 1-3, 5, 7, 17 of clause 12.1 hereof and on other issues, in cases directly provided for by current legislation, shall be adopted by the General Meeting of Shareholders by a three-fourths majority of votes of the Shareholders who own voting shares and are participating in the respective meeting.

12.7. Expenses associated with the preparation and holding of the annual General Meeting of Shareholders or an extraordinary General Meeting of Shareholders initiated by members of the Board of Directors or the Audit Commission (internal auditor) or by the External Auditor shall be paid out of the funds of the Company in accordance with a budget approved by the one-person executive body of the Company and shall be included in the Company's budget.

12.8. If within the period established by the legislation of the Russian Federation and the Company's Charter the Board of Directors does not adopt a resolution to call, or adopts a resolution to refuse to call, an extraordinary General Meeting of Shareholders may be called by the bodies and the persons who requested such meeting.

In such case, expenses for the preparation and holding of the General Meeting of Shareholders may be reimbursed out of the Company's funds pursuant to a resolution of the General Meeting of Shareholders.

12.9. Form of General Meetings of Shareholders

12.9.1. A General Meeting of Shareholders may be held in direct form or remote form.

The direct form contemplates the adoption of resolutions by the General Meeting of Shareholders through the joint personal attendance of the Shareholders and their authorized representatives for the purpose of discussing and voting on issues on the agenda.

The remote form contemplates the determination of Shareholders' opinions on issues on the agenda by means of a written poll and the holding of remote voting only.

12.9.2. The following persons shall be entitled to participate in the General Meeting: persons who have been recorded on the list of persons entitled to participate in the General Meeting, their authorized representatives, the External Auditor, the members of the Board of Directors and executive bodies of the Company, the members of the Counting and Audit Commissions, and candidates on voting ballots for election to the management and supervisory bodies of the Company.

12.9.3. In preparing for a General Meeting to be held in direct form, the Board of Directors shall determine:

- the agenda of the General Meeting of Shareholders;
- the form and text of the voting ballots;
- the list of information (materials) to be submitted to Shareholders in preparation for the General Meeting and the procedure for submission of information;
- the date of compilation of the list of persons entitled to participate in the General Meeting;
- the date, place, and time of the meeting;
- the date, place, and time of commencement and completion of registration to participate in the meeting;
- the text of the notice of the General Meeting to be sent to the Shareholders;
- the manner of notifying Shareholders about the holding of a General Meeting of Shareholders.

If the agenda includes issues on which voting may, in accordance with the legislation of the Russian Federation, give rise to a Shareholder's right to demand that the Company redeem shares owned by him, the Board of Directors shall also determine:

- the price to be paid for redeemed shares, corresponding to the market value thereof, determined in accordance with current legislation;
- the procedure and periods for effecting the redemption.

In preparing for the holding of a General Meeting in remote form, the Board of Directors shall determine:

- the agenda of the General Meeting of shareholders;
 - the form and text of voting ballots;
 - the list of information (materials) to be provided to the persons entitled to participate in the meeting of shareholders;
 - the date of compilation of the list of persons entitled to participate in the meeting;
 - the manner of notifying Shareholders about the holding of a General Meeting of Shareholders;
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- the date on which Shareholders are to be provided with voting ballots and other information (materials);
- the last date on which voting ballots will be accepted by the Company and the postal address to which the completed ballots shall be sent;
- the text of the notice of the General Meeting to be sent to the Shareholders.

If the agenda includes issues on which voting may, in accordance with the legislation of the Russian Federation, give rise to a Shareholder's right to demand that the Company redeem shares owned by him, the Board of Directors shall also determine:

- the price to be paid for redeemed shares, corresponding to the market value thereof, determined in accordance with current legislation;
- the procedure and periods for effecting the redemption.

12.9.4. A General Meeting of Shareholders of the Company, the agenda of which includes items on election of the Board of Directors of the Company, Audit Commission (internal auditor) of the Company, approval of the External Auditor of the Company, approval of the annual reports of the Company, the annual balance sheets of the Company, including statements of profits and losses (profit and loss accounts) of the Company, and distribution of the profits, including payment (declaration) of dividends, and losses of the Company based on the results of the fiscal year, cannot be carried out in the form of remote voting.

12.9.5. Direct and remote voting shall be conducted using voting ballots in conformity with the requirements of the legislation of the Russian Federation.

In the case of conducting a meeting by means of joint voting, voting ballots shall be handed to a shareholder, witnessed by a signature of such shareholder, included in the list of persons entitled to participate in the shareholders' meeting (its representative), registered to participate in the annual general meeting. In the case of conducting a meeting by means of remote voting, or in other cases required by the legislation the voting ballot should be sent by registered mail or courier or shall be handed to a shareholder, witnessed by a signature of such shareholder, included in the list of persons entitled to participate in the shareholders' meeting (its representative), registered to participate in the annual general meeting no later than 30 days before the holding of the General Meeting of the Company Shareholders. Shareholders registered to participate in the general shareholders' meeting are considered as the participants of the general shareholders' meeting conducted in the form of joint voting.

In a case of remote voting, persons included in the list of persons entitled to participate in the meeting of shareholders whose ballots are received by the Company within the period established for the acceptance of voting ballots shall be deemed to have participated in the meeting. The last date of acceptance of ballots shall be established as two days before the scheduled date of the meeting (tallying of results).

In a case of remote voting, the resolutions approved by the General Meeting of Shareholders of the Company and the voting results shall be submitted, in a manner as stipulated for submission of the notice of a General Meeting, to the persons, included in the list of persons entitled to participate in the shareholders' meeting of the Company, no later than 10 days after a protocol of voting results, in a form of a report of voting results, is drafted.

12.10. Proposals for the agenda of the annual General Meeting.

12.10.1. The agenda of the General Meeting of Shareholders shall be approved by the Board of Directors. The procedure for submission of proposals and approval of the agenda of an extraordinary General Meeting of Shareholders is set forth in clause 12.4 hereof.

12.10.2. Shareholders owning in aggregate at least 2 percent of the voting shares of the Company shall have the right to submit items to the agenda of the annual General Meeting. Such proposals shall be submitted to the Company no later than 105 days after the end of the fiscal year.

12.10.3. Proposals for the agenda must be in writing and sent by registered letter to the Company's address or submitted to the Company's office.

12.10.4. A proposal for the agenda of an annual General Meeting of Shareholders must contain:

- the wording of issues on the agenda of the meeting of shareholders;
- the names of the Shareholders and information about the shares owned by them (number, category (class)).

The proposal shall be signed by a Shareholder or his attorney in fact.

If the proposal is signed by an attorney in fact, a power of attorney shall be attached.

If the proposal is signed by a representative of the legal entity, who acts on its behalf under a power of attorney, the power of attorney shall be attached to the proposal.

12.10.5. No later than 5 business days after the deadline for submission of proposals established by the Company's Charter, the Board of Directors shall be obligated to examine the proposals submitted and adopt either a resolution to include them on the agenda of the annual General Meeting of Shareholders or a resolution to refuse to include them on said agenda.

12.10.6. A resolution to refuse to include an issue on the agenda of an annual General Meeting of Shareholders may be adopted by the Board of Directors in the following cases:

- the period established by this Charter for the submission of proposals has not been complied with;
- the proposal does not comply with the requirements of this Charter and current legislation;
- the Shareholders who submitted the proposal are not, on the date of submission of the proposal, owners of the required number of voting shares;
- an issue proposed for inclusion on the agenda does not fall within the competence of the General Meeting pursuant to current legislation and the Company's Charter;

12.10.7. A substantiated resolution to refuse to include the proposed issue on the agenda of the annual General Meeting shall be sent by registered mail to the Shareholders who submitted the issue within 3 days of the adoption of resolution or delivered to the Shareholder personally.

12.10.8. A resolution of the Board of Directors refusing to include an issue on the agenda of an annual General Meeting of Shareholders may be appealed to a court.

12.10.9. After Shareholders have been notified of a General Meeting in the manner stipulated by this Charter, the agenda for such meeting cannot be changed.

12.11. Procedure for nominating candidates to the Company's management and supervisory bodies.

12.11.1. Shareholders who in aggregate own at least 2 percent of the voting shares of the Company on the date of submission of a proposal may nominate for election at the annual General Meeting candidates to the Board of Directors, the Audit Commission and the Counting Commission of the Company. Such proposals shall be submitted to the Company no later than 105 calendar days after the end of the fiscal year. The number of candidates in one application may not exceed the number of members of the respective bodies set by Charter of the Company or by the General Meeting of Shareholders.

In the event that the proposed agenda of an extraordinary General Meeting of Shareholders contains an item on election of the members of the Board of Directors of the Company who must be elected by cumulative voting, the Shareholders (Shareholder) of the Company which own in aggregate

at least 2 percent of voting shares of the Company shall have the right to nominate candidates for election to the Board of Directors of the Company, the number of which cannot exceed the number of seats on the Board of Directors of the Company. Such proposals must be submitted to the Company no later than 30 days before the date when the extraordinary General Meeting of Shareholders is to be held, provided a longer period is not stipulated in the Charter of the Company.

12.11.2. An application to nominate candidates shall be submitted in writing by registered letter to the Company's address or be submitted to the Company's office.

12.11.3. The following information shall be included in an application (including in cases of self-nomination):

- the name of the candidate and, if the candidate is a Shareholder of the Company, the number of shares owned by him;
- name of the body of the Company for election to which the candidate is being nominated;
- other information on the candidate, stipulated by the Charter of the Company or internal document of the Company;
- the name of the Shareholders nominating the candidate and the number, category (class) of shares owned by them.

The application shall be signed by the Shareholder or his attorney in fact. If the application is signed by an attorney in fact, a power of attorney shall be attached.

If the request is signed by a representative of the legal entity, who acts on its behalf under a power of attorney, the power of attorney shall be attached to the request.

12.11.4. The Board of Directors shall be obligated to examine the applications submitted and decide whether to include the nominees on the list of candidates for voting in elections to the Board of Directors, the one-person executive body (the President), the Audit Commission and the Counting Commission of the Company or to refuse inclusion no later than 5 days after the end of the period for submission of proposals established by this Charter.

12.11.5. In the cases provided for by current legislation, the Board of Directors may adopt a resolution to refuse to include nominees on the list of candidates for voting.

12.11.6. A substantiated resolution of the Board of Directors to refuse to include a nominee on the list of candidates for voting in elections to the Board of Directors, the one-person executive body of the Company, or the Audit Commission shall be sent by registered letter to the Shareholder (Shareholders) that submitted the proposal no later than 3 days after the adoption of resolution or delivered personally to the Shareholder.

12.12. Notification on conduction of a General Meeting of Shareholders.

12.12.1. Persons included in the list of persons entitled to participate in a meeting of shareholders of the Company shall be notified of a General Meeting to be held in direct or remote form no less than 30 calendar days prior to the date of commencement of the meeting by sending of the text of the notice of a General Meeting by registered letter to the address specified in the list of persons entitled to participate in the meeting of shareholders of the Company or be delivered personally to such persons against a signature of receipt.

The text of the notice of a General Meeting of Shareholders may also be published in mass media determined pursuant to a resolution of the Board of Directors of the Company.

The text of the notice shall be sent to persons included on the list of persons entitled to participate in the General Meeting of the Company Shareholders. The date of notification of the Shareholders of a General Meeting shall be defined as the date of mailing, the date of publication, or the date of personal delivery of the text of the notice.

12.12.2. The text of a notice of the holding of a General Meeting in direct form must specify:

- The full trade name and location of the Company;
- The information on initiators of the calling of the General Meeting, its type (annual or extraordinary), and the direct form of holding the meeting;
- the date, place, and time of the meeting of shareholders;
- the date, place, and time of commencement and completion of registration to participate in the General Meeting of Shareholders;
- the date of compilation of the list of persons entitled to participate in the General Meeting of Shareholders;
- the agenda of the meeting of shareholders;
- the procedure for familiarizing with information (materials) to be provided to the Shareholders in preparation for the General Meeting, including: addresses where Shareholders may inspect and obtain copies of materials to be provided to persons entitled to participate in the meeting of shareholders of the Company in preparation for the General Meeting, and where to send corresponding written remarks and proposals on the said materials and other proposals concerning the items on the agenda.

In the event that the agenda includes issues on which voting may, in accordance with current legislation, give rise to a Shareholder's right to demand that the Company redeem shares, the notice must also contain information:

- on the possession by Shareholders of the right to demand that the Company redeem shares owned by them;
- on the price to be paid for redeemed shares, corresponding to the market value thereof, determined in accordance with current legislation;
- on the procedure and periods for effecting redemption.

12.12.3. When a General Meeting is to be held in remote form, the text of the notice must contain the following information:

- the full trade name and location of the Company;
 - if the meeting is extraordinary, information about the initiators of the meeting;
 - the agenda of the meeting;
 - the date on which Shareholders are to be provided with voting ballots and other information (materials);
 - the last day on which voting ballots will be accepted by the Company;
 - addresses where voting ballots will be accepted (mailing address and addresses of acceptance points);
 - the date of compilation of the list of persons entitled to participate in the General meeting of shareholders;
 - the procedure for notifying the persons entitled to participate in the meeting of shareholders about resolutions adopted and the results of voting;
 - the procedure for familiarizing with the information (materials) to be provided in preparation for the General Meeting of Shareholders.
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If the agenda includes issues on which voting may, in accordance with the legislation of the Russian Federation, give rise to a Shareholder's right to demand that the Company redeem shares owned by him, the notice must also contain information:

- on the possession by Shareholders of the right to demand that the Company redeem shares owned by them;
- on the price to be paid for redeemed shares, corresponding to the market value thereof, determined in accordance with current legislation;
- on the procedure and periods for effecting redemption.

12.12.4. Pursuant to a resolution of the Board of Directors, the text of a notice of a General Meeting may also include other information supplementary to the required information.

12.12.5. The information (materials) that must be provided to the persons entitled to participate in the meeting of shareholders in preparation for an annual General Meeting shall include the following:

- the annual accounting reports of the Company;
- conclusions of the Audit Commission on the results of the annual audit of the Company's financial statements;
- audit report;
- information about candidates for the Board of Directors, the Audit Commission (internal auditor), the Counting Commission, and the one-person executive body of the Company;
- information about the proposed External Auditor;
- drafts of proposed amendments to the Company's Charter and internal regulations and/or drafts of a restated version of the Charter and internal regulations of the Company;
- drafts of resolutions of the General Meeting of Shareholders of the Company;
- other information provided for by the Charter of the Company.

12.12.6. The materials to be provided to the persons entitled to participate in the meeting of shareholders in preparation for a General Meeting shall not be sent to such persons unless the meeting is to be held in remote form. Persons entitled to participate in the meeting of shareholders of the Company shall be entitled to inspect the materials at the addresses specified in the notice, and to obtain copies of all materials for the meeting at the specified addresses. A person entitled to participate in the meeting of shareholders of the Company shall be entitled to request that said materials be sent to him through the mail, with the proviso that the cost of postal services shall be paid by said Shareholder.

When a General Meeting is to be held in remote form, the Company shall be required to send to the persons included in the list of persons entitled to participate in the meeting of shareholders the materials and information to be provided in the course of preparing and holding the General Meeting of Shareholders, along with voting ballots, by registered letter to the address specified in the list of persons entitled to participate in the meeting of shareholders of the Company, or to make delivery to such persons personally against a signature of receipt.

12.12.7. In the event that a person registered in the Register of Shareholders of the Company is a nominee holder of shares, the notice of a General Meeting shall be sent to the nominee holder of shares. The nominee holder of shares shall be obligated to inform its clients in the manner and within the time established by legal acts or by the contract with the client.

12.13. Right to participate and methods of participation by Shareholders in a General Meeting.

12.13.1. The list of persons entitled to participate in a General Meeting shall be compiled on the basis of data in the Register of Shareholders of the Company as at a date to be established by the Board of Directors.

12.13.2. The date established for compilation of the list of persons entitled to participate in a General Meeting of Shareholders may not be earlier than the date of adoption of the resolution to hold the meeting or more than 50 calendar days before the date of the meeting, and if the proposed agenda of an extraordinary meeting of shareholders contains the issue dealing with the election of members to the Board of Directors by cumulative voting, more than 65 days before the date of the General Meeting of Shareholders.

When a General Meeting of Shareholders is to be held in remote form, or where persons entitled to participate in the meeting of shareholders of the Company attending the meeting are to participate in voting using ballots sent to persons entitled to participate in the meeting of shareholders of the Company in preparation for the meeting in accordance with the requirements of the legislation of the Russian Federation, the date established for compilation of the list of persons entitled to participate in the General Meeting of Shareholders may not be less than 45 days before the date of the meeting.

In any event, the date of compilation of the list of persons entitled to participate in a General Meeting must precede the date established by the Company's Charter for notifying the persons entitled to participate in the meeting of shareholders of a General Meeting.

12.13.3. For the purpose of compilation of the list of persons entitled to participate in a General Meeting, a nominee holder of shares shall submit data concerning the persons on whose behalf it owns shares, as at the date of compilation of the list.

12.13.4. The list of persons entitled to participate in a General Meeting of Shareholders shall contain the following information:

- the name of the person;
- data required to identify such person;
- postal address of the person to which notice of the holding of the General Meeting of Shareholders, voting ballots and reports on the results of voting are to be sent;
- data on the number, category (class) of shares owned by the Shareholder, including those carrying voting rights at the respective meeting, whether on all issues within its competence or only on certain issues on the agenda.

12.13.5. The list of persons entitled to participate in a General Meeting shall include Shareholders who own fully paid registered common shares of the Company of any issue.

12.13.6. Changes to the list of persons entitled to participate in a General Meeting of Shareholders may be made only in the event of restoration of violated rights of persons not included on the list on the date of its compilation or correction of errors committed when compiling the list.

12.13.7. The list of persons entitled to participate in a General Meeting of Shareholders shall be made available by the Company for inspection upon the request of any persons included in that list and possessing in aggregate at least 1 percent of votes.

The request shall be signed by a Shareholder or his attorney in fact. If the request is signed by an attorney in fact, a power of attorney shall be attached.

The request shall be sent by registered letter to the Company's address or submitted to the Company's office.

12.13.8. At the request of any interested person the Company must within three days provide that person with an excerpt from the list of persons entitled to participate in the General Meeting of

Shareholders, containing information about that person, or a statement indicating that the person is not included in the list of persons entitled to participate in the General Meeting of Shareholders.

12.13.9. In the event that a share is transferred after the date of compilation of the list of persons entitled to participate in the General Meeting of Shareholders and before the date of the General Meeting of Shareholders, a person included in the list shall be obligated to issue to the acquirer a power of attorney to vote or be obligated to vote at the General Meeting in accordance with the instructions of the acquirer of the share. This rule shall also apply to any subsequent transfer of the share.

12.13.10. The right to participate in a General Meeting of Shareholders may be exercised by a person entitled to participate in the meeting of Shareholders both in person and through his representative.

A person entitled to participate in the meeting of Shareholders may participate in a meeting in the following ways:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by remote voting;
- by delegating the right of remote voting to an authorized representative.

12.13.11. The delegation of rights (powers) to a person's entitled to participate in a meeting of shareholders representative shall be effected by the issuance of a written authorization—a power of attorney—executed in accordance with the requirements of legislation.

12.13.12. A Shareholder may at any time replace his representative or personally exercise the rights granted by a share upon terminating the respective power of attorney in the manner established by law, provided that such consequences of termination of a power of attorney as may be contemplated by law are complied with.

12.13.13. Where a share of the Company is in the common participatory ownership of several persons, voting powers at the General Meeting of Shareholders shall be exercised, at their discretion, either by one of the participants in common participatory ownership or by their common representative. The powers of each of the aforesaid persons must be duly formalized.

12.14. Working bodies of the General Meeting of Shareholders of the Company.

12.14.1. The working bodies of the General Meeting are:

- the Chairman;
- the Counting Commission.

12.14.2. The Chairman shall be elected at the meeting by a majority of votes of the Shareholders present at the meeting.

The Chairman shall perform the following functions:

- conduct the General Meeting of Shareholders;
- ensure compliance with rules of procedure for the General Meeting;
- sign the minutes of the General Meeting.

12.14.3. With respect to performance of the duties entrusted to it the Counting Commission shall be an independent, standing working body of General Meeting.

12.14.4. The Counting Commission shall perform the following functions:

- verify powers and register persons to participate in the General Meeting and keep a registration journal;
- keep records of powers of attorney and the rights granted thereby, reflecting these in a corresponding journal;
- give out and send voting ballots and other information (materials) for the General Meeting and keep a journal recording issued (sent) ballots;
- determine the quorum of the General Meeting of Shareholders;
- explain issues relating to the exercise by Shareholders (their representatives) of voting rights at the General Meeting;
- explain the procedure for voting on issues put to voting;
- ensure compliance with the established voting procedure and uphold the rights of Shareholders to participate in voting;
- count votes and tally voting results;
- prepare a protocol of voting results;
- maintain files of all documents of the General Meeting, including voting ballots;
- perform other functions.

12.14.5. The Counting Commission shall be elected by the annual General Meeting of Shareholders at the recommendation of the Board of Directors.

12.14.6. The Counting Commission shall consist of at least 3 persons elected at the recommendation of the Board of Directors.

Members of the Board of Directors, members of the Audit Commission (internal auditor), and the President of the Company as well as persons nominated by candidates for such positions may not serve on the Counting Commission.

12.14.7. The Counting Commission shall elect a chairman and a secretary from among its members. The chairman shall entrust the functions of the secretary of the General Meeting to one of the members of the commission.

12.15. Quorum at a General Meeting. Secondary calling of a meeting.

12.15.1. A General Meeting of Shareholders shall be empowered (have a quorum) if Shareholders (their representatives) holding in aggregate more than a half of the votes granted by the placed voting shares of the Company have participated in the meeting.

Those Shareholders who have registered to participate in the General Meeting of Shareholders and those Shareholders whose voting ballots have been received no later than two days before the General Meeting of Shareholders is held shall be deemed to have participated in the General Meeting of Shareholders.

Those Shareholders whose voting ballots have been received prior to the final date for accepting voting ballots shall be deemed to have participated in the General Meeting of Shareholders held in the form of remote voting.

12.15.2. In the case of a meeting held in direct form, the presence of a quorum shall be determined once, at the end of the period for official registration of participants in the meeting. The principle, "If a quorum has been reached, it may not be impaired," shall apply.

12.15.3. In the absence of a quorum for holding a General Meeting, the Board of Directors shall announce the date of a new General Meeting. The resolution of the Board of Directors to hold a new General Meeting must approve the provisions set forth in clause 12.9.3 hereof. No changes may be made to the existing agenda when holding the new General Meeting.

If the General Meeting was called at the initiative of the Board of Directors, the Board of Directors shall have the right, in its resolution to call a new meeting, to change the form of holding the meeting held.

12.15.4. Shareholders shall be notified of the new General Meeting in the manner established by this Charter for the respective form of holding the meeting.

12.15.5. A new General Meeting in direct or remote form, called in the stead of a meeting that failed to take place, shall be empowered if, at the end of registration of participants in the meeting, or the registration of received voting ballots, in the case of a remote meeting, there shall have been registered Shareholders (their representatives) possessing in aggregate at least 30 percent of the vote granted by the voting shares of the Company, subject to the specific provisions applicable to determination of a quorum for a meeting in direct form.

12.15.6. Where a General Meeting is postponed, in connection with the lack of a quorum, by less than 40 days, the persons entitled to participate in the General Meeting of Shareholders shall be determined in accordance with the list of persons entitled to participate in the meeting that failed to take place.

12.15.7 A resolution of the General Meeting of Shareholders adopted by remote voting shall be deemed valid if voting was participated in by Shareholders owning in aggregate at least half of the voting shares of the Company.

12.16. Voting at the General Meeting.

12.16.1. Voting at a General Meeting of Shareholders shall be carried out in accordance with the principle, "one voting share equals one vote," except in the election of members of the Board of Directors in accordance with clause 13.2 of this Charter.

12.16.2. Voting on all agenda issues at a General Meeting of Shareholders shall be conducted only with the use of voting ballots.

12.16.3. The forms and text of voting ballots shall be approved by the Board of Directors. A separate voting ballot must be approved by the Board of Directors for each issue on the agenda.

In the case of a General Meeting held in direct form, voting ballots shall be issued to each person entitled to participate in the meeting of shareholders at the time of his registration.

In the case of a General Meeting held in remote form, voting ballots shall be sent to Shareholders by the means and within the time established by this Charter for notifying Shareholders of the holding of a General Meeting in remote form.

12.16.4. A voting ballot shall contain:

- the full trade name of the Company and location of the Company;
 - the form of holding the General Meeting of Shareholders;
 - the date, place and time at which the General Meeting of Shareholders is to be held and, in the event that pursuant to this Charter or the requirements of the current legislation completed voting ballots may be sent to the Company, the postal address to which the completed voting ballots are to be sent, or, in the event that the General Meeting of Shareholders is to be held in the form of remote voting, the final date for accepting voting ballots and the postal address to which the completed voting ballots are to be sent;
 - the wording of a resolution on each issue (the name of each candidate) put to vote with the voting ballot and the order in which it will be considered;
 - the voting choices for each matter put to voting, expressed as "in favor," "against" or "abstain," except in the election of members of the Board of Directors, where the voting ballot shall include additional space for the distribution of votes among candidates for the Board of Directors;
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- the instruction that the voting ballot must be signed by the Shareholder.

In the case of voting to elect candidates to management and supervisory bodies, and also, in the cases provided for by this Charter, to management bodies of the General Meeting of Shareholders, the voting ballot shall contain information about the candidates, including their surnames, given names, and patronymics.

Each voting ballot may include only one agenda item.

12.16.5. A voting ballot shall be deemed invalid with respect to the item specified thereon in the event that:

- none of the choices for an item has been crossed out (neither "in favor," nor "against," nor "abstain"), or more than one response has been crossed out;
- all of the choices have been crossed out.

A voting ballot shall be deemed wholly invalid if the Shareholder's name thereon cannot be determined.

The votes represented by such ballots shall be disregarded when tallying voting results.

12.16.6. In the case of voting on an issue at the General Meeting of Shareholders on which Shareholders owning common shares are entitled to vote, votes represented by all voting shares shall be counted together.

12.16.7. On the basis of the results of voting, the Counting Commission shall compile a protocol of voting results, which shall be signed by all members of the Counting Commission.

The protocols of the Counting Commission shall not require approval by a special resolution of the meeting, but notice of them shall be taken. A resolution shall be deemed adopted (or not adopted) immediately upon the preparation of the protocol by the Counting Commission.

The protocol of voting results shall be attached to the minutes of the General Meeting of Shareholders.

After the compilation of protocols of voting results and the signing of the minutes of the General Meeting of Shareholders, the voting ballots shall be sealed by the Counting Commission and transferred to the Company's files for storage.

12.16.8. In the case of a General Meeting held in direct form, voting results and the resolutions adopted by the meeting (protocols of the Counting Commission) shall, be announced at the meeting in the course of which the voting was conducted, or else be communicated to the persons included in the list of persons entitled to participate in the meeting of shareholders after the closure of the meeting in the form of report in the manner established by this Charter for notifying Shareholders of the holding of a General Meeting of Shareholders in the respective form within 10 calendar days after the compilation of protocols of voting results.

12.17. Minutes of General Meetings.

12.17.1. In the case of a General Meeting conducted in direct form, the minutes of the meeting shall be prepared within 15 business days of the closure of the meeting. The minutes shall be prepared in two copies, each of which shall be signed by the chairman and the secretary of the General Meeting.

12.17.2. The following information shall be specified in the minutes of a General Meeting of Shareholders:

- the place and time of the meeting;
 - the total number of votes held by Shareholders owning voting shares of the Company;
 - the number of votes held by Shareholders who took part in the meeting;
 - the chairman and the secretary of the meeting and the agenda of the meeting.
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The minutes of a General Meeting of Shareholders shall include the main points of speeches, the issues put to voting and the results of voting thereon, and the resolutions adopted by the meeting.

13. Board of Directors

13.1. The Board of Directors of the Company shall carry out overall management of the Company's activities, with the exception of the decision of issues assigned to the competence of the General Meeting of Shareholders.

The Board of Directors shall monitor the conformity of the Company's activities to current legislation of the Russian Federation, this Charter, and the resolutions of the General Meeting of Shareholders, including the Statute of the Company's Board of Directors.

13.2. The Board of Directors shall be elected by the General Meeting of Shareholders. The Board of Directors shall consist of 7 (seven) members. The number of members of the Board of Directors may be increased to 9 (nine) members by a resolution of the General Meeting of Shareholders.

Members of the Audit Commission may not be members of the Board of Directors.

The members of the Board of Directors shall be elected by cumulative voting. In cumulative voting, each voting share of the Company shall carry a number of votes equal to the total number of members of the Board of Directors. A Shareholder may cast all votes carried by the shares owned by him in favor of one candidate or distribute them among several candidates for the Board of Directors. The candidates who receive the greatest number of votes shall be deemed elected to the Board of Directors.

13.3. Members of the Board of Directors shall be elected for a term lasting until the next annual General Meeting of Shareholders of the Company and may be re-elected an unlimited number of times. If the annual General Meeting of Shareholders of the Company has not been held within the periods established by the Charter of the Company, the powers of the Board of Directors of the Company shall automatically terminate, with the exception of the powers to prepare for, call and hold the annual General Meeting of Shareholders of the Company.

13.4. The powers of the Board of Directors shall include the power to decide issues of overall management of the Company's activities that are not assigned to the competence of the General Meeting of Shareholders in accordance with this Charter and a resolution of the General Meeting.

The following matters shall be within the competence of the Company's Board of Directors:

1. Determination of the priority directions of the Company's activities;
 2. Calling of annual and extraordinary General Meetings of Shareholders, except in the cases provided for by article 55, section 8 of the Federal Law "On Joint Stock Companies";
 3. Approval of the agenda of a General Meeting of Shareholders of the Company;
 4. Setting the date for compilation of the list of persons entitled to participate in a General Meeting of Shareholders of the Company, and other matters assigned to the competence of the Board of Directors and associated with the preparation and holding of a General Meeting of Shareholders;
 5. Referring the issues set forth in clause 12.1, subclauses 2, 6 and 14-19 hereof to the General Meeting of Shareholders for decision;
 6. Determination of the price (monetary value) of property, and the price of placement and issue of securities in those instances envisaged in the current legislation;
 7. Placement by the Company of bonds and other securities;
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8. Acquisition of shares, bonds and other securities placed by the Company, in the cases provided for by the Federal Law "On Joint Stock Companies" and other legislation of the Russian Federation;

9. Recommendations on the amount of remuneration and compensation to be paid to the members of the Company's Audit Commission and determination of the amount to be paid for the services of the External Auditor;

10. Recommendations on the amount of the dividend on shares and the procedure for payment thereof;

11. Use of the Company's reserve fund and other funds;

12. Approval of the internal documents of the Company, with the exception of those internal documents, approval of which pursuant to the current legislation is assigned to the competence of the General Meeting of Shareholders of the Company, and other documents of the Company, approval of which pursuant to this Charter is assigned to the competence of the executive body of the Company;

13. Adoption of resolutions on the creation and liquidation of branches, opening and closing of representative offices of the Company and approval of statutes of the Company's branches and representative offices;

15. Approval of major transactions in the cases provided for by Chapter X of the Federal Law "On Joint Stock Companies" and other legislation of the Russian Federation;

16. Approval of transactions in whose completion there is an interest, in the cases provided for by Chapter XI of the Federal Law "On Joint Stock Companies" and other legislation of the Russian Federation;

17. Approval of the registrar of the Company and of the terms and conditions of the agreement with it and on termination of the agreement with it;

18. Adoption of resolutions providing that the Company will pay costs associated with the conduct of unplanned audits and verifications by the Audit Commission initiated by shareholders owning the number of voting shares of the Company specified by this Charter;

19. The increase of the charter capital of the Company out of the Company's property by placement of additional shares through distributing them among shareholders within the limit of the number and category (class) of authorized shares only among shareholders in the number proportional to the number of shares owned by them, as well as the placement by open subscription of common shares and securities, convertible into common shares constituting no more than 25 percent of previously placed common shares of the Company.

20. Other issues provided for by current legislation and this Charter.

13.5. A resolution of the General Meeting of Shareholders to terminate early the powers of the Board of Directors early may be adopted only with respect to all members of the Board of Directors.

In the event of early termination of the powers of the Board of Directors, the powers of the new Board of Directors shall be effective until the next annual General Meeting of Shareholders.

A member of the Board of Directors may at any time voluntarily relinquish his powers upon notifying the other members of the Board of Directors in writing. In such case, the powers of other members of the Board of Directors shall not terminate, except in the case provided for by clause 13.6 of this Charter.

13.6. The Board of Directors shall retain its powers irrespective of any vacancies that may arise, with the proviso that, if the number of members of the Board of Directors falls below the quorum established in clause 13.10 of this Charter, the Board of Directors shall be required to call an extraordinary General Meeting of Shareholders to elect a new Board of Directors. In such case, the

remaining members of the Board of Directors shall be entitled only to adopt a resolution to call such extraordinary General Meeting of Shareholders.

13.7. The Board of Directors shall elect a Chairman of the Board and one deputy. Meetings of the Board of Directors shall be called by the Chairman of the Board or by any two Directors. The Chairman of the Board or his deputy shall preside at meetings of the Board.

The Board of Directors shall adopt resolutions and organize work in accordance with the Statute of the Board of Directors approved by General Meeting of Shareholders (including by remote voting or by poll).

All resolutions at meetings of the Board of Directors shall be adopted by a simple majority of votes of the members present at the meeting, except where otherwise explicitly provided for by this Charter or the current legislation.

13.8. The Board of Directors shall meet as necessary, but at least once every quarter.

13.9. During the period of performance of their duties the Directors pursuant to the resolution of the General Meeting of Shareholders shall be reimbursed for transportation and other expenses and shall be paid a remuneration, the amount of which shall be established by the General Meeting of Shareholders.

13.10. A quorum at a meeting of the Board of Directors shall be the presence of at least five of elected members of the Board of Directors.

13.11. A resolution of the Board of Directors may be adopted by remote voting (by poll) in the manner provided by the Statute of the Board of Directors.

13.12. The requirements that must be satisfied by persons who may be elected to the Board of Directors shall be established in the Statute of the Board of Directors.

14. President

14.1. The General Meeting of Shareholders shall appoint the President of the Company for a term of 3 years at the recommendation of the Board of Directors. The rights and obligations, and the times and amounts of payment for the President's services shall be determined by a contract concluded with him by the Company, represented by the Chairman of the Board of Directors or by a person authorized by the Board of Directors.

14.2. The President shall be accountable to the General Meeting of Shareholders and the Board of Directors.

The President of the Company may not simultaneously be the Chairman of the Board of Directors.

14.3. The competence of the President shall include all issues pertaining to management of the Company's current activities, with the exception of issues assigned to the competence of the General Meeting of Shareholders and the Board of Directors.

The President shall organize the performance of resolutions of the General Meeting of Shareholders and the Board of Directors.

14.4. The President shall act in the name of the Company without a power of attorney, and in such capacity, inter alia:

- carry out the day-to-day management of the Company's activities;
 - have the right of first signature on financial documents;
 - dispose of the Company's property so as to provide for its current activities, within the limits established by this Charter;
 - represent the Company's interests both in the Russian Federation and elsewhere, including in foreign states;
-

- approve the staff, enter into labor agreements with the Company's employees, and provide incentives to such employees and impose penalties on them;
- independently conclude transactions in the Company's name, or, in the cases provided for by the Federal Law "On Joint Stock Companies" and this Charter, pursuant to a resolution of the General Meeting of Shareholders or a resolution of the Board of Directors;
- issue powers of attorney on behalf of the Company;
- arrange for the keeping of accounting records and reports by the Company;
- issue orders and give instructions binding upon all employees of the Company;
- perform other functions necessary to achieve the Company's objectives and ensure its normal operation, in accordance with current legislation and the Company's Charter, with the exception of functions assigned by the Federal Law "On Joint Stock Companies" and the Company's Charter to other management bodies of the Company.

14.5. The election of the President of the Company and early termination of his powers shall be done by the General Meeting of Shareholders.

14.6. The requirements that must be satisfied by persons who may be elected to the position of President shall be established by the Statute of the President of the Company.

14.7. The person performing the functions of the President shall be permitted to simultaneously occupy positions on the management bodies of other organizations only with the consent of the Board of Directors.

14.8. In the event that the powers of the President of the Company are terminated early, but the General Meeting of Shareholders has not adopted a resolution appointing a new President, the Board of Directors shall adopt a resolution appointing an acting president and immediately take all necessary measures to call a General Meeting of Shareholders and appoint a President.

15. Reports of the Company

15.1. The fiscal year of the Company shall begin on January 1 and end on December 31 of the current year, inclusive.

15.2. The Company shall keep accounting records and accounting and other statistical reports in accordance with the requirements of current Russian legislation.

Internationally accepted accounting principles shall be implemented to the extent permitted by legislation.

All payment documents, balance sheets, financial reports, and account books shall be prepared in the Russian language. Where necessary for the purposes of an audit, the essential elements of each document may be translated into English. The Company's quarterly and annual financial statements shall be prepared in the Russian and English languages.

Within 40 days of the end of each quarter and within 100 days of the end of each fiscal year, the President shall provide each Shareholder with a quarterly and annual balance sheet and a report on the results of economic activities, which shall be prepared in the Russian and English languages. These reports, signed by the President and the Vice President for Finance, shall be immediately delivered to the Audit Commission, whose duties shall include verifying the correct preparation thereof and the accuracy of the data contained therein within 15 days of the receipt thereof.

15.3. For the purposes of implementing governmental, social, economic and tax policies, the Company shall be responsible for the preservation of documents (managerial, financial and economic, personnel-related, etc.), ensure the transfer of scientifically and historically significant documents to the central archives of Moscow for state storage, in accordance with a list of documents agreed with the

Mosarkhiv association, and store and use personnel-related documents pertaining in the established manner.

15.4. In the course of its activities the Company shall conduct work to record and exempt from service its employees in the reserve and called up for military service, in accordance with the requirements of the legislation of the Russian Federation and resolutions of the RF Government. The President of the Company shall be personally liable for the fulfillment of this work.

16. Audit Commission

16.1. The Audit Commission shall supervise the financial and economic activities of the Company. The procedure for the activities of the Audit Commission shall be approved by the General Meeting of Shareholders.

16.2. The Audit Commission shall be elected by the General Meeting of Shareholders. The General Meeting of Shareholders may elect individual new members of the Commission or elect a new Commission as a whole.

Members of the Board of Directors may not simultaneously be members of the Audit Commission.

16.3. The accuracy of the information contained in the annual report of the Company and annual balance sheets must be confirmed by the Audit Commission (internal auditor) of the Company and an auditor of the Company, which has no privity ties with the Company or Shareholders.

16.4. The Audit Commission may, with the approval of the General Meeting or the Board of Directors, engage auditing firms to participate in its work.

16.5. A verification of the Company's financial and economic activities shall be conducted at any time on the initiative of the Audit Commission, pursuant to a resolution of the General Meeting of Shareholders or the Board of Directors, or at the request of Shareholders owning in aggregate at least 10 percent of the voting shares of the Company.

16.6. An audit of the Company's activities shall be conducted at any time at the request of Shareholders having in aggregate no less than a 10 percent interest in the Company's charter capital.

17. Register of Shareholders

17.1. The Company shall, in the manner established by current legislation of the Russian Federation, commission a specialized registrar to keep and maintain the Register of Shareholders.

17.2. A person registered in the Register of Shareholders shall be required to promptly inform the holder of the Register of Shareholders about any changes in his information. Neither the Company nor the specialized registrar shall be liable for any damages caused in connection with a person's failure to report changes in his information.

17.3. A Shareholder's ownership of shares of the Company shall be confirmed by an entry in the Register of Shareholders or, in the event that rights to shares are recorded by a person carrying out depositary activity, by an entry on a depositary account. A transaction with shares shall be carried out, and ownership of a share shall pass to the new owner, at the moment a credit entry is made on the personal account of the acquirer, if rights to shares of the Company are recorded in the system of keeping the Register of Shareholders, or at the moment a credit entry is made on the depositary account of the acquirer, if rights to shares of the Company are kept by a person carrying out depositary activity.

18. Liquidation and reorganization

18.1. The Company may be terminated (liquidated)

- pursuant to a resolution of the General Meeting of Shareholders;
 - by the decision of a court.
-

18.2. Liquidation of the Company on a voluntary basis shall be carried out by a liquidation commission appointed by the Company. Compulsory liquidation shall be carried out by a commission appointed by a court.

18.3. All powers to manage the affairs of the Company shall pass to the liquidation commission upon the appointment thereof. The liquidation commission shall appraise assets; identify creditors and settle with them and with Shareholders; and prepare a liquidation balance and submit it to the Meeting of Shareholders.

18.4. The funds of the Company, including proceeds from the sale of property, that remain after payment of wages and fulfillment of obligations to creditors and the budget shall be distributed among the Shareholders.

18.5. The liquidation of the Company shall be deemed complete, and the Company to have ceased to exist, from the time a corresponding entry is made in the state register.

18.6. Disputes between the Company and legal entities or individuals, including foreign, shall be examined in accordance with current legislation.

18.7. The Company may be reorganized by way of consolidation, split-up, spin-off, merger, or transformation.

A decision to reorganize the Company may be taken by the General Meeting of Shareholders, authorized government authorities, or a court in the cases provided for by current legislation.

18.8. In the event that the Company is reorganized necessary amendments shall be made to its Charter. In the event that the Company is liquidated, a corresponding entry shall be made in the register.

18.9. The reorganization of the Company shall entail the transfer of its rights and obligations to its successor.

18.10. The creation of a new company by the transfer to it of all rights and obligations of two or more companies and the termination thereof shall be deemed a consolidation of the companies.

18.11. Dissociation of the Company shall be regarded as the termination of the Company with the transfer of its rights and obligations to a newly established company.

The termination of one or more companies with the transfer of all their rights and obligations to another company shall be deemed a merger of the Company.

In the event that the Company is reorganized and its activity terminated, all documents (managerial, financial, personnel-related, etc.) shall be transferred in accordance with the established rules to the successor enterprise.

In the absence of a successor, scientifically and historically significant documents shall be transferred for state storage to the archives of the Mosgorarkhiv association. Personnel-related documents (orders, personal files, account cards, etc.) shall be transferred for storage to the records office of the municipality in which the Company is located. Documents shall be collated and transferred by and at the expense of the Company in accordance with the requirements of the archival authorities.

19. Subsidiaries, branches, and representative offices

19.1. The Company may establish subsidiaries, representative offices, and branches in the territory of Russia and elsewhere in accordance with the requirements of current legislation of the Russian Federation and the legislation of the foreign states where subsidiaries, branches, and representative offices are located, unless otherwise provided by an international treaty.

Branches and representative offices shall carry out their activities in the name of the Company, which shall be liable for their activities.

19.2. Branches and representative offices shall not be legal entities, and shall be furnished with property by the Company and act in accordance with a statute governing them.

Branches and representative offices shall have independent balance sheets, which shall form part of the Company's balance sheet.

Resolutions to create and liquidate branches and open and close representatives offices, the statutes governing them, shall be adopted by the Board of Directors in accordance with the legislation of the country where the respective branch or representative office is founded. Directors of branches and representative offices shall act on the basis of powers of attorney issued by the Company.

19.3. Representative offices and branches shall be liable for the obligations of the Company and the Company shall be liable for their obligations.

19.4. The Company has the following branches:

19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Syktyvkar, Komi Republic.

Location: Russian Federation, 167610, Komi Republic, Syktyvkar, ul. Kommunisticheskaya, d. 10.

19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Tula.

Location: Russian Federation, 300026, Tula, prospekt Lenina, d. 108a.

19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Pskov.

Location: Russian Federation, 180000, Pskov, ul. Karla Marksa, d. 8.

19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Smolensk.

Location: Russian Federation, 214018, Smolensk, ul. Tenishevoi, d. 22.

19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Ryazan.

Location: Russian Federation, 390044, Ryazan, Moskovskoe shosse, d. 20.

19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Vladimir.

Location: Russian Federation, 600020, Vladimir, ul. Usti-na-Labe, d. 16.

19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Kaluga.

Location: Russian Federation, 248030, Kaluga, ul. Plekhanova, d. 20.

19.4.8. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Kostroma.

Location of branch: Russian Federation, 156005, Kostroma, ul. Podlipaeva, d. 1.

19.4.9. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Tver.

Location: Russian Federation, 170033, Tver, ul. Sklizkova, d. 36.

19.4.10. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Yaroslavl.

Location: Russian Federation, 150040, Yaroslavl, prospect Oktyabrya, dom 47.

19.4.11. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Ivanovo.

Location: Russian Federation, 153005, Ivanovo, ul. Fridrikha Engelsa, d. 82 "A"

19.4.12. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Nizhni Novgorod (Russian Federation, Nizhni Novgorod Oblast, Nizhni Novgorod).

19.4.13. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Kirov (Russian Federation, Kirov Oblast, Kirov).

19.4.14. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Blagoveshchensk.

Location: Russian Federation, 675000, Amurskaya oblast, Blagoveshchensk, ul. B. Khmel'nitskogo, d. 42".

19.4.15. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Tambov.

Location: Russian Federation, 392001, Tambov, ul. Internationalnaya, d. 86 "A".

19.4.16. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Perm (Russian Federation, Permskaya Oblast, Perm).

19.4.17. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Chelyabinsk (Russian Federation, Chelyabinskaya Oblast, Chelyabinsk).

19.4.18. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Orenburg (Russian Federation, Orenburgskaya Oblast, Orenburg).

19.4.19. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Kurgan (Russian Federation, Kurganskaya Oblast, Kurgan).

19.4.20. Branch of Mobile TeleSystems Open Joint Stock Company in Komi-Permyak Autonomous Area (Russian Federation, Komi-Permyak Autonomous Area, Kudymkar).

19.4.21. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Tyumen (Russian Federation, Tyumenskaya Oblast, Tyumen).

19.4.22. Branch of Mobile TeleSystems Open Joint Stock Company in Yamalo-Nenets Autonomous Area (Russian Federation, Yamalo-Nenets Autonomous Area, Salekhard).

19.4.23. Branch of Mobile TeleSystems Open Joint Stock Company in Khanty-Mansi Autonomous Area (Russian Federation, Khanty-Mansi Autonomous Area, Khanty-Mansiysk).

19.4.24. Branch of Mobile TeleSystems Open Joint Stock Company in the city of Ekaterinburg (Russian Federation, Sverdlovskaya Oblast, Ekaterinburg).

20. Audit

20.1. The Company shall be obligated to enter into a contract with a specialized organization for the purpose of conducting audits and confirming annual financial statements (external audit).

21. Intellectual Property

21.1. The Company's rights in intellectual property, including patents, trademarks and copyrights, shall be protected in accordance with current legislation of the Russian Federation and international treaties.

22. Information about the Company

22.1. During business hours the Company shall give the Shareholders access to the documents listed in clause 23.1 hereof, with the exception of accounting documents, at the location where the documents are stored or at another place established in accordance with clause 23.2 hereof.

Shareholders (a Shareholder) of the Company having in aggregate at least 25 percent of the voting shares of the Company shall have the right of access to the accounting documents.

At the request of a Shareholder, the Company shall be required to provide him, for a fee, with copies of the aforesaid documents and other documents of the Company provided for by legal acts of the Russian Federation. Copies of documents shall be delivered to a Shareholder (or his representative) personally or sent through the mail by registered letter. The amount of the fee shall be established by

the executive bodies of the Company and may not exceed the cost of preparing copies the documents and costs associated with sending them through the mail.

22.2. The Company shall be obligated to disclose:

- the Company's annual report, annual accounting statements;
- a prospectus for issuance of shares of the Company, in the cases provided for by legal acts of the Russian Federation;
- a notice concerning the holding of a General Meeting of Shareholders in the manner established by the existing legislation;
- other information as determined by the federal body of executive authority for the securities market.

23. Documents of the Company

23.1. The Company shall be required to store the following documents:

- agreement on establishment of the Company;
- the Charter of the Company and amendments thereto, registered in the established manner; the decision respecting the creation of the Company; and the certificate of state registration of the Company;
- documents certifying the rights of the Company to the property on its balance sheet;
- internal documents of the Company;
- statutes of the Company's branches and representative offices;
- annual reports;
- prospectuses for the issuance of shares of the Company, quarterly reports of the issuer (the Company) and other documents containing information that is subject to publication or disclosure by other means in accordance with the current legislation;
- accounting documents;
- accounting statements and reporting documents;
- minutes of General Meetings of Shareholders and meetings of the Board of Directors and the Audit Commission (internal auditor);
- voting ballots and powers of attorney (copies of powers of attorney) for participation in the General Meeting of Shareholders;
- reports of independent valutors;
- lists of affiliated persons of the Company;
- conclusions of the Audit Commission (internal auditor), the External Auditor and government and municipal authorities responsible for fiscal oversight;
- lists of the persons entitled to participate in the General Meeting of Shareholders, entitled to receive dividends, and other lists prepared by the Company to facilitate the exercising by Shareholders of their rights in accordance with the requirements of legislation;
- other documents specified by the Federal Law "On Joint Stock Companies"; the Charter and internal documents of the Company; resolutions of the General Meeting of Shareholders, the Board of Directors, and management bodies of the Company; and the documents specified by legal acts of the Russian Federation.

23.2. The Company shall store the documents specified in clause 23.1 of this Charter at the location of its executive body in the manner and period prescribed by the current legislation.

[Stamp:]

APPROVED

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
02 September 2002
Primary state registration No 2027740000099
Title: Deputy Directory, RF MNS Interraion
Inspectorate No 40 for Moscow

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 32 of 16 July 2002

(seal)

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at registering authority

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

16 July 2002

1. Clause 19.4.6 of the Charter is restated as follows:

"19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.

Location of branch: 14b, ul. Kirova, 600017, Vladimir, Russian Federation."

2. A clause 19.5 and a subclause 19.5.1, worded as follows, are added to the Charter:

"19.5. The Company has the following representative offices:

19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.

Location of representative office: 24b, ul. Revolyutsionnaya, Minsk, 220050, Republic of Belarus."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

[Stamp:]

APPROVED

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
30 September 2002
Primary state registration No 2027740000154
Title: Deputy Directory, RF MNS Interraion Inspectorate
No 40 for Moscow

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 34 of 29 August 2002

(seal)

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**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

29 August 2002

1. Subclause 19.4.1. of the Charter is restated as follows:

"19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: 72, ul. Sovetskaya, 167000, Republic of Komi, Russian Federation."

2. A subclause 19.4.25, worded as follows, is added to the Charter:

"19.4.25. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Russian Federation."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 37 of 17 December 2002

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

17 December 2002

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation.
 - 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.
Location of branch: Tula, Tula Oblast, Russian Federation.
 - 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.
Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
 - 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.
Location of branch: Ryazan, Ryazan Oblast, Russian Federation.
 - 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
 - 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.
Location of branch: Kaluga, Kaluga Oblast, Russian Federation.
 - 19.4.8. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.
Location of branch: Kostroma, Kostroma Oblast, Russian Federation.
 - 19.4.9. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.
Location of branch: Tver, Tver Oblast, Russian Federation.
 - 19.4.10. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.
Location of branch: Yaroslavl, Russian Federation.
 - 19.4.11. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
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- 19.4.12. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.13. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.14. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.15. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation.
- 19.4.16. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.17. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.18. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.19. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
- 19.4.20. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous District.
Location of branch: Kudymkar, Komi-Permyak Autonomous District, Russian Federation.
- 19.4.21. Branch of Mobile TeleSystems Open Joint Stock Company in Tyumen.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.22. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Salekhard, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.23. Branch of Mobile TeleSystems Open Joint Stock Company in Ekaterinburg.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.24. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.25. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
- 19.4.26. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.27. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
-

Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.

19.4.28. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.

Location of branch: Anadyr, Chukotka Autonomous District, Russian Federation."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

[Stamp:]

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
25 February 2003
Primary state registration No 2037740000065
Title: Deputy Directory, RF MNS Interraion
Inspectorate No 40 for Moscow

APPROVED

Minutes of extraordinary General Meeting of Shareholders
of Mobile TeleSystems
Open Joint Stock Company,
No 7 of 27 December 2002

(seal)

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**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

27 December 2002

Subclause 7.7.1 of the Charter is restated as follows:

"A person who independently or jointly with an affiliated person or persons acquires 30 percent or more of the placed common shares of the Company shall be exempt from the obligation to offer to buy the common shares of the Company held by its other shareholders as provided by article 80.2 of the Federal Law "On Joint Stock Companies," for a period of 30 days from the date of acquisition of 30 percent or more of the placed common shares of the Company."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

[Stamp:]

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
06 March 2003
Primary state registration No 2037740000131
Title: Deputy Directory, RF MNS Interraion Inspectorate
No 40 for Moscow

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 38 of 10 February 2003

(seal)

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**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

10 February 2003

A subclause 19.4.29, worded as follows, is added to the Charter:

"19.4.29. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.

Location of branch: Samara, Russian Federation."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

[Stamp:]

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
09 June 2003 Primary state registration No 2037740000307
Title: Deputy Directory, RF MNS Interraion
Inspectorate No 40 for Moscow

APPROVED

Minutes of extraordinary General Meeting
of Shareholders of Mobile TeleSystems
Open Joint Stock Company,
No 8 of 17 April 2003

(seal)

Copy of document to be stored
at registering authority

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

17 April 2003

The following paragraph is added to clause 1.1 of the Charter:

"The Company is the full successor in respect of all rights and obligations of Rosiko Closed Joint Stock Company (registered by the Moscow Registration Chamber of the Government of Moscow on 04 March 1994 under number 005.821 and entered by the Moscow Department of the RF MNS into the Consolidated State Register of Legal Entities on 18 December 2002 under primary state registration number 1027700547126), reorganized by merger into Mobile TeleSystems Open Joint Stock Company."

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of annual General Meeting
of Shareholders of Mobile TeleSystems
Open Joint Stock Company,
No 9 of 30 June 2003

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

30 June 2003

1. Article 9 of the Charter, "Dividends," is restated as follows:

- "9.1. Pursuant to a resolution of the Meeting of Shareholders, dividends may be paid on the basis of results of the first quarter, half, and/or nine months of the financial year and/or results of the financial year. A resolution to pay/declare dividends on the basis of results of the first quarter, half, or nine months of the financial year may be adopted within three months after the end of the respective period. Annual dividends shall be declared by the annual General Meeting of Shareholders on the basis of results of the year.
- 9.2. The amount of dividends per common share shall be set by the General Meeting of Shareholders at the proposal of the Board of Directors. The amount of dividends may not exceed the amount recommended by the Board of Directors.
- 9.3. The Company shall be obligated to pay dividends that have been announced. Dividends shall generally be paid in money. A dividend may also be paid in other property, in the form of shares (capitalization of profits), other types of securities, property, or the assignment of property rights or other rights having a monetary valuation. The amount of the dividend and the form of payment thereof on shares shall be established in the resolution to pay dividends on shares.
- The General Meeting of Shareholders may adopt a resolution not to pay dividends on shares.
- 9.4. Dividends shall neither accrue nor be paid on shares that have not been issued into circulation or have been acquired by the Company.
- 9.5. Dividends shall accrue and be paid only on fully paid shares.
- 9.6. Interest shall not accrue on dividends that have not been paid out or received.
- 9.7. The date of payment of dividends shall be set by resolution of the General Meeting of Shareholders. If the date of payment of dividends is not set by resolution of the General Meeting of Shareholders, the date of payment shall be no more than 60 days after the date of adoption of the resolution to pay them.
- 9.8. For each payment of dividends a list of persons entitled to receive dividends shall be prepared.
-

The list of persons entitled to receive dividends shall be prepared as at the date of preparation of the list of persons entitled to participate in the General Meeting of Shareholders that adopted the resolution to pay dividends. For purposes of preparation of the list of persons entitled to receive dividends, nominee holders of shares of the Company shall provide information on the persons on whose behalf they hold shares.

9.9. In the cases established by current legislation the Company shall be prohibited from adopting a resolution to pay/declare dividends on shares.

9.10. In the cases established by current legislation the Company shall be prohibited from paying declared dividends on shares."

2. A subclause 10.1, worded as follows, is added to clause 12.1 of the Charter:

"10.1. payment/declaration of dividends based on the basis of results of the first quarter, half, or nine months of the financial year;"

3. Subclause 12.1.11 of the Charter is restated as follows:

"11. approval of the Company's annual reports and annual financial statements, including income statements (profit and loss accounts), and distribution of profits (including the payment/declaration of dividends, except profits distributed as dividends on the basis of results of the first quarter, half, and nine months of the financial year) and losses of the Company on the basis of results of the financial year;"

M. A. Smirnov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 54 of 15 March 2004

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

15 March 2004

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
 - 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
 - 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
 - 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
 - 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov Oblast, Russian Federation.
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- 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
 - 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
 - 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
 - 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous District.
Location of branch: Kudymkar, Komi-Permyak Autonomous District, Russian Federation.
 - 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
 - 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: Samara, Samara Oblast, Russian Federation.
 - 19.4.3.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
 - 19.4.3.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
 - 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
 - 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
 - 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
 - 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.
 - 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
 - 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.
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- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
 - 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
 - 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
 - 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast and the Khanty-Mansiisk Autonomous District—Yugra.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
 - 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Salekhard, Yamalo-Nenets Autonomous District, Russian Federation.
 - 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
 - 19.4.5.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
 - 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: Novosibirsk, Novosibirsk Oblast, Russian Federation.
 - 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.
 - 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
 - 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
 - 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
 - 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: Vladivostok, Primorye Territory, Russian Federation.
 - 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
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- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
- 19.4.8.
- 19.4.8.1. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.
Location of branch: Tula, Tula Oblast, Russian Federation.
- 19.4.8.2. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.
Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
- 19.4.8.3. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.
Location of branch: Ryazan, Ryazan Oblast, Russian Federation.
- 19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.
Location of branch: Kaluga, Kaluga Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.
Location of branch: Kostroma, Kostroma Oblast, Russian Federation.
- 19.4.8.6. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.
Location of branch: Tver, Tver Oblast, Russian Federation.
- 19.4.8.7. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.
Location of branch: Yaroslavl, Yaroslavl Oblast, Russian Federation.
- 19.4.8.8. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
- 19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

- 19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.
Location of representative office: Minsk, Republic of Belarus.
- 19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.
Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 56 of 29 April 2004

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

29 April 2004

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: 8, ul. Italyanskaya, St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: 61, ul. Gimnazicheskaya, Krasnodar, Krasnodar Territory, Russian Federation.
 - 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
 - 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
 - 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
 - 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov Oblast, Russian Federation.
 - 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
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- 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous District.
Location of branch: Kudymkar, Komi-Permyak Autonomous District, Russian Federation.
- 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: 61A, Chernorechenskaya, Samara, Samara Oblast, Russian Federation.
- 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
- 19.4.3.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: 61, ul. Beketova, Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.
- 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.
- 19.4.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: 128, ul. Mamina-Sibiryaka, Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
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- 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
- 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast and the Khanty-Mansiisk Autonomous District—Yugra.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Salekhard, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: 31, ul. 2-ya Soyuza Molodezhi, Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.
- 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
- 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
- 16.4.6.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: 53A, ul. Nekrasova, Vladivostok, Primorye Territory, Russian Federation.
- 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
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19.4.8.

19.4.8.1. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.

Location of branch: Tula, Tula Oblast, Russian Federation.

19.4.8.2. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.

Location of branch: Smolensk, Smolensk Oblast, Russian Federation.

19.4.8.3. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.

Location of branch: Ryazan, Ryazan Oblast, Russian Federation.

19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.

Location of branch: Vladimir, Vladimir Oblast, Russian Federation.

19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.

Location of branch: Kaluga, Kaluga Oblast, Russian Federation.

19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.

Location of branch: Kostroma, Kostroma Oblast, Russian Federation.

19.4.8.6. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.

Location of branch: Tver, Tver Oblast, Russian Federation.

19.4.8.7. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.

Location of branch: Yaroslavl, Yaroslavl Oblast, Russian Federation.

19.4.8.8. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.

Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.

19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.

Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.

Location of representative office: Minsk, Republic of Belarus.

19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.

Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of annual General Meeting of
Shareholders of Mobile TeleSystems
Open Joint Stock Company,
No 11 of 24 June 2004

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

24 June 2004

1. Subclause 7.7.1 of the Charter is restated as follows:

"7.7.1. Shares of the Company may be alienated in favor of third parties. A Shareholder may alienate his shares in the manner established by legislation. A person who independently or jointly with an affiliated person or persons acquires 30 percent or more of the placed common shares of the Company shall be obligated, pursuant to and on the conditions set forth in article 80 of the Federal Law of the Russian Federation "On Joint Stock Companies," to offer to buy the common shares of the Company and emissive securities convertible into common shares of the Company held by its other shareholders, if such obligation is prescribed by the legislation of the Russian Federation."

2. Clause 9.7 of the Charter is restated as follows:

"When the General Meeting of Shareholders adopts a resolution to pay dividends, such dividends must be paid by the end of the year in which such resolution was adopted, unless a shorter period is established by the resolution."

3. Clause 14.6 is restated as follows:

"14.6. Requirements that must be met by persons elected to the position of President may be established by the Bylaw on the President of the Company and/or a resolution of the Board of Directors."

4. A fourth paragraph, worded as follows, is added to clause 12.12.1:

"The text of the notice of a General Meeting of Shareholders may, pursuant to a resolution of the Board of Directors, additionally be sent in electronic form to those shareholders who have provided the Company or the registrar with e-mail addresses for the delivery of such notices."

5. In clause 12.12.5 the words "—other information provided by the Company's Charter" shall be replaced with the words, "—other information provided by the Company's Charter, legislation, or a resolution of the Board of Directors."

6. A fourth paragraph, worded as follows, is added to clause 12.12.6:

"Pursuant to a resolution of the Board of Directors, information to be provided to the persons entitled to participate in a General Meeting of Shareholders that is not classified as confidential or a commercial secret may be published in whole or in part on the Company's Internet website."

7. A second paragraph, worded as follows, is added to clause 12.9.2:

"When notifying the Company's shareholders that a General Meeting of Shareholders has been called, the Company shall simultaneously send invitations to attend the meeting to the members of the Board of Directors, the members of the Audit Commission, and the

Company's Auditor, as well as to candidates for the Board of Directors, Audit Commission, and President who are named in the ballots for voting at the meeting."

8. Subclause 13.4.1 of the Charter shall be stated as follows:

"1. Determination of the priority lines of the Company's activity, determination of the Company's development strategy, and approval of the annual budgets (financial plans) of the Company;"

9. Clause 13.10 of the Charter is restated as follows:

"13.10. A quorum at meetings of the Board of Directors shall be the attendance of at least 6 (six) elected members of the Board of Directors.

10. A second paragraph, worded as follows, is added to clause 13.11:

"When a meeting of the Board of Directors is held in direct form, written opinions of absent members of the Board of Directors shall be taken into account."

11. A clause 13.13, worded as follows, is added to the Charter:

"13.13. Pursuant to a resolution of the Board of Directors, committees of the Board of Directors may be created within the Board of Directors."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

[Stamp:]

APPROVED

MNS of Russia Inspectorate No 7440
Certificate of State Registration issued
17 September 2004
Primary state registration No 2047740000713
Title: Deputy Directory, RF MNS Interraion
Inspectorate No 40 for Moscow

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 59 of 30 August 2004

(seal)

Copy of document to be stored
at registering authority

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

30 August 2004

1. Clause 19.4.6 of the Charter is restated as follows:

"19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.

Location of branch: 35, ul. Oktyabrskaya, Novosibirsk, Novosibirsk Oblast, Russian
Federation."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems
Open Joint Stock Company,
No 62 of 16 December 2004

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

16 December 2004

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: 8, ul. Italiyanskaya, St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.1.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Arkhangelsk Oblast.
Location of branch: Arkhangelsk, Arkhangelsk Oblast, Russian Federation.
 - 19.4.1.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Vologda Oblast.
Location of branch: Vologda, Vologda Oblast, Russian Federation.
 - 19.4.1.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Kaliningrad Oblast.
Location of branch: Kaliningrad, Kalinigrad Oblast, Russian Federation.
 - 19.4.1.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Murmansk Oblast.
Location of branch: Murmansk, Oblast, Russian Federation.
 - 19.4.1.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Novgorod Oblast.
Location of branch: Novgorod, Novgorod Oblast, Russian Federation.
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- 19.4.1.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karelia.
Location of branch: Petrozavodsk, Republic of Karelia, Russian Federation.
- 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: 61, ul. Gimnazicheskaya, Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
- 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
- 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov Oblast, Russian Federation.
- 19.4.2.5. Branch of Mobile TeleSystems Open Joint Stock Company in Novorossiisk.
Location of branch: Novorossiisk, Krasnodar Territory, Russian Federation.
- 19.4.2.6. Branch of Mobile TeleSystems Open Joint Stock Company in Sochi.
Location of branch: Sochi, Krasnodar Territory, Russian Federation.
- 19.4.2.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Adyghe Republic.
Location of branch: Maikop, Adyghe Republic, Russian Federation.
- 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
- 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous District.
Location of branch: Kudymkar, Komi-Permyak Autonomous District, Russian Federation.
- 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: 61A, Chernorechenskaya, Samara, Samara Oblast, Russian Federation.
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- 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
- 19.4.3.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: 61, ul. Beketova, Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.
- 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.
- 19.4.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in Izhevsk, Udmurt Republic.
Location of branch: Izhevsk, Udmurt Republic, Russian Federation.
- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: 128, ul. Mamina-Sibiryaka, Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
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- 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast and the Khanty-Mansiisk Autonomous District—Yugra.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Salekhard, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.6. Branch of Mobile TeleSystems Open Joint Stock Company in Khanti-Mansiisk Autonomous District—Yugra.
Location of branch: Surgut, Khanti-Mansiisk Autonomous District, Russian Federation.
- 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: 35, ul. Oktyabrskaya, Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.
- 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
- 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
- 16.4.6.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: 53A, ul. Nekrasova, Vladivostok, Primorye Territory, Russian Federation.
- 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
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- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
- 19.4.8.
- 19.4.8.1. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.
Location of branch: Tula, Tula Oblast, Russian Federation.
- 19.4.8.2. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.
Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
- 19.4.8.3. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.
Location of branch: Ryazan, Ryazan Oblast, Russian Federation.
- 19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.
Location of branch: Kaluga, Kaluga Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.
Location of branch: Kostroma, Kostroma Oblast, Russian Federation.
- 19.4.8.6. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.
Location of branch: Tver, Tver Oblast, Russian Federation.
- 19.4.8.7. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.
Location of branch: Yaroslavl, Yaroslavl Oblast, Russian Federation.
- 19.4.8.8. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
- 19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

- 19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.
Location of representative office: Minsk, Republic of Belarus.
- 19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.
Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems Open Joint Stock Company
No 64 of 22 February 2005

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

22 February 2005

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: 8, ulitsa Italyanskaya, St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Arkhangelsk Oblast.
Location of branch: Arkhangelsk, Arkhangelsk Oblast, Russian Federation.
 - 19.4.1.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Vologda Oblast.
Location of branch: Vologda, Vologda Oblast, Russian Federation.
 - 19.4.1.6. Branch of Mobile TeleSystems Open Joint Stock Company in Kaliningrad Oblast.
Location of branch: Kaliningrad, Kalinigrad Oblast, Russian Federation.
 - 19.4.1.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Murmansk Oblast.
Location of branch: Murmansk, Murmansk Oblast, Russian Federation.
 - 19.4.1.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Novgorod Oblast.
Location of branch: V. Novgorod, Novgorod Oblast, Russian Federation.
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- 19.4.1.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karelia.
Location of branch: Petrozavodsk, Republic of Karelia, Russian Federation.
- 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: 61, ulitsa Gimnazicheskaya, Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
- 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
- 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov blast, Russian Federation.
- 19.4.2.5. Branch of Mobile TeleSystems Open Joint Stock Company in Novorossiisk.
Location of branch:
- 19.4.2.6. Branch of Mobile TeleSystems Open Joint Stock Company in Sochi.
Location of branch: Sochi, Krasnodar Krai, Russian Federation.
- 19.4.2.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Adyghe Republic.
Location of branch: Maikop, Adyghe Republic, Russian Federation.
- 19.4.2.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Astrakhan Oblast.
Location of branch: Astrakhan, Astrakhan Oblast, Russian Federation.
- 19.4.2.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Volgograd Oblast.
Location of branch: Volgograd, Volgograd Oblast, Russian Federation.
- 19.4.2.10. Branch of Mobile TeleSystems Open Joint Stock Company in the Kabardin-Balkar Republic.
Location of branch: Nalchik, Kabardin-Balkar Republic, Russian Federation.
- 19.4.2.11. Branch of Mobile TeleSystems Open Joint Stock Company in the Karachaevo-Cherkessia Republic.
Location of branch: Cherkessk, Karachaevo-Cherkessia Republic, Russian Federation.

- 19.4.2.12. Branch of Mobile TeleSystems Open Joint Stock Company in the Ingush Republic.
Location of branch: Nazran, Ingush Republic, Russian Federation.
- 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
- 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous Okrug.
Location of branch: Kudymkar, Komi-Permyak Autonomous Okrug, Russian Federation.
- 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: 61 A, Chernorechenskaya, Samara, Samara Oblast, Russian Federation.
- 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
- 19.4.3.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: 61, ulitsa Beketova, Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.

- 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.
- 19.4.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in Izhevsk, Udmurt Republic.
Location of branch: Izhevsk, Udmurt Republic, Russian Federation.
- 19.4.4.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tatarstan.
Location of branch: Kazan, Republic of Tatarstan, Russian Federation.
- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: 128, ulitsa Mamina-Sibiriyaka, Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
- 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Noyabrsk, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Khanty-Mansiisk Autonomous Okrug—Yugra.
Location of branch: Surgut, Khanty-Mansiisk Autonomous Okrug—Yugra, Russian Federation.

- 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: 35, ulitsa Oktyabrskaya, Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.
- 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
- 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
- 19.4.6.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.6.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Novosibirsk Oblast.
Location of branch: Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Omsk Oblast.
Location of branch: Omsk, Omsk Oblast, Russian Federation.
- 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: 53 A, ulitsa Nekrasova, Vladivostok, Primorye Territory, Russian Federation.
- 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
- 19.4.7.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Khabarovsk Krai.
Location of branch: Khabarovsk, Khabarovsk Krai, Russian Federation.
- 19.4.8.

- 19.4.8.1. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.
Location of branch: Tula, Tula Oblast, Russian Federation.
- 19.4.8.2. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.
Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
- 19.4.8.3. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.
Location of branch: Ryazan, Ryazan Oblast, Russian Federation.
- 19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.
Location of branch: Kaluga, Kaluga Oblast, Russian Federation.
- 19.4.8.6. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.
Location of branch: Kostroma, Kostroma Oblast, Russian Federation.
- 19.4.8.7. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.
Location of branch: Tver, Tver Oblast, Russian Federation.
- 19.4.8.8. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.
Location of branch: Yaroslavl, Yaroslavl Oblast, Russian Federation.
- 19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
- 19.4.8.10. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

- 19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.
Location of representative office: Minsk, Republic of Belarus.
- 19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.
Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems Open Joint Stock Company
No 65 of 15 April 2005

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

15 April 2005

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: 8, ulitsa Italyanskaya, St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Arkhangelsk Oblast.
Location of branch: Arkhangelsk, Arkhangelsk Oblast, Russian Federation.
 - 19.4.1.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Vologda Oblast.
Location of branch: Vologda, Vologda Oblast, Russian Federation.
 - 19.4.1.6. Branch of Mobile TeleSystems Open Joint Stock Company in Kaliningrad Oblast.
Location of branch: Kaliningrad, Kalinigrad Oblast, Russian Federation.
 - 19.4.1.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Murmansk Oblast.
Location of branch: Murmansk, Murmansk Oblast, Russian Federation.
 - 19.4.1.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Novgorod Oblast.
Location of branch: V. Novgorod, Novgorod Oblast, Russian Federation.
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- 19.4.1.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karelia.
Location of branch: Petrozavodsk, Republic of Karelia, Russian Federation.
- 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: 61, ulitsa Gimnazicheskaya, Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
- 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
- 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov blast, Russian Federation.
- 19.4.2.5. Branch of Mobile TeleSystems Open Joint Stock Company in Novorossiisk.
Location of branch:
- 19.4.2.6. Branch of Mobile TeleSystems Open Joint Stock Company in Sochi.
Location of branch: Sochi, Krasnodar Krai, Russian Federation.
- 19.4.2.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Adyghe Republic.
Location of branch: Maikop, Adyghe Republic, Russian Federation.
- 19.4.2.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Astrakhan Oblast.
Location of branch: Astrakhan, Astrakhan Oblast, Russian Federation.
- 19.4.2.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Volgograd Oblast.
Location of branch: Volgograd, Volgograd Oblast, Russian Federation.
- 19.4.2.10. Branch of Mobile TeleSystems Open Joint Stock Company in the Kabardin-Balkar Republic.
Location of branch: Nalchik, Kabardin-Balkar Republic, Russian Federation.
- 19.4.2.11. Branch of Mobile TeleSystems Open Joint Stock Company in the Karachaevo-Cherkessia Republic.
Location of branch: Location of branch: Cherkessk, Karachaevo-Cherkessia Republic, Russian Federation.

- 19.4.2.12. Branch of Mobile TeleSystems Open Joint Stock Company in the Ingush Republic.
Location of branch: Nazran, Ingush Republic, Russian Federation.
- 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
- 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: 61 A, Chernorechenskaya, Samara, Samara Oblast, Russian Federation.
- 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
- 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: 61, ulitsa Beketova, Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.
- 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.

- 19.4.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Izhevsk, Udmurt Republic.
Location of branch: Izhevsk, Udmurt Republic, Russian Federation.
- 19.4.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tatarstan.
Location of branch: Kazan, Republic of Tatarstan, Russian Federation.
- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: 128, ulitsa Mamina-Sibiriyaka, Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
- 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Noyabrsk, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Khanty-Mansiisk Autonomous Okrug—Yugra.
Location of branch: Surgut, Khanty-Mansiisk Autonomous Okrug—Yugra, Russian Federation.
- 19.4.5.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Komi-Permyak Autonomous Okrug.
Location of branch: Kudymkar, Komi-Permyak Autonomous Okrug, Russian Federation.
- 19.4.5.8. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: 35, ulitsa Oktyabrskaya, Novosibirsk, Novosibirsk Oblast, Russian Federation.

- 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.
- 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
- 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
- 19.4.6.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.6.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Novosibirsk Oblast.
Location of branch: Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Omsk Oblast.
Location of branch: Omsk, Omsk Oblast, Russian Federation.
- 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: 53 A, ulitsa Nekrasova, Vladivostok, Primorye Territory, Russian Federation.
- 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
- 19.4.7.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Khabarovsk Krai.
Location of branch: Khabarovsk, Khabarovsk Krai, Russian Federation.
- 19.4.8.
- 19.4.8.1. Branch of Mobile TeleSystems Open Joint Stock Company in Tula.
Location of branch: Tula, Tula Oblast, Russian Federation.

- 19.4.8.2. Branch of Mobile TeleSystems Open Joint Stock Company in Smolensk.
Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
- 19.4.8.3. Branch of Mobile TeleSystems Open Joint Stock Company in Ryazan.
Location of branch: Ryazan, Ryazan Oblast, Russian Federation.
- 19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
- 19.4.8.5. Branch of Mobile TeleSystems Open Joint Stock Company in Kaluga.
Location of branch: Kaluga, Kaluga Oblast, Russian Federation.
- 19.4.8.6. Branch of Mobile TeleSystems Open Joint Stock Company in Kostroma.
Location of branch: Kostroma, Kostroma Oblast, Russian Federation.
- 19.4.8.7. Branch of Mobile TeleSystems Open Joint Stock Company in Tver.
Location of branch: Tver, Tver Oblast, Russian Federation.
- 19.4.8.8. Branch of Mobile TeleSystems Open Joint Stock Company in Yaroslavl.
Location of branch: Yaroslavl, Yaroslavl Oblast, Russian Federation.
- 19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
- 19.4.8.10. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

- 19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.
Location of representative office: Minsk, Republic of Belarus.
- 19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.
Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

APPROVED

Minutes of meeting of the Board of Directors of
Mobile TeleSystems Open Joint Stock Company
No 66 of 17 May 2005

**REVISIONS AND ADDITIONS
TO CHARTER
of Mobile TeleSystems Open Joint Stock Company
registered on 28 June 2002**

Moscow

17 May 2005

1. Clause 19.4 of the Charter is restated as follows:

"19.4. The Company has the following branches:

- 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Northwest Macroregion.
Location of branch: 8, ulitsa Italiyanskaya, St. Petersburg, Russian Federation.
 - 19.4.1.1. Branch of Mobile TeleSystems Open Joint Stock Company in Syktyvkar, Republic of Komi.
Location of branch: Syktyvkar, Republic of Komi, Russian Federation
 - 19.4.1.2. Branch of Mobile TeleSystems Open Joint Stock Company in Pskov.
Location of branch: Pskov, Pskov Oblast, Russian Federation.
 - 19.4.1.3. Branch of Mobile TeleSystems Open Joint Stock Company in St. Petersburg.
Location of branch: St. Petersburg, Russian Federation.
 - 19.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Arkhangelsk Oblast.
Location of branch: Arkhangelsk, Arkhangelsk Oblast, Russian Federation.
 - 19.4.1.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Vologda Oblast.
Location of branch: Vologda, Vologda Oblast, Russian Federation.
 - 19.4.1.6. Branch of Mobile TeleSystems Open Joint Stock Company in Kaliningrad Oblast.
Location of branch: Kaliningrad, Kalinigrad Oblast, Russian Federation.
 - 19.4.1.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Murmansk Oblast.
Location of branch: Murmansk, Murmansk Oblast, Russian Federation.
 - 19.4.1.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Novgorod Oblast.
Location of branch: V. Novgorod, Novgorod Oblast, Russian Federation.
-

- 19.4.1.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Karelia.
Location of branch: Petrozavodsk, Republic of Karelia, Russian Federation.
- 19.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in the South Macroregion.
Location of branch: 61, ulitsa Gimnazicheskaya, Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Kalmykia.
Location of branch: Elista, Republic of Kalmykia, Russian Federation.
- 19.4.2.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Stavropol Territory.
Location of branch: Stavropol, Stavropol Territory, Russian Federation.
- 19.4.2.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnodar Territory.
Location of branch: Krasnodar, Krasnodar Territory, Russian Federation.
- 19.4.2.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Rostov Oblast.
Location of branch: Rostov-na-Donu, Rostov blast, Russian Federation.
- 19.4.2.5. Branch of Mobile TeleSystems Open Joint Stock Company in Novorossiisk.
Location of branch:
- 19.4.2.6. Branch of Mobile TeleSystems Open Joint Stock Company in Sochi.
Location of branch: Sochi, Krasnodar Krai, Russian Federation.
- 19.4.2.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Adyghe Republic.
Location of branch: Maikop, Adyghe Republic, Russian Federation.
- 19.4.2.8. Branch of Mobile TeleSystems Open Joint Stock Company in the Astrakhan Oblast.
Location of branch: Astrakhan, Astrakhan Oblast, Russian Federation.
- 19.4.2.9. Branch of Mobile TeleSystems Open Joint Stock Company in the Volgograd Oblast.
Location of branch: Volgograd, Volgograd Oblast, Russian Federation.
- 19.4.2.10. Branch of Mobile TeleSystems Open Joint Stock Company in the Kabardin-Balkar Republic.
Location of branch: Nalchik, Kabardin-Balkar Republic, Russian Federation.
- 19.4.2.11. Branch of Mobile TeleSystems Open Joint Stock Company in the Karachaevo-Cherkessia Republic.
Location of branch: Location of branch: Cherkessk, Karachaevo-Cherkessia Republic, Russian Federation.

- 19.4.2.12. Branch of Mobile TeleSystems Open Joint Stock Company in the Ingush Republic.
Location of branch: Nazran, Ingush Republic, Russian Federation.
- 19.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga SE Macroregion.
Location of branch: Samara, Samara Oblast, Russian Federation.
- 19.4.3.1. Branch of Mobile TeleSystems Open Joint Stock Company in Orenburg.
Location of branch: Orenburg, Orenburg Oblast, Russian Federation.
- 19.4.3.2. Branch of Mobile TeleSystems Open Joint Stock Company in Saratov.
Location of branch: Saratov, Saratov Oblast, Russian Federation.
- 19.4.3.3. Branch of Mobile TeleSystems Open Joint Stock Company in Samara.
Location of branch: 61 A, Chernorechenskaya, Samara, Samara Oblast, Russian Federation.
- 19.4.3.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Ulyanovsk Oblast.
Location of branch: Ulyanovsk, Ulyanovsk Oblast, Russian Federation.
- 19.4.3.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Bashkortostan.
Location of branch: Ufa, Republic of Bashkortostan, Russian Federation.
- 19.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Volga NW Macroregion.
Location of branch: 61, ulitsa Beketova, Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.1. Branch of Mobile TeleSystems Open Joint Stock Company in Nizhny Novgorod.
Location of branch: Nizhny Novgorod, Nizhny Novgorod Oblast, Russian Federation.
- 19.4.4.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kirov.
Location of branch: Kirov, Kirov Oblast, Russian Federation.
- 19.4.4.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chuvash Republic—Chuvashia.
Location of branch: Cheboksary, Chuvash Republic—Chuvashia, Russian Federation.
- 19.4.4.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mordovia.
Location of branch: Saransk, Republic of Mordovia, Russian Federation.
- 19.4.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Mari El.
Location of branch: Ioshkar-Ola, Republic of Mari El, Russian Federation.

- 19.4.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in Izhevsk, Udmurt Republic.
Location of branch: Izhevsk, Udmurt Republic, Russian Federation.
- 19.4.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tatarstan.
Location of branch: Kazan, Republic of Tatarstan, Russian Federation.
- 19.4.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Urals Macroregion.
Location of branch: 5, Marshala Zhukova, Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.1. Branch of Mobile TeleSystems Open Joint Stock Company in Chelyabinsk.
Location of branch: Chelyabinsk, Chelyabinsk Oblast, Russian Federation.
- 19.4.5.2. Branch of Mobile TeleSystems Open Joint Stock Company in Kurgan.
Location of branch: Kurgan, Kurgan Oblast, Russian Federation.
- 19.4.5.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Tyumen Oblast.
Location of branch: Tyumen, Tyumen Oblast, Russian Federation.
- 19.4.5.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Yamalo-Nenets Autonomous District.
Location of branch: Noyabrsk, Yamalo-Nenets Autonomous District, Russian Federation.
- 19.4.5.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Sverdlovsk Oblast.
Location of branch: Ekaterinburg, Sverdlovsk Oblast, Russian Federation.
- 19.4.5.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Khanty-Mansiisk Autonomous Okrug—Yugra.
Location of branch: Surgut, Khanty-Mansiisk Autonomous Okrug—Yugra, Russian Federation.
- 19.4.5.7. Branch of Mobile TeleSystems Open Joint Stock Company in Perm.
Location of branch: Perm, Perm Oblast, Russian Federation.
- 19.4.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Siberia Macroregion.
Location of branch: 35, ulitsa Oktyabrskaya, Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.1. Branch of Mobile TeleSystems Open Joint Stock Company in the Kemerovo Oblast.
Location of branch: Kemerovo, Kemerovo Oblast, Russian Federation.

- 19.4.6.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Altai Territory.
Location of branch: Barnaul, Altai Territory, Russian Federation.
- 19.4.6.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Krasnoyarsk Territory.
Location of branch: Krasnoyarsk, Krasnoyarsk Territory, Russian Federation.
- 19.4.6.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Tomsk Oblast.
Location of branch: Tomsk, Tomsk Oblast, Russian Federation.
- 19.4.6.5. Branch of Mobile TeleSystems Open Joint Stock Company in the Republic of Tuva.
Location of branch: Kyzyl, Republic of Tuva, Russian Federation.
- 19.4.6.6. Branch of Mobile TeleSystems Open Joint Stock Company in the Novosibirsk Oblast.
Location of branch: Novosibirsk, Novosibirsk Oblast, Russian Federation.
- 19.4.6.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Omsk Oblast.
Location of branch: Omsk, Omsk Oblast, Russian Federation.
- 19.4.7. Branch of Mobile TeleSystems Open Joint Stock Company in the Far East Macroregion.
Location of branch: 53 A, ulitsa Nekrasova, Vladivostok, Primorye Territory, Russian Federation.
- 19.4.7.1. Branch of Mobile TeleSystems Open Joint Stock Company in Blagoveshchensk.
Location of branch: Blagoveshchensk, Amur Oblast, Russian Federation.
- 19.4.7.2. Branch of Mobile TeleSystems Open Joint Stock Company in the Sakhalin Oblast.
Location of branch: Yuzhno-Sakhalinsk, Sakhalin Oblast, Russian Federation.
- 19.4.7.3. Branch of Mobile TeleSystems Open Joint Stock Company in the Chukotka Autonomous District.
Location of branch: Anadyr, Chukotka Autonomous District.
- 19.4.7.4. Branch of Mobile TeleSystems Open Joint Stock Company in the Khabarovsk Krai.
Location of branch: Khabarovsk, Khabarovsk Krai, Russian Federation.
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Location of branch: Tula, Tula Oblast, Russian Federation.
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Location of branch: Smolensk, Smolensk Oblast, Russian Federation.
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Location of branch: Ryazan, Ryazan Oblast, Russian Federation.

- 19.4.8.4. Branch of Mobile TeleSystems Open Joint Stock Company in Vladimir.
Location of branch: Vladimir, Vladimir Oblast, Russian Federation.
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- 19.4.8.9. Branch of Mobile TeleSystems Open Joint Stock Company in Ivanovo.
Location of branch: Ivanovo, Ivanovo Oblast, Russian Federation.
- 19.4.8.10. Branch of Mobile TeleSystems Open Joint Stock Company in Tambov.
Location of branch: Tambov, Tambov Oblast, Russian Federation."

2. Clause 19.5 of the Charter is restated as follows:

"19.5. The Company has the following representative offices:

- 19.5.1. Representative office of Mobile TeleSystems Open Joint Stock Company in the Republic of Belarus.
Location of representative office: Minsk, Republic of Belarus.
- 19.5.2. Representative office of Mobile TeleSystems Open Joint Stock Company in Ukraine.
Location of representative office: Kiev, Ukraine."

V. V. Sidorov
President,
Mobile TeleSystems Open Joint Stock Company

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- [2. Purpose and Principal Lines of Activity](#)
- [3. Rights of the Company](#)
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Exhibit 4.1

EXECUTION COPY

Dated 26 July 2004

US\$500,000,000

FACILITY AGREEMENT

for

MOBILE TELESYSTEMS OPEN JOINT STOCK COMPANY

arranged by

**ABN AMRO BANK N.V.
HSBC BANK PLC
ING BANK N.V.
RAIFFEISEN ZENTRALBANK OESTERREICH AG**

as Original Mandated Lead Arrangers

and

**BANK AUSTRIA CREDITANSTALT AG
COMMERZBANK AKTIENGESELLSCHAFT**

as New Mandated Lead Arrangers

with

ING BANK N.V., LONDON BRANCH

acting as Agent

Linklaters CIS

Paveletskaya sq. 2, bld. 2
Moscow 115054

Telephone (7-095) 797 9797
Facsimile (7-095) 797 9798

Ref MIYB

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THIS AGREEMENT is dated 26 July 2004 and made between:

- (1) **MOBILE TELESYSTEMS OPEN JOINT STOCK COMPANY**, an open joint stock company established and existing under the laws of the Russian Federation and having its registered address at 4 Marksistskaya Street, 109147 Moscow, Russian Federation, as borrower (the "**Borrower**");
- (2) **ABN AMRO BANK N.V., HSBC BANK PLC, ING BANK N.V. and RAIFFEISEN ZENTRALBANK OESTERREICH AG** as original mandated lead arrangers (the "**Original Mandated Lead Arrangers**") and **BANK AUSTRIA CREDITANSTALT AG** and **COMMERZBANK AKTIENGESELLSCHAFT** as new mandated lead arrangers (the "**New Mandated Lead Arrangers**") (together with the Original Mandated Lead Arrangers, the "**Mandated Lead Arrangers**");
- (3) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 as lenders (the "**Original Lenders**"); and
- (4) **ING BANK N.V., LONDON BRANCH** as agent of the other Finance Parties (the "**Agent**").

IT IS AGREED as follows:

SECTION 1 INTERPRETATION

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

" **Additional Cost Rate** " has the meaning given to it in Schedule 4 (*Mandatory Cost formula*).

" **Affiliate** " means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

" **Authorisation** " means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

" **Availability Period** " means:

- (a) in relation to Facility 1, the period from and including the Signing Date to and including the date which is 30 days after the Signing Date; and
- (b) in relation to Facility 2, the period from and including 1 October 2004 to and including the date which is 80 days after 1 October 2004.

" **Available Commitment** " means, in relation to a Facility, a Lender's Commitment under that Facility minus:

- (a) the amount of its participation in any outstanding Loans under that Facility; and
- (b) in relation to any proposed Utilisation, the amount of its participation in any Loans that are due to be made under that Facility on or before the proposed Utilisation Date.

" **Available Facility** " means, in relation to a Facility, the aggregate for the time being of each Lender's Available Commitment in relation to that Facility.

" **Borrowings** " has the meaning given to it in Clause 19 (*Financial Covenants*).

" **Break Costs** " means the amount (if any) by which:

- (a) the interest (excluding the Margin) which a Lender should have received for the period from the date of receipt of all or any part of its participation in a Loan or Unpaid Sum to the last

day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the London interbank market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

" **Business Day** " means a day (other than a Saturday or Sunday) on which banks are open for general business in Amsterdam, London, Moscow and New York City.

" **Commitment** " means a Facility 1 Commitment or a Facility 2 Commitment.

" **Compliance Certificate** " means a certificate substantially in the form set out in Schedule 6 (*Form of Compliance Certificate*).

" **Confidentiality Undertaking** " means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Borrower and the Agent.

" **Default** " means an Event of Default or any event or circumstance specified in Clause 21 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

" **EBITDA** " has the meaning given to it in Clause 19 (*Financial Covenants*).

" **Environment** " means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);
- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including land under water).

" **Environmental Law** " means all laws and regulations of any relevant jurisdiction which:

- (a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;
- (b) provide remedies or compensation for harm or damage to the Environment; or
- (c) relate to any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person or that may make the use or ownership of any affected land or property more costly or health and safety matters.

" **Environmental Licence** " means any Authorisation required at any time under Environmental Law.

" **Event of Default** " means any event or circumstance specified as such in Clause 21 (*Events of Default*).

" **Facilities** " means Facility 1 and Facility 2 and " **Facility** " means either of them.

" **Facility Office** " means the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days'

written notice) as the office or offices through which it will perform its obligations under this Agreement.

" **Facility 1** " means the term loan facility made available under this Agreement as described in paragraph (a) of Clause 2.1 (*The Facilities*).

" **Facility 1 Commitment** " means:

(a) in relation to an Original Lender, the amount set opposite its name under the heading "Facility 1 Commitment" in Schedule 1 (*The Original Lenders*) and the amount of any other Facility 1 Commitment transferred to it under this Agreement; and

(b) in relation to any other Lender, the amount of any Facility 1 Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

" **Facility 1 Loan** " means a loan made or to be made under Facility 1 or the principal amount outstanding for the time being of that loan.

" **Facility 1 Repayment Date** " means the date falling 12 Months after the Signing Date, the date falling 18 Months after the Signing Date, the date falling 24 Months after the Signing Date, the date falling 30 Months after the Signing Date and the Final Maturity Date.

" **Facility 2** " means the term loan facility made available under this Agreement as described in paragraph (b) of Clause 2.1 (*The Facilities*).

" **Facility 2 Commitment** " means:

(a) in relation to an Original Lender, the amount set opposite its name under the heading "Facility 2 Commitment" in Schedule 1 (*The Original Lenders*) and the amount of any other Facility 2 Commitment transferred to it under this Agreement; and

(b) in relation to any other Lender, the amount of any Facility 2 Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

" **Facility 2 Loan** " means a loan made or to be made under Facility 2 or the principal amount outstanding for the time being of that loan.

" **Facility 2 Repayment Date** " means the date falling 15 Months after the Signing Date, the date falling 21 Months after the Signing Date, the date falling 27 Months after the Signing Date and the Final Maturity Date.

" **Fee Letters** " means each of the letters dated 2 July 2004 between the Original Mandated Lead Arrangers and the Borrower (or the Agent and the Borrower) setting out the fees referred to in Clause 11 (*Fees*).

" **Final Maturity Date** " means the date which is three years plus one day after the Signing Date.

" **Finance Document** " means this Agreement, any Fee Letter, the Mandate Letter, the Syndication Side Letter and any other document designated as such by the Agent and the Borrower.

" **Finance Party** " means the Agent, the Mandated Lead Arrangers or a Lender.

" **Financial Indebtedness** " means any indebtedness for or in respect of:

(a) moneys borrowed;

- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) shares which are expressed to be redeemable at the option of the holder on or prior to the Final Maturity Date (but excluding any accrued dividends);
- (i) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above.

" **GAAP** " means generally accepted accounting principles, standards and practices in the United States of America.

" **Group** " means the Borrower and its Subsidiaries for the time being.

" **Holding Company** " means, in relation to a person, any other person in respect of which it is a Subsidiary.

" **Information Memorandum** " means the document in the form approved by the Borrower concerning the Group which, at the Borrower's request and on its behalf, was prepared in relation to this transaction and distributed by the Mandated Lead Arrangers to selected financial institutions before the Signing Date.

" **Interest Expense** " has the meaning given to it in Clause 19 (*Financial Covenants*).

" **Interest Period** " means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

" **Kuban GSM** " means CJSC Kuban GSM, a joint-stock company organized under the laws of the Russian Federation that is a Subsidiary of the Borrower.

" **Lender** " means:

- (a) any Original Lender; and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party in accordance with Clause 22 (*Changes to the Lenders*),

which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

" **LIBOR** " means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for Dollars or the Interest Period of that Loan) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request quoted by the Reference Banks to leading banks in the London interbank market,

as of 11:00 a.m. on the Quotation Day for the offering of deposits in Dollars for a period comparable to the Interest Period for that Loan.

" **LMA** " means the Loan Market Association.

" **Loan** " means a Facility 1 Loan or Facility 2 Loan.

" **Majority Lenders** " means:

- (a) if there are no Loans then outstanding, a Lender or Lenders whose Commitments aggregate more than $66^{2/3}$ % of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than $66^{2/3}$ % of the Total Commitments immediately prior to the reduction); or
- (b) at any other time, a Lender or Lenders whose participations in the Loans then outstanding aggregate more than $66^{2/3}$ % of all the Loans then outstanding.

" **Mandate Letter** " means the letter agreement dated 5 July 2004 between the Original Mandated Lead Arrangers and the Borrower.

" **Mandatory Cost** " means the percentage rate per annum calculated by the Agent in accordance with Schedule 4 (*Mandatory Cost formula*).

" **Margin** " means 2.50 per cent. per annum.

" **Material Adverse Effect** " means a material adverse effect on or material adverse change in:

- (a) the financial condition, operations, assets, prospects or business of the Borrower or the consolidated financial condition, operations, assets, prospects or business of the Group;
- (b) the ability of the Borrower to perform and comply with its obligations under any Finance Document; or
- (c) the validity, legality or enforceability of any Finance Document, or the rights or remedies of any Finance Party thereunder.

" **Month** " means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day; and
- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month.

The above rules will only apply to the last Month of any period.

" **Original Financial Statements** " means the audited consolidated financial statements of the Group for the financial year ended 31 December 2003.

" **Participating Member State** " means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

" **Party** " means a party to this Agreement.

" **Permitted Security** " means:

- (a) any Security on any assets of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or any Subsidiary of the Borrower or becomes a Subsidiary of the Borrower and not created in contemplation of such event, provided that no such Security shall extend to any other assets;
- (b) any Security existing on any assets prior to the acquisition thereof by the Borrower or any Subsidiary of the Borrower and not created in contemplation of such acquisition, provided that no such Security shall extend to any other assets;
- (c) any Security on any assets securing Financial Indebtedness of the Borrower or Financial Indebtedness of any Subsidiary of the Borrower incurred or assumed for the purpose of financing all or part of the cost of acquiring, repairing or refurbishing such assets, provided that (i) no such Security shall extend to any other assets; (ii) the aggregate principal amount of all Financial Indebtedness secured by such Security on such assets shall not exceed the lower of (x) the purchase price of such assets and (y) the fair market value of such assets at the time of acquisition, repair or refurbishing; and (iii) such Security attaches to such assets concurrently with the repair or refurbishing thereof or within 90 days after the acquisition thereof, as the case may be;
- (d) any Security arising by operation of law, including any Security (i) arising in the ordinary course of business with respect to amounts not yet delinquent or being contested by the Borrower or a Subsidiary of the Borrower in good faith in appropriate proceedings or (ii) for taxes, assessments, government charges or claims, including without limitation those in favour of Russian governmental fiscal authorities;
- (e) any Security on the assets of any Subsidiary of the Borrower securing intercompany Financial Indebtedness of such Subsidiary owing to the Borrower or another Subsidiary of the Borrower;
- (f) any netting or set-off arrangement entered into by a member of the Group with a bank or any other financial institution in the normal course of its banking arrangements for the purpose of netting or setting off its debit and credit facilities with that bank or financial institution;
- (g) easements, rights-of-way, restrictions and any other similar charges or encumbrances incurred in the ordinary course of business and not interfering in any material respect with the business of the Borrower or the business of any Subsidiary of the Borrower, including any encumbrance or restriction with respect to an equity interest of any joint venture pursuant to a joint venture agreement;
- (h) any extension, renewal or replacement of any Security described in clauses (a) to (g) above, provided that (i) such extension, renewal or replacement shall be no more restrictive in any material respect than the original Security; (ii) the amount of Financial Indebtedness secured by such Security is not increased; and (iii) if the assets securing the Financial Indebtedness subject to such Security are changed in connection with such refinancing, extension or replacement, the fair market value of the property or assets is not increased; and
- (i) any other Security (excluding any Security described in (a)-(h) above) provided that, immediately after giving effect to such Security, the aggregate amount of all secured Financial Indebtedness of the Group does not exceed 10% of the Borrower's Total Assets.

" **Qualifying Lender** " has the meaning given to it in Clause 12 (*Tax gross-up and indemnities*).

" **Quotation Day** " means, in relation to any period for which an interest rate is to be determined, two Business Days before the first day of that period unless market practice differs in the London interbank market, in which case the Quotation Day will be determined by the Agent in accordance with market practice in the London interbank market (and if quotations for that currency and period would normally be given by leading banks in the London interbank market on more than one day, the Quotation Day will be the last of those days).

" **RAS** " means generally accepted accounting principles, standards and practices in the Russian Federation.

" **Reference Banks** " means in relation to LIBOR and Mandatory Cost the principal London offices of the Original Mandated Lead Arrangers or such other banks as may be appointed by the Agent in consultation with the Borrower.

" **Relevant Period** " has the meaning given to it in Clause 19 (*Financial Covenants*).

" **Repayment Date** " means a Facility 1 Repayment Date or a Facility 2 Repayment Date.

" **Repeating Representations** " means each of the representations set out in Clauses 17.1 (*Status*), 17.2 (*Binding obligations*), 17.3 (*Non-conflict with other obligations*), 17.4 (*Power and authority*), 17.6 (*Governing law and enforcement*), 17.11 (*No default*), 17.14 (*Pari Passu Ranking*), 17.15 (*No proceedings pending or threatened*), 17.16 (*Environmental laws and licences*) and 17.17 (*Telecommunications law and licences*).

" **Roubles** " or " **RUR** " means the lawful currency of the Russian Federation for the time being.

" **Russian Insolvency Law** " means the Federal Law of the Russian Federation No. 127-FZ of 26 October 2002 "On Insolvency (Bankruptcy)".

" **Screen Rate** " means the British Bankers Association Interest Settlement Rate for Dollars for the relevant period displayed on the appropriate page of the Telerate screen. If the agreed page is replaced or service ceases to be available, the Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders.

" **Security** " means a mortgage, charge, lien, pledge or other security interest securing any obligations of any person or any other agreement or arrangement having a similar effect.

" **Significant Subsidiary** " means:

- (a) UMC (unless, pursuant to the UMC Litigation, any or all of the Borrower's shares in UMC are transferred to a person that is not a member of the Group, with the result that UMC ceases to be a member of the Group);
- (b) Telecom XXI;
- (c) Kuban GSM;
- (d) any Subsidiary of the Borrower to which (i) the Borrower, UMC, Telecom XXI or Kuban GSM sells, leases or otherwise transfers its GSM 900 or 1800 licences or (ii) any such licence is re-issued; and
- (e) any Subsidiary of the Borrower (i) whose total assets (or, where such Subsidiary prepares consolidated accounts, whose total consolidated assets) have a book value (as determined by reference to the most recent management accounts of that Subsidiary prepared in accordance with GAAP) equal to or exceeding 10% of the Borrower's Total Assets or (ii) whose gross annual revenues (or, where such Subsidiary prepares consolidated accounts, whose gross annual consolidated revenues) (as determined by reference to the most recent management

accounts of that Subsidiary prepared in accordance with GAAP) are equal to or exceed 10% of the Borrower's gross annual consolidated revenues in the year for which the Borrower's most recent consolidated financial statements were prepared.

" **Signing Date** " means the date of this Agreement.

" **Subsidiary** " means an entity from time to time of which a person has direct or indirect control or owns directly or indirectly more than 50% of the share capital or similar right of ownership.

" **Syndication Date** " means (unless otherwise agreed by the Borrower and the Original Mandated Lead Arrangers) the day specified by the Original Mandated Lead Arrangers as the day on which primary syndication of the Facilities is completed.

" **Syndication Side Letter** " means the letter agreement dated on or about the Signing Date between the Borrower and the Original Mandated Lead Arrangers in relation to the syndication of the Facilities.

" **Tax** " means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

" **Telecom XXI** " means Telecom XXI, an open joint stock company that is a wholly-owned Subsidiary of the Borrower.

" **Telecommunications Authorisation** " means any Authorisation from any governmental or other regulatory authority necessary in order for each of the Borrower and its Significant Subsidiaries to maintain, operate and conduct its business as it is being conducted in accordance with Telecommunications Laws.

" **Telecommunications Laws** " means (a) all laws and regulations which relate to telecommunications and/or the business of providing mobile telephone services and (b) all rules, guidelines, policies and regulations made thereunder, that are applicable to each of the Borrower and its Significant Subsidiaries and/or the business carried on by it.

" **Total Assets** " means the book value of the consolidated total assets of the Borrower as determined by reference to the Borrower's most recent annual consolidated balance sheet delivered in accordance with paragraph (a) of Clause 18.1 (*Financial statements*) or, prior to the first delivery, to the Original Financial Statements.

" **Total Commitments** " means the aggregate of the Total Facility 1 Commitments and the Total Facility 2 Commitments, being \$500,000,000 at the Signing Date.

" **Total Facility 1 Commitments** " means the aggregate of the Facility 1 Commitments, being \$200,000,000 at the Signing Date.

" **Total Facility 2 Commitments** " means the aggregate of the Facility 2 Commitments, being \$300,000,000 at the Signing Date.

" **Transfer Certificate** " means a certificate substantially in the form set out in Schedule 5 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrower.

" **Transfer Date** " means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the Transfer Certificate; and
- (b) the date on which the Agent executes the Transfer Certificate.

" **UMC** " means Ukrainian-German-Dutch-Danish Joint Venture "Ukrainian Mobile Communications" in Ukraine.

" **UMC Litigation** " means any of the claims, proceedings (present or future) and causes of action involving the Borrower and/or any of its Affiliates (including UMC) relating to or arising out of the sale of UMC to the Borrower or the acquisition, reorganization or ownership of UMC by the Borrower.

" **Unpaid Sum** " means any sum due and payable but unpaid by the Borrower under the Finance Documents.

" **US Dollars** ", " **Dollars** ", " **USD** " and " **\$** " denote the lawful currency of the United States of America.

" **Utilisation** " means a utilisation of a Facility.

" **Utilisation Date** " means the date of a Utilisation, being the date on which the relevant Loan is to be made.

" **Utilisation Request** " means a notice substantially in the form set out in Schedule 3 (*Utilisation Request*).

" **VAT** " means value added tax and any other tax of a similar nature.

1.2 Construction

- (a) Unless a contrary indication appears, any reference in this Agreement to:
- (i) the " **Agent** ", any " **Mandated Lead Arranger** ", any " **Finance Party** ", any " **Lender** ", the " **Borrower** " and any " **Party** " shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
 - (ii) " **assets** " includes present and future properties, revenues and rights of every description;
 - (iii) " **control** " means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of voting securities, by contract or credit arrangement, as trustee or executor, or otherwise;
 - (iv) a " **Finance Document** " or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended or novated;
 - (v) " **indebtedness** " includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (vi) a " **person** " includes any person, firm, company, corporation, government, state or agency of a state or any association, trust or partnership (whether or not having separate legal personality) or two or more of the foregoing;
 - (vii) a " **regulation** " includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (viii) a provision of law is a reference to that provision as amended or re-enacted; and
 - (ix) a time of day is a reference to London time.
- (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Default (other than an Event of Default) is " **continuing** " if it has not been remedied or waived and an Event of Default is " **continuing** " if it has not been waived.

1.3 Third Party Rights

A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

SECTION 2 THE FACILITY

2 THE FACILITIES

2.1 The Facilities

Subject to the terms of this Agreement, the Lenders make available to the Borrower:

- (a) a term loan facility in Dollars to be designated " **Facility 1** " in an aggregate amount equal to the Total Facility 1 Commitments; and
- (b) a term loan facility in Dollars to be designated " **Facility 2** " in an aggregate amount equal to the Total Facility 2 Commitments.

2.2 Finance Parties' rights and obligations

- (a) The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (b) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower shall be a separate and independent debt.
- (c) A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

3 PURPOSE

3.1 Purpose

The Borrower shall apply all amounts borrowed by it under the Facilities towards its general corporate purposes, including towards the refinancing of its existing indebtedness.

3.2 Monitoring

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4 CONDITIONS OF UTILISATION

4.1 Initial conditions precedent

The Borrower may not deliver the first Utilisation Request unless the Agent has received all of the documents and other evidence listed in Schedule 2 (*Conditions precedent*) in form and substance satisfactory to the Agent. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.

4.2 Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.4 (*Lenders' participation*) if on the date of the Utilisation Request and on the proposed Utilisation Date:

- (i) no Default is continuing or would result from the proposed Loan; and
- (ii) the Repeating Representations to be made by the Borrower are true in all material respects.

SECTION 3 UTILISATION

5 UTILISATION

5.1 Delivery of a Utilisation Request

The Borrower may utilise a Facility by delivery to the Agent of a duly completed Utilisation Request not later than 10:00 a.m. on the day falling 3 Business Days before the proposed Utilisation Date (or, in relation to the first Utilisation Request, not later than 10:00 a.m. on the day falling 2 Business Days before the proposed Utilisation Date).

5.2 Completion of a Utilisation Request

- (a) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:
 - (i) it identifies the Facility to be utilised;
 - (ii) the proposed Utilisation Date is a Business Day within the Availability Period applicable to that Facility;
 - (iii) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*); and
 - (iv) it specifies the account and bank to which the proceeds of the Utilisation are to be credited.
- (b) Only one Loan may be requested in each Utilisation Request.

5.3 Currency and amount

- (a) The currency specified in a Utilisation Request must be Dollars.
- (b) The amount of the proposed Loan must be:
 - (i) a minimum of \$50,000,000 or, if less, the Available Facility; or
 - (ii) in any event such that it is less than or equal to the Available Facility.

5.4 Lenders' participation

- (a) If the conditions set out in this Agreement have been met, each Lender shall make its participation in each Loan available by the Utilisation Date through its Facility Office.
- (b) The amount of each Lender's participation in each Loan will be equal to the proportion borne by its Available Commitment to the Available Facility immediately prior to making the Loan.
- (c) The Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan not later than 5:00 p.m. on the day falling 3 Business Days before the relevant Utilisation Date (or, in relation to the first Loan, not later than 11:00 a.m. on the day falling 2 Business Days before the first Utilisation Date).

SECTION 4 REPAYMENT, PREPAYMENT AND CANCELLATION

6 REPAYMENT

6.1 Repayment of Facility 1 Loans

- (a) The Borrower shall repay the Facility 1 Loans in five equal instalments, by paying on each Facility 1 Repayment Date an amount equal to one fifth of the amount of the Facility 1 Loans outstanding at the close of business on the last day of the Availability Period for Facility 1.
- (b) The Borrower may not reborrow any part of Facility 1 which is repaid.

6.2 Repayment of Facility 2 Loans

- (a) The Borrower shall repay the Facility 2 Loans in four equal instalments, by paying on each Facility 2 Repayment Date an amount equal to one quarter of the amount of the Facility 2 Loans outstanding at the close of business on the last day of the Availability Period for Facility 2.
- (b) The Borrower may not reborrow any part of Facility 2 which is repaid.

7 PREPAYMENT AND CANCELLATION

7.1 Illegality

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Loan:

- (a) that Lender shall promptly notify the Agent upon becoming aware of that event;
- (b) upon the Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- (c) the Borrower shall repay that Lender's participation in the Loans on the last day of the Interest Period for each Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law).

7.2 Voluntary cancellation

The Borrower may, if it gives the Agent not less than 10 Business Days' (or such shorter period as the Majority Lenders may agree) prior written notice, cancel the whole or any part (being a minimum amount of \$10,000,000) of an Available Facility. Any cancellation under this Clause 7.3 shall reduce the Commitments of the Lenders rateably under that Facility.

7.3 Voluntary prepayment of Loans

- (a) The Borrower may, if it gives the Agent not less than 10 Business Days' (or such shorter period as the Majority Lenders may agree) prior written notice, prepay the whole or any part of any Loan (but, if in part, being an amount that reduces the Loan by a minimum amount of \$10,000,000).
- (b) A Loan in respect of a Facility may only be prepaid after the last day of the Availability Period for that Facility (or, if earlier, the day on which the relevant Available Facility is zero).
- (c) Each prepayment shall be applied in satisfaction of the Borrower's obligations under Clause 6 (*Repayment*) in the inverse order of maturity of the Loans (or, at the option of the Borrower, *pro rata* to the remaining principal instalments thereof).

7.4 Mandatory Prepayment—Change of Control

- (a) In this Clause 7.4, "**Change of Control**" means any of the following events or circumstances: any person or group of persons acting in concert or under an express or implied agreement or understanding, directly or through one or more intermediaries, shall (x) acquire ultimate beneficial or legal ownership of, or control over, more than 50% of the issued shares of the Borrower; (y) acquire ownership of or control over more than 50% of the voting interests in the share capital of the Borrower; or (z) obtain the power (whether or not exercised) to elect not less than half of the directors of the Borrower; (provided, however, that any acquisition by Sistema JSFC, T-Mobile International AG or any of their respective Subsidiaries that results in the 50% threshold in paragraphs (x) and (y) above being exceeded, or in the power referred to in paragraph (z) above being obtained, will not be a Change of Control).
- (b) If there is a Change of Control:
- (i) the Borrower shall promptly notify each Lender (through the Agent) upon becoming aware of that event;
 - (ii) the Borrower may not make a Utilisation; and
 - (iii) if any Lender (in its sole discretion) so requires, it may, within 5 Business Days of its receipt of the Borrower's notification under sub-clause (i) above, direct the Agent to send a notice to the Borrower requiring the Borrower to repay that Lender's participations in the Loans (together with accrued interest) in full on the day (the "**Early Repayment Date**") falling 30 days after the date of the Borrower's notification under sub-clause (i) above. Before the Early Repayment Date, the Lender and the Borrower shall consult with each other for a period of 5 Business Days with respect to the transfer of that Lender's rights and obligations under this Agreement to another reputable international bank or financial institution nominated by the Borrower (but which is not an Affiliate of the Borrower) in accordance with Clause 22.5 (*Procedure for transfer*). If no such transfer has been effected on or before the Early Repayment Date, then (x) the Borrower shall repay that Lender's participations in the Loans (together with accrued interest) in full on the Early Repayment Date and (y) the Commitments of that Lender shall be reduced to zero on that date.

7.5 Right of repayment and cancellation in relation to a single Lender

If:

- (a) any sum payable to any Lender by the Borrower is required to be increased under paragraph (c) of Clause 12.2 (*Tax gross-up*); or
- (b) any Lender claims indemnification from the Borrower under Clause 12.3 (*Tax indemnity*) or Clause 13 (*Increased Costs*),

the Borrower may, whilst the circumstance giving rise to the requirement or indemnification continues, give the Agent notice of cancellation of the Commitments of that Lender and its intention to procure the repayment of that Lender's participation in the Loans on the last day of the Interest Period ending after the date of such notice (or, if earlier, on such other date as specified by the Borrower in that notice) (the "**Cancellation Date**"). Before the Cancellation Date, the Lender and the Borrower shall consult with each other for a period of 5 Business Days with respect to the transfer of that Lender's rights and obligations under this Agreement to another reputable international bank or financial institution nominated by the Borrower (but which is not an Affiliate of the Borrower) in accordance with Clause 22.5 (*Procedure for transfer*). If no such transfer has been effected on or before the Cancellation Date, then (x) the Borrower shall repay that Lender's participations in the Loans (together with accrued interest) in full on the Cancellation Date and (y) the Commitments of that Lender shall be reduced to zero on that date.

7.6 Restrictions

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 7 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) The Borrower may not reborrow any part of a Facility which is prepaid.
- (d) The Borrower shall not repay or prepay all or any part of the Loans or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (e) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (f) If the Agent receives a notice under this Clause 7 it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.

SECTION 5 COSTS OF UTILISATION

8 INTEREST

8.1 Calculation of interest

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:

- (a) Margin;
- (b) LIBOR; and
- (c) Mandatory Cost, if any.

8.2 Payment of interest

The Borrower shall pay accrued interest on each Loan on the last day of each Interest Period (and, if the Interest Period is longer than 6 Months, on the date falling at six monthly intervals after the first day of the Interest Period).

8.3 Default interest

- (a) If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which, subject to paragraph (b) below, is the sum of 2 per cent. and the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Agent (acting reasonably). Any interest accruing under this Clause 8.3 shall be immediately payable by the Borrower on demand by the Agent.
- (b) If any overdue amount consists of all or part of a Loan which became due on a day which was not the last day of an Interest Period relating to that Loan:
 - (i) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Loan; and

- (ii) the rate of interest applying to the overdue amount during that first Interest Period shall be the sum of 2 per cent. and the rate which would have applied if the overdue amount had not become due.
- (c) Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

8.4 Notification of rates of interest

The Agent shall promptly notify the Lenders and the Borrower of the determination of a rate of interest under this Agreement.

9 INTEREST PERIODS

9.1 Duration of Interest Periods

- (a) Save as otherwise provided herein, each Interest Period shall have a duration of 6 Months (or such other period as may be agreed between the Borrower and the Lenders) and shall commence on the day on which the preceding Interest Period expires (provided that the last Interest Period under Facility 1 shall have a duration of 6 Months plus one day and the last Interest Period under Facility 2 shall have a duration of 9 Months plus one day).
- (b) The first Interest Period for the first Loan made under a Facility shall begin on the Utilisation Date for that Loan and shall have a duration of 6 Months, and the first Interest Period for each Loan made thereafter under that Facility shall begin on the Utilisation Date for that Loan and end on the last day of the Interest Period applicable to that first Loan. At the end of the first Interest Period for each Loan under a Facility, such Loan shall be consolidated with all other Loans (if any) then outstanding under that Facility such that all Loans under that Facility shall then be treated as a single Loan.
- (c) No Interest Period shall extend beyond a Repayment Date for the relevant Facility, and if an Interest Period would otherwise overrun a Repayment Date for the relevant Facility, such Interest Period shall be shortened so that it ends on that Repayment Date.
- (d) An Interest Period for a Loan shall not extend beyond the Final Maturity Date.
- (e) Prior to the earlier of (i) the Syndication Date and (ii) 31 October 2004, each Interest Period shall have a duration of one Month (or such other duration as is necessary to ensure that such Interest Period shall end on the Syndication Date).

9.2 Non-Business Days

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

10 CHANGES TO THE CALCULATION OF INTEREST

10.1 Absence of quotations

Subject to Clause 10.2 (*Market disruption*), if LIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by 11:00 a.m. on the Quotation Day, the applicable LIBOR shall be determined on the basis of the quotations of the remaining Reference Banks.

10.2 Market disruption

- (a) If a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest on each Lender's share of that Loan for the Interest Period shall be the rate per annum which is the sum of:
- (i) the Margin;
 - (ii) the rate notified to the Agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its participation in that Loan from whatever source it may reasonably select; and
 - (iii) the Mandatory Cost, if any, applicable to that Lender's participation in the Loan.
- (b) In this Agreement " **Market Disruption Event** " means:
- (i) at or about noon on the Quotation Day for the relevant Interest Period the Screen Rate is not available and none or only one of the Reference Banks supplies a rate to the Agent to determine LIBOR for Dollars for the relevant Interest Period; or
 - (ii) before close of business in London on the Quotation Day for the relevant Interest Period, the Agent receives notifications from a Lender or Lenders (whose participations in a Loan exceed 35 per cent. of that Loan) that the cost to it of obtaining matching deposits in the London interbank market would be in excess of LIBOR.

10.3 Alternative basis of interest or funding

- (a) If a Market Disruption Event occurs and the Agent or the Borrower so requires, the Agent and the Borrower shall enter into negotiations (for a period of not more than 30 days) with a view to agreeing a substitute basis for determining the rate of interest.
- (b) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.4 Break Costs

- (a) The Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

11 FEES

11.1 Commitment fee

- (a) The Borrower shall pay to the Agent (for the account of each Lender) a commitment fee in respect of Facility 2, calculated on a daily basis, at the rate of:
- (i) from the Signing Date until (and including) 1 October 2004, 0.25 per cent. per annum of the Total Facility 2 Commitments; and
 - (ii) from (but excluding) 1 October 2004 until the last day of the Availability Period for Facility 2, 0.50 per cent. per annum of the Available Commitment for Facility 2.
- (b) The commitment fee will accrue from the Signing Date, is payable in arrears on the last day of each successive period of three Months, on the last day of the Availability Period for Facility 2

and, if cancelled in full, on the cancelled amount of the relevant Lender's Facility 2 Commitment at the time the cancellation is effective.

11.2 Arrangement fee

The Borrower shall pay to the Mandated Lead Arrangers an arrangement fee in the amount and at the times agreed in a Fee Letter.

11.3 Agency fee

The Borrower shall pay to the Agent (for its own account) an agency fee in the amount and at the times agreed in a Fee Letter.

SECTION 6 ADDITIONAL PAYMENT OBLIGATIONS

12 TAX GROSS-UP AND INDEMNITIES

12.1 Definitions

(a) In this Agreement:

" **Protected Party** " means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

" **Qualifying Lender** " means a Lender which is situated for tax purposes in the Russian Federation or in a Tax Treaty Jurisdiction.

" **Tax Credit** " means a credit against, relief or remission for, or repayment of any Tax.

" **Tax Deduction** " means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

" **Tax Payment** " means an increased payment made by the Borrower to a Finance Party under Clause 12.2 (*Tax gross-up*) or a payment under Clause 12.3 (*Tax indemnity*).

" **Tax Treaty Jurisdiction** " means a jurisdiction which has in force a double tax treaty with the Russian Federation (or with the Union of Soviet Socialist Republics to which the Russian Federation has succeeded) which provides for full exemption from Russian withholding tax on interest derived from a source within the Russian Federation payable to a resident of such jurisdiction.

(b) Unless a contrary indication appears, in this Clause 12 a reference to " **determines** " or " **determined** " means a determination made in the absolute discretion of the person making the determination.

12.2 Tax gross-up

(a) The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

(b) The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender, it shall notify the Borrower.

(c) Subject to paragraph (d) below, if a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower shall be increased to an amount which (after

making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

- (d) The Borrower is not required to make an increased payment to a Lender under paragraph (c) above if, on the date on which the payment falls due, the Borrower could have made such a payment to that Lender without a Tax Deduction if that Lender was a Qualifying Lender, but on that date that Lender is not, or has ceased to be, a Qualifying Lender (other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or treaty, or any published practice or concession of any relevant taxing authority).
- (e) If the Borrower is required to make a Tax Deduction, it shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (f) Within 30 days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower shall deliver to the Agent for the Finance Party entitled to the payment an original receipt (or certified copy thereof) demonstrating that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.3 Tax indemnity

- (a) The Borrower shall (within three Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines has been suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- (b) Paragraph (a) above shall not apply:
 - (i) with respect to any Tax assessed on a Finance Party:
 - (A) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (B) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or
 - (ii) to the extent a loss, liability or cost:
 - (A) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*); or
 - (B) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in paragraph (d) of Clause 12.2 (*Tax gross-up*) applied.
- (c) A Protected Party making, or intending to make, a claim under paragraph (a) above shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Borrower.
- (d) A Protected Party shall, on receiving a payment from the Borrower under this Clause 12.3, notify the Agent.

12.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- (a) a Tax Credit is attributable to that Tax Payment; and

- (b) that Finance Party has obtained, utilised and retained that Tax Credit, the Finance Party shall pay promptly an amount to the Borrower which that Finance Party determines will leave the Finance Party (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been made by the Borrower.

12.5 Stamp taxes

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

12.6 Value added tax

- (a) All consideration expressed to be payable under a Finance Document by any Party to a Finance Party shall be deemed to be exclusive of any VAT. If VAT is chargeable on such consideration, that Party shall pay to the Finance Party (or directly to the appropriate tax authority, if so required by law) (in addition to and at the same time as paying the consideration) an amount equal to the amount of the VAT.
- (b) Where a Finance Document requires any Party to reimburse a Finance Party for any costs or expenses, that Party shall also at the same time pay and indemnify the Finance Party against all VAT incurred by the Finance Party in respect of the costs or expenses to the extent that the Finance Party reasonably determines that neither it nor any other member of the group of which it is a member for VAT purposes is entitled to credit or repayment from the relevant tax authority in respect of the VAT.

12.7 Tax forms

- (a) At least 10 Business Days prior to the date of the first scheduled payment of interest under this Agreement, and within 20 Business Days from the beginning of each calendar year falling after the Signing Date, each Qualifying Lender shall use its reasonable efforts to provide to the Borrower a document issued by the relevant government authority in its jurisdiction of residence confirming that it is a resident of that jurisdiction.
- (b) At the request of the Borrower (acting reasonably), each Lender shall use its reasonable efforts to provide any other documentation or information to the Borrower that may be reasonably necessary for the Borrower to establish a complete exemption from Russian withholding tax in relation to payments of interest under this Agreement.

13 INCREASED COSTS

13.1 Increased costs

- (a) Subject to Clause 13.3 (*Exceptions*) the Borrower shall, within three Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation or (ii) compliance with any law or regulation made after the Signing Date.
- (b) In this Agreement " **Increased Costs** " means:
- (i) a reduction in the rate of return from the Facility or on a Finance Party's (or its Affiliate's) overall capital;
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

13.2 Increased cost claims

- (a) A Finance Party intending to make a claim pursuant to Clause 13.1 (*Increased costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.
- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

13.3 Exceptions

- (a) Clause 13.1 (*Increased costs*) does not apply to the extent any Increased Cost is:
 - (i) attributable to a Tax Deduction required by law to be made by the Borrower;
 - (ii) compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 12.3 (*Tax indemnity*) applied);
 - (iii) compensated for by the payment of the Mandatory Cost; or
 - (iv) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation.
- (b) In this Clause 13.3, a reference to a " **Tax Deduction** " has the same meaning given to the term in Clause 12.1 (*Definitions*).

14 OTHER INDEMNITIES

14.1 Currency indemnity

- (a) If any sum due from the Borrower under the Finance Documents (a " **Sum** "), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the " **First Currency** ") in which that Sum is payable into another currency (the " **Second Currency** ") for the purpose of:
 - (i) making or filing a claim or proof against the Borrower;
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

the Borrower shall as an independent obligation, within three Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

- (b) The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

14.2 Other indemnities

The Borrower shall, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by that Finance Party as a result of:

- (a) the occurrence of any Event of Default;
- (b) a failure by the Borrower to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 26 (*Sharing among the Finance Parties*);
- (c) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone); or
- (d) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

14.3 Indemnity to the Agent

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default; or
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised.

15 MITIGATION BY THE LENDERS

15.1 Mitigation

- (a) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 7.1 (*Illegality*), Clause 12 (*Tax gross-up and indemnities*) or Clause 13.1 (*Increased costs*) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Borrower under the Finance Documents.

15.2 Limitation of liability

- (a) The Borrower shall indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 15.1 (*Mitigation*).
- (b) A Finance Party is not obliged to take any steps under Clause 15.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16 COSTS AND EXPENSES

16.1 Transaction expenses

The Borrower shall promptly on demand pay the Agent and the Original Mandated Lead Arrangers the amount of all reasonable out-of-pocket costs and legal expenses incurred by any of them in connection with the negotiation, preparation and execution of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the date of this Agreement,

subject to the terms of the Syndication Side Letter.

16.2 Amendment costs

If (a) the Borrower requests an amendment, waiver or consent or (b) an amendment is required pursuant to Clause 27.9 (*Change of currency*), the Borrower shall, within three Business Days of demand, reimburse the Agent for the amount of all costs and expenses (including legal fees) reasonably incurred by the Agent in responding to, evaluating, negotiating or complying with that request or requirement.

16.3 Enforcement costs

The Borrower shall, within three Business Days of demand, pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by that Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

SECTION 7 REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

17 REPRESENTATIONS

The Borrower makes the representations and warranties set out in this Clause 17 to each Finance Party on the date of this Agreement.

17.1 Status

- (a) It is an open joint stock company, duly established, registered and validly existing under the laws of the Russian Federation.
- (b) It and each of its Significant Subsidiaries has the power to own its assets and carry on its business as it is being conducted.

17.2 Binding obligations

The obligations expressed to be assumed by it in each Finance Document are legal, valid, binding and enforceable obligations, subject to insolvency and other laws affecting creditors' rights generally and principles of equity.

17.3 Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not and will not conflict with:

- (a) any law or regulation applicable to it;
- (b) its or any of its Subsidiaries' constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its Subsidiaries or any of its or any of its Subsidiaries' assets.

17.4 Power and authority

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents and the transactions contemplated by those Finance Documents.

17.5 Validity and admissibility in evidence

All Authorisations required:

- (a) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents;

- (b) for it and its Significant Subsidiaries to carry on its and their business; and
- (c) to make the Finance Documents admissible in evidence in the general jurisdiction courts or commercial courts (*arbitrazhniye sudi*) of the Russian Federation in an original action or action to enforce a foreign arbitral award, provided that authenticated and notarised Russian texts are made available to such courts at that time and any other procedures and formalities regarding presentation of documents to a Russian court are complied with, have been obtained or effected and are in full force and effect (except, in relation to paragraph (b) above, where the failure to obtain such Authorisations (excluding any Telecommunications Authorisations) is not reasonably likely to have a Material Adverse Effect).

17.6 Governing law and enforcement

- (a) The choice of English law as the governing law of the Finance Documents will be recognised and enforced in the Russian Federation.
- (b) Any arbitration award obtained in England in relation to a Finance Document will be recognised and enforced in the Russian Federation in accordance with the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards.

17.7 No bankruptcy proceedings

Neither the Borrower nor any of its Significant Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings been started or, to the best of its knowledge and belief (after due inquiry), threatened against it or any of its Significant Subsidiaries for (a) its liquidation or bankruptcy or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of it or any of its Significant Subsidiaries; (b) the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoe ozdorovlenie*), external management (*vneshniy upravlayuschiy*) or the appointment of a bankruptcy manager (*konkursniy upravlayuschiy*) or similar officer of it or any of its Significant Subsidiaries; (c) the convening of a meeting of creditors for the purposes of considering an amicable settlement (as defined in the Russian Insolvency Law); or (d) any analogous act in respect of it or any of its Significant Subsidiaries in any jurisdiction.

17.8 Deduction of Tax

It is not required under the law of the Russian Federation to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Qualifying Lender.

17.9 No filing or stamp taxes

Under the law of the Russian Federation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in the Russian Federation or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents, except for court registration fees in connection with any enforcement proceedings in such court.

17.10 Payment of Taxes

Neither it nor any of its Significant Subsidiaries has overdue tax liabilities, other than tax liabilities (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, does not in aggregate exceed \$25,000,000 (or its equivalent in any other currency or currencies).

17.11 No default

- (a) No Default or Event of Default is continuing or might reasonably be expected to result from the making of any Utilisation.
- (b) No event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which is reasonably likely to have a Material Adverse Effect.

17.12 No misleading information

- (a) Any factual information provided by or on behalf of any member of the Group for the purposes of the Information Memorandum was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.
- (b) The financial projections contained in the Information Memorandum have been prepared on the basis of recent historical information and on the basis of reasonable assumptions.
- (c) Nothing has occurred or been omitted from the Information Memorandum and no information has been given or withheld that results in the information contained in the Information Memorandum being untrue or misleading in any material respect.

17.13 Financial statements

- (a) Its Original Financial Statements were prepared in accordance with GAAP consistently applied.
- (b) Its Original Financial Statements fairly represent its, and its consolidated, financial condition and operations as at the end of and for the relevant financial year.
- (c) There has been no material adverse change in its business or financial condition (or the business or consolidated financial condition of the Group) since the date of its Original Financial Statements.

17.14 *Pari passu* ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

17.15 No proceedings pending or threatened

Other than the UMC Litigation, no litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency (including but not limited to, investigative proceedings) have, to the best of its knowledge and belief (after due inquiry), been started or threatened against it or any of its Significant Subsidiaries which, if adversely determined would be reasonably likely to have a Material Adverse Effect.

17.16 Environmental laws and licences

Except as disclosed in writing to the Agent before the date hereof, it and each of its Subsidiaries has:

- (a) complied with all Environmental Laws to which it may be subject;
- (b) obtained all Environmental Licences required in connection with its business; and
- (c) complied with the terms of those Environmental Licences,

in each case where failure to do so would be reasonably likely to have a Material Adverse Effect.

17.17 Telecommunications laws and licences

- (a) Each of the Borrower and its Significant Subsidiaries has:
- (i) complied in all material respects with all Telecommunications Laws to which it may be subject;
 - (ii) obtained all material Telecommunications Authorisations necessary to conduct its business; and
 - (iii) complied in all material respects with the terms of those Telecommunication Authorisations,
- in each case other than where failure to do so would not reasonably be expected to have a Material Adverse Effect.
- (b) There has been no act, omission or event which might reasonably be expected to give rise to the material amendment, revocation, suspension, cancellation, withdrawal or termination of any provision of any Telecommunications Authorisation. To the best of its knowledge and belief (after due inquiry), no Telecommunications Authorisation is the subject of any pending or threatened proceedings which, if adversely determined, would reasonably be expected to have a Material Adverse Effect.

17.18 Compliance with laws

Each of the Borrower and its Significant Subsidiaries is conducting its business and operations in compliance with all laws and regulations and all directives of any government agency having legal force applicable or relevant to it, excluding any such non-compliance which would not reasonably be expected to have a Material Adverse Effect.

17.19 No Immunity

- (a) The execution by the Borrower of the Finance Documents constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial activities done and performed for private and commercial purposes (rather than public and governmental purposes).
- (b) In any proceedings taken in the Russian Federation in relation to the Finance Documents, the Borrower will not be entitled to claim for itself or any of its assets immunity from suit, execution, attachment or other legal process.

17.20 Repetition

The Repeating Representations are deemed to be made by the Borrower by reference to the facts and circumstances then existing on the date of each Utilisation Request and the first day of each Interest Period (provided that whenever the representation in paragraph (c) of Clause 17.3 is deemed to be made on a date other than the Signing Date or a Utilisation Date, the statement "except where the same would not be reasonably likely to have a Material Adverse Effect" shall qualify the representation in said paragraph (c)).

18 INFORMATION UNDERTAKINGS

The undertakings in this Clause 18 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

18.1 Financial statements

The Borrower shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as the same become available, but in any event within 180 days after the end of each of its financial years, its audited consolidated and non-consolidated financial statements for that financial year; and
- (b) as soon as the same become available, but in any event within 45 days after the end of each of its financial quarters, its unaudited consolidated and non-consolidated financial statements for that financial quarter.

18.2 Compliance Certificate

- (a) The Borrower shall supply to the Agent with each set of financial statements delivered pursuant to Clause 18.1 (*Financial statements*), a Compliance Certificate setting out (in reasonable detail) computations as to compliance with Clause 19 (*Financial Covenants*) as at the date as at which those financial statements were drawn up.
- (b) Each Compliance Certificate shall be signed by an authorised officer of the Borrower and, if required to be delivered with the financial statements delivered pursuant to paragraph (a) of Clause 18.1 (*Financial statements*), shall be reported on by the Borrower's auditors in the form set out in Schedule 6 (*Form of Compliance Certificate*).

18.3 Requirements as to financial statements

- (a) Each set of financial statements delivered by the Borrower pursuant to Clause 18.1 (*Financial statements*) shall be certified by an authorised officer of the Borrower as fairly representing its (or, as the case may be, its consolidated) financial condition and operations as at the end of and for the period in relation to which those financial statements were drawn up.
- (b) The Borrower shall procure that each set of consolidated financial statements delivered pursuant to Clause 18.1 (*Financial statements*) is prepared using GAAP accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements unless, in relation to any set of financial statements, it notifies the Agent that there has been a change in GAAP, the accounting practices or reference periods and its auditors deliver to the Agent:
 - (i) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which the Original Financial Statements were prepared; and
 - (ii) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 19 (*Financial covenants*) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and that the Original Financial Statements.
- (c) Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.
- (d) The Borrower shall procure that each set of non-consolidated financial statements delivered pursuant to Clause 18.1 (*Financial statements*) is prepared using RAS accounting practices and financial reference periods.

18.4 Information: miscellaneous

The Borrower shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) all documents dispatched by the Borrower to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which would, if adversely determined, be reasonably likely to have a Material Adverse Effect;
- (c) promptly, such information as may be reasonably requested by the Agent (including relevant figures from management accounts) to ascertain whether any Subsidiary of the Borrower falls within paragraph (e) of the definition of "Significant Subsidiary"; and
- (d) promptly, such further information regarding the financial condition, business and operations of any member of the Group as any Finance Party (through the Agent) may reasonably request.

18.5 Notification of Default

- (a) The Borrower shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly upon a request by the Agent, the Borrower shall supply to the Agent a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

18.6 Know your customer checks

- (a) If:
 - (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
 - (ii) any change in the status of the Borrower after the date of this Agreement; or
 - (iii) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Agent or any Lender (or, in the case of paragraph (iii) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

- (b) Each Lender shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself) in order for the Agent to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

19 FINANCIAL COVENANTS

The financial undertakings in this Clause 19 shall remain in force from the Signing Date for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

19.1 Financial condition

The Borrower shall ensure that:

- (a) The ratio of Borrowings as at the end of any Relevant Period to EBITDA in respect of such Relevant Period will not exceed 3:1; and
- (b) the ratio of EBITDA to Interest Expense in respect of any Relevant Period will not be less than 5:1.

19.2 Financial covenant calculations

Borrowings, EBITDA and Interest Expense shall be calculated and interpreted on a consolidated basis in accordance with the GAAP applicable to the Original Financial Statements of the Borrower and shall be expressed in Dollars.

19.3 Definitions

In this Clause 19.3:

" **Borrowings** " means, as at any particular time, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of the Financial Indebtedness of members of the Group (other than any indebtedness referred to in paragraph (g) of the definition of Financial Indebtedness and any guarantee or indemnity in respect of that indebtedness).

For this purpose, any amount outstanding or repayable in a currency other than Dollars shall on that day be taken into account in its Dollars equivalent at the rate of exchange that would have been used had an audited consolidated balance sheet of the Group been prepared as at that day in accordance with the GAAP applicable to the Original Financial Statements of the Borrower.

" **EBITDA** " means, in relation to any Relevant Period, the total consolidated operating profit of the Group for that Relevant Period:

- (a) before taking into account:
 - (i) Interest Expense;
 - (ii) Tax;
 - (iii) any share of the profit of any associated company or undertaking, except for dividends received in cash by any member of the Group; and
 - (iv) extraordinary and exceptional items; and
- (b) after adding back all amounts provided for depreciation and amortisation for that Relevant Period,

multiplied by two ,

as determined (except as needed to reflect the terms of this Clause 19) from the financial statements of the Group and Compliance Certificates delivered under Clause 18.1 (*Financial statements*) and Clause 18.2 (*Compliance Certificate*).

" **Interest Expense** " means, in relation to any Relevant Period, the aggregate amount of interest and any other finance charges (whether or not paid, payable or capitalised) accrued by the Group in that Relevant Period in respect of Borrowings including:

- (a) the interest element of leasing and hire purchase payments;
- (b) commitment fees, commissions, arrangement fees and guarantee fees; and
- (c) amounts in the nature of interest payable in respect of any shares other than equity share capital,

adjusted (but without double counting) by:

- (i) adding back the net amount payable (or deducting the net amount receivable) by members of the Group in respect of that Relevant Period under any interest or (so far as they relate to interest) currency hedging arrangements; and
- (ii) deducting interest income of the Group in respect of that Relevant Period to the extent freely payable in cash,

multiplied by two ,

as determined (except as needed to reflect the terms of this Clause 19) from the financial statements of the Group and Compliance Certificates delivered under Clause 18.1 (*Financial statements*) and Clause 18.2 (*Compliance Certificate*).

" **Relevant Period** " means each period of 6 consecutive Months ending on the last day of each financial year and financial quarter of the Borrower.

20 GENERAL UNDERTAKINGS

The undertakings in this Clause 20 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

20.1 Authorisations

The Borrower shall promptly:

- (i) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (ii) supply certified copies to the Agent of,

any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document.

20.2 Compliance with laws

The Borrower shall comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Finance Documents.

20.3 Maintenance of existence

The Borrower shall maintain its corporate existence.

20.4 Negative pledge

- (a) The Borrower shall not (and the Borrower shall ensure that no other member of the Group will) create or permit to subsist any Security over any of its assets.

- (b) The Borrower shall not (and the Borrower shall ensure that no other member of the Group will):
- (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Borrower or any other member of the Group;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

- (c) Paragraphs (a) and (b) above do not apply to Permitted Security.

20.5 Disposals

- (a) The Borrower shall not (and shall ensure that no other member of the Group will) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any asset.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal:
- (i) made in the ordinary course of trading of the disposing entity;
 - (ii) of assets in exchange for other assets comparable or superior as to type, value and quality;
 - (iii) made from one member of the Group (other than the Borrower) to another member of the Group;
 - (iv) of cash or cash equivalents for cash or cash equivalents;
 - (v) where the book value of such asset (when aggregated with the book value of each other asset disposed of under this sub-clause (v)) (in each case as calculated in accordance with GAAP) does not exceed (x) 10% of the Borrower's Total Assets in any financial year of the Borrower and (y) 25% of the Borrower's Total Assets during the period starting on the Signing Date and ending on the date that all amounts outstanding under this Agreement have been paid in full. At the request of the Agent (any such request to be made no more than once per calendar quarter, unless a Default is continuing), the Borrower shall provide a certificate to the Agent setting out in reasonable detail the book value of any assets disposed of under this sub-clause (v) (calculated in accordance with GAAP); or
 - (vi) involving the transfer of any or all of the Borrower's shares in UMC pursuant to the UMC Litigation to a person that is not a member of the Group (provided that this sub-clause (vi) shall not in any way prejudice the rights of the Finance Parties under Clause 21.18 (*UMC Litigation*)).

When calculating the Borrower's Total Assets under sub-clause (v) above, if the annual consolidated balance sheet of the Borrower for the immediately preceding financial year of the Borrower is not available, the Borrower's Total Assets shall be calculated by reference to the draft audit report then available for that financial year and any other evidence reasonably requested by, and reasonably satisfactory to, the Agent.

20.6 Merger

- (a) The Borrower shall not enter into or become subject to any consolidation or reorganisation, whether by way of merger (*sliyaniye obschestva*), company accession (*prisoedinyeniye obschestva*), company division (*razdelenie obschestva*), company separation (*vydelyeniye obschestva*), company

transformation (*preobrazovaniye obschestva*), company liquidation (*likvidatsiya obschestva*) or any other company reorganisation (*reorganizatsiya obschestva*) (as these terms are construed by applicable Russian law) or otherwise, or any analogous transaction in any jurisdiction, other than a consolidation or merger with one of its Subsidiaries where the Borrower is the surviving entity.

- (b) The Borrower shall ensure that no Significant Subsidiary will enter into or become subject to any consolidation or reorganisation, whether by way of merger (*sliyaniye obschestva*), company accession (*prisoedinyeniye obschestva*), company division (*razdeleyeniye obschestva*), company separation (*vydelyeniye obschestva*), company transformation (*preobrazovaniye obschestva*), company liquidation (*likvidatsiya obschestva*) or any other company reorganisation (*reorganizatsiya obschestva*) (as these terms are construed by applicable Russian law) or otherwise, or any analogous transaction in any jurisdiction if such reorganisation or transaction would, in the opinion of the Agent (acting reasonably), have a Material Adverse Effect.

20.7 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower or the Group from that carried on at the Signing Date.

20.8 Conduct of business

The Borrower shall, and shall procure that each of its Significant Subsidiaries will, conduct its business in all material respects in accordance with:

- (a) all Telecommunications Laws to which it is or may become subject;
- (b) all requirements of the telecommunications regulators of the Russian Federation, Ukraine and any other jurisdiction where it conducts its business; and
- (c) the terms of all relevant Telecommunications Authorisations.

20.9 Asset maintenance

The Borrower shall, and shall procure that each of its Significant Subsidiaries will, have and maintain good and marketable title to or valid leases or licences of, or rights of use relating to, all assets necessary to maintain, develop and operate and otherwise conduct its business as then being conducted by it and in each case where failure to do so might reasonably be expected to have a Material Adverse Effect.

20.10 Insurance

The Borrower shall (and shall ensure that each other member of the Group will) maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies against those risks, and to the extent, usually insured against by prudent companies located in the same or a similar location and carrying on a similar business.

20.11 Transactions with Related Parties

- (a) The Borrower shall not (and the Borrower shall ensure that no other member of the Group will), directly or indirectly, enter into or permit to exist any intercompany loan with, or for the benefit of, any Related Party, unless:
- (i) the terms of such intercompany loan are no less favourable to such member of the Group than those that could be obtained in a comparable arm's-length transaction or series of related transactions with a person that is not a Related Party; or
 - (ii) such intercompany loan is made pursuant to a contract or contracts existing on the Signing Date (excluding any amendments or modifications thereto after the Signing Date),

provided that the aggregate outstanding amount of all such intercompany loans described in sub-clauses (i) and (ii) above does not, at any time, exceed \$100,000,000.

- (b) Paragraph (a) above does not apply to:
- (i) compensation or employee benefit arrangements with any officer or director of any member of the Group arising out of any employment contract entered into in the ordinary course of business; or
 - (ii) transactions between members of the Group.
- (c) For the purposes of this Clause 20.11 only, a " **Related Party** " means, with respect to any specified person:
- (i) any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person; or
 - (ii) any other person who is a director or executive officer of (a) such specified person or (b) any person described in (i) above.

For purposes of the definition of " **Related Party** " only, " **control** " (including, with correlative meanings, the terms " **controlling** ", " **controlled by** " and " **under common control with** "), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10 per cent. or more of any class, or any series of any class, of equity securities of a person, whether or not voting, shall be deemed to be control.

20.12 Restriction on acquisitions

The Borrower shall not establish or acquire any Subsidiary or invest in any other entity without the consent of the Majority Lenders (such consent not to be unreasonably withheld), provided that this Clause 20.12 shall not apply to any such acquisition or investment where:

- (a) such acquisition or investment relates to a Subsidiary or entity whose principal business is telecommunications or the provision of data services or related or ancillary businesses; and
- (b) the consideration paid by the Borrower in relation to such acquisition or investment, when aggregated with the consideration paid by the Borrower in relation to each other acquisition or investment permitted under this paragraph (b), does not exceed (i) 20 per cent. of the Borrower's Total Assets in the financial year of the Borrower ending 31 December 2004; and (ii) 15 per cent. (or such higher amount not exceeding 20 per cent. as the Majority Lenders may agree (acting reasonably)) of the Borrower's Total Assets in any other financial year of the Borrower.

20.13 Prompt payment of Taxes

The Borrower shall (and shall ensure that each Significant Subsidiary will) duly pay all Taxes payable by it, other than (a) those taxes which are being contested in good faith and by appropriate proceedings and in respect of which adequate reserves or other appropriate provisions have been made; or (b) whose amount does not exceed \$25,000,000 (or its equivalent in any other currencies).

20.14 *Pari passu*

The Borrower shall, and shall procure that each member of the Group will, procure that its obligations under the Finance Documents rank at least *pari passu* with all its other unsecured, unsubordinated obligations save where such other obligations are mandatorily preferred by law.

20.15 Loans and guarantees

- (a) The Borrower shall not (and the Borrower shall ensure that no member of the Group will):
- (i) make any loan, or provide any form of credit or financial accommodation, to any person (including, without limitation, its employees, shareholders, another member of the Group and any Affiliate); or
 - (ii) give or issue any guarantee, indemnity, bond or letter of credit to or for the benefit of, or in respect of liabilities or obligations of, any other person or voluntarily assume any liability (whether actual or contingent) of any other person (including, in each case and without limitation, its employees, shareholders, another member of the Group and any Affiliate).
- (b) The restrictions in paragraph (a) above do not apply to (i) loans, credits, financial accommodation, guarantees, indemnities, bonds and letters of credit expressly permitted by the Finance Documents or for normal trade credit on arm's length terms and in the ordinary course of business or granted by a member of the Group to another member of the Group, provided that the aggregate amount of such loans, credits, financial accommodation, guarantees, indemnities, bonds and letters of credit does not at any time exceed 10 per cent. of the Borrower's Total Assets; (ii) guarantees by the Borrower in relation to the obligations of any other member of the Group; or (iii) the arrangements permitted under Clause 20.11 (*Transactions with Related Parties*).

21 EVENTS OF DEFAULT

Each of the events or circumstances set out in Clause 21 is an Event of Default.

21.1 Non-payment

The Borrower does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by administrative or technical error; and
- (b) payment is made within three Business Days of its due date.

21.2 Financial covenants

Any requirement of Clause 19 (*Financial Covenants*) is not satisfied.

21.3 Other obligations

- (a) The Borrower does not comply with any provision of the Finance Documents (other than those referred to in Clause 21.1 (*Non-payment*) and Clause 21.2 (*Financial Covenants*)).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within 10 Business Days of the Agent giving notice to the Borrower or the Borrower becoming aware of the failure to comply.

21.4 Misrepresentation

Any representation or statement made or deemed to be made by the Borrower in the Finance Documents or any other document delivered by or on behalf of the Borrower under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made, and such representation or statement shall not have been rendered correct and not misleading within 10 Business Days of the Agent giving notice to the Borrower or the Borrower becoming aware of the same.

21.5 Cross default

- (a) Any single item of Financial Indebtedness of any member of the Group in an amount exceeding \$10,000,000 (or its equivalent in any other currency or currencies) is not paid when due nor within any originally applicable grace period.
- (b) Any single item of Financial Indebtedness of any member of the Group in an amount exceeding \$10,000,000 (or its equivalent in any other currency or currencies) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (c) Any single commitment for any Financial Indebtedness of any member of the Group in an amount exceeding \$10,000,000 (or its equivalent in any other currency or currencies) is cancelled or suspended by a creditor of any member of the Group as a result of an event of default (however described).
- (d) Any creditor of any member of the Group becomes entitled to declare any single item of Financial Indebtedness of any member of the Group in an amount exceeding \$10,000,000 (or its equivalent in any other currency or currencies) due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) Any of the events described in paragraphs (a) to (d) above occurs in relation to any Financial Indebtedness or commitment for Financial Indebtedness of any amount (including, for the avoidance of doubt, any amount that is less than \$10,000,000 (or its equivalent in any other currency or currencies)), and the aggregate amount of all such Financial Indebtedness and commitments for Financial Indebtedness is in excess of \$35,000,000 (or its equivalent in any other currency or currencies).

21.6 Insolvency

- (a) The Borrower or a Significant Subsidiary is unable or admits its inability to pay its debts as they fall due, suspends making payments on its debts generally or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling its indebtedness generally.
- (b) The value of the assets of the Borrower or a Significant Subsidiary is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of the indebtedness of the Borrower or a Significant Subsidiary.

21.7 Insolvency proceedings

Any corporate action or legal proceedings are taken in relation to:

- (a) the bankruptcy, winding-up, insolvency, dissolution, administration, reorganisation or liquidation of the Borrower or a Significant Subsidiary, including, but not limited to, institution of supervision (*nablyudenie*), financial rehabilitation (*finansovoe ozdorovlenie*), external management (*vneshneye upravlenie*) or bankruptcy management (*konkursnoye upravlenie*) (and such legal proceedings continue for at least 14 days);
- (b) the suspension of payments or a moratorium of any indebtedness of the Borrower or a Significant Subsidiary (and such suspension continues for at least 14 days);
- (c) the presentation or filing of a petition (or similar document) in respect of the Borrower or a Significant Subsidiary in any court, state arbitration court (*arbitrazhnyi sud*) or before any other authority in respect of the bankruptcy, winding-up, insolvency, dissolution,

administration, reorganisation or liquidation of the Borrower or a Significant Subsidiary (and such petition has not been discharged within 14 days);

- (d) the appointment of a liquidator (*likvidator*) or a liquidation commission (*likvidatsionnaya komissiya*), temporary manager (*vremenniy upravlaushiy*), administrative manager (*administrativniy upravlaushiy*), external manager (*vneshniy upravlaushiy*), bankruptcy manager (*konkursniy upravlaushiy*), receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of the Borrower or a Significant Subsidiary or any of its assets (and such appointment continues for at least 14 days); or
- (e) the enforcement of any Security over any asset or assets of the Borrower or a Significant Subsidiary (unless such enforcement is stayed within 14 days),

or any analogous procedure or step is taken in any jurisdiction.

21.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of the Borrower or a Significant Subsidiary with a value in excess of \$10,000,000 (or its equivalent in any other currency or currencies) and is not discharged or stayed within 30 days.

21.9 Judgment

The rendering against the Borrower or any Subsidiary of the Borrower of a judgment, decree or order for the payment of money in an amount in excess of \$10,000,000 (or its equivalent in any other currency or currencies) and the continuance of any such judgment, decree or order unsatisfied and in effect for any period of 60 consecutive days without a stay of execution.

21.10 Loss of Licence

- (a) Any action results in the suspension for more than 30 days or the loss, revocation or termination of any of:

- (i) the Borrower's GSM 900 or 1800 licences for the Moscow licence area;
- (ii) Telecom XXI's GSM 900 or 1800 licences for the St. Petersburg licence area;
- (iii) Kuban GSM's GSM 900 or 1800 licences for the Krasnodar licence area; or
- (iv) UMC's GSM 900 or 1800 licences for the Ukraine licence area,

except where, within 30 days of any such event, the relevant licence is re-issued on substantially the same terms to any member of the Group and during the period falling before such re-issuance there is no material interruption to, or other material adverse effect on, the operations permitted by such licence as a direct result of such prior loss, revocation or termination.

- (b) Any of the Borrower's, Telecom XXI's, Kuban GSM's or UMC's GSM 900 or 1800 licences are amended (or any conditions are imposed with respect to any such licence) in a manner that, in the reasonable opinion of the Majority Lenders, has or is reasonably likely to have a Material Adverse Effect.
- (c) Any of the Borrower's, Telecom XXI's, Kuban GSM's or UMC's assigned spectrum allocations are reassigned to other users (other than a Significant Subsidiary of the Borrower), cancelled or otherwise lost, and such event, in the reasonable opinion of the Majority Lenders, has or is reasonably likely to have a Material Adverse Effect.
- (d) The Borrower sells, leases or otherwise transfers any of its GSM 900 or 1800 licences for the Moscow licence area.

- (e) Any of the Borrower's GSM 900 or 1800 licences (other than its GSM 900 and 1800 licences for the Moscow licence area) is sold, leased or transferred to any person that is not (directly or indirectly) a wholly-owned Subsidiary of the Borrower.
- (f)
 - (i) Any of the GSM 900 or 1800 licences of Telecom XXI, Kuban GSM or UMC is sold, leased or transferred to any person that is not (directly or indirectly) a wholly-owned Subsidiary of the Borrower.
 - (ii) Sub-clause (i) above does not apply to the transfer of the GSM 900 or 1800 licences of UMC pursuant to the UMC Litigation (provided that this sub-clause (ii) shall not in any way prejudice the rights of the Finance Parties under Clause 21.18 (*UMC Litigation*)).

21.11 Cessation of Business

The Borrower or any Significant Subsidiary suspends, ceases or threatens to suspend or cease to carry on all or a substantial part of its business.

21.12 Expropriation

- (a) By or under the authority of any government:
 - (i) any seizure, compulsory acquisition, expropriation, nationalisation or renationalisation is made after the Signing Date of all or any material part of the assets or shares of (or other ownership interest in) any member of the Group;
 - (ii) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or
 - (iii) any member of the Group is otherwise deprived of, or prevented from exercising ownership or control of, its material business or assets.
- (b) Paragraph (a) above does not apply to the transfer of any or all of the Borrower's shares in UMC pursuant to the UMC Litigation to a person that is not a member of the Group (provided that this paragraph (b) shall not in any way prejudice the rights of the Finance Parties under Clause 21.18 (*UMC Litigation*)).

21.13 Russian Foreign Exchange Restrictions

Any foreign exchange law is enacted or introduced in the Russian Federation which has the effect of prohibiting, restricting or delaying any payment by the Borrower or any member of the Group under the Finance Documents.

21.14 Moratorium

Any moratorium is declared on the payment of any external indebtedness of the Russian Federation or of Russian residents generally.

21.15 The Russian Federation

The political or economic situation in the Russian Federation deteriorates or an act of war or hostilities, invasion, armed conflict or act of a foreign enemy, revolution, insurrection or insurgency occurs in, or involves, the Russian Federation and such event, in the reasonable opinion of the Majority Lenders, has or is reasonably likely to have a Material Adverse Effect.

21.16 Unlawfulness

It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents.

21.17 Repudiation

The Borrower repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

21.18 UMC Litigation

The UMC Litigation is adversely determined and, in the reasonable opinion of the Majority Lenders, such adverse determination has or is reasonably likely to have a Material Adverse Effect.

21.19 Material adverse change

The Majority Lenders determine that a Material Adverse Effect exists, has occurred or is reasonably likely to occur.

21.20 Acceleration

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (a) cancel the Total Commitments whereupon they shall immediately be cancelled;
- (b) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and
- (c) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

SECTION 8 CHANGES TO PARTIES

22 CHANGES TO THE LENDERS

22.1 Assignments and transfers by the Lenders

- (a) Subject to this Clause 22, a Lender (the "**Existing Lender**") may:
 - (i) assign any of its rights; or
 - (ii) transfer by novation any of its rights and obligations,

to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the " **New Lender** ").

- (b) Unless (i) the assignment or transfer is to an Affiliate of the Existing Lender or to another Lender or (ii) an Event of Default has occurred, any assignment or transfer occurring after the Syndication Date shall require the consent of the Borrower, provided that (1) such consent shall not be unreasonably withheld or delayed; and (2) unless the Borrower has notified the Agent to the contrary within 5 Business Days of receiving notice of the intended assignment or transfer, the Borrower will be deemed to have given its consent to that assignment or transfer.

22.2 Conditions of assignment or transfer

- (a) An assignment will only be effective on:
- (i) receipt by the Agent of written confirmation from the New Lender (in form and substance satisfactory to the Agent) that the New Lender will assume the same obligations to the other Finance Parties as it would have been under if it was an Original Lender; and
 - (ii) performance by the Agent of all "know your customer" or other checks relating to any person that it is required to carry out in relation to such assignment to a New Lender, the completion of which the Agent shall promptly notify to the Existing Lender and the New Lender.
- (b) A transfer will only be effective if the procedure set out in Clause 22.5 (*Procedure for transfer*) is complied with.
- (c) Any assignment or transfer by an Existing Lender to a New Lender shall only be effective if it transfers or assigns the Existing Lender's share of each Facility pro rata.
- (d) If:
- (i) a Lender assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (ii) as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13.1 (*Increased Costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

22.3 Assignment or transfer fee

The New Lender shall, on the date upon which an assignment or transfer takes effect, pay to the Agent (for its own account) a fee of \$1,000.

22.4 Limitation of responsibility of Existing Lenders

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
- (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of the Borrower;
 - (iii) the performance and observance by the Borrower of its obligations under the Finance Documents or any other documents; or

(iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,

and any representations or warranties implied by law are excluded.

(b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

(i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of the Borrower and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and

(ii) will continue to make its own independent appraisal of the creditworthiness of the Borrower and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.

(c) Nothing in any Finance Document obliges an Existing Lender to:

(i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause 22; or

(ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under the Finance Documents or otherwise.

22.5 Procedure for transfer

(a) Subject to the conditions set out in Clause 22.2 (*Conditions of assignment or transfer*) a transfer is effected in accordance with paragraph (c) below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.

(b) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.

(c) On the Transfer Date:

(i) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents the Borrower and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the " **Discharged Rights and Obligations** ");

(ii) the Borrower and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and the New Lender have assumed and/or acquired the same in place of the Borrower and the Existing Lender;

(iii) the Agent, the Mandated Lead Arrangers, the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent,

the Mandated Lead Arrangers and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and

(iv) the New Lender shall become a Party as a "Lender".

22.6 Disclosure of information

Any Lender may disclose to any of its Affiliates and any other person:

- (a) to (or through) whom that Lender assigns or transfers (or may potentially assign or transfer) all or any of its rights and obligations under this Agreement;
- (b) with (or through) whom that Lender enters into (or may potentially enter into) any sub-participation in relation to, or any other transaction under which payments are to be made by reference to, this Agreement or the Borrower; or
- (c) to whom, and to the extent that, information is required to be disclosed by any applicable law or regulation,

any information about the Borrower, the Group and the Finance Documents as that Lender shall consider appropriate if, in relation to paragraphs (a) and (b) above, the person to whom the information is to be given has entered into a Confidentiality Undertaking. This Clause supersedes any previous agreement relating to the confidentiality of this information.

23 CHANGES TO THE BORROWER

The Borrower may not assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

SECTION 9 THE FINANCE PARTIES

24 ROLE OF THE AGENT AND THE MANDATED LEAD ARRANGERS

24.1 Appointment of the Agent

- (a) Each other Finance Party appoints the Agent to act as its agent under and in connection with the Finance Documents.
- (b) Each other Finance Party authorises the Agent to exercise the rights, powers, authorities and discretions specifically given to it under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

24.2 Duties of the Agent

- (a) The Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (b) Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (c) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the Finance Parties.
- (d) If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent or the Mandated Lead Arrangers) under this Agreement it shall promptly notify the other Finance Parties.

- (e) The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.

24.3 Role of the Mandated Lead Arrangers

Except as specifically provided in the Finance Documents, the Mandated Lead Arrangers have no obligations of any kind to any other Party under or in connection with any Finance Document.

24.4 No fiduciary duties

- (a) Nothing in this Agreement constitutes the Agent or the Mandated Lead Arrangers as a trustee or fiduciary of any other person.
- (b) Neither the Agent nor any Mandated Lead Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

24.5 Business with the Group

The Agent and the Mandated Lead Arrangers may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

24.6 Rights and discretions of the Agent

- (a) The Agent may rely on:
- (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (b) The Agent may assume, unless it has received notice to the contrary in its capacity as agent for the Lenders, that:
- (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 21.1 (*Non-payment*)); and
 - (ii) any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised.
- (c) The Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (d) The Agent may act in relation to the Finance Documents through its personnel and agents.
- (e) The Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- (f) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor any Mandated Lead Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.

24.7 Majority Lenders' instructions

- (a) Unless a contrary indication appears in a Finance Document, the Agent shall (i) exercise any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Majority Lenders, refrain from exercising any right, power, authority or discretion vested in it as Agent) and (ii) not be liable for any act (or

omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Majority Lenders.

- (b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Finance Parties.
- (c) The Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (d) In the absence of instructions from the Majority Lenders (or, if appropriate, the Lenders), the Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders.
- (e) The Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

24.8 Responsibility for documentation

Neither the Agent nor any Mandated Lead Arranger:

- (a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Agent, the Mandated Lead Arrangers, the Borrower or any other person given in or in connection with any Finance Document or the Information Memorandum; or
- (b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document.

24.9 Exclusion of liability

- (a) Without limiting paragraph (b) below, the Agent will not be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- (b) No Party (other than the Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent may rely on this Clause.
- (c) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by it if it has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by it for that purpose.
- (d) Nothing in this Agreement shall oblige the Agent or the Mandated Lead Arrangers to carry out any "know your customer" or other checks in relation to any person on behalf of any Lender and each Lender confirms to the Agent and the Mandated Lead Arrangers that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or the Mandated Lead Arrangers.

24.10 Lenders' indemnity to the Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Agent (otherwise than by reason of the Agent's gross negligence or

wilful misconduct) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by the Borrower pursuant to a Finance Document).

24.11 Resignation of the Agent

- (a) The Agent may resign and appoint one of its Affiliates acting through an office in the United Kingdom as successor by giving notice to the other Finance Parties and the Borrower.
- (b) Alternatively the Agent may resign by giving notice to the other Finance Parties and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.
- (c) If the Majority Lenders have not appointed a successor Agent in accordance with paragraph (b) above within 30 days after notice of resignation was given, the Agent (after consultation with the Borrower) may appoint a successor Agent (acting through an office in the United Kingdom).
- (d) The retiring Agent shall, at its own cost, make available to its successor such documents and records and provide such assistance as its successor may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- (e) The Agent's resignation notice shall only take effect upon the appointment of a successor.
- (f) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 24. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (g) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with paragraph (b) above. In this event, the Agent shall resign in accordance with paragraph (b) above.

24.12 Confidentiality

- (a) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

24.13 Relationship with the Lenders

- (a) The Agent may treat each Lender as a Lender, entitled to payments under this Agreement and acting through its Facility Office unless it has received not less than five Business Days prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- (b) Each Lender shall supply the Agent with any information required by the Agent in order to calculate the Mandatory Cost in accordance with Schedule 4 (*Mandatory Cost formula*).

24.14 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Mandated Lead Arrangers that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each member of the Group;

- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy and/or completeness of the Information Memorandum and any other information provided by the Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

24.15 Reference Banks

If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Agent shall (in consultation with the Borrower) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

24.16 Deduction from amounts payable by the Agent

If any Party owes an amount to the Agent under the Finance Documents the Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

25 CONDUCT OF BUSINESS BY THE FINANCE PARTIES

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

26 SHARING AMONG THE FINANCE PARTIES

26.1 Payments to Finance Parties

If a Finance Party (a " **Recovering Finance Party** ") receives or recovers any amount from the Borrower other than in accordance with Clause 27 (*Payment Mechanics*) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Finance Party shall, within three Business Days, notify details of the receipt or recovery to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 27 (*Payment Mechanics*),

without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and

- (c) the Recovering Finance Party shall, within three Business Days of demand by the Agent, pay to the Agent an amount (the "**Sharing Payment**") equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 27.5 (*Partial payments*).

26.2 Redistribution of payments

The Agent shall treat the Sharing Payment as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) in accordance with Clause 27.5 (*Partial payments*).

26.3 Recovering Finance Party's rights

- (a) On a distribution by the Agent under Clause 26.2 (*Redistribution of payments*), the Recovering Finance Party will be subrogated to the rights of the Finance Parties which have shared in the redistribution.
- (b) If and to the extent that the Recovering Finance Party is not able to rely on its rights under paragraph (a) above, the Borrower shall be liable to the Recovering Finance Party for a debt equal to the Sharing Payment which is immediately due and payable.

26.4 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (a) each Finance Party which has received a share of the relevant Sharing Payment pursuant to Clause 26.2 (*Redistribution of payments*) shall, upon request of the Agent, pay to the Agent for account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay); and
- (b) that Recovering Finance Party's rights of subrogation in respect of any reimbursement shall be cancelled and the Borrower will be liable to the reimbursing Finance Party for the amount so reimbursed.

26.5 Exceptions

- (a) This Clause 26 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Borrower.
- (b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
 - (i) it notified that other Finance Party of the legal or arbitration proceedings; and
 - (ii) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

SECTION 10 ADMINISTRATION

27 PAYMENT MECHANICS

27.1 Payments to the Agent

- (a) On each date on which the Borrower or a Lender is required to make a payment under a Finance Document, the Borrower or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account in the principal financial centre of the country of that currency (or, in relation to euro, in the principal financial centre in a Participating Member State or London) with such bank as the Agent specifies.

27.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 27.3 (*Distributions to the Borrower*) and Clause 27.4 (*Clawback*), be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account as that Party may notify to the Agent by not less than five Business Days' notice with a bank in the principal financial centre of the country of that currency.

27.3 Distributions to the Borrower

The Agent may (with the Borrower's consent or in accordance with Clause 28 (*Set-off*)) apply any amount received by it for the Borrower in or towards payment (on the date and in the currency and funds of receipt) of any amount due from the Borrower under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

27.4 Clawback

- (a) Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (b) If the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.

27.5 Partial payments

- (a) If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Agent shall apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:
 - (i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent or the Mandated Lead Arrangers under the Finance Documents;
 - (ii) secondly, in or towards payment pro rata of any accrued interest, fee or commission due but unpaid under this Agreement;

- (iii) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
 - (iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Agent shall, if so directed by the Majority Lenders, vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by the Borrower.

27.6 No set-off by the Borrower

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

27.7 Business Days

- (a) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

27.8 Currency of account

- (a) Subject to paragraphs (b) to (e) below, Dollars is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- (b) A repayment of a Loan or Unpaid Sum or a part of a Loan or Unpaid Sum shall be made in the currency in which that Loan or Unpaid Sum is denominated on its due date.
- (c) Each payment of interest shall be made in the currency in which the sum in respect of which the interest is payable was denominated when that interest accrued.
- (d) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (e) Any amount expressed to be payable in a currency other than Dollars shall be paid in that other currency.

27.9 Change of currency

- (a) Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
 - (i) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Agent (after consultation with the Borrower); and
 - (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Agent (acting reasonably).
- (b) If a change in any currency of a country occurs, this Agreement will, to the extent the Agent (acting reasonably and after consultation with the Borrower) specifies to be necessary, be amended to comply with any generally accepted conventions and market practice in the London interbank market and otherwise to reflect the change in currency.

28 SET-OFF

A Finance Party may set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

29 NOTICES

29.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

29.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of the Borrower, that identified with its name below;
- (b) in the case of each Lender, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and
- (c) in the case of the Agent, that identified with its name below,

or any substitute address, fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five Business Days' notice.

29.3 Delivery

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
 - (i) if by way of fax, when received in legible form; or
 - (ii) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address,

and, if a particular department or officer is specified as part of its address details provided under Clause 29.2 (*Addresses*), if addressed to that department or officer.

- (b) Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with its signature below (or any substitute department or officer as it shall specify for this purpose).
- (c) All notices from or to the Borrower shall be sent through the Agent.

29.4 Notification of address and fax number

Promptly upon receipt of notification of an address and fax number or change of address or fax number pursuant to Clause 29.2 (*Addresses*) or changing its own address or fax number, the Agent shall notify the other Parties.

29.5 Electronic communication

- (a) Any communication to be made between the Agent and a Lender under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Agent and the relevant Lender:
 - (i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
 - (ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
 - (iii) notify each other of any change to their address or any other such information supplied by them.
- (b) Any electronic communication made between the Agent and a Lender will be effective only when actually received in readable form and in the case of any electronic communication made by a Lender to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.

29.6 English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

30 CALCULATIONS AND CERTIFICATES

30.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are prima facie evidence of the matters to which they relate.

30.2 Certificates and Determinations

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

30.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where the practice in the London interbank market differs, in accordance with that market practice.

31 PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

32 REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

33 AMENDMENTS AND WAIVERS

33.1 Required consents

- (a) Subject to Clause 33.2 (*Exceptions*) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Borrower and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

33.2 Exceptions

- (a) An amendment or waiver that has the effect of changing or which relates to:
 - (i) the definition of " **Majority Lenders** " in Clause 1.1 (*Definitions*);
 - (ii) an extension to the date of payment of any amount under the Finance Documents;
 - (iii) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
 - (iv) an increase in or an extension of any Commitment;
 - (v) a change to the Borrower;
 - (vi) any provision which expressly requires the consent of all the Lenders; or
 - (vii) Clause 2.2 (*Finance Parties' rights and obligations*), Clause 22 (*Changes to the Lenders*), Clause 26 (*Sharing among the Finance Parties*) or this Clause 33,shall not be made without the prior consent of all the Lenders.
- (b) An amendment or waiver which relates to the rights or obligations of the Agent or the Mandated Lead Arrangers may not be effected without the consent of the Agent or the Mandated Lead Arrangers.

34 COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

SECTION 11 GOVERNING LAW AND ENFORCEMENT

35 GOVERNING LAW

This Agreement is governed by English law.

36 ARBITRATION

36.1 Arbitration

Subject to Clause 36.4 (*Agent's option*), any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a " **Dispute** ") shall be referred to and finally resolved by arbitration under the Arbitration Rules (the " **Rules** ") of the London Court of International Arbitration (the " **LCIA Court** ").

36.2 Procedure for arbitration

- (a) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman (who shall be a lawyer currently qualified in England and Wales and be admitted to the Bar of England and Wales), shall be appointed by the LCIA Court within 15 days of the appointment of the second arbitrator.
- (b) In the event the claimant(s) or the respondent(s) shall fail to nominate an arbitrator within the time limits specified in the Rules, such arbitrator shall be appointed by the LCIA Court within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be appointed by the LCIA Court within 15 days of such failure who shall designate one of them as chairman.
- (c) If all the parties to an arbitration so agree, there shall be a sole arbitrator appointed by the LCIA Court within 15 days of such agreement.
- (d) The seat of arbitration shall be London, England and the language of the arbitration shall be English.

36.3 Recourse to courts

Save as provided in Clause 36.4 (*Agent's option*), the parties exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

36.4 Agent's option

Before an arbitrator has been appointed by a Finance Party to determine a Dispute, the Agent may (and, if so instructed by the Majority Lenders, shall) by notice in writing to the Borrower require that all Disputes or a specific Dispute be heard by a court of law. If the Agent gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 37 (*Jurisdiction*).

37 JURISDICTION

37.1 Jurisdiction of English courts

- (a) The courts of England have exclusive jurisdiction to settle all Disputes.
- (b) The Parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 37.1 is for the benefit of the Finance Parties only. As a result, no Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

37.2 Service of process

Without prejudice to any other mode of service allowed under any relevant law, the Borrower:

- (a) irrevocably appoints Law Debenture Corporation, located at the date hereof at 5th Floor, 100 Wood Street, London EC2V 7EX, England, as its agent for service of process in relation to any proceedings commenced in accordance with this Agreement; and
- (b) agrees that failure by a process agent to notify the Borrower of the process will not invalidate the proceedings concerned.

37.3 Waiver of immunity

The Borrower irrevocably agrees that, should any party take any proceedings anywhere (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on behalf of it or with respect to its assets, any such immunity being irrevocably waived. The Borrower irrevocably agrees that it and its assets are, and shall be, subject to such proceedings, attachment or execution in respect of its obligations under the Finance Documents.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1
The Original Lenders

Name of Original Lender	Facility 1	Facility 2
	Commitment	Commitment
	(US\$)	(US\$)
ABN AMRO Bank N.V.	\$ 35,000,000	\$ 52,500,000
Bank Austria Creditanstalt AG	\$ 30,000,000	\$ 45,000,000
Commerzbank (Eurasija) SAO	\$ 30,000,000	\$ 45,000,000
HSBC Bank plc	\$ 35,000,000	\$ 52,500,000
ING Bank N.V.	\$ 35,000,000	\$ 52,500,000
Raiffeisen Zentralbank Oesterreich AG	\$ 19,000,000	\$ 28,500,000
ZAO Raiffeisenbank Austria	\$ 16,000,000	\$ 24,000,000
TOTAL:	\$ 200,000,000	\$ 300,000,000

SCHEDULE 2

Conditions precedent

1 Finance Documents

Executed originals of:

- (a) this Agreement;
- (b) each Fee Letter;
- (c) the Mandate Letter; and
- (d) the Syndication Side Letter.

2 The Borrower

- (a) Certified copies of the Borrower's duly registered constitutional documents and certificates of registration.
- (b) Certified copies of all corporate resolutions necessary to authorise the Borrower to execute and perform the Finance Documents and any documents referred to therein and the transactions contemplated thereunder (including but not limited to any major transaction approvals or interested party transaction approvals, if applicable).
- (c) Evidence of the authority of the relevant signatories of the Borrower (including, but not limited to, its Chief Accountant) to execute each Finance Document to which it is a party and any documents referred to therein and the transactions contemplated thereunder.
- (d) A certified copy of the most recent balance sheet of the Borrower by reference to the date of each Finance Document.
- (e) A certificate executed on behalf of the Borrower:
 - (i) certifying the sample signature and office of each person that signed the relevant Finance Document and any documents referred to therein and the transactions contemplated thereunder on behalf of the Borrower and certifying that such signatories hold the positions in which capacity they executed such documents; and
 - (ii) certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

3 Legal opinions

- (a) A legal opinion of Linklaters as to matters of English law.
- (b) A legal opinion of Linklaters CIS as to matters of Russian law.
- (c) An in-house legal opinion of the Borrower.

4 Other documents and evidence

- (a) Evidence that the process agent referred to in Clause 37.2 (*Service of process*) has accepted its appointment.
- (b) A copy of any other Authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.

- (c) The Original Financial Statements.
- (d) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 11 (*Fees*) and 16 (*Costs and expenses*) have been paid or will be paid by the first Utilisation Date.
- (e) A copy of the *deal passport* of the Borrower (in the form established by Instruction No. 117-I of the Central Bank of the Russian Federation dated 15 June 2004) accepted and duly certified by a Russian authorised bank and copies of all other documents submitted by the Borrower to the Russian authorised bank in accordance with applicable Russian currency control regulations, as the Agent may reasonably require (or evidence that all documents required to obtain such *deal passport* have been duly submitted to ING Bank (Eurasia) ZAO by or on behalf of the Borrower).
- (f) Such other documents or evidence which the Agent may reasonably require.

**SCHEDULE 3
Utilisation Request**

From: Mobile TeleSystems Open Joint Stock Company

To: ING Bank N.V., London Branch as Agent

Dated:

Dear Sirs

**Mobile TeleSystems Open Joint Stock Company—US\$500,000,000 Facility Agreement
dated [_____] (the "Agreement")**

- 1 We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
- 2 We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [_____] or, if that is not a Business Day,
the next Business Day)

Facility to be utilised [Facility 1]/[Facility 2]¹

Amount: [_____] or, if less, the Available Facility
- 3 We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Utilisation Request.
- 4 The proceeds of this Loan should be credited to [specify R-1-type special bank account of the Borrower, which must be an account with an authorised bank of the Russian Federation].
- 5 This Utilisation Request is irrevocable.

Mobile TeleSystems Open Joint Stock Company

By: _____

By: _____

Name:

Name:

Title:

Title: Chief Accountant

(1) Delete as appropriate

SCHEDULE 4 Mandatory Cost formula

- 1 The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
- 2 On the first day of each Interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the " **Additional Cost Rate** ") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
- 3 The Additional Cost Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Agent. This percentage will be certified by that Lender in its notice to the Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that Facility Office.
- 4 The Additional Cost Rate for any Lender lending from a Facility Office in the United Kingdom will be calculated by the Agent as follows:

$$\frac{E \times 0.01}{300} \quad \text{per cent. per annum.}$$

Where:

E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.

- 5 For the purposes of this Schedule:
 - (a) " **Fees Rules** " means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (b) " **Fee Tariffs** " means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate); and
 - (c) " **Tariff Base** " has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.
- 6 The resulting figure shall be rounded to four decimal places.
- 7 If requested by the Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Reference Bank.

- 8** Each Lender shall supply any information required by the Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
- (a) the jurisdiction of its Facility Office; and
 - (b) any other information that the Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Agent of any change to the information provided by it pursuant to this paragraph.

- 9** The rates of charge of each Reference Bank for the purpose of E above shall be determined by the Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above.
- 10** The Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
- 11** The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender and each Reference Bank pursuant to paragraphs 3, 7 and 8 above.
- 12** Any determination by the Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.
- 13** The Agent may from time to time, after consultation with the Borrower and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all Parties.

SCHEDULE 5
Form of Transfer Certificate

To: ING Bank N.V., London Branch as Agent

From: [] (the "Existing Lender") and [] (the "New Lender")

Dated:

Mobile TeleSystems Open Joint Stock Company—US\$500,000,000 Facility Agreement
dated [] (the "Agreement")

- 1 We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.
- 2 We refer to Clause 22.5 (*Procedure for transfer*):
 - (a) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation all or part of the Existing Lender's Commitment, rights and obligations referred to in the Schedule in accordance with Clause 22.5 (*Procedure for transfer*).
 - (b) The proposed Transfer Date is [].
 - (c) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 29.2 (*Addresses*) are set out in the Schedule.
- 3 The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in paragraph (c) of Clause 22.4 (*Limitation of responsibility of Existing Lenders*).
- 4 This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Transfer Certificate.
- 5 This Transfer Certificate is governed by English law.

THE SCHEDULE
Commitment/rights and obligations to be transferred

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments.]

[Existing Lender]

[New Lender]

By:

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as [_____].

ING Bank N.V., London Branch

By:

SCHEDULE 6
Form of Compliance Certificate

To: ING Bank N.V., London Branch as Agent

From: Mobile TeleSystems Open Joint Stock Company

Dated:

Dear Sirs

Mobile TeleSystems Open Joint Stock Company—US\$500,000,000 Facility Agreement
dated [_____] (the "Agreement")

We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.

- 1 [We confirm that no Default is continuing.]*
- 2 We confirm that the ratio of Borrowings as at the end of the Relevant Period ending on [•] to EBITDA in respect of such Relevant Period, was [•].
- 3 We confirm that the ratio of EBITDA to Interest Expense for the Relevant Period ending on [•], was [•].

Signed: _____

[Chief Financial Officer] of
Mobile TeleSystems Open Joint Stock Company

* *insert applicable certification language*

We have reviewed the Facility Agreement and audited consolidated financial statements of the Mobile TeleSystems Open Joint Stock Company for the year ended [_____].

On the basis of that review and audit, nothing has come to our attention which would require any modification to the confirmations in paragraphs 2 or 3 of the above Compliance Certificate.

for and on behalf of

name of auditors of Mobile TeleSystems Open Joint Stock Company

* If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

The Borrower

Mobile TeleSystems Open Joint Stock Company

Address: 4 Marksistskaya Street,
109147 Moscow, Russian Federation

Fax No: +7 095 911 6531

Attention: Tatiana Evtoushenkova
Vice President for Investments and
Corporate Development

By: _____

By: _____

Name: Tatiana Evtoushenkova

Name: R.Kolomiets

Title: Vice President for Investments and
Corporate Development

Title: Chief Accountant

The Original Mandated Lead Arrangers

ABN AMRO Bank N.V.

By: _____

Name:

Title:

HSBC Bank plc

By: _____

Name:

Title:

ING Bank N.V.

By: _____

Name:

Title:

Raiffeisen Zentralbank Oesterreich AG

By: _____

Name:

Title:

The New Mandated Lead Arrangers

Bank Austria Creditanstalt AG

By: _____

Name:

Title:

Commerzbank Aktiengesellschaft

By: _____

Name:

Title:

The Original Lenders

ABN AMRO Bank N.V.

By: _____

Name:

Title:

Bank Austria Creditanstalt AG

By: _____

Name:

Title:

Commerzbank (Eurasija) SAO

By: _____

Name:

Title:

HSBC Bank plc

By: _____

Name:

Title:

ING Bank N.V.

By: _____

Name:

Title:

Raiffeisen Zentralbank Oesterreich AG

By: _____

Name:

Title:

ZAO Raiffeisenbank Austria

By: _____

Name:

Title:

The Agent

ING Bank N.V., London Branch

Address: 60 London Wall
London EC2M 5TQ

Fax: +44 207 767 7324

Attention: David Hobbs/Craig Baker
Agency Operations

By: _____

Name:

Title

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Exhibit 4.2

Execution version

AMENDMENT AND TRANSFER AGREEMENT

dated 30 September 2004

for

MOBILE TELESYSTEMS OPEN JOINT STOCK COMPANY

arranged by

**ABN AMRO BANK N.V.
HSBC BANK PLC
ING BANK N.V.
RAIFFEISEN ZENTRALBANK OESTERREICH AG**

as Original Mandated Lead Arrangers

**BANK AUSTRIA CREDITANSTALT AG
COMMERZBANK AKTIENGESELLSCHAFT**

as New Mandated Lead Arrangers

and

**BARCLAYS CAPITAL
(the investment banking division of Barclays Bank PLC)**

as Additional New Mandated Lead Arranger

with

THE FINANCIAL INSTITUTIONS listed in Schedule 1

and

ING BANK N.V., LONDON BRANCH

acting as Agent

relating to a Facility Agreement
dated 26 July 2004

Linklaters CIS

Paveletskaya Sq. 2, bld.2
Moscow 115054

Telephone (7-095) 797 9797
Facsimile (7-095) 797 9798

Ref MIYB

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THIS AGREEMENT is dated 30 September 2004 and made between:

- (1) **Mobile Telesystems Open Joint Stock Company** (the "**Borrower**");
- (2) **ABN AMRO Bank N.V., HSBC Bank plc, ING Bank N.V. and Raiffeisen Zentralbank Oesterreich AG** as original mandated lead arrangers (the "**Original Mandated Lead Arrangers**");
- (3) **Bank Austria Creditanstalt AG and Commerzbank Aktiengesellschaft** as new mandated lead arrangers (the "**New Mandated Lead Arrangers**");
- (4) **Barclays Capital (the investment banking division of Barclays Bank PLC)** as additional new mandated lead arranger (the "**Additional New Mandated Lead Arranger**");
- (5) **The Financial Institutions** listed in Part 1 of Schedule 1 as existing lenders (the "**Existing Lenders**");
- (6) **The Financial Institutions** listed in Part 2 of Schedule 1 as new lenders (the "**New Lenders**"); and
- (7) **ING Bank N.V., London Branch** as agent (the "**Agent**").

RECITALS:

- (A) The Borrower, the Original Mandated Lead Arrangers, the New Mandated Lead Arrangers, the Existing Lenders and the Agent are parties to an Original Facility Agreement (as defined below) providing, inter alia, for the grant of a loan facility ("**Facility 1**") in an aggregate principal amount of US\$200,000,000 and for the grant of a loan facility ("**Facility 2**") in an aggregate principal amount of US\$300,000,000.
- (B) The Borrower wishes to increase the aggregate principal amount of Facility 2 from US\$300,000,000 to US\$400,000,000 and certain of the New Lenders are willing to provide additional commitments under Facility 2 with respect to such increase, subject to the terms and conditions of this Agreement.
- (C) The New Lenders wish to become parties to the Original Facility Agreement as Original Lenders.
- (D) The Additional New Mandated Lead Arranger wishes to become party to the Original Facility Agreement as a New Mandated Lead Arranger.
- (E) Accordingly, the Borrower, the Original Mandated Lead Arrangers, the New Mandated Lead Arrangers, the Existing Lenders, the New Lenders and the Agent wish to (i) amend certain provisions of the Original Facility Agreement and (ii) provide for the transfer by novation of certain rights and obligations of the Existing Lenders under the Original Facility Agreement to the New Lenders.

IT IS AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"**Amended Agreement**" means the Original Facility Agreement, as amended by this Agreement.

"**Designated New Lenders**" means Bank Natexis ZAO, Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Intesa Bank Ireland plc, Israel Discount Bank of New York, KfW, Landesbank Sachsen Girozentrale, Persia International Bank plc, WestLB AG, ZAO Banca Intesa and ZAO Citibank.

" **Original Facility Agreement** " means the Facility Agreement dated 26 July 2004 between the Borrower, the Original Mandated Lead Arrangers, the New Mandated Lead Arrangers, the Existing Lenders and the Agent.

" **Party** " means a party to this Agreement.

" **Relevant Date** " means 7 October 2004 (or such later date as may be agreed by the Agent).

" **Relevant Finance Party** " means any of the Original Mandated Lead Arrangers, the New Mandated Lead Arrangers, the Additional New Mandated Lead Arranger, the Existing Lenders, the New Lenders and the Agent.

" **Relevant Majority Lenders** " means Existing Lenders and New Lenders whose Commitments (as defined in the Amended Agreement) aggregate more than 66²/₃ % of the Total Commitments (as defined in the Amended Agreement).

" **Second Fee Letter** " means the letter dated on or about the date of this Agreement between the Original Mandated Lead Arrangers and the Borrower in relation to certain fees.

1.2 Incorporation of defined terms

- (a) Unless a contrary indication appears, a term defined in the Original Facility Agreement has the same meaning in this Agreement.
- (b) The principles of construction set out in Clause 1.2 (*Construction*) of the Original Facility Agreement shall have effect as if set out in this Agreement.

1.3 Clauses

In this Agreement any reference to a "Clause" or a "Schedule" is, unless the context otherwise requires, a reference to a Clause of or a Schedule to this Agreement.

1.4 Third Party Rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

1.5 Designation

In accordance with the Original Facility Agreement, each of the Borrower and the Agent designates this Agreement as a Finance Document.

2 CONDITIONS PRECEDENT

The provisions of Clause 4 (*Amendments and Transfers*) shall be effective on the Relevant Date provided that the Agent has received all the documents and other evidence listed in Schedule 2 (*Conditions precedent*) in form and substance satisfactory to the Agent on or before 1 October 2004 (or such other date as may be agreed by the Agent). The Agent shall notify the Borrower, the Existing Lenders and the New Lenders promptly upon being so satisfied.

3 REPRESENTATIONS

The Borrower makes the Repeating Representations, and the representations and warranties in Clauses 17.8 (*Deduction of Tax*), 17.9 (*No filing or stamp taxes*) and paragraph (c) of Clause 17.13

(*Financial Statements*) of the Original Facility Agreement, by reference to the facts and circumstances then existing:

- (a) on the date of this Agreement; and
- (b) on the Relevant Date,

but as if references in Clause 17 (*Representations*) to the Original Facility Agreement are, for the purposes of (a) above, instead to this Agreement and, for the purposes of (b) above, are to the Amended Agreement.

4 AMENDMENTS AND TRANSFERS

4.1 Amendments

Provided that the Agent has given the notification under Clause 2 (*Conditions Precedent*), with effect from the Relevant Date, the Original Facility Agreement shall be amended as set out in Schedule 3 (*Amendments to Original Facility Agreement*).

4.2 Transfers

Provided that the Agent has given the notification under Clause 2 (*Conditions Precedent*), on the Relevant Date:

- (a) each Existing Lender shall transfer to each New Lender set out opposite its name in Schedule 4 (*Transfer Details*) by novation that part of that Existing Lender's Commitment, rights and obligations under the Finance Documents referred to opposite that New Lender's name in said Schedule 4;
- (b) to the extent that the rights and obligations of any Existing Lender under the Finance Documents are transferred to a New Lender under paragraph (a) above, the Borrower and that Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another shall be cancelled (being the " **Discharged Rights and Obligations** ");
- (c) the Borrower and each New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and that New Lender have assumed and/or acquired the same in place of the Borrower and the relevant Existing Lender;
- (d) the Agent, the Mandated Lead Arrangers, each New Lender and the other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had that New Lender been an Existing Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer under paragraph (a) above and to that extent the Agent, the Mandated Lead Arrangers and the relevant Existing Lender shall each be released from further obligations to each other under the Finance Documents;
- (e) each New Lender shall become a party to the Amended Agreement as an Original Lender with the Commitments set out opposite its name under the headings "Facility 1 Commitment" and "Facility 2 Commitment" in Schedule 1 (*The Original Lenders*) of the Amended Agreement; and
- (f) each Existing Lender shall continue to be a party to the Amended Agreement as an Original Lender with the Commitments set out opposite its name under the headings "Facility 1

Commitment" and "Facility 2 Commitment" in Schedule 1 (*The Original Lenders*) of the Amended Agreement.

For the avoidance of doubt, all Parties agree that paragraphs (b) and (c) of Clause 22.2 (*Conditions of assignment or transfer*) of the Original Facility Agreement shall not apply to the transfers under this Clause 4.2.

4.3 Additional Facility 2 Commitments

Provided that the Agent has given the notification under Clause 2 (*Conditions Precedent*), notwithstanding that no transfer in respect of Facility 2 was made to any Designated New Lender under Clause 4.2 (*Transfers*), on the Relevant Date each of the Designated New Lenders shall become a party to the Amended Agreement as an Original Lender with the Facility 2 Commitment set out opposite its name under the heading "Facility 2 Commitment" in Schedule 1 (*The Original Lenders*) of the Amended Agreement.

4.4 Barclays Capital

Provided that the Agent has given the notification under Clause 2 (*Conditions Precedent*), on the Relevant Date the Additional New Mandated Lead Arranger shall become a Party to the Amended Agreement as a New Mandated Lead Arranger.

4.5 Continuing obligations

The provisions of the Original Facility Agreement and the other Finance Documents shall, save as amended by this Agreement, continue in full force and effect.

5 MISCELLANEOUS

5.1 Incorporation of terms

The provisions of Clause 29 (*Notices*) of the Original Facility Agreement shall be incorporated into this Agreement as if set out in full in this Agreement and as if references in those clauses to "this Agreement" are references to this Agreement.

5.2 Counterparts

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

5.3 Limitation of responsibility of Existing Lenders

- (a) Unless expressly agreed to the contrary, the Existing Lenders make no representation or warranty and assume no responsibility to the New Lenders for:
 - (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of the Borrower;
 - (iii) the performance and observance by the Borrower of its obligations under the Finance Documents or any other documents; or

- (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,

and any representations or warranties implied by law are excluded.

- (b) Each New Lender confirms to the Existing Lenders and the other Relevant Finance Parties that it:

- (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of the Borrower and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by any Existing Lender in connection with any Finance Document; and
- (ii) will continue to make its own independent appraisal of the creditworthiness of the Borrower and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.

- (c) Nothing in any Finance Document obliges an Existing Lender to:

- (i) accept a re-transfer from a New Lender of any of the rights and obligations transferred under Clause 4.2 (*Transfers*); or
- (ii) support any losses directly or indirectly incurred by any New Lender by reason of the nonperformance by the Borrower of its obligations under the Finance Documents or otherwise.

5.4 Transfer condition

If, as a result of circumstances existing at the Relevant Date, the Borrower would be obliged to make a payment to a New Lender under Clause 12 (*Tax gross-up and indemnities*) or Clause 13.1 (*Increased Costs*) of the Amended Agreement, then such New Lender is only entitled to receive payment under those clauses to the same extent as the Existing Lender (from whom such New Lender acquired its rights and obligations under the Finance Documents) would have been, if the transfer to such New Lender referred to in Schedule 4 (*Transfer Details*) had not occurred.

6 GOVERNING LAW

This Agreement is governed by English law.

7 ARBITRATION

7.1 Arbitration

Subject to Clause 7.4 (*Agent's option*), any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a " **Dispute** ") shall be referred to and finally resolved by arbitration under the Arbitration Rules (the " **Rules** ") of the London Court of International Arbitration (the " **LCIA Court** ").

7.2 Procedure for arbitration

- (a) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as chairman (who shall be a lawyer currently qualified in England and Wales and be admitted to the Bar of England and Wales), shall be appointed by the LCIA Court within 15 days of the appointment of the second arbitrator.

- (b) In the event the claimant(s) or the respondent(s) shall fail to nominate an arbitrator within the time limits specified in the Rules, such arbitrator shall be appointed by the LCIA Court within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be appointed by the LCIA Court within 15 days of such failure who shall designate one of them as chairman.
- (c) If all the parties to an arbitration so agree, there shall be a sole arbitrator appointed by the LCIA Court within 15 days of such agreement.
- (d) The seat of arbitration shall be London, England and the language of the arbitration shall be English.

7.3 Recourse to courts

Save as provided in Clause 7.4 (*Agent's option*), the parties exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

7.4 Agent's option

Before an arbitrator has been appointed by a Relevant Finance Party to determine a Dispute, the Agent may (and, if so instructed by the Relevant Majority Lenders, shall) by notice in writing to the Borrower require that all Disputes or a specific Dispute be heard by a court of law. If the Agent gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 8 (*Jurisdiction*).

8 JURISDICTION

8.1 Jurisdiction of English courts

- (a) The courts of England have exclusive jurisdiction to settle all Disputes.
- (b) The Parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 8.1 is for the benefit of the Relevant Finance Parties only. As a result, no Relevant Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Relevant Finance Parties may take concurrent proceedings in any number of jurisdictions.

8.2 Service of process

Without prejudice to any other mode of service allowed under any relevant law, the Borrower:

- (a) irrevocably appoints Law Debenture Corporation, located at the date hereof at 5th floor, 100 Wood Street, London EC2V 7EX, England as its agent for service of process in relation to any proceedings commenced in accordance with this Agreement; and
- (b) agrees that failure by a process agent to notify it of the process will not invalidate the proceedings concerned.

8.3 Waiver of immunity

The Borrower irrevocably agrees that, should any party take any proceedings anywhere (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on behalf of it or with respect to its assets, any such immunity being irrevocably waived. The Borrower irrevocably agrees that it and its assets are, and shall be, subject to such proceedings, attachment or execution in respect of its obligations under the Finance Documents.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

Schedule 1
The Original Lenders

Part 1
The Existing Lenders

ABN AMRO Bank N.V.

Bank Austria Creditanstalt AG

Commerzbank (Eurasija) SAO

HSBC Bank plc

ING Bank N.V.

Raiffeisen Zentralbank Oesterreich AG

ZAO Raiffeisenbank Austria

Part 2
The New Lenders

Bank Natexis ZAO

Banque Societe Generale Vostok

Barclays Bank PLC

Bayerische Landesbank

BNP Paribas

BTM (Europe) Limited

Dresdner Bank AG Niederlassung Luxemburg

Intesa Bank Ireland plc

Investkredit Bank AG

Israel Discount Bank of New York

KfW

Landesbank Sachsen Girozentrale

Persia International Bank plc

Sumitomo Mitsui Banking Corporation Europe Limited

WestLB AG

ZAP Banca Intesa

ZAO Citibank

Schedule 2 Conditions Precedent

1 Finance Document

- (a) Executed originals of this Agreement.
- (b) Executed originals of the Second Fee Letter.

2 The Borrower

- (a) Certified copies of the Borrower's duly registered constitutional documents and certificates of registration (as in force at the date of this Agreement).
- (b) Certified copies of all corporate resolutions necessary to authorise the Borrower to execute and perform this Agreement and any documents referred to herein and the transactions contemplated hereunder (including but not limited to any major transaction approvals or interested party transaction approvals, if applicable).
- (c) Evidence of the authority of the relevant signatories of the Borrower (including, but not limited to, the Chief Accountant) to execute this Agreement and any documents referred to herein.
- (d) A certified copy of the most recent balance sheet of the Borrower as at the date of this Agreement.
- (e) A certificate executed on behalf of the Borrower:
 - (i) certifying the sample signature and office of each person that signed this Agreement and any documents referred to herein on its behalf and certifying that such signatories hold the positions in which capacity they executed such documents; and
 - (ii) certifying that each copy document relating to it that is specified in this Schedule 2 is correct, complete and in full force and effect as of a date no earlier than the date of this Agreement.

3 Legal opinions

- (a) A legal opinion of Linklaters as to matters of English law.
- (b) A legal opinion of Linklaters CIS as to matters of Russian law.
- (c) An in-house legal opinion of the Borrower.

4 Other documents and evidence

- (a) Evidence that the process agent referred to in Clause 8.2 (*Service of Process*) has accepted its appointment.
- (b) A copy of any other Authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by this Agreement or for the validity and enforceability of this Agreement.
- (c) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 16 (*Costs and expenses*) of the Original Facility Agreement have been paid.
- (d) A copy of the *deal passport* of the Borrower (in the form established by Instruction No. 117-I of the Central Bank of the Russian Federation dated 15 June 2004) accepted and duly certified by a Russian authorised bank and copies of all other documents submitted by the Borrower to the Russian authorised bank in accordance with applicable Russian currency control regulations, as the Agent may reasonably require (or evidence that all documents required to obtain such *deal passport* have been duly submitted to ING Bank (Eurasia) ZAO by or on behalf of the Borrower).
- (e) Such other documents or evidence which the Agent may reasonably require.

Note: Condition precedent documents need not be provided if and to the extent they have already been provided in connection with the Original Facility Agreement (and provided that any documents provided in connection with the Original Facility Agreement do not need to be updated).

Schedule 3
Amendments to Original Facility Agreement

1 The reference on the front cover of the Original Facility Agreement to "US\$500,000,000" SHALL BE AMENDED to read "US\$600,000,000".

2 Each reference on the front cover and on page 1 of the Original Facility Agreement to Bank Austria Creditanstalt AG and Commerzbank Aktiengesellschaft as new mandated lead arrangers shall be supplemented by adding a reference to Barclays Capital (the investment banking division of Barclays Bank PLC) as a new mandated lead arranger.

3 The definition of "Fee Letters" in Clause 1.1 (*Definitions*) of the Original Facility Agreement which currently reads:

" **Fee Letters** " means each of the letters dated 2 July 2004 between the Original Mandated Lead Arrangers and the Borrower (or the Agent and the Borrower) setting out the fees referred to in Clause 11 (*Fees*)."

SHALL BE AMENDED to read:

" **Fee Letters** " means each of the letters dated 2 July 2004, and dated on or about 30 September 2004, between the Original Mandated Lead Arrangers and the Borrower (or the Agent and the Borrower) setting out the fees referred to in Clause 11 (*Fees*)."

4 The definition of " **Total Commitments** " in Clause 1.1 (*Definitions*) of the Original Facility Agreement, which currently reads:

" **Total Commitments** " means the aggregate of the Total Facility 1 Commitments and the Total Facility 2 Commitments, being \$500,000,000 at the Signing Date."

SHALL BE AMENDED to read:

" **Total Commitments** " means the aggregate of the Total Facility 1 Commitments and the Total Facility 2 Commitments, being \$600,000,000 at the Relevant Date (as defined in the Amendment and Transfer Agreement between the Parties dated 30 September 2004)."

5 The definition of " **Total Facility 2 Commitments** " in Clause 1.1 (*Definitions*) of the Original Facility Agreement, which currently reads:

" **Total Facility 2 Commitments** " means the aggregate of the Facility 2 Commitments, being \$300,000,000 at the Signing Date."

SHALL BE AMENDED to read:

" **Total Facility 2 Commitments** " means the aggregate of the Facility 2 Commitments, being \$400,000,000 at the Relevant Date (as defined in the Amendment and Transfer Agreement between the Parties dated 30 September 2004)."

6 Schedule 1 (*The Original Lenders*) of the Original Facility Agreement which currently reads:

Name of Original Lender	Facility 1 Commitment	Facility 2 Commitment
ABN AMRO Bank N.V.	\$ 35,000,000	\$ 52,500,000
Bank Austria Creditanstalt AG	\$ 30,000,000	\$ 45,000,000
Commerzbank (Eurasija) SAO	\$ 30,000,000	\$ 45,000,000
HSBC Bank plc	\$ 35,000,000	\$ 52,500,000
ING Bank N.V.	\$ 35,000,000	\$ 52,500,000
Raiffeisen Zentralbank Oesterreich AG	\$ 19,000,000	\$ 28,500,000
ZAO Raiffeisenbank Austria	\$ 16,000,000	\$ 24,000,000
TOTAL:	\$ 200,000,000	\$ 300,000,000

SHALL BE AMENDED to read:

Name of Original Lender	Facility 1 Commitment	Facility 2 Commitment
ABN AMRO Bank N.V.	\$ 21,250,000.00	\$ 42,500,000.00
Bank Austria Creditanstalt AG	\$ 13,333,333.33	\$ 26,666,666.67
Bank Natexis ZAO	\$ 3,333,333.33	\$ 6,666,666.67
Banque Societe Generale Vostok	\$ 3,333,333.33	\$ 6,666,666.67
Barclays Bank PLC	\$ 16,666,666.67	\$ 33,333,333.33
Bayerische Landesbank	\$ 6,666,666.67	\$ 13,333,333.33
BNP Paribas	\$ 3,333,333.33	\$ 6,666,666.67
BTM (Europe) Limited	\$ 10,000,000.00	\$ 20,000,000.00
Commerzbank (Eurasija) ZAO	\$ 13,333,333.33	\$ 26,666,666.67
Dresdner Bank AG Niederlassung Luxemburg	\$ 13,333,333.33	\$ 26,666,666.67
HSBC Bank plc	\$ 17,916,666.67	\$ 35,833,333.33
ING Bank N.V.	\$ 19,583,333.33	\$ 39,166,666.67
Intesa Bank Ireland plc	\$ 1,333,333.33	\$ 2,666,666.67
Investkredit Bank AG	\$ 1,666,666.67	\$ 3,333,333.33
Israel Discount Bank of New York	\$ 1,666,666.67	\$ 3,333,333.33
KfW	\$ 6,666,666.67	\$ 13,333,333.33
Landesbank Sachsen Girozentrale	\$ 1,666,666.67	\$ 3,333,333.33
Persia International Bank plc	\$ 3,333,333.33	\$ 6,666,666.67
Raiffeisen Zentralbank Oesterreich AG	\$ 4,583,333.33	\$ 9,166,666.67
Sumitomo Mitsui Banking Corporation Europe Limited	\$ 5,000,000.00	\$ 10,000,000.00
WestLB AG	\$ 10,000,000.00	\$ 20,000,000.00
ZAO Banca Intesa	\$ 2,000,000.00	\$ 4,000,000.00
ZAO Citibank	\$ 6,666,666.67	\$ 13,333,333.33
ZAO Raiffeisenbank Austria	\$ 13,333,333.33	\$ 26,666,666.67
TOTAL:	\$ 200,000,000.00	\$ 400,000,000.00

- 7 The reference in Schedule 3 (Utilisation Request) of the Original Facility Agreement to "US\$500,000,000" SHALL BE AMENDED to read "US\$600,000,000".
- 8 The reference in Schedule 5 (Form of Transfer Certificate) of the Original Facility Agreement to "US\$500,000,000" SHALL BE AMENDED to read "US\$600,000,000".
- 9 The reference in Schedule 6 (Form of Compliance Certificate) of the Original Facility Agreement to "US\$500,000,000" SHALL BE AMENDED to read "US\$600,000,000".

**Schedule 4
 Transfer Details**

Commitment/rights and obligations to be transferred

Name of Existing Lender	Name of New Lender	Facility 1 Commitment	Facility 2 Commitment
ABN Amro Bank N.V.	BTM (Europe) Limited	10,000,000.00	—
ABN Amro Bank N.V.	Sumitomo Mitsui Banking Corporation Europe Limited	3,750,000.00	10,000,000.00
Bank Austria Creditanstalt AG, Vienna	Dresdner Bank AG Niederlassung Luxemburg	13,333,333.33	—
Bank Austria Creditanstalt AG, Vienna	Intesa Bank Ireland plc	1,333,333.33	—
Bank Austria Creditanstalt AG, Vienna	ZAO Banca Intesa	2,000,000.00	—
Bank Austria Creditanstalt AG, Vienna	Barclays Bank PLC	—	18,333,333.33
Commerzbank (Eurasija) ZAO	Barclays Bank PLC	16,666,666.67	—
Commerzbank (Eurasija) ZAO	Dresdner Bank AG Niederlassung Luxemburg	—	18,333,333.33
HSBC Bank plc	WestLB AG	10,000,000.00	—
HSBC Bank plc	Bayerische Landesbank	6,666,666.67	—
HSBC Bank plc	Investkredit Bank AG	416,666.67	1,666,666.67
HSBC Bank plc	Barclays Bank PLC	—	15,000,000.00
ING Bank N.V.	Sumitomo Mitsui Banking Corporation Europe Limited	1,250,000.00	—
ING Bank N.V.	BNP Paribas	726,190.48	—
ING Bank N.V.	Bank Natexis ZAO	3,333,333.33	—
ING Bank N.V.	Persia International Bank plc	3,333,333.33	—
ING Bank N.V.	Banque Societe Generale Vostok	2,190,476.19	—
ING Bank N.V.	Investkredit Bank AG	1,250,000.00	—
ING Bank N.V.	Israel Discount Bank of New York	1,666,666.67	—
ING Bank N.V.	Landesbank Sachsen Girozentrale	1,666,666.67	—
ING Bank N.V.	BTM (Europe) Limited	—	13,333,333.33
Raiffeisen Zentralbank Oesterreich AG	ZAO Citibank	6,666,666.67	—
Raiffeisen Zentralbank Oesterreich AG	BNP Paribas	2,607,142.86	—

Raiffeisen Zentralbank Oesterreich AG	KfW	5,142,857.14	—
Raiffeisen Zentralbank Oesterreich AG	Dresdner Bank AG Niederlassung Luxemburg	—	8,333,333.33
Raiffeisen Zentralbank Oesterreich AG	BTM (Europe) Limited	—	6,666,666.67
Raiffeisen Zentralbank Oesterreich AG	ZAO Raiffeisenbank Austria	—	2,666,666.67
Raiffeisen Zentralbank Oesterreich AG	Investkredit Bank AG	—	1,666,666.67
ZAO Raiffeisenbank Austria	KfW	1,523,809.52	—
ZAO Raiffeisenbank Austria	Banque Societe Generale Vostok	1,142,857.14	—

The Borrower

Mobile TeleSystems Open Joint Stock Company

By: _____

By: _____

Name:

Name:

Title:

Title: Chief Accountant

The Original Mandated Lead Arrangers

ABN AMRO Bank N.V.

By: _____

Name:

Title:

HSBC Bank plc

By: _____

Name:

Title:

ING Bank N.V.

By: _____

By: _____

Name:

Name:

Title:

Title:

Raiffeisen Zentralbank Oesterreich AG

By: _____

By: _____

Name:

Name:

Title:

Title:

The New Mandated Lead Arrangers

Bank Austria Creditanstalt AG

By: _____

Name:

Title:

Commerzbank Aktiengesellschaft

By: _____

Name:

Title:

The Additional New Mandated Lead Arranger

Barclays Capital (the investment banking division of Barclays Bank PLC)

By: _____

Name:

Title:

The Existing Lenders

ABN AMRO Bank N.V.

By: _____

Name:

Title:

Bank Austria Creditanstalt AG

By: _____

Name:

Title:

Commerzbank (Eurasija) ZAO

By: _____

Name:

Title:

HSBC Bank plc

By: _____

Name:

Title:

ING Bank N.V.

By: _____

By: _____

Name:

Name:

Title:

Title:

Raiffeisen Zentralbank Oesterreich AG

By: _____

By: _____

Name:

Name:

Title:

Title:

ZAO Raiffeisenbank Austria

By: _____

Name:

Title:

The New Lenders

Bank Natexis ZAO

By _____

By: _____

Name:

Name:

Title:

Title:

Banque Societe Generale Vostok

By _____

By: _____

Name:

Name:

Title:

Title:

Barclays Bank PLC

By _____

By: _____

Name:

Name:

Title:

Title:

Bayerische Landesbank

By _____

By: _____

Name:

Name:

Title:

Title:

BNP Paribas

By _____

By: _____

Name:

Name:

Title:

Title:

BTM (Europe) Limited

By: _____

By: _____

Name:

Title:

Dresdner Bank AG Niederlassung Luxemburg

By _____

By: _____

Name:

Name:

Title:

Title:

Intesa Bank Ireland plc

By _____

By: _____

Name:

Name:

Title:

Title:

Investkredit Bank AG

By _____

By: _____

Name:

Name:

Title:

Title:

Israel Discount Bank of New York

By _____

By: _____

Name:

Name:

Title:

Title:

KfW

By _____

By: _____

Name:

Name:

Title:

Title:

Landesbank Sachsen Girozentrale

By _____

By: _____

Name:

Name:

Title:

Title:

Persia International Bank plc

By _____

By: _____

Name:

Name:

Title:

Title:

Sumitomo Mitsui Banking Corporation Europe Limited

By _____

By: _____

Name:

Name:

Title:

Title:

WestLB AG

By _____

By: _____

Name:

Name:

Title:

Title:

ZAO Banca Intesa

By: _____

By: _____

Name:

Name:

Title:

Title:

ZAO Citibank

By: _____

By: _____

Name:

Name:

Title:

Title:

The Agent

ING Bank N.V., London Branch

By: _____

By: _____

Name:

Name:

Title:

Title:

QuickLinks

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Exhibit 4.3

28 January 2005

MOBILE TELESYSTEMS FINANCE S.A.
as Issuer

and
MOBILE TELESYSTEMS OJSC
as Guarantor

and
JPMORGAN CHASE BANK, N.A.
as Trustee

and
J.P. MORGAN BANK LUXEMBOURG S.A.

INDENTURE
relating to

U.S.\$ 400,000,000 8.00 per cent. Notes due 2012

Linklaters CIS

Paveletskaya Sq. 2, bld. 2
Moscow 115054

Telephone (7-095) 797 9797
Facsimile (7-095) 797 9798

This Indenture is made on 28 January 2005 **between** :

- (1) **MOBILE TELESYSTEMS FINANCE S.A.** , a société anonyme organised in Luxembourg (the "**Issuer** "),
- (2) **OPEN JOINT STOCK COMPANY "MOBILE TELESYSTEMS"** , a company organized under the laws of the Russian Federation, as guarantor ("**MTS** " or the "**Guarantor** "),
- (3) **JPMORGAN CHASE BANK, N.A.** , a national banking association, as trustee hereunder (the "**Trustee** "); and
- (4) **J.P. MORGAN BANK LUXEMBOURG S.A.**, a société anonyme organised in Luxembourg (the "**Luxembourg Paying Agent** ").

Whereas:

- (A) The Issuer has duly authorized the creation and issue of its U.S.\$400,000,000 8.00 per cent. per cent. Notes due 2012 (the "**Notes** ") of substantially the tenor and amount hereinafter set forth, and to provide therefor, the Issuer has duly authorized the execution and delivery of this Indenture. The Guarantor has duly authorized a guarantee of the Notes and of the Issuer's obligations hereunder, and to provide therefor, the Guarantor has duly authorized the execution and delivery of this Indenture.
- (B) All things necessary to make the Notes, when executed by the Issuer and authenticated and delivered by the Trustee hereunder and duly issued by the Issuer, the valid obligations of the Issuer, the guarantee the valid obligation of the Guarantor and this Indenture a valid instrument of the Issuer and of the Guarantor, in accordance with their respective terms, have been done.

Now, therefore, this indenture witnesseth , that, for and in consideration of the premises and the purchase of the Notes by the Holders (as hereinafter defined) thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

1 Definitions and Other Provisions of General Application

1.1 Definitions

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Clause 1 have the meanings assigned to them in this Clause, and include the plural as well as the singular; and (b) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with U.S. GAAP;

" **Acquired Debt** " means any Debt of an entity existing at the time such entity is merged into the Guarantor or a Subsidiary of the Guarantor or becomes one of the Guarantor's Subsidiaries, and any Debt secured by a Lien on an asset acquired by the Guarantor or one of the Guarantor's Subsidiaries;

" **Act** " when used with respect to any Holder, has the meaning set forth in Clause 1.5 hereof;

" **Additional Amounts** " has the meaning set forth in Clause 4.11 hereof;

" **Additional Notes** " means, subject to the Issuer's compliance with Clause 2.15, Issuer's U.S.\$ 8.00 per cent. Notes due 2012 issued from time to time after the Issue Date under the terms of this Indenture (other than pursuant to Clause 2.1, 2.5, 2.6 or 2.8 of this Indenture);

" **Affiliate** " of any specified Person means (i) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or executive officer of (a) such specified Person or (b) any Person described in (i) above. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the

ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10 per cent. or more of any class, or any series of any class, of equity securities of a Person, whether or not voting, shall be deemed to be control;

" **Agent Member** " has the meaning set forth in Clause 2.4.1 hereof;

" **Attributable Debt** " means, in respect of a Sale and Lease-Back Transaction, at the time of determination, the lesser of (i) the Fair Market Value of the property subject to such arrangement and (ii) the present value (discounted at the weighted average annual interest rate on all notes then issued and outstanding under the indenture, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such arrangement after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes and similar charges;

" **Authorized Agent** " shall have the meaning set forth in Clause 11.14.1 hereof;

" **Bankruptcy Law** " means any law of any jurisdiction for the relief of debtors as now or hereafter constituted, including, without limitation, any such law in the Russian Federation and Luxembourg and, with respect to the United States, Title 11 of the United States Code and any similar federal or state law;

" **beneficial owner** " shall have the meaning given to such term by Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" or "group" (as such terms are used in Section 13(d) of the Exchange Act), such "person" or "group" shall be deemed to have beneficial ownership of all securities that they have the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition, and "beneficially owns" and "beneficial ownership" shall have correlative meanings;

" **Board** " means the board of directors of the Issuer;

" **Board Resolution** " means a duly adopted resolution of the Board pursuant to the articles of association or other constituent documents of the Issuer;

" **business day** " has the meaning set forth in Clause 11.6 hereof;

" **Capital Stock** " of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible or exchangeable into such equity;

" **Certificated Notes** " means Notes in certificated form;

" **Clearstream** " means Clearstream Banking, *société anonyme* , and its successors;

" **Change in Control** " means (i) any Person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, acquires beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of common stock of the Guarantor entitling that person to exercise 50 per cent. or more of the total voting power of all shares of the Guarantor's common stock; provided, however, that (a) any acquisition by Sistema, T-Mobile and/or any of their respective Subsidiaries that results in the 50 per cent. threshold being exceeded will not be deemed to be a Change in Control or (b) any acquisition by the Guarantor, any Subsidiary of the Guarantor or any employee benefit plan of the Guarantor will not be deemed to be a Change in Control; (ii) the Guarantor consolidates with or merges with or into any other person, another person merges into the Guarantor, or the Guarantor conveys, transfers, sells, leases or otherwise disposes of all or substantially all of its assets to another Person; provided, however, that the transaction will not be deemed to be a Change in Control if, immediately after the transaction, Sistema and T-Mobile (together with their Subsidiaries) beneficially own, in the aggregate, more

than 50 per cent. of the total voting power of all shares of common stock of the Successor; or (iii) the Guarantor no longer beneficially owns more than 50 per cent. of the Issuer's share capital;

" **clearing agency** " has the meaning set forth in Section 3(a)(23) of the Exchange Act;

" **Commission** " means the United States Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time;

" **Common Depository** " means the common depository for Euroclear or Clearstream;

" **Consolidated Cash Flows** " for any period means the Guarantor's consolidated net income for such period, excluding any cumulative effect of a change in accounting principles since the beginning of the relevant period, plus the following items (i)-(iv), in each case to the extent such items were deducted when calculating the Guarantor's consolidated net income for such period: (i) any non-recurring loss, including any loss realized in connection with any asset sale or disposition of securities; (ii) provision for income taxes; (iii) interest expense; and (iv) depreciation and amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses, including currency exchange and translation losses (excluding bad debt expense and any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period); *minus* the following items (v) and (vi), in each case to the extent such items increased the Guarantor's consolidated net income for such period: (v) any non-recurring gain, including any gain realized in connection with any asset sale or disposition of securities; and (vi) any non-cash items, including currency exchange and translation gains, other than items in the ordinary course of business, all as determined on a consolidated basis in accordance with U.S. GAAP;

" **Corporate Trust Office** " means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office is, at the date of execution of this Indenture, located at 4 New York Plaza, 15th Floor, New York, New York 10004;

" **Covenant Defeasance** " has the meaning set forth in Clause 8.3 hereof;

" **Custodian** " means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law;

" **Debt** " means, with respect to any Person, without duplication: (i) all obligations of such Person for borrowed money; (ii) all reimbursement obligations of such Person in respect of letters of credit, banker's acceptances or other similar instruments or credit transactions; (iii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iv) all obligations of such Person to the extent that they defer the purchase price of property or services for more than 180 days, except trade accounts payable arising in the ordinary course of business; (v) all obligations of such Person as lessee under leases that would be capitalized on a balance sheet of the lessee prepared in accordance with U.S. GAAP; (vi) all guarantees and indemnities of such Person in respect of the Debt of any other Person or Persons, without duplication of any Debt otherwise included in this definition; and (vii) all Debt of other Persons secured by a Lien on any property, income and assets of such Person, whether or not such Debt is assumed by such Person; *provided* that if such Debt is not assumed by such Person, the amount of such Debt shall be the lesser of (a) the Fair Market Value of such property, income or assets at such date of determination and (b) the amount of such Debt of such other Person;

" **Default** " means any event that is or with the passage of time or the giving of notice or both would be an Event of Default;

" **Defaulted Interest** " has the meaning set forth in Clause 2.10 hereof;

" **Depository** " means The Depository Trust Company, its nominees, and their respective successors;

" **Euroclear** " means Euroclear Bank S.A./N.V., as operator of the Euroclear System, and its successors;

" **Event of Default** " has the meaning set forth in Clause 6.1 hereof;

" **Exchange Act** " means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;

" **Fair Market Value** " means, with respect to any property or assets, the sale price for such property or asset as could be negotiated in a free market transaction for cash conducted at arm's length between a willing seller and a willing and able buyer, as determined by the board of directors of the Guarantor in cases of property or assets with a Fair Market Value in excess of U.S.\$70,000,000, or by the chief financial officer or chief executive officer of the Guarantor in cases of property or assets with a Fair Market Value equal to or less than U.S.\$70,000,000;

" **Global Notes** " means the Regulation S Global Note and the Rule 144A Global Note;

" **Guarantee** " means the obligations of the Guarantor set forth in Clause 10 hereof;

" **Guarantor** " means the party named as such in the preamble to this Indenture until a successor replaces it pursuant to the applicable provisions hereof and, thereafter, means such successor;

" **Holder** " means the person in whose name a Note is registered in the Security Register;

" **incorporated provision** " has the meaning set forth in Clause 11.1 hereof;

" **incur** " in relation to incurring debt, has the meaning set forth in Clause 4.5 hereof;

" **Indenture** " means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument, and any such supplemental indenture, respectively;

" **Interest Payment Date** " means each semi-annual interest payment date in respect of the Notes on 28 January and 28 July in each year, commencing 28 July 2005;

" **Issue Date** " means the date on which the Notes are first authenticated and delivered under this Indenture;

" **Issuer** " means the party named as such in the preamble to this Indenture until a successor replaces it pursuant to the applicable provisions hereof and, thereafter, means such successor;

" **Kuban GSM** " means CJSC Kuban GSM, a joint-stock company organized under the laws of the Russian Federation that is a subsidiary of the Guarantor;

" **Legal Defeasance** " has the meaning set forth in Clause 8.2 hereof;

" **Legend** " means any restricted securities legend in the form set forth on the face of the Rule 144A Global Note in Exhibit A hereto;

" **Lien** " means, any mortgage, lien, pledge, charge, security interest, right of set off or other encumbrance or preferential arrangement, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction);

" **Luxembourg Paying Agent** " means the party named as the Luxembourg Paying Agent in Clause 2.3 hereof until a successor replaces it pursuant to the applicable provisions hereof and, thereafter, means such successor;

" **Maturity** " means, when used with respect to a Note, the date on which the principal of such Note becomes due and payable as provided therein or in this Indenture, whether on the date specified in such Note as the fixed date on which the principal of such Note is due and payable, or by declaration of acceleration, call for redemption or otherwise;

" **Notes** " has the meaning set forth in the Recitals hereto and more particularly means any of the Notes authenticated and delivered under this Indenture;

" **Officer's Certificate** " means a certificate signed, in the case of the Issuer, by a director of the Issuer and, in the case of the Guarantor, by one or more officers of the Guarantor, at least one of whom shall be the chief executive officer, a director, a chief financial officer, chief legal officer or general director of the Guarantor;

" **Opinion of Counsel** " means a written opinion from legal counsel who is reasonably acceptable to the Trustee, which counsel may be an employee of or counsel to the Issuer, the Guarantor or the Trustee;

" **Order** " means a written order signed in the name of the Issuer by any of its managing directors and delivered to the Trustee;

" **Paying Agent** " means any Person authorized by the Issuer to make payments of principal or interest with respect to the Notes on behalf of the Issuer including, where the context so requires, the Luxembourg Paying Agent;

" **Permitted Lien** " means:

(i) any Lien existing on the date of this Indenture, including any Lien created in respect of an obligation arising out of the Credit Agreement No. LME/H-96:0824L between Ericsson Project Finance AB and Rosico dated 20 December 1996, as amended, which was assumed by the Guarantor as a result of the merger of Rosico into the Guarantor on 9 June 2003;

(ii) any Lien on any property or assets of any corporation existing at the time such corporation is merged or consolidated with or into the Guarantor or any Subsidiary of the Guarantor or becomes a Subsidiary of the Guarantor and not created in contemplation of such event, provided that no such Lien shall extend to any other property or assets;

(iii) any Lien existing on any property or assets prior to the acquisition thereof by the Guarantor or any Subsidiary of the Guarantor and not created in contemplation of such acquisition, provided that no such Lien shall extend to any other property or assets;

(iv) any Lien on any property or assets securing Debt of the Guarantor or any Subsidiary of the Guarantor incurred or assumed for the purpose of financing all or part of the cost of acquiring, repairing or refurbishing, purchasing or constructing such property or assets, provided that (a) no such Lien shall extend to any other property or assets, (b) the aggregate principal amount of all Debt secured by such Liens on such property or assets shall not exceed the lower of (x) the purchase price of such property or assets and (y) the Fair Market Value of such property or assets at the time of acquisition, repair or refurbishing and (c) such Lien attaches to such property or assets concurrently with the repair or refurbishing thereof or within 90 days after the acquisition thereof, as the case may be;

(v) any Lien arising by operation of law, including any Liens (a) arising in the ordinary course of business with respect to amounts not yet delinquent or being contested by the Guarantor, the Issuer or a Subsidiary of the Guarantor in good faith in appropriate proceedings or (b) for taxes, assessments, government charges or claims, including without limitation those in favour of Russian governmental fiscal authorities;

(vi) any Lien on the property or assets of any Subsidiary of the Guarantor securing intercompany Debt of such Subsidiary owing to the Issuer, the Guarantor or another Subsidiary of the Guarantor;

(vii) easements, rights-of-way, restrictions and any other similar charges or encumbrances incurred in the ordinary course of business and not interfering in any material respect with the Guarantor's business or the business of any of the Guarantor's Subsidiaries, including any encumbrance or restriction with respect to an equity interest of any joint venture pursuant to a joint venture agreement;

(viii) any extension, renewal or replacement of any Lien described in paragraphs (i)-(vii) above, provided that (a) such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien, (b) the amount of Debt secured by such Lien is not increased and (c) if the property, income or assets securing the Debt subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of the property or assets securing such Debt is not increased; and

(ix) any Lien, other than those described above, provided, that, immediately after giving effect to such Lien, all of the Guarantor's secured Debt and Attributable Debt in the aggregate do not exceed 10 per cent. of the book value of the Guarantor's total assets as determined by reference to the Guarantor's most recent quarterly or annual consolidated balance sheet on a pro forma basis after giving effect to the incurrence of any Debt and any other changes in the Guarantor's Debt since the date of such balance sheet;

provided, that no Lien on the property, income or assets of the Issuer shall be a Permitted Lien, other than a Lien described in paragraph (v) above;

" **Person** " means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity;

" **Preferred Stock** ," as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation;

" **Purchase Agreement** " means the purchase agreement relating to the notes dated 27 January 2005, among the Issuer, the Guarantor and the Initial Purchasers named therein;

" **QIB** " means a "qualified institutional buyer" as defined in Rule 144A;

" **Record Date** " means, for the interest payable on any Interest Payment Date, the date specified in Clause 2.10 hereof;

" **Redemption Date** " means, when used with respect to any Note to be redeemed hereunder, the date fixed for the redemption of such Note pursuant to the terms of the Notes and this Indenture;

" **Redemption Price** " means, when used with respect to any Note to be redeemed hereunder, the price fixed for the redemption of such Note pursuant to the terms of the Notes and this Indenture, plus accrued and unpaid interest thereon, if any, to the Redemption Date;

" **Registrar** " has the meaning set forth in Clause 2.3 hereof;

" **Regulation S** " means Regulation S under the Securities Act (including any successor regulation thereto), as it may be amended from time to time;

" **Regulation S Global Note** " has the meaning set forth in Clause 2.1.3 hereof;

" **Resolution** " means a copy of a resolution certified by the secretary, assistant secretary or equivalent officer of the Issuer to have been duly adopted by the Board and to be in full force and effect on the date of such certification, delivered to the Trustee;

" **Rosico** " means Rosico CJSC, a joint stock company organized under the laws of the Russian Federation that was a subsidiary of the Guarantor and that merged into the Guarantor on 9 June 2003;

" **Rule 144** " means Rule 144 under the Securities Act (including any successor regulation thereto), as it may be amended from time to time;

" **Rule 144A** " means Rule 144A under the Securities Act (including any successor regulation thereto), as it may be amended from time to time;

" **Rule 144A Global Note** " has the meaning set forth in Clause 2.1.3 hereof;

" **Sale and Lease-Back Transaction** " means any arrangement providing for the leasing for a period, including renewals, in excess of 18 months, of any property or asset that has been owned by the Guarantor or any Subsidiary of the Guarantor for more than 180 days and has been or is to be sold or transferred by the Guarantor or such Subsidiary in such transaction;

" **Securities Act** " means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

" **Security Register** " has the meaning set forth in Clause 2.3 hereof;

" **Significant Subsidiary** " means any Subsidiary of the Guarantor that satisfies the definition set forth in Clause 1, Rule 1-02 of Regulation S-X promulgated under the Securities Act, as such regulation is in effect on the date of this Indenture;

" **Sistema** " means Sistema JSFC;

" **Special Record Date** " means a date fixed by the Trustee pursuant to Clause 2.10 for the payment of Defaulted Interest;

" **Stated Maturity** " means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision;

" **Subsidiary** " means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof);

" **Successor** " means, in the case of a merger, consolidation or combination of a Person, or the sale, assignment, transfer, conveyance or other disposal of all or substantially all of a Person's assets, the corporation formed by or resulting from such consolidation or merger or which shall have received such assets;

" **T-Mobile** " means T-Mobile International AG;

" **Taxes** " has the meaning set forth in Clause 4.11 hereof;

" **Taxing Jurisdiction** " has the meaning set forth in Clause 4.11 hereof;

" **Telecom XXI** " means Telecom XXI, an open joint stock company that is a wholly-owned Subsidiary of the Guarantor;

" **Temporary Notes** " has the meaning set forth in Clause 2.8 hereof;

" **Trust Indenture Act** " means the United States Trust Indenture Act of 1939 (15 U.S.C. §§77aaa-77bbb) as in effect on the date of this Indenture except as required by Clause 9.4 hereof; provided that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939, as so amended;

" **Trust Officer** " means any officer or assistant officer of the Trustee (or a successor trustee) assigned by the Trustee (or a successor trustee) to administer this Indenture;

" **Trustee** " means the party named as such in the preamble to this Indenture until a successor replaces it in accordance with the provisions of this Indenture and, thereafter, means such successor;

" **UMC** " means Ukrainian-German-Dutch-Danish Joint Venture "Ukrainian Mobile Communications" in Ukraine;

" **Uniform Commercial Code** " means the Uniform Commercial Code as in effect from time to time in the State of New York;

" **United States Dollars** ", " **U.S.\$** " or " **\$** " means the lawful currency of the United States of America;

" **U.S. GAAP** " means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of this Indenture;

" **U.S. Government Obligations** " means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable or redeemable at the issuer's option; and

" **Wholly-Owned Subsidiary** " of any Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than qualifying shares or shares owned by foreign nationals mandated by applicable law) shall at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

1.2 Incorporation by Reference of Trust Indenture Act

1.2.1 This Indenture is expressly made subject to the Trust Indenture Act as if this Indenture were subject to the Trust Indenture Act under the provisions of such statute and such provisions are incorporated by reference in this Indenture.

1.2.2 Whenever this Indenture refers to a provision of the Trust Indenture Act, the provision is incorporated by reference in and made a part of this Indenture. The following Trust Indenture Act terms incorporated by reference in this Indenture have the following meanings:

"indenture securities" means the Notes;

"indenture security holder" means a Holder;

"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee; and

"obligor" on the indenture securities means the Issuer, the Guarantor or any other obligor on the Notes.

All other Trust Indenture Act terms used or incorporated by reference in this Indenture that are defined by the Trust Indenture Act, defined by the Trust Indenture Act by reference to another statute or defined by Commission rule have the meanings assigned to them therein.

1.3 Rules of Construction

Unless the context otherwise requires:

1.3.1 the words "herein," "hereof" and "hereunder," and other words of similar import, refer to this Indenture as a whole and not to any particular Clause or other subdivision;

1.3.2 "or" is not exclusive;

1.3.3 "including" means including without limitation; the principal amount of any non-interest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the Issuer or the Guarantor dated such date prepared in accordance with U.S. GAAP;

1.3.4 when used with respect to the Notes, the term "principal amount" shall mean the principal amount thereof at the Stated Maturity of such principal amount;

1.3.5 unless otherwise expressly provided herein, the principal amount of any Preferred Stock shall be the greater of (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock; and

1.3.6 unsecured Debt shall not be deemed to be subordinate or junior to secured Debt merely by virtue of its nature as unsecured Debt.

1.4 Form of Documents Delivered to Trustee

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Issuer or the Guarantor, including any Officer's Certificate, may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion, and any Opinion of Counsel, may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Issuer or the Guarantor, as the case may be, stating that the information with respect to such factual matters is in the possession of the Issuer or the Guarantor, as the case may be, unless such officer or counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

1.5 Acts of Holders

1.5.1 Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Issuer or the Guarantor, as the case may be. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose under this Indenture and (subject to Clause 7.1) conclusive in favour of the Trustee, the Issuer and the Guarantor, if made in the manner provided in this Clause.

1.5.2 The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by an acknowledgment of a

notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than such signer's individual capacity, such certificate or affidavit shall also constitute sufficient proof of the signer's authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

1.5.3 The ownership of Notes shall be proved by the Security Register, and the ownership of beneficial interests in the Global Notes shall be proved by the records of the Depository and Euroclear or Clearstream, as the case may be.

1.5.4 Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, suffered or omitted to be done by the Trustee, the Issuer or the Guarantor in reliance thereon, whether or not notation of such action is made upon such Note.

1.5.5 The Issuer may, but shall not be obligated to, in or pursuant to a Board Resolution, fix a record date for the purpose of determining the Holders entitled to give their consent or take any other action required or permitted to be taken pursuant to this Indenture. Notwithstanding Section 316(c) of the Trust Indenture Act, such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 calendar days prior to the first solicitation of Holders generally in connection therewith and not later than the date of such first solicitation. If a record date is fixed, notwithstanding the provisions of Clause 9.5 hereof, those Persons who were Holders of Notes at such record date (or their duly designated proxies), and only those Persons, shall be entitled to take any such action or give such consent or to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date; provided, however, that unless such consent is obtained from the Holders (or their duly designated proxies) of the requisite principal amount of Notes that are outstanding prior to the date which is the 180th calendar day after such record date, any such consent previously given shall automatically and without further action by any Holder be cancelled and of no further effect.

1.6 Satisfaction and Discharge

This Indenture shall cease to be of further effect (except as to the rights of Holders under Clauses 2.5, 2.6, 2.8, 4.2 and 4.3 hereof) and the Trustee, on receipt of an Order requesting such action, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture (including the Guarantee contained herein), when (a) either (i) all outstanding Notes have been delivered to the Trustee for cancellation or (ii) all outstanding Notes have become due and payable, either at maturity or as a result of the mailing of a notice of redemption as described in Clause 3.1 hereof, and the Issuer, in the case of clause (ii) hereof, has irrevocably deposited or caused to be deposited with the Trustee, as funds held in trust, in cash in U.S. dollars, U.S. Government Obligations or a combination thereof, an amount which, in the opinion of a nationally recognised firm of independent public accountants expressed in a written certificate thereof delivered to the Trustee, is sufficient to pay and discharge the entire indebtedness on such Notes, for principal and interest to the date of such deposit (in the case of Notes which have become due and payable) or to the Redemption Date, as the case may be, together with irrevocable instructions from the Issuer in form and substance reasonably satisfactory to the Trustee directing the Trustee to apply such funds to the payment thereof; (b) the Issuer has paid or caused to be paid all other sums payable hereunder by the Issuer; and (c) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for or relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture pursuant to this Clause 1.6, the obligations of the Issuer to the Trustee under Clause 7.7 hereof, and, if money

shall have been deposited with the Trustee in trust for the Holders pursuant to this Clause 1.6, the obligations of the Trustee under this Clause 1.6 and Clause 4.3 hereof, and the provisions hereof relating to the conduct of, affecting the liability of, or offering protection or immunity to, the Trustee, shall survive.

All money deposited with the Trustee pursuant to this Clause 1.6 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent, to the Persons entitled thereto, of the principal and interest for the payment of which such money has been deposited with the Trustee. If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Clause 1.6 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Issuer's obligations under this Indenture and the Notes (and the obligations of the Guarantor under the Guarantee) shall be revived and reinstated as though no deposit had occurred pursuant to this Clause 1.6 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Clause 1.6; provided, that if the Issuer (or the Guarantor) has made any payment of interest on or principal of any Notes because of the reinstatement of its obligations, the Issuer (or the Guarantor) shall be subrogated to the rights of the Holders of such Notes to receive such payment from the cash or U.S. Government Obligations held by the Trustee or Paying Agent.

2 The Notes

2.1 Form and Dating

2.1.1 The Notes and the certificate of authentication of the Trustee thereon shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Indenture. The Notes will be issued only in fully registered form, without interest coupons attached, in minimum denominations of U.S.\$2,000 and integral multiples thereof, and initially will be represented by the Global Notes. Except in the limited circumstances set forth herein, Certificated Notes will not be issued.

2.1.2 The Notes may have such letters, numbers or other marks of identification and such legends and endorsements, stamped, printed, lithographed or engraved thereon, (i) as the Issuer may deem appropriate and as are not inconsistent with the provisions of this Indenture, (ii) as may be required to comply with this Indenture, any law, rule or regulation or any rule of any securities exchange on which the Notes may be listed and (iii) as may be necessary to conform to customary usage. Each Note shall be dated the date of its authentication by the Trustee.

2.1.3 Notes sold in offshore transactions in reliance on Regulation S, as provided in the Purchase Agreement, will be represented by a single, permanent global Note (the "**Regulation S Global Note**") in fully registered form without interest coupons, substantially in the form of Exhibit A hereto. The Regulation S Global Note, duly executed by the Issuer and authenticated by the Trustee as hereinafter provided, on behalf of the subscribers for the Notes represented thereby, shall be deposited with, and registered in the name of a nominee of a common depositary for Clearstream and Euroclear. The aggregate principal amount of the Regulation S Global Note may from time to time be increased or decreased by adjustments made on the records of the common depositary as hereinafter provided.

2.1.4 Notes sold in reliance on Rule 144A, as provided in the Purchase Agreement, will be represented by a single, permanent global Note (the "**Rule 144A Global Note**") in fully registered form without interest coupons substantially in the form of Exhibit A hereto, with such legends as may be applicable thereto as provided in Exhibit A hereto, which shall be deposited on behalf of the subscribers for the Notes represented thereby with the Trustee, at its Corporate Trust Office, as custodian for the Depositary, and registered in the name of

Cede & Co. as nominee of the Depository, duly executed by the Issuer and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Rule 144A Global Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depository, or the Depository or its nominee, as the case may be, as hereinafter provided.

2.1.5 Except as provided in Clause 2.5.3, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of Certificated Notes.

2.2 Execution and Authentication

The Notes shall be issued in a single series. The Notes will not be limited in aggregate principal amount outstanding. The Notes shall be executed on behalf of the Issuer by a director by manual or facsimile signature.

The Notes shall be authenticated by manual or facsimile signature of an authorized signatory of the Trustee and shall not be valid for any purpose unless so authenticated.

In case any director of the Issuer whose signature shall have been placed upon any of the Notes shall cease to be such director of the Issuer before authentication of such Notes by the Trustee and the issuance and delivery thereof, such Notes may, nevertheless, be authenticated by the Trustee and issued and delivered with the same force and effect as though such Person had not ceased to be such director of the Issuer.

Upon receipt by the Trustee of an Officer's Certificate and Opinion of Counsel complying with Clause 11.4 hereof with respect to satisfaction of all conditions precedent contained in this Indenture to authentication and delivery of such Notes, the Trustee shall, upon receipt of an Order requesting such action, authenticate Notes for original issuance in an initial aggregate principal amount not to exceed U.S.\$400,000,000 except with respect to Additional Notes issued pursuant to Clause 2.15 hereof. Such Order shall specify the amount of Notes to be authenticated and the date on which the Notes are to be authenticated and shall further provide instructions concerning registration, amounts for each Holder and delivery.

Upon the occurrence of any event specified in Clause 2.5.3 hereof, the Issuer shall execute and the Trustee, upon receipt of an Order requesting such action, shall authenticate and deliver to each beneficial owner identified by the Depository, in exchange for such beneficial owner's interest in a Global Note, Certificated Notes representing Notes theretofore represented by such Global Note.

A Note shall not be valid or entitled to any benefit under this Indenture or obligatory for any purpose unless executed by the Issuer and authenticated by the manual signature of an authorized officer of the Trustee as provided herein. The signature of an authorized officer of the Trustee shall be conclusive evidence, and the only evidence, that such Note has been authenticated and delivered under this Indenture.

The Trustee may appoint an authenticating agent reasonably acceptable to the Issuer to authenticate the Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent.

The Trustee may at any time terminate the agency of the authenticating agent by giving written notice thereof to such authenticating agent and to the Issuer. Upon such termination, the Trustee may appoint a successor authenticating agent reasonably acceptable to the Issuer and shall mail at the Issuer's expense a written notice of such appointment by first class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Any successor authenticating agent upon acceptance of its appointment hereunder shall become vested with all rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an authenticating agent. The Issuer agrees to pay each authenticating agent from time to time reasonable compensation for its services under this Clause.

2.3 Registrar and Paying Agent

The Issuer shall maintain, pursuant to Clause 4.2 hereof, an office or agency where the Notes may be presented for registration of transfer or for exchange. The Issuer shall cause to be kept at such office a register (the register maintained in such office being herein sometimes referred to as the "**Security Register**") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and of transfers of Notes entitled to be registered or transferred as provided herein. The Trustee, at its Corporate Trust Office, is initially appointed "Registrar" for the purpose of registering Notes and transfers of Notes as herein provided. The Issuer may, upon written notice to the Trustee, change the designation of the Trustee as Registrar and appoint another Person (other than the Issuer, the Guarantor or any of their Affiliates) to act as Registrar for purposes of this Indenture. If any Person other than the Trustee acts as Registrar, the Trustee shall have the right at any time, upon reasonable notice, to inspect or examine the Security Register and to make such inquiries of the Registrar as the Trustee shall in its discretion deem necessary or desirable in performing its duties hereunder. The Trustee is initially appointed Paying Agent. The Issuer may, upon written notice to the Trustee, change the designation of the Trustee as Paying Agent, appoint another Person (other than the Issuer, the Guarantor or any of their Affiliates) to act as Paying Agent and thereafter change the designation of such Person as Paying Agent, appoint one or more supplemental Paying Agents (other than the Issuer, the Guarantor or any of their Affiliates) (whose appointment may be terminated by the Issuer upon notice to the Trustee), and approve (subject to Clause 4.2) any change in the specified office through which any Paying Agent acts. Notice of any termination or appointment of any Paying Agent shall be given to the Holders of the Notes in accordance with Clause 11.2 hereof. The Registrar and Paying Agent may resign at any time by giving 30 days prior written notice thereof to the Trustee and the Issuer.

The Issuer shall enter into an appropriate agency agreement with any Person designated by the Issuer as Registrar or Paying Agent that is not appointed pursuant to this Indenture, which agreement shall incorporate the provisions of the Trust Indenture Act and shall implement the provisions of this Indenture that relate to such Registrar or Paying Agent. Prior to the designation of any such Person, the Issuer shall, by written notice (which notice shall include the name and address of such Person), inform the Trustee of such designation. If the Issuer fails to maintain a Registrar or Paying Agent, the Trustee shall act as such.

Notwithstanding any other provision hereof, the Issuer shall at all times maintain a Paying Agent and an office or agency where the Notes may be presented for registration of transfer or exchange in the Borough of Manhattan, The City of New York.

In addition to the foregoing, the Issuer hereby appoints J.P. Morgan Bank Luxembourg S.A., at its office at 5 Rue Plaetis, L-2338, Luxembourg, as Luxembourg Paying Agent. The Issuer may, upon written notice to the Luxembourg Paying Agent and the Trustee, revoke the designation of the Luxembourg Paying Agent, appoint another Person to act as Luxembourg Paying Agent and thereafter change the designation of such Person as Luxembourg Paying Agent, and (subject to Clause 4.2) approve any change in the specified office through which the Luxembourg Paying Agent acts. Notice of any termination or appointment of any Luxembourg Paying Agent shall be given to the Holders of the Notes in accordance with Clause 11.2 hereof. The Luxembourg Paying Agent may resign at any time by giving 30 days prior written notice thereof to the Trustee and the Issuer. Notwithstanding any other provision hereof, so long as the Notes are listed on the Luxembourg Stock Exchange and such stock exchange so requires, the Issuer shall maintain a Luxembourg Paying Agent for the Notes.

Subject to compliance with the provisions of Clause 2.1 hereof and the transfer restrictions of Clause 2.5 hereof, upon surrender for registration of transfer of any Note at an office or agency of the Issuer designated for such purpose, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denomination or denominations, of like tenor and aggregate principal amount, all as requested by the transferor.

Every Note presented or surrendered for registration of transfer or for exchange shall be duly endorsed, or be accompanied by a duly executed instrument of transfer in form satisfactory to the Issuer, the Trustee and the Registrar, by the Holder thereof or such Holder's attorney duly authorized in writing.

2.4 Global Notes

2.4.1 So long as a Global Note is registered in the name of the Depositary, the Common Depositary or a nominee or successor thereof, members of, or account holders, or participants in, the Depositary, the Common Depositary, or any successor or nominee thereof shall have no rights under this Indenture with respect to the Global Note held on their behalf by the Depositary, the Common Depositary, a nominee or successor thereof or the Trustee as custodian therefor, and the Depositary, the Common Depositary or their nominee or successor may be treated by the Issuer, the Guarantor, the Trustee or their agents as the sole owner of such Global Note for all purposes (except with respect to the determination of Additional Amounts owing). Notwithstanding the foregoing, nothing herein shall (i) prevent the Issuer, the Guarantor, the Trustee or any agent of the Issuer, the Guarantor or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by the Depositary, the Common Depositary or (ii) impair, as between the Depositary, the Common Depositary and their members, account holders or participants, the operation of customary practices governing the exercise of the rights of holders of beneficial interests in the Notes. For purposes of this Indenture, an " **Agent Member** " is a member of, or participant in, the Depositary, the Common Depositary, as the case may be and as the context may require, and includes, in the case of the Depositary, the Common Depositary.

2.4.2 The Holder of a Global Note may grant proxies and otherwise authorize any Person, including Agent Members of the Depositary and Persons that may hold interests in a Global Note through such Agent Members, to take any action which a Holder of Notes is entitled to take under this Indenture or the Notes.

2.4.3 Whenever, as a result of an optional redemption by the Issuer or of an exchange for Certificated Notes pursuant to the provisions of Clause 2.5.3 hereof, a Global Note is redeemed, repurchased or exchanged in part, such Global Note shall be surrendered by the Holder thereof to the Trustee who shall cause an adjustment to be made to Schedule A thereof so that the principal amount of such Global Note will be equal to the portion of such Global Note not redeemed, repurchased or exchanged and shall thereafter return such Global Note to such Holder, provided that each such Global Note shall be in a principal amount of U.S.\$2,000 or integral multiples thereof.

2.5 Transfer and Exchange

2.5.1 Notwithstanding any provision to the contrary herein, so long as a Global Note remains outstanding and is held by or on behalf of the Depositary, the Common Depositary or a nominee or successor thereof, transfers of a Global Note, in whole or in part, shall only be made in accordance with this Clause 2.5; provided, however, that beneficial interests in a Global Note may be transferred to persons who take delivery thereof in the form of a beneficial interest in the same Global Note in accordance with the transfer restrictions set forth in the restricted securities legend on the Note and the customary procedures of the Depositary, the Common Depositary, as applicable, and the Agent Members.

2.5.2 The following provisions shall apply:

- (i) *Rule 144A Global Note to Regulation S Global Note* : If a holder of a beneficial interest in the Rule 144A Global Note deposited with the Depositary wishes at any time to exchange its interest in such Rule 144A Global Note for an interest in the Regulation S Global Note, or to transfer its interest in such Rule 144A Global Note to a Person who wishes to take delivery thereof in the form of an interest in the Regulation S Global Note, such holder may, subject to the rules and procedures of the Depositary, exchange or cause the
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exchange or transfer or cause the transfer of such interest for an equivalent beneficial interest in the Regulation S Global Note. Upon receipt by the Trustee, as Registrar, at its Corporate Trust Office of (1) instructions given in accordance with the Depository's procedures from the Agent Member directing the Trustee to credit or cause to be credited a beneficial interest in the Regulation S Global Note in an amount equal to the beneficial interest in the Rule 144A Global Note to be exchanged or transferred and (2) a certificate in the form of Exhibit B attached hereto given by the holder of such beneficial interest stating that the exchange or transfer of such interest has been made in compliance with the transfer restrictions applicable to the Notes and (A) pursuant to and in accordance with Regulation S or (B) that the Note being exchanged or transferred is not a "restricted security" as defined in Rule 144, the Trustee, as Registrar, shall in accordance with the Depository's DWAC procedure reduce the Rule 144A Global Note by the aggregate principal amount of the beneficial interest in the Rule 144A Global Note to be so exchanged or transferred and the Trustee, as Registrar, shall instruct the Common Depository for Euroclear or Clearstream, concurrently with such reduction, to increase the principal amount of the Regulation S Global Note by the aggregate principal amount of the beneficial interest in the Rule 144A Global Note to be so exchanged or transferred, and to credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Regulation S Global Note equal to the reduction in the principal amount of the Rule 144A Global Note.

- (ii) *Regulation S Global Note to Rule 144A Global Note* : If a holder of a beneficial interest in the Regulation S Global Note wishes at any time to exchange its interest in such Regulation S Global Note for an interest in the Rule 144A Global Note, or to transfer its interest in such Regulation S Global Note to a Person who wishes to take delivery thereof in the form of an interest in the Rule 144A Global Note, such holder may, subject to the rules and procedures of Euroclear or Clearstream and the Depository, exchange or cause the exchange or transfer or cause the transfer of such interest for an equivalent beneficial interest in the Rule 144A Global Note. Upon receipt by the Trustee, as Registrar, as its Corporate Trust Office of (1) instructions given in accordance with the Depository's procedures directing the Trustee, as Registrar, to credit or cause to be credited a beneficial interest in the Rule 144A Global Note equal to the beneficial interest in the Regulation S Global Note to be exchanged or transferred, such instructions to contain information regarding the Agent Member's account with the Depository to be credited with such increase, and (2) a certificate in the form of Exhibit C attached hereto given by the holder of such beneficial interest and stating that the Person transferring such interest in the Regulation S Global Note reasonably believes that the person acquiring such interest in the Rule 144A Global Note is a QIB and is obtaining such beneficial interest in a transaction otherwise meeting the requirements of Rule 144A any applicable securities laws of any state of the United States and any other jurisdiction, the Trustee, as Registrar, shall instruct the Common Depository for Euroclear or Clearstream to reduce the Regulation S Global Note by the aggregate principal amount of the beneficial interest to be exchanged or transferred, and the Trustee, as Registrar, shall in accordance with the Depository's DWAC procedure, concurrently with such reduction, increase the principal amount of the Rule 144A Global Note by the aggregate principal amount of the beneficial interest in the Regulation S Global Note to be so exchanged or transferred, and to credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Rule 144A Global Note equal to the reduction in the principal amount of the Regulation S Global Note.
- (iii) *Other Exchanges* : In the event that a Global Note is exchanged for Certificated Notes pursuant to Clause 2.5.3 hereof, such Notes may be exchanged or transferred for one another only in accordance with such procedures as are substantially consistent with the provisions of clauses (i) and (ii) above (including the certification requirements intended to ensure that such exchanges or transfers comply with Rule 144, Rule 144A or
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Regulation S, as the case may be) and as may be from time to time adopted by the Issuer and the Trustee.

- (iv) *Beneficial Interests* : Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note, or exchanged for an interest in another Global Note, will, upon such transfer or exchange, cease to be an interest in the original Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for as long as it remains such a beneficial interest.

2.5.3 A Regulation S Global Note shall be exchanged for Certificated Notes if (a) Clearstream or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business and does in fact do so and no alternative clearing system satisfactory to the Issuer is available, or (b) the Issuer elects to exchange such Regulation S Global Note in whole but not in part for one or more Certificated Notes. A Rule 144A Global Note shall be exchanged by the Issuer for one or more Certificated Notes if (a) the Depository (i) has notified the Issuer that it is unwilling or unable to continue as, or ceases to be, a clearing agency registered under Section 17A of the Exchange Act and (ii) a successor to the Depository registered as a clearing agency under Section 17A of the Exchange Act is not able to be appointed by the Issuer within 90 calendar days, (b) the Depository is at any time unwilling or unable to continue as Depository and a successor to the Depository is not able to be appointed by the Issuer within 90 calendar days, or (c) the Issuer elects to exchange such Rule 144A Global Note in whole but not in part for one or more Certificated Notes. In addition, if an Event of Default occurs and is continuing, the Issuer shall, at the request of the Holder thereof, exchange all or part of a Global Note for one or more Certificated Notes; provided that the principal amount of each of such Certificated Note, and such Global Note, after such exchange, shall be in minimum denominations of U.S.\$2,000 or integral multiples thereof. Whenever a Global Note is exchanged as a whole for one or more Certificated Notes, it shall be surrendered by the Holder thereof to the Trustee for cancellation. Whenever a Global Note is exchanged in part for one or more Certificated Notes, it shall be surrendered by the Holder thereof to the Trustee and the Trustee shall make the appropriate notations thereon pursuant to Clause 2.4.3 hereof. All Certificated Notes issued in exchange for a Global Note or any portion thereof shall be in registered form and registered in such names, and delivered, as the Depository, Euroclear or Clearstream, as applicable, shall instruct the Trustee. Any Certificated Notes issued pursuant to this Clause 2.5.3 shall include the Legend, except as set forth in Clause 2.5.9 hereof. The cost of preparing, printing, packaging and delivering any Certificated Notes shall be borne by the Issuer.

2.5.4 A Holder may transfer a Note only upon the surrender of such Note for registration of transfer at the specified office of the Registrar hereunder. No such transfer shall be effected until, and the transferee shall succeed to the rights of a Holder only upon, final acceptance and registration of the transfer in the Security Register by the Registrar. When Notes are presented to the Registrar with a request to register the transfer of, or to exchange, such Notes, the Registrar shall register the transfer or make such exchange as requested if its requirements for such transactions and any applicable requirements hereunder are satisfied. To permit registrations of transfers and exchanges of Certificated Notes, the Issuer shall execute and the Trustee shall authenticate Certificated Notes at the Registrar's request.

2.5.5 The Issuer shall not be required to make and the Registrar need not register the transfer or exchange of (i) any Note previously called for redemption pursuant to Clause 3 of this Indenture or (ii) any Certificated Note for a period of 15 calendar days preceding the due date for any payment of principal of or interest on such Certificated Note or the selection of such Certificated Note for redemption pursuant to Clause 3 of this Indenture.

2.5.6 No service charge shall be made for any registration of transfer or exchange of Notes, but the Issuer or the Trustee may require payment of a sum sufficient to cover any tax, fee or other governmental charge required by law that may be imposed in connection with any registration of transfer of Notes.

2.5.7 All Notes issued upon any registration of transfer or exchange pursuant to the terms of this Indenture will evidence the same debt and will be entitled to the same benefits under this Indenture as the Notes surrendered for such registration of transfer or exchange.

2.5.8 Holders of Notes (or holders of beneficial interests therein) and prospective purchasers designated by such Holders of Notes (or such holders of beneficial interests therein) shall have the right to obtain from the Guarantor upon request by such Holders (or such holders of beneficial interests) or prospective purchasers, during any period in which the Issuer is not subject to Section 13 or Section 15(d) of the Exchange Act or is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, the information required by paragraph (d)(4)(i) of Rule 144A in connection with any transfer or proposed transfer of such Notes or beneficial interests.

2.5.9 If Notes are issued upon the transfer, exchange or replacement of Notes not bearing the Legend, the Notes so issued shall not bear the Legend. If Notes are issued upon the transfer, exchange or replacement of Notes bearing the Legend, or if a request is made to remove the Legend on a Note, the Notes so issued shall bear the Legend, or the Legend shall not be removed, as the case may be, unless there is delivered to the Trustee evidence satisfactory to the Issuer, which may include an opinion of counsel licensed to practice law in the State of New York, the United States of America, as may be reasonably required by the Issuer that neither the Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A, Rule 144 or Regulation S and the securities laws of each other applicable jurisdiction, or that such Notes are not "restricted securities" within the meaning of Rule 144 and the Issuer and the Guarantor consent to such removal. Upon provision of such satisfactory evidence, the Trustee, at the written direction of the Issuer, shall authenticate and deliver a Note that does not bear the Legend. If the Legend is removed from the face of a Note and the Note is subsequently held by an Affiliate of the Issuer, the Issuer shall notify in writing the Registrar and the Legend shall be reinstated.

2.6 Replacement Notes

If any mutilated or defaced Note is surrendered to the Trustee, the Issuer shall execute and upon its written request the Trustee shall authenticate and deliver, in exchange and substitution for any such mutilated or defaced Note, a new Note containing identical provisions (including the same date of issuance) and of like principal amount, registered in the same manner, dated the date of its authentication, bearing interest from the date to which interest has been paid on the mutilated or defaced Note and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Issuer and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Note and of the ownership of the applicant of such Note and (ii) such security or indemnity as may be required by them to save each of them and any agent of each of them harmless, then, in the absence of notice to the Issuer or the Trustee that such Note has been acquired by a protected purchaser, the Issuer shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Note, a new Note containing identical provisions (including the same date of issuance) and of like principal amount, registered in the same manner, dated the date of its authentication, bearing interest from the date to which interest has been paid on the destroyed, lost or stolen note and bearing a number not contemporaneously outstanding. Upon the issuance of any substituted Note, the Issuer may require the payment by the registered Holder thereof of a sum sufficient to cover fees and expenses connected therewith.

In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Note, pay such Note.

Upon the issuance of any new Note under this Clause 2.6, the Issuer may require the payment by the Holder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee and its counsel) connected therewith.

Every new Note issued pursuant to this Clause 2.6 in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Clause 2.6 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

2.7 Outstanding Notes

Notes outstanding at any time are all Notes authenticated by the Trustee except for those cancelled by it, those delivered to it for cancellation, those paid pursuant to Clause 2.6 hereof and those described in this Clause 2.7 as not outstanding. A Note does not cease to be outstanding because the Issuer or an Affiliate of the Issuer holds such Note.

If a Note is replaced pursuant to Clause 2.6 hereof, it ceases to be outstanding unless the Trustee and the Issuer receive proof satisfactory to them that such replaced Note is held by a protected purchaser.

If the Paying Agent segregates and holds in trust or, in the case of the Luxembourg Paying Agent, on deposit in accordance with this Indenture, on a Redemption Date or Stated Maturity money sufficient to pay all principal and interest payable on that date with respect to the Notes to be redeemed or maturing, as the case may be, then on and after that date such Notes shall cease to be outstanding and interest on them shall cease to accrue.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent or any amendment, modification or other change to this Indenture, Notes held or beneficially owned by the Issuer, the Guarantor or any of their Affiliates or by agents of any of the foregoing shall be disregarded, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent or any amendment, modification or other change to this Indenture, only Notes which a Trust Officer actually knows are so owned shall be so disregarded. Notes so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee such pledgee's right so to act with respect to the Notes and that the pledgee is not the Issuer, the Guarantor or an Affiliate of the Issuer or the Guarantor or any of their agents.

2.8 Temporary Notes

Pending the preparation of definitive Notes, the Issuer may execute, and the Trustee shall authenticate, temporary notes (the "**Temporary Notes**") which are printed, lithographed, or otherwise produced, substantially of the tenor of the definitive Notes in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officer executing the Notes may reasonably determine, as conclusively evidenced by such officer's execution of such Notes.

If Temporary Notes are issued, the Issuer shall cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the Temporary Notes shall be exchangeable for definitive Notes upon surrender of the Temporary Notes to the Trustee, without charge to the Holder. Until so exchanged, Temporary Notes will evidence the same debt and will be entitled to the same benefits under this Indenture as the definitive Notes in lieu of which they have been issued.

2.9 Cancellation

The Issuer at any time may deliver Notes to the Trustee for prompt cancellation. The Registrar, the Paying Agent and the Luxembourg Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange, purchase or payment. The Trustee shall cancel all Notes surrendered for registration of transfer, exchange, purchase, payment or cancellation and, upon a written order, shall return such cancelled Notes to the Issuer. The Issuer may not issue new Notes to replace Notes it has redeemed or paid or that have been delivered to the Trustee for cancellation.

2.10 Payment of Interest; Interest Rights Preserved

Subject to Clause 11.6, interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name such Note (or any predecessor Note) is registered at the close of business on the Record Date for such interest payment, which shall be the fifteenth calendar day immediately preceding such Interest Payment Date.

Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called " **Defaulted Interest** ") shall forthwith cease to be payable to the registered Holder on the relevant Record Date, and, except as hereinafter provided, such Defaulted Interest, and any interest payable on such Defaulted Interest, shall be paid by the Issuer, at its election, as provided in Clause 2.10.1 or 2.10.2 below:

2.10.1 The Issuer may elect to make payment of any Defaulted Interest, and to the extent permitted by law, any interest payable on such Defaulted Interest, to the Persons in whose names the Notes are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Issuer shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on the Notes and the date of the proposed payment, and at the same time the Issuer shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as provided in this Clause 2.10.1. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 calendar days and not less than 10 calendar days prior to the date of the proposed payment and not less than 10 calendar days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer of such Special Record Date and, in the name and at the expense of the Issuer, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be sent, first-class mail, postage prepaid, to each Holder at such Holder's address as it appears in the Security Register, not less than 10 calendar days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Notes are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause 2.10.2; or

2.10.2 The Issuer may make payment of any Defaulted Interest, and any interest payable on such Defaulted Interest, on the Notes in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Issuer to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Clause 2.10, each Note delivered under this Indenture upon registration of transfer of, or in exchange for, or in lieu of, any other Note, shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

2.11 Authorized Denominations

The Notes shall be issuable in minimum denominations of U.S.\$2,000 and integral multiples thereof.

2.12 Computation of Interest

Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

2.13 Persons Deemed Owners

Prior to the due presentation for registration of transfer of any Note, the Issuer, the Trustee, any Paying Agent, the Registrar, the Luxembourg Paying Agent or any agent of any of them may deem and treat the Person in whose name such Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Issuer, the Trustee, any Paying Agent, the Registrar, the Luxembourg Paying Agent or any agent of any of them shall be affected by notice to the contrary. All such payments so made to any such Person, or upon such Person's order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for money payable upon such Note.

2.14 CUSIP, Common Code and ISIN Numbers

The Issuer, in issuing the Notes, may use a "CUSIP," "Common Code" or "ISIN" number and, if so, the Trustee shall use the relevant CUSIP, Common Code or ISIN number in any notices to Holders as a convenience to such Holders; provided that any such notice may state that no representation is made as to the correctness or accuracy of the number printed in the notice or on the Notes and that reliance may be placed only on the other identification numbers printed on the Notes. The Issuer shall promptly notify the Trustee of any change in any number used.

2.15 Issuance of Additional Notes

The Issuer shall be entitled to issue Additional Notes under this Indenture which shall have identical terms as the Notes, other than with respect to the date of issuance, the issue price, the initial interest accrual date, and except as may be provided in Clause 2.15.3. The Additional Notes shall be issued in global registered form without interest coupons, substantially in the form of Exhibit A hereto.

The Notes and any Additional Notes shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Notes, the Issuer shall set forth in a Board Resolution and an Officer's Certificate, a copy of each which shall be delivered to the Trustee prior to the authentication thereof, the following information:

2.15.1 the aggregate principal amount of such Additional Notes to be authenticated and delivered pursuant to this Indenture;

2.15.2 the issue price, the issue date and the CUSIP, ISIN and Common Code numbers of such Additional Notes; provided, however, that no Additional Notes may be issued at a price that would cause such Additional Notes to have "original issue discount" within the meaning of Section 1273 of the U.S. Internal Revenue Code of 1986, as amended; and

2.15.3 whether such Additional Notes shall be issued in the form of a Rule 144A Global Note or a Regulation S Global Note.

2.16 Purchase of Notes by the Guarantor or Subsidiaries of the Guarantor

The Guarantor and each of the Subsidiaries of the Guarantor shall be entitled, to the extent permitted by applicable law, at any time, to purchase Notes in the open market at any price by tender or by any private arrangement pursuant to the terms and conditions of such tender or private arrangement and, to the extent permitted by, and pursuant to, the requirements of the Luxembourg Stock Exchange. Any Note that the Guarantor or any of the Subsidiaries of the Guarantor purchases may, at the option of the Guarantor, be surrendered to the Trustee for

cancellation. None of the notes that the Guarantor or any of the Subsidiaries of the Guarantor purchases may be reissued or resold, except to the Guarantor or any of its Subsidiaries.

3 Redemption

3.1 Notice of Redemption

If the Issuer elects to redeem Notes pursuant to Clause 7 thereof (relating to a tax redemption), it shall, at least 30 calendar days but not more than 60 calendar days before a Redemption Date, deliver to the Trustee and send to each Holder of Notes by first-class mail, postage prepaid, at the address of such Holder as it appears in the Security Register, a written notice stating:

3.1.1 the Redemption Date;

3.1.2 the Redemption Price (and shall specify the portion of such Redemption Price that constitutes the amount of accrued and unpaid interest to be paid, if any);

3.1.3 that the Notes are being called for redemption pursuant to Clause 7 thereof;

3.1.4 that, unless the Issuer defaults in the payment of the Redemption Price with respect thereto, interest on the Notes called for redemption shall cease and such Notes shall cease to accrue interest, from and after the Redemption Date;

3.1.5 that the Notes called for redemption must be surrendered to any Paying Agent to collect the Redemption Price;

3.1.6 the name and address of the Paying Agent(s); and

3.1.7 any other information necessary to enable Holders to comply with the notice of redemption.

3.2 Notice to Trustee

The Issuer shall notify the Trustee in writing of the Redemption Date and the principal amount of Notes to be redeemed. The Issuer shall give each such notice to the Trustee at least 60 calendar days prior to the Redemption Date unless the Trustee consents to a shorter period, and in any event prior to the time notice is delivered to Holders pursuant to Clause 3.1 of this Indenture. Such notice shall be accompanied by an Officer's Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem the Notes have occurred, and an Opinion of Counsel of recognized international standing to the effect that such redemption will comply with any conditions to such redemption set forth herein and in the Notes.

3.3 Effect of Notice of Redemption

Once notice of redemption is mailed, Notes called for redemption shall become due and payable on the Redemption Date and at the Redemption Price stated in such notice. Upon surrender to any Paying Agent such Notes shall be paid at the Redemption Price stated in such notice. Failure to give notice or any defect in the notice to any Holder shall not affect the validity of the notice to any other Holder.

3.4 Deposit of Redemption Price

On or prior to 10:00 a.m., New York City time, on the business day immediately preceding the Redemption Date, the Issuer shall deposit with the Paying Agent, U.S. Dollars in immediately available funds, sufficient to pay the Redemption Price in respect of all Notes to be redeemed other than Notes called for redemption which have been delivered by the Issuer to the Trustee for cancellation. The Paying Agent shall promptly send by first-class mail, postage prepaid, to each Holder of Notes to be redeemed, payment in an amount equal to the Redemption Price for such Notes.

So long as the Issuer complies with the preceding paragraph and the other provisions of this Clause 3, interest on the Notes to be redeemed on the Redemption Date shall cease to accrue

from and after such date and such Notes shall be deemed not to be entitled to any benefit under this Indenture except to receive payment of the Redemption Price on the Redemption Date (subject to the right of each Holder of record on the relevant Record Date to receive interest due on the relevant Interest Payment Date occurring on or before the Redemption Date). If any Note called for redemption shall not be so paid upon surrender for redemption, then, from the Redemption Date until such principal is paid, interest shall be paid on the unpaid principal and, to the extent permitted by law, on any accrued but unpaid interest thereon, at the rate prescribed therefor by such Notes.

4 Covenants

4.1 Payment of Principal and Interest

The Issuer shall promptly pay the principal of and interest on the Notes in United States Dollars on the dates and in the manner provided in the Notes and in Clause 4.3 hereof. Principal and interest shall be considered paid on the date due if, on such date, the Trustee or any Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due.

To the extent lawful, the Issuer shall pay interest on (i) any overdue principal of the Notes, at the interest rate borne by the Notes and (ii) Defaulted Interest (without regard to any applicable grace period), at the same rate. The Issuer's obligation pursuant to the previous sentence shall apply whether such overdue amount is due at the Stated Maturity of the Notes, as a result of the Issuer's obligations pursuant to Clause 3.4, or otherwise.

Interest on the Notes shall be paid by U.S. dollar check drawn on a bank in The City of New York or, for Holders of at least \$1,000,000 of Notes, by wire transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York provided that a written request from such Holder to such effect designating such account is received by the Trustee or a Paying Agent no later than the Record Date immediately preceding such Interest Payment Date. Unless such designation is revoked, any such designation made by such person with respect to such Note will remain in effect with respect to any future payments with respect to such Note payable to such person. The Issuer will pay any administrative costs imposed by banks in connection with making payments by wire transfer.

Payments in respect of principal on the Notes shall be made against surrender of such Notes.

4.2 Maintenance of Office or Agency

The Issuer and the Guarantor shall maintain in the Borough of Manhattan, The City of New York, an office or agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Issuer and the Guarantor in respect of the Notes and this Indenture may be served. The Issuer or the Guarantor shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuer and the Guarantor shall fail to maintain such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Issuer and the Guarantor each hereby appoints the Trustee its agent to receive all such presentations, surrenders, notices and demands.

The Issuer and the Guarantor may also from time to time designate one or more other offices or agencies (in or outside of The City of New York) where the Notes may be presented or surrendered for any or all of such purposes, and may from time to time rescind such designations; provided that no such designation or rescission shall in any manner relieve the Issuer of its obligation to maintain an office or agency in The City of New York for such purposes. The Issuer shall give prompt written notice to the Trustee of any such designation and any change in the location of any such other office or agency.

For so long as the Notes shall remain listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange shall so require, the Issuer shall maintain the appointment of a Luxembourg Paying Agent.

4.3 Payments; Money for the Note Payments to be Held in Trust

4.3.1 The Issuer shall, no later than the business day immediately preceding each due date of the principal of, or interest or Additional Amounts on any of the Notes, deposit, or cause the Guarantor to deposit on its behalf, with the Paying Agent, at its office in London, as principal paying agent, by wire transfer in U.S. dollars and in immediately available funds, a sum sufficient to pay the principal, interest or Additional Amounts so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, interest or Additional Amounts. Unless the Paying Agent is the Trustee, the Paying Agent shall promptly notify the Trustee of the Issuer's action or failure so to act according to this Clause 4.3.1.

4.3.2 The Issuer shall require each Paying Agent (other than the Trustee) to agree in writing that such Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by such Paying Agent for the payment of principal of or interest on the Notes, shall notify the Trustee of any default by the Issuer in making any such payment and at any time during the continuance of any such default, upon the written request of the Trustee, shall forthwith pay to the Trustee all sums held in trust by such Paying Agent.

4.3.3 The Issuer at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by such Paying Agent. Upon complying with this Clause 4.3, the Paying Agent shall have no further liability for the money delivered to the Trustee.

4.3.4 Any funds paid by the Issuer to the Trustee or any Paying Agent in trust or, in the case of the Luxembourg Paying Agent, on deposit for the payment of the principal, interest or Additional Amounts on the Notes that remains unclaimed for two years after the date upon which such payment shall have become due, shall be promptly repaid to the Issuer without interest upon receipt by the Trustee of an Order to that effect; provided, however, that the Issuer shall cause to be published at least once in a newspaper of general circulation in The City of New York and in Europe (and Luxembourg, for so long as any Notes are listed on the Luxembourg Stock Exchange) or mailed to each Holder entitled to such unclaimed funds, notice that such funds remain unclaimed and that, after a date specified therein, which shall be a date not less than 30 days from the date of such publication or mailing, any unclaimed balance of such money remaining as of such date shall be repaid to the Issuer without interest. Holders shall not be entitled to receive interest on such unclaimed funds under any circumstances. After repayment to the Issuer, Holders entitled to such funds shall look only to the Issuer for payment without interest thereon, as unsecured general creditors, and the Issuer shall not be liable to pay any taxes or other duties in connection with any such payment. The Trustee and the Paying Agent shall have no further liability with respect to any such money repaid to the Issuer, and the Issuer shall not be a trustee in respect of such funds. Notwithstanding any other provision of this Clause and unless otherwise provided by applicable law, the right to receive payment of principal of any Note (whether at maturity, redemption or otherwise) will become void at the end of 10 years from the relevant date thereof (or such shorter period as may be prescribed by applicable law).

4.4 Corporate Existence

Except as permitted in Clause 5 hereof, the Issuer and the Guarantor shall do or cause to be done all things necessary to preserve and keep in full force and effect the corporate existence, rights (by charter and statutory), licenses and franchises of the Issuer, the Guarantor and each of the Subsidiaries of the Guarantor; provided that the Guarantor and any of its Subsidiaries shall not be required to preserve the corporate existence of any such Subsidiary (other than the Issuer) or any such right, license or franchise if the board of directors of the Guarantor shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Guarantor and its

Subsidiaries and that the loss thereof is not disadvantageous in any material respect to the Holders of Notes or owners of beneficial interests therein.

4.5 Limitation on Incurrence of Debt

The Guarantor will not, and will not permit any of its Subsidiaries to, create, issue, incur, assume, guarantee or in any manner become directly or indirectly liable with respect to, or otherwise become responsible for (collectively, "incur") any Debt, including any Acquired Debt, unless the ratio of the Guarantor's total outstanding Debt to annualized Consolidated Cash Flows (as determined by multiplying the Guarantor's Consolidated Cash Flows for the two most recent fiscal quarters by two) would be no greater than 4.0 to 1.0, determined on a pro forma basis after giving pro forma effect to such incurrence and the incurrence of any other Debt and any other changes in the Guarantor's Debt since the date of the Guarantor's most recently available quarterly or annual consolidated balance sheet and the application of the net proceeds therefrom as if it had occurred on the first date of such quarterly or annual period.

For the purposes of calculating this ratio, any acquisitions that have been made by the Guarantor or a Subsidiary of the Guarantor, including through mergers or consolidations and including any related financing transactions, during or subsequent to the relevant fiscal quarter or year and on or prior to the date of the calculation of the ratio shall be deemed to have occurred on the first day of the relevant fiscal quarter or year, with the pro forma determinations of Consolidated Cash Flows resulting from any such transactions as determined in good faith by the Guarantor.

The accrual of interest, the accretion or amortization of original issue discount and the payment of interest on any Debt in the form of additional Debt with the same terms will not be deemed to be an incurrence of Debt for purposes of this covenant.

4.6 Negative Pledge

The Issuer and the Guarantor will not, and the Guarantor will not permit any Subsidiary to, create, assume or permit to exist any Debt secured by Lien (other than a Permitted Lien) upon or in respect of any of its or their property or assets, now owned or hereafter acquired, without effectively providing that the Notes and the Guarantee shall be directly secured equally and rateably with the Debt secured by such Lien.

This restriction will not apply to a Lien created to secure Attributable Debt in connection with a Sale and Lease-Back Transaction permitted under Clause 4.7 hereof.

4.7 Limitation on Sale and Lease-Back Transactions

The Issuer and the Guarantor will not, and the Guarantor will not permit any Subsidiary to, enter into any sale and Lease-Back Transaction with respect to any of its property or assets, now owned or hereafter acquired, unless after giving effect to the Sale and Lease-Back Transaction, the aggregate amount of all Attributable Debt relating to all Sale and Lease-Back Transactions plus all outstanding secured Debt created, incurred or assumed by the Guarantor and the Subsidiaries of the Guarantor does not exceed 10 per cent. of the book value of the Guarantor's total assets, as determined by reference to the Guarantor's most recent quarterly or annual consolidated balance sheet on a pro forma basis after giving effect to the incurrence of any Debt and any other changes in the Guarantor's Debt since the date of such balance sheet. For the purposes of this determination, the amount of Debt under any secured credit facility will be the total amount available under the facility, regardless of the amount at any one time outstanding.

This Clause 4.7 will not apply to transactions between the Guarantor and one of the Subsidiaries of the Guarantor or between such Subsidiaries or to a Sale and Lease-Back Transaction where the Issuer, the Guarantor or such Subsidiary would be entitled pursuant to Clause 4.6 hereof to incur Debt secured by a Lien on the property or assets subject to the Sale and Lease-Back Transaction without equally and rateably securing the Notes and the Guarantee.

4.8 Change in Control

So long as any Note remains outstanding, if a Change in Control occurs, each Holder will have the right to require the Issuer to redeem the Notes of such Holder at a Redemption Price equal to 101 per cent. of the principal amount of such Notes plus accrued interest.

Within 30 days after the occurrence of a Change in Control, the Issuer will deliver to the Holders, the Trustee and the Luxembourg Paying Agent notice of the Change in Control and of the resulting redemption right. Upon receipt by the Trustee or the Luxembourg Paying Agent (for so long as the Notes are listed on the Luxembourg Stock Exchange) from a Holder, on or before the 30th day after the date of the Issuer's notice referred to in the previous sentence, of (a) a properly completed notice in the form of Exhibit D hereto, together with (b) the Notes of such Holder, the Issuer will redeem such Notes no earlier than 30 and no later than 60 days after the date of the Issuer's notice of the Change in Control.

A holder may not exercise this redemption right in the event the Issuer has already exercised its option to redeem the Notes as described in Clause 7 of the Notes (relating to tax redemption).

4.9 Reports

4.9.1 The Guarantor shall (i) file with the Commission or otherwise make public and deliver to the Trustee, within 180 days of the end of each fiscal year, an annual report on Form 20-F (or any successor form) containing the information required to be contained therein (or in such successor form), regardless of whether the Guarantor is then required to file a Form 20-F under the rules promulgated by the Commission; (ii) make public and deliver to the Trustee, within 120 days of the end of each fiscal year, reports for the fourth quarter of such fiscal year containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the fourth quarter; and (iii) submit to the Commission or otherwise make public and furnish to the Trustee, within 60 days of the end of the first three fiscal quarters of each fiscal year, quarterly reports on Form 6-K (or any successor form) containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the period. In addition, the Guarantor has agreed that, during any period in which it is not subject to and in compliance with Section 13 or 15 (d) of the Exchange Act or is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, it will provide to each Holder of the Notes (or holder of a beneficial interest therein) and to each prospective purchaser of the Notes (as designated by such Holder or holder of a beneficial interest), upon the request of such Holder, prospective purchaser or holder of a beneficial interest in the Notes, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

4.9.2 After this Indenture has been qualified under the Trust Indenture Act, the Issuer and the Guarantor shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

4.9.3 Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt thereof shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's or the Guarantor's compliance with any of their respective covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer's Certificates).

4.10 Compliance Certificate; Notice of Default or Event of Default

4.10.1 The Issuer and the Guarantor shall each deliver to the Trustee on the first anniversary of the Issue Date, and on each anniversary thereafter so long as any Note remains outstanding, an Officer's Certificate stating whether or not, to the best knowledge of such officers, the Issuer or the Guarantor, as the case may be, has complied with all conditions and covenants under this Indenture, and, if the Issuer or the Guarantor, as the case may be, shall be in Default, specifying all such Defaults and the nature thereof of which such officer may have knowledge.

For the purposes of this Clause 4.10.1, compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

4.10.2 The Issuer and the Guarantor shall each deliver written notice to the Trustee promptly after any executive officer of the Issuer or the Guarantor, as the case may be, becomes aware of the occurrence of any event which constitutes a Default or Event of Default, describing such Default or Event of Default, its status and what action the Issuer or the Guarantor, as the case may be, is taking or proposes to take with respect thereto.

4.11 Payment of Additional Amounts.

All payments by the Issuer in respect of the Notes and the Indenture and by the Guarantor in respect of the Guarantee and the Indenture will be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (" **Taxes** ") imposed or levied by or on behalf of Luxembourg, the Russian Federation, any jurisdiction from or through which a payment is made or any political subdivision or taxing authority thereof or therein (each, a " **Taxing Jurisdiction** "), unless such withholding or deduction is required by law. If the Issuer is required to make any withholding or deduction for or on account of any Taxes from any payment made under or with respect to the Notes, or if the Guarantor is required to make any withholding or deduction for or on account of any Taxes imposed by a Taxing Jurisdiction from any payment made under or with respect to the Guarantee, the Issuer will pay (or, in respect of the Guarantee, the Guarantor will pay) as additional interest to any Holder of the Notes such additional amounts (the " **Additional Amounts** ") as may be necessary in order that every net payment made by the Issuer on such Note or by the Guarantor on the Guarantee after deduction or withholding for or on account of any Taxes will not be less than the amount then due and payable on such Note or the Guarantee. The foregoing obligation to pay Additional Amounts, however, will not apply to any (i) Taxes that would not have been imposed but for the existence of any present or former connection between such Holder of the Notes and any Taxing Jurisdiction other than the mere receipt of such payment or the ownership or holding of such Note, (ii) Taxes that would not have been imposed but for the presentation by the Holder of such Note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, (iii) Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note or the Guarantee, if such payment can be made without deduction or withholding by any other Paying Agent, (iv) Taxes that would not have been imposed but for the failure of the Holder to comply with the Issuer's written request addressed to the Holder at least 60 days prior to the relevant payment to provide information with respect to any reasonable certification, documentation, information or other reporting requirement concerning the nationality, residence, identity or connection with the Taxing Jurisdiction of the Holder of such Note, (v) Taxes imposed on a payment to an individual that are required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive and (vi) estate, inheritance, gift, sale or excise tax. The Guarantee also applies to Additional Amounts payable by the Issuer.

The Issuer or the Guarantor, as the case may be, shall make any such withholding or deduction for or on account of Taxes and shall remit the full amount deducted or withheld to the relevant authority in accordance with the applicable law. The Issuer or the Guarantor, as the case may be, shall furnish to the Holders of Notes that are outstanding on the date of the required payment within 30 days after the date the payment of any Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing that such payment has been made by the Issuer or the Guarantor, as the case may be. The Issuer and the Guarantor shall indemnify and hold harmless each Holder on the date of the required payment of any Taxes and upon written request reimburse each such Holder for the amount of (i) any Taxes (other than net income taxes) levied on and paid by such Holder as a result of payments made under or with respect to the outstanding Notes or the Guarantee, (ii) any liability (other than any liability relating to any net income taxes) (including penalties, interest and expense) arising therefrom or with respect thereto, and (iii) any Taxes imposed with respect to any reimbursement under clause (i) or (ii) above.

At least 30 days prior to each date on which any payment under or with respect to the Notes or the Guarantee is due and payable, if the Issuer or the Guarantor, as the case may be, becomes obligated to pay Additional Amounts with respect to such payment, the Issuer or the Guarantor, as the case may be, shall deliver to the Trustee (and each Paying Agent other than the Trustee) an Officer's Certificate certifying that the Issuer will make a withholding or deduction for or on account of Taxes and remit the same to the relevant authority, attesting to the fact that such Additional Amounts will be payable and the amounts so payable, and setting forth such other information as is necessary to enable the Trustee to pay such Additional Amounts to the Holders on the payment date. Whenever in this Indenture there is mentioned, in any context, the payment of principal, interest (including Defaulted Interest) or any other amount payable on or with respect to any of the Notes or the Guarantee, such reference shall be deemed to include mention of the payment of Additional Amounts provided for in this Clause 4.11 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Clause 4.11, and express mention of the payment of Additional Amounts in certain provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

The Issuer and the Guarantor, jointly and severally, hereby covenant to indemnify the Trustee (and each other Paying Agent) (which shall include their respective directors, officers, employees and agents) for, and to hold it harmless against any loss, liability or reasonable expenses incurred without gross negligence, bad faith or wilful misconduct on such Person's part, arising out of or in connection with actions taken or omitted by any of them in reliance on any Officer's Certificate furnished pursuant to this Clause 4.11 or the failure of the Trustee (or other Paying Agent) for any reason (other than its own gross negligence, bad faith or wilful misconduct) to receive on a timely basis such Officer's Certificate. The obligations of the Issuer and the Guarantor under this Clause 4.11 shall survive the resignation or removal of the Trustee or any Paying Agent, the termination of the Indenture and the payment of all amounts under or with respect to this Indenture, the Notes and the Guarantee.

4.12 Transactions with Affiliates

None of the Issuer, the Guarantor or any of their Subsidiaries shall, directly or indirectly, enter into or permit to exist any intercompany loan with, or for the benefit of, any Affiliate, unless (a) the terms of such intercompany loan are no less favourable to the Issuer, the Guarantor or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction or series of related transactions with a person that is not an Affiliate of the Issuer, the Guarantor or such Subsidiary or (b) such intercompany loan is made pursuant to a contract or contracts existing on the issue of the Notes (excluding any amendments or modifications thereto after the date thereof).

This Clause 4.12 shall not apply to (1) compensation or employee benefit arrangements with any officer or director of the Issuer, the Guarantor or such Subsidiary arising out of any employment contract entered into in the ordinary course of business or (2) transactions between the Issuer, the Guarantor or any of our Subsidiaries or between any such Subsidiaries.

4.13 Maintenance of Rating

The Guarantor and the Issuer will take all commercially reasonable steps necessary to maintain a rating on the Notes from Moody's Investors Service, Inc. or Standard & Poor's Ratings Services.

4.14 Further Instruments and Acts

Upon request of the Trustee, the Issuer and the Guarantor shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

5 Restrictions on Merger, Consolidation and Disposition of Assets

5.1 Merger, Consolidation and Disposition of Assets

5.1.1 The Guarantor shall not, in a single transaction or series of related transactions, merge, consolidate or otherwise combine with or into (whether or not the Guarantor is the Successor) any other Person, or directly and/or indirectly through its Subsidiaries sell, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, or permit any Person to merge, consolidate or otherwise combine with or into the Guarantor in one or more related transactions, unless: (i) the Successor (if other than the Guarantor or the Issuer) shall be a corporation organized and existing under the laws of the Russian Federation or Luxembourg, respectively, and shall assume, by operation of law or by entering into an indenture supplemental hereto in form satisfactory to the Trustee, executed and delivered to the Trustee, the due and punctual payment of all obligations under the Guarantee and this Indenture and the performance of every covenant of this Indenture on the part of the Guarantor or the Issuer, as the case may be, to be performed or observed; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing; (iii) on the date of that transaction, after giving pro forma effect to (1) the transaction, (2) any related financing transactions and (3) the pro forma Consolidated Cash

Flows resulting from such transaction, as determined in good faith by the Guarantor, in each case as if they had occurred at the beginning of the relevant quarterly or annual period, the ratio of Debt to Consolidated Cash Flows, calculated as provided in Clause 4.5 hereof, would be no greater than the greater of (x) such ratio immediately prior to the date of such transaction and (y) 4.0 to 1.0; provided, however, that this clause (iii) shall not apply in the case of a consolidation, merger or combination by one of the Guarantor's Subsidiaries with or into the Guarantor or another of the Guarantor's Subsidiaries; and (iv) the Guarantor shall have delivered to the Trustee (A) an Officer's Certificate stating that such consolidation, merger, combination or disposition and such supplemental indenture, if any, comply with the terms and all conditions precedent provided for in this Clause 5.1 and the Indenture relating to such transaction and (B) an Opinion of Counsel stating that such consolidation, merger, combination or disposition and such supplemental indenture comply with the terms and conditions provided for in clauses (i) and, with respect to the absence of an Event of Default being caused by such transaction, (ii) of this Clause 5.1.1 and elsewhere in the Indenture relating to such transaction.

5.1.2 So long as any Note remains outstanding, the Issuer shall not, in a single transaction or series of related transactions, merge, consolidate or otherwise combine with or into (whether or not the Issuer is the Successor) any other Person, or directly and/or indirectly sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, or permit any Person to merge, consolidate or otherwise combine with or into the Issuer in one or more related transactions, unless: (i) the Successor (if other than the Issuer) (A) shall be a Wholly Owned Subsidiary of the Guarantor and (B) shall assume, by operation of law or by entering into an indenture supplemental hereto, the due and punctual payment of the principle of and interest on all the Notes and the performance of every covenant of the Indenture on the part of the Issuer to be performed or observed; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing; (iii) on the date of that transaction, after giving pro forma effect to (1) the transaction, (2) any related financing transactions and (3) the pro forma Consolidated Cash Flows resulting from such transaction, as determined in good faith by the Guarantor, in each case as if they had occurred at the beginning of the relevant quarterly or annual period, the ratio of Debt to Consolidated Cash Flows, calculated as provided in Clause 4.5 hereof, would be no greater than the greater of (x) such ratio immediately prior to the date of such transaction and (y) 4.0 to 1.0; provided, however, that this clause (iii) shall not apply in the case of a consolidation, merger or combination by the Issuer with or into the Guarantor or another of the Guarantor's Subsidiaries; and (iv) the Issuer shall have delivered to the Trustee (A) an Officer's Certificate stating that such consolidation, merger, combination or disposition and such supplemental indenture comply with the terms and all conditions precedent provided for in this Clause 5.1 and the Indenture relating to such transaction and (B) an Opinion of Counsel stating that such consolidation, merger, combination or disposition and such supplemental indenture comply with the terms and conditions provided for in clauses (i) and, with respect to the absence of an Event of Default being caused by such transaction, (ii) of this Clause 5.1.2 and elsewhere in the Indenture relating to such transaction have been complied with. Notwithstanding any other provision hereof, the Issuer and such transferee or successor Person shall provide written notice of such merger, consolidation, combination, sale, assignment, transfer, conveyance or disposal to the Holders of the Notes.

5.2 Successor Person Substituted

In the event of any transaction described in and complying with Clause 5.1 hereof in which the Issuer or the Guarantor, as the case may be, is not the Successor, such Successor shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Guarantor, as the case may be, under this Indenture and, except in the case of a lease, the Issuer or the Guarantor, as the case may be, will be discharged from its obligations under this Indenture and the Notes or the Guarantee. Notwithstanding any other provision hereof, the Issuer or the Guarantor

and such Successor shall provide written notice of such succession or substitution to the Holders of the Notes.

5.3 Sale of Assets by the Guarantor

So long as any Note remains outstanding, (a) each conveyance, transfer, sale or lease of assets (other than the payment of dividends) by the Guarantor or one of its Subsidiaries to an Affiliate (other than the Guarantor or one of its Subsidiaries) shall be made for Fair Market Value and (b) if at any time subsequent to the Issue Date, the Guarantor and its Subsidiaries have engaged in a transaction or series of related transactions that, in the aggregate, result in the conveyance, transfer, sale or lease of assets to one or more Affiliates (other than to the Guarantor or one of its Subsidiaries) with a Fair Market Value of more than U.S.\$70,000,000 (or the equivalent in other currencies), the Guarantor shall deliver to the Trustee a resolution of the board of directors of the Guarantor, which shall confirm that such transaction was made for Fair Market Value.

5.4 Sale of Licenses by the Guarantor

So long as any Note remains outstanding, (a) the Guarantor will not transfer, sell or lease any of its GSM 900 or 1800 licenses for the Moscow license area; (b) Telecom XXI will not transfer, sell or lease any of its GSM 900 or 1800 licenses for the St. Petersburg license area; (c) Kuban GSM will not transfer, sell or lease any of its GSM 900 or 1800 licenses for the Krasnodar license area; or (d) UMC will not transfer, sell or lease any of its GSM 900 or 1800 license for the Ukraine license area, in each case except in a transaction meeting the requirements set forth in Clause 5.1.1 hereof or which would not have a material adverse effect on the business, financial condition or results of operations of the Guarantor and its Subsidiaries as a whole, regardless of whether the Guarantor, Telecom XXI, Kuban GSM or UMC would be permitted to do so by law.

6 Defaults and Remedies

6.1 Events of Default

The term "Event of Default," wherever used herein with respect to the Notes, means any one of the following events (whatever the reason for such event, and whether it shall be voluntary or involuntary, or be effected by operation of law, pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

6.1.1 the Issuer fails to make any payment of interest or Additional Amounts on any Note when the same becomes due and payable and such failure continues for a period of 15 calendar days; or

6.1.2 the Issuer fails to make any payment of the principal of any Note when the same becomes due and payable; or

6.1.3 the Issuer fails to comply with any of its obligations under Clause 4.8 hereof; or

6.1.4 the Issuer or the Guarantor fails to comply with any of its other agreements or covenants in, or provisions of, the Notes, the Guarantee or this Indenture for 30 days after written notice by the Trustee to the Issuer and the Guarantor, or written notice by Holders of at least 25 per cent. in aggregate principal amount of the Notes then outstanding to the Issuer, the Guarantor and the Trustee; or

6.1.5 a default under any Debt of the Issuer, the Guarantor or any Subsidiary of the Guarantor (other than the Notes) or under any indenture or other instrument under which any such Debt has been issued or by which it is governed and the expiration of the applicable period of grace, if any, contained in any such Debt, which in the aggregate exceeds U.S.\$ 5,000,000 (or the equivalent in other currencies), which default (i) results in the acceleration of the payment of such Debt or (ii) has not been cured or waived and constitutes the failure to make any payment of principal or interest on such Debt when due, after the expiration of any applicable grace period; or

6.1.6 a final action resulting in the suspension for more than 30 days or loss of any of (i) the Guarantor's GSM 900 or 1800 licenses for the Moscow license area; (ii) Telecom XXI's GSM 900 or 1800 licenses for the St. Petersburg license area; (iii) Kuban GSM's GSM 900 or 1800 licenses for the Krasnodar license area; or (iv) UMC's GSM 900 or 1800 licenses for the Ukraine license area, in each case other than, in the case of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's merger or consolidation or a sale of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's assets and properties substantially as a whole in a transaction permitted under Clause 5.1.1 hereof, a loss where the relevant license is issued within 30 days to the Guarantor, the Successor of the Guarantor, Telecom XXI, Kuban GSM or UMC's or any of the Guarantor's or Successor's Subsidiaries); or

6.1.7 the reassignment to other users (other than a Subsidiary of the Guarantor), cancellation or other loss of any of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's assigned spectrum allocations, other than as would not have a material adverse effect on the business, financial condition or results of operations of the Guarantor and its Subsidiaries as a whole; or

6.1.8 the express transfer, sale or lease by (i) the Guarantor of any of its GSM 900 or 1800 licenses for the Moscow license area; (ii) Telecom XXI of its GSM 900 or 1800 licenses for the St. Petersburg license area; (iii) Kuban GSM of any of its GSM 900 or 1800 licenses for the Krasnodar license area; or (iv) UMC of any of its GSM 900 or 1800 licenses for the Ukraine license area, regardless of whether such transfer, sale or lease is permitted by law, other than in a transaction described in and meeting the requirements of Clause 5.1.1 hereof or that would not have a material adverse effect on the business, financial condition or results of operations of the Guarantor and its Subsidiaries as a whole; or

6.1.9 the American Depositary Shares representing the common stock of the Guarantor are no longer listed on the New York Stock Exchange or such listing is suspended for more than 15 days, where such de-listing or suspension is due to the Guarantor's failure to satisfy its obligations under its listing agreement with the New York Stock Exchange; or

6.1.10 the rendering against the Issuer, the Guarantor or any Subsidiary of the Guarantor of a judgment, decree or order for the payment of money in an amount in excess of U.S.\$10,000,000 and the continuance of any such judgment, decree or order unsatisfied and in effect for any period of 60 consecutive days without a stay of execution; or

6.1.11 the Guarantee ceases to be (or is claimed in writing by the Guarantor not to be) in full force and effect; or

6.1.12 the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer, the Guarantor or any Significant Subsidiary in an involuntary case or proceeding under any Bankruptcy Law or (ii) a decree or order adjudging the Issuer, the Guarantor or any Significant Subsidiary bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of, or in respect of, the Issuer, the Guarantor or any Significant Subsidiary under any Bankruptcy Law or appointing a Custodian of the Issuer, the Guarantor or any Significant Subsidiary or of any substantial part of the property of the Issuer, the Guarantor or any Significant Subsidiary, or ordering the winding-up or liquidation of the affairs of the Issuer, the Guarantor or any Significant Subsidiary, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive calendar days; or

6.1.13 (i) the commencement by the Issuer, the Guarantor or any Significant Subsidiary of a voluntary case or proceeding under any Bankruptcy Law or of any other case or proceeding to be adjudicated a bankrupt or insolvent; (ii) the consent by the Issuer, the Guarantor or any Significant Subsidiary to the entry of a decree or order for relief in respect of the Issuer, the Guarantor or any Significant Subsidiary in an involuntary case or proceeding under any Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding

against the Issuer, the Guarantor or any Significant Subsidiary; (iii) the filing by the Issuer, the Guarantor or any Significant Subsidiary of a petition or answer or consent seeking reorganization or relief under any Bankruptcy Law; (iv) the consent by the Issuer, the Guarantor or any Significant Subsidiary to the filing of such petition or to the appointment of or taking possession by a Custodian of the Issuer, the Guarantor or any Significant Subsidiary or of any substantial part of the property of the Issuer, the Guarantor or any Significant Subsidiary, or the making by the Issuer, the Guarantor or any Significant Subsidiary of an assignment for the benefit of creditors; (v) the admission by the Issuer, the Guarantor or any Significant Subsidiary in writing of its inability to pay its debts generally as they become due; or (vi) the taking of corporate action by the Issuer, the Guarantor or any Significant Subsidiary to authorize or effect any such action.

A Default under Clause 6.1.4 is not an Event of Default unless the notice provided for in such clause specifies the Default, demands that it be remedied and states that the notice is a "Notice of Default."

6.2 Acceleration

If an Event of Default (other than an Event of Default specified in Clause 6.1.12 or Clause 6.1.13) occurs and is continuing, then and in every such case the Trustee by written notice to the Issuer and the Guarantor, or the Holders of at least 25 per cent. in aggregate principal amount of the Notes then outstanding by written notice to the Issuer, the Guarantor and the Trustee, may declare the unpaid principal of and any accrued interest on all the Notes then outstanding to be immediately due and payable. Upon such declaration such principal and interest shall be due and payable immediately. If an Event of Default specified in Clause 6.1.12 or Clause 6.1.13 hereof occurs, such an amount shall *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee or the Holders under this Indenture, the Holders of a majority in principal amount of the Notes then outstanding, by written notice to the Issuer, the Guarantor and the Trustee, may rescind and annul such declaration and its consequences if: (a) the Issuer or the Guarantor has paid or deposited with the Trustee a sum sufficient to pay (i) all overdue instalments of interest on the Notes, (ii) the principal of any Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes, (iii) to the extent that payment of such interest is lawful, interest upon overdue instalments of interest at the rate borne by the Notes, and (iv) all sums paid or advanced by the Trustee hereunder and reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and (b) all Events of Default, other than the non-payment of the principal of and interest on the Notes which have become due solely by such acceleration, have been cured or waived as provided in this Indenture. No such rescission shall affect any subsequent Default or impair any right consequent thereon.

6.3 Other Remedies

The Issuer covenants that if an Event of Default specified in Clause 6.1.1 or Clause 6.1.2 occurs the Issuer shall, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders, the whole amount then due and payable on the Notes for principal and interest and, to the extent that payment of such interest shall be legally enforceable, interest upon the overdue principal and upon Defaulted Interest at the rate or rates prescribed therefor in such Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due to the Trustee pursuant to Clause 7.7 hereof.

If the Issuer fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer and the Guarantor or any other obligor upon such Notes and

collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property and assets of the Issuer and the Guarantor or any other obligor upon such Notes, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

6.4 Waiver of Past Defaults

The Holders of not less than a majority in principal amount of the Notes then outstanding may, on behalf of the Holders of all the Notes, waive any past or existing Default or Event of Default and its consequences under this Clause 6, except a Default or Event of Default (a) in the payment of the principal of or interest on, any Note, or (b) in respect of a covenant or provision hereof which under Clause 9.2 hereof cannot be modified or amended without the consent of the Holder of each outstanding Note affected thereby.

6.5 Control by Majority

Subject to the provisions of Clause 7.2.8 hereof, the Holders of not less than a majority in principal amount of the Notes then outstanding shall have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes; provided that

6.5.1 such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudicial to the rights of other Holders and would not subject the Trustee to personal liability;

6.5.2 the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and

6.5.3 such Holder or Holders have offered to the Trustee security or indemnity satisfactory to the Trustee in its reasonable discretion against the costs, expenses and liabilities to be incurred in compliance with such request.

6.6 Limitation on Suits

No Holder of Notes shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

6.6.1 such Holder has previously given written notice to the Trustee of a continuing Event of Default;

6.6.2 the Holders of not less than 25 per cent. in principal amount of the Notes then outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

6.6.3 such Holder or Holders have offered to the Trustee security or indemnity satisfactory to the Trustee in its reasonable discretion against the costs, expenses and liabilities to be incurred in compliance with such request; and

6.6.4 the Trustee for 60 calendar days after its receipt of such notice, request and offer of security or indemnity has failed to institute any such proceeding.

in any such event, it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Notes, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and rateable benefit of all Holders of Notes.

6.7 Rights of Holders to Receive Payment

Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of, or any premium or interest on, or the Redemption Price of, the Notes held by such Holder when due, or to bring suit for the enforcement of any such payment, shall be absolute and unconditional and shall not be impaired or affected without the consent of such Holder.

6.8 Trustee May File Proofs of Claim

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings, or any voluntary or involuntary case under Bankruptcy Law relative to the Issuer or the Guarantor or any other obligor upon the Notes or the property and assets of the Issuer or the Guarantor or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of such Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer or the Guarantor for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise, (i) to file and prove a claim for the whole amount of principal and interest owing and unpaid in respect of the Notes, to file such other papers or documents and to take such other actions, including participating as a member or otherwise in any official committee of creditors appointed in the matter, as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due to the Trustee pursuant to Clause 7.7 hereof) and of the Holders allowed in such judicial proceeding, and (ii) to collect and receive any moneys or other property and assets payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, custodian, liquidator, sequestrator (or other similar official) in any such proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Clause 7.7 hereof. Nothing contained herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

6.9 Priorities

Any money collected by the Trustee pursuant to this Clause 6 shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or interest upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Clause 7.7 hereof;

SECOND: To the payment of the amounts then due and unpaid for principal of and interest and Additional Amounts on the Notes, ratably, without preference or priority of any kind, according to the amounts due and payable on such Notes for principal and interest and Additional Amounts, respectively; and

THIRD: To the Issuer.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Clause 6.9. At least 15 calendar days before such record date, the Trustee shall mail to each Holder and the Issuer a notice that states such record date, the payment date and amount to be paid.

6.10 Undertaking for Costs

All parties to this Indenture agree, and each Holder of any Note by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for

the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defences made by such party litigant; but the provisions of this Clause shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10 per cent. in principal amount of the Notes then outstanding, or to any suit instituted by any Holder for the enforcement of the payment of the principal of any Note on or after its Stated Maturity or interest thereon after the date upon which payment thereof is due.

6.11 Trustee May Enforce Claims Without Possession of Notes

All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name, as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the rateable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

6.12 Restoration of Rights and Remedies

If the Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Issuer, the Guarantor, the Trustee and the Holders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

6.13 Rights and Remedies Cumulative

Except as otherwise provided in Clause 2.6 hereof, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

6.14 Delay or Omission Not Waiver

No delay or omission of the Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Clause 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

7 TRUSTEE

7.1 Duties of Trustee

7.1.1 If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

7.1.2 Except during the continuance of an Event of Default: (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of

the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; provided that in the case of any such certificates or opinions that by any provision of this Indenture are specifically required to be furnished to the Trustee, the Trustee shall examine such certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

7.1.3 The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, provided that: (i) this Clause 7.1.3 shall not limit the effect of Clause 7.1.2; (ii) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; (iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Clause 6.5 hereof; and (iv) none of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

7.1.4 The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuer.

7.1.5 Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

7.1.6 Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Clause 7 and to the provisions of the Trust Indenture Act.

7.2 Rights of Trustee

7.2.1 The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. Except as provided in Clause 7.1.2 hereof, the Trustee need not investigate any fact or matter stated in the document.

7.2.2 Before the Trustee acts or refrains from acting, it may require an Officer's Certificate and an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on any Officer's Certificate or Opinion of Counsel.

7.2.3 The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any such agent; provided that such agent was appointed with due care by the Trustee.

7.2.4 The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided that the Trustee's conduct does not constitute wilful misconduct or negligence.

7.2.5 The Trustee shall not be charged with knowledge of any Default or Event of Default under Clauses 6.1.3, 6.1.4, 6.1.5, 6.1.6, 6.1.7, 6.1.8, 6.1.9, 6.1.10, 6.1.11, 6.1.12, or 6.1.13 hereof unless either (i) a Trust Officer shall have actual knowledge thereof or (ii) the Trustee shall have received notice thereof in accordance with Clause 11.2 hereof from the Issuer or any Holder of Notes.

7.2.6 The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice of Opinion of Counsel.

7.2.7 The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer and the Guarantor, personally or by agent or attorney.

7.2.8 The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order, demand or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request, order, demand or direction.

7.3 Individual Rights of Trustee

The Trustee, any Paying Agent or the Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Issuer, the Guarantor or their Affiliates with the same rights it would have if it were not Trustee, Paying Agent or Registrar, as the case may be, hereunder; provided that the Trustee must in any event comply with Clauses 7.10 and 7.11 hereof.

7.4 Trustee's Disclaimer

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture, the Guarantee or the Notes, shall not be accountable for the Issuer's or the Guarantor's use of the proceeds from the Notes, and shall not be responsible for any statement of the Issuer or the Guarantor in this Indenture, including the recitals contained herein, or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication.

7.5 Notice of Defaults

Within 90 calendar days after the occurrence of any Default hereunder with respect to the Notes, the Trustee shall transmit by mail to all Holders, as their names and addresses appear in the Security Register, notice of such Default hereunder known to the Trustee, unless such Default shall have been cured or waived; provided that, except in the case of a Default in the payment of the principal of or interest on any Note, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Trust Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders.

7.6 Preservation of Information; Reports by Trustee to Holders

7.6.1 The Issuer shall furnish or cause to be furnished to the Trustee:

- (i) semi-annually, not less than 10 calendar days prior to each Interest Payment Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of the Record Date immediately preceding such Interest Payment Date, and
- (ii) at such other times as the Trustee may request in writing, within 30 calendar days after the receipt by the Issuer of any such request, a list of similar form and content as of a date not more than 15 calendar days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be the Registrar for the Notes, no such list need be furnished with respect to the Notes.

7.6.2 The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Clause 7.6.1 hereof and the names and addresses of Holders received by the Trustee in its capacity as Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Clause 7.6.1 hereof upon receipt of a new list so furnished.

7.6.3 Holders may communicate as provided in Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this Indenture or under the Notes.

7.6.4 Each Holder of Notes, by receiving and holding the same, agrees with the Issuer and the Guarantor and the Trustee that none of the Issuer, the Guarantor or the Trustee shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with this Clause 7.6, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under this Clause 7.6.

7.6.5 Within 60 calendar days after 15 May, the Trustee shall transmit by mail to all Holders of Notes, a brief report dated as of 15 May if and to the extent required under Section 313(a) of the Trust Indenture Act.

7.6.6 The Trustee shall comply with Clauses 313(b) and 313(c) of the Trust Indenture Act.

7.6.7 A copy of each report described in Clause 7.6.5 hereof shall, at the time of its transmission to Holders, be filed by the Trustee with each stock exchange, if any, upon which the Notes are then listed, with the Commission and also with the Issuer. The Issuer or the Guarantor shall promptly notify the Trustee of any stock exchange upon which the Notes are listed.

7.7 Compensation and Indemnity

The Issuer shall pay to the Trustee from time to time such compensation as the Issuer and the Trustee shall agree in writing for its services. The Issuer shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by the Trustee in accordance with any provision of this Indenture, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements

and advances of the Trustee's agents and counsel. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust.

The Issuer and the Guarantor, jointly and severally, shall indemnify each of the Trustee (which shall include, for purposes of this subsection, its directors, officers, employees and agents) and any predecessor Trustee for, and hold it harmless against, any and all loss, damage, claim, liability or expense (including reasonable attorneys' fees and expenses) arising out of or incurred by it in connection with the acceptance or administration of the trust created by this Indenture and the performance of its duties and the exercise of its rights and powers hereunder, except as set forth in the next paragraph. The Trustee shall notify the Issuer and the Guarantor promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Issuer or the Guarantor shall not relieve the Issuer or the Guarantor, respectively, of its obligations hereunder. The Issuer and the Guarantor shall defend any such claim and the Trustee shall cooperate in the defence of such claim and neither the Issuer, Guarantor nor the Trustee shall enter into any settlement agreement without the written consent of the other parties, which consents shall not be unreasonably withheld. The Trustee may have separate counsel and the Issuer and the Guarantor, jointly and severally, shall pay the reasonable fees and expenses of such counsel. The Issuer and the Guarantor need not pay for any settlement made without their respective consents, which consents shall not be unreasonably withheld.

The Issuer and the Guarantor need not reimburse any loss, damage, claim, liability or expense or indemnify against any loss, damage, claim, liability or expense incurred by the Trustee through the Trustee's own wilful misconduct, negligence or bad faith.

To secure the Issuer's and the Guarantor's payment obligations in this Clause 7.7, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Notes.

The Issuer's and the Guarantor's payment obligations pursuant to this Clause 7.7 shall survive the resignation or removal of the Trustee and discharge of this Indenture. Subject to any other rights available to the Trustee under applicable Bankruptcy Law, when the Trustee incurs expenses after the occurrence of a Default specified in Clause 6.1.12 or Clause 6.1.13 hereof, the expenses are intended to constitute expenses of administration under Bankruptcy Law.

The Issuer and the Guarantor will use their best efforts to pay the acceptance fee and the first annual administrative fee of the Trustee, as well as the fees and expenses of the Trustee's counsel, if any, promptly upon receipt of an invoice therefor.

The Issuer and the Guarantor, jointly and severally, shall indemnify the Luxembourg Paying Agent and hold it harmless against, any and all loss, damage, claim, liability or expense (including reasonable attorneys' fees and expenses) arising out of or incurred by it in connection with the performance of its duties and the exercise of its rights and powers hereunder in its capacity as the Luxembourg Paying Agent, except as set forth in the next paragraph. The Luxembourg Paying Agent shall notify the Issuer and the Guarantor promptly of any claim for which it may seek indemnity. Failure by the Luxembourg Paying Agent to so notify the Issuer or the Guarantor shall not relieve the Issuer or the Guarantor, respectively, of its obligations hereunder. The Issuer and the Guarantor shall defend any such claim and the Luxembourg Paying Agent shall cooperate in the defence of such claim and neither the Issuer, Guarantor nor the Luxembourg Paying Agent shall enter into any settlement agreement without the written consent of the other parties, which consents shall not be unreasonably withheld. The Luxembourg Paying Agent may have separate counsel and the Issuer and the Guarantor, jointly and severally, shall pay the reasonable fees and expenses of such counsel. The Issuer and the Guarantor need not pay for any settlement made without their respective consents, which consents shall not be unreasonably withheld.

The Issuer and the Guarantor need not reimburse any loss, damage, claim, liability or expense or indemnify against any loss, damage, claim, liability or expense incurred by the Luxembourg Paying Agent through the Luxembourg Paying Agent's own wilful misconduct, negligence or bad faith.

7.8 Replacement of Trustee

7.8.1 No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Clause 7 shall become effective until the acceptance of appointment by the successor Trustee under this Clause 7.8.

7.8.2 The Trustee may resign at any time by giving written notice thereof to the Issuer. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 calendar days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

7.8.3 The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Notes then outstanding, delivered to the Trustee, the Issuer and the Guarantor. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 calendar days after the giving of notice of removal, the Trustee being removed may petition any court of competent jurisdiction for the appointment of a successor Trustee.

7.8.4 If at any time:

- (i) the Trustee shall fail to comply with Section 310(b) of the Trust Indenture Act after written request therefor by the Issuer or by any Holder who has been a *bona fide* Holder of a Note for at least six months, unless the Trustee's duty to resign is stayed in accordance with the provisions of Section 310(b) of the Trust Indenture Act; or
- (ii) the Trustee shall cease to be eligible under Clause 7.10 hereof and shall fail to resign after written request therefor by the Issuer or by any Holder who has been a *bona fide* Holder of a Note for at least six months; or
- (iii) the Trustee shall become incapable of acting or a decree or order for relief by a court having jurisdiction in the premises shall have been entered in respect of the Trustee in an involuntary case under any Bankruptcy Law; or a decree or order by a court having jurisdiction in the premises shall have been entered for the appointment of a Custodian of the Trustee or of its property and assets or affairs, or any public officer shall take charge or control of the Trustee or of its property and assets or affairs for the purpose of rehabilitation, conservation, winding up or liquidation; or
- (iv) the Trustee shall commence a voluntary case under any Bankruptcy Law or shall consent to the appointment of or taking possession by a Custodian of the Trustee or its property and assets or affairs, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall take corporate action in furtherance of any such action,

then, in any such case, (i) the Issuer by a Board Resolution may remove the Trustee, or (ii) subject to Clause 6.10 hereof, any Holder who has been a *bona fide* Holder of a Note for at least six months may, on behalf of such Holder and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee for the Notes. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 calendar days after the giving of notice of removal, the Trustee being removed may petition any court of competent jurisdiction for the appointment of a successor Trustee.

7.8.5 If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by or pursuant to a Board Resolution, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by the Holders of a majority in principal amount of the Notes then outstanding delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with this

Clause 7.8, become the successor Trustee and to that extent replace any successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Holders and shall have accepted appointment in the manner hereinafter provided, any Holder that has been a bona fide Holder of a Note for at least six months may, subject to Clause 6.10 hereof, on behalf of such Holder and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

7.8.6 The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such resignation, removal and appointment by first-class mail, postage prepaid, to the Holders as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee with respect to the Notes and the address of its Corporate Trust Office.

7.8.7 In the event of an appointment hereunder of a successor Trustee, each such successor Trustee so appointed shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee but, on request of the Issuer or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such former Trustee hereunder, subject to its Liens, if any, provided for in Clauses 6.8 and 7.7 hereof.

7.8.8 Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in Clause 7.8.7 hereof.

7.8.9 No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Clause 7 and under the Trust Indenture Act.

7.9 Successor Trustee by Merger

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder; provided that such corporation shall be otherwise qualified and eligible under this Clause 7 and under the Trust Indenture Act, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such Notes. In the event that any Notes shall not have been authenticated by such predecessor Trustee, any such successor Trustee may authenticate and deliver such Notes, in either its own name or that of its predecessor Trustee, with the full force and effect which this Indenture provides for the certificate of authentication of the Trustee.

7.10 Eligibility; Disqualification

There shall at all times be a Trustee hereunder which shall be:

7.10.1 a corporation organized and doing business under the laws of the United States of America, any state or territory thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, and subject to supervision or examination by federal, state, territorial or District of Columbia authority, or

7.10.2 a corporation or other Person organized and doing business under the laws of a foreign government that is permitted to act as Trustee pursuant to a rule, regulation or order of the Commission, authorized under such laws to exercise corporate trust powers, and subject to supervision or examination by authority of such foreign government or a political subdivision thereof substantially equivalent to supervision or examination applicable to United States institutional trustees, in either case having a combined capital and surplus of at least U.S.\$50,000,000.

If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Clause 7.10, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. None of the Issuer, the Guarantor or any of its or their Affiliates shall serve as Trustee hereunder. If at any time the Trustee shall cease to be eligible to serve as Trustee hereunder pursuant to the provisions of this Clause 7.10, it shall resign immediately in the manner and with the effect specified in this Clause 7.

If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Issuer shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act. Nothing herein shall prevent the Trustee from filing with the Commission the application referred to in the penultimate paragraph of Section 310(b) of the Trust Indenture Act.

7.11 Preferential Collection of Claims Against Issuer

The Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship listed in Section 311 (b) of the Trust Indenture Act. A Trustee who has resigned or been removed shall be subject to Section 311 (a) of the Trust Indenture Act to the extent indicated therein.

7.12 Other Capacities

Except as otherwise specifically provided herein, (a) all references in this Indenture to the Trustee shall be deemed to refer to the Trustee in its capacity as Trustee and in its capacities as Registrar and Paying Agent and (b) every provision of this Indenture relating to the conduct or affecting the liability or offering protection, immunity or indemnity to the Trustee shall be deemed to apply with the same force and effect to the Trustee acting in its capacities as Paying Agent and Registrar.

8 Defeasance

8.1 Issuer's Option to Effect Legal Defeasance or Covenant Defeasance

The Issuer may elect, at its option, at any time, to have either Clause 8.2 or 8.3 hereof applied to the Notes then outstanding upon compliance with the conditions set forth below in this Clause 8. Such election shall be evidenced by a Board Resolution delivered to the Trustee and shall specify whether the Notes are being defeased to Stated Maturity or to the Redemption Date determined in accordance with the terms of this Indenture and the Notes.

8.2 Legal Defeasance and Discharge

Upon the Issuer's exercise of its option to have this Clause 8.2 applied to the outstanding Notes, each of the Issuer and the Guarantor shall be deemed to have been discharged from its obligations with respect to the Notes and the Guarantee, respectively, as provided in this Clause 8.2 on and after the date the conditions set forth in Clause 8.4 hereof are satisfied (hereinafter called " **Legal Defeasance** "). For this purpose, such Legal Defeasance means that the Issuer shall be deemed to have paid and discharged the entire indebtedness represented by such Notes, and the Guarantor shall be deemed to have paid and discharged the entire indebtedness represented by the Guarantee, and to have satisfied all their other obligations under such Notes, the Guarantee and this Indenture insofar as such Notes or Guarantee, as the case may be, are concerned (and the

Trustee, at the expense of the Issuer, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder:

8.2.1 the rights of Holders of such Notes to receive, solely from the trust fund described in Clause 8.4 hereof and as more fully set forth in such Clause 8.4 payments in respect of the principal of and interest on such Notes when payments are due;

8.2.2 the Issuer's obligations with respect to such Notes under Clauses 2.5 2.6, 2.8, 4.2 and 4.3 hereof;

8.2.3 the rights, powers, trusts, duties and immunities of the Trustee under this Indenture and the Issuer's obligations in connection therewith;

8.2.4 Clause 3 hereof; and

8.2.5 this Clause 8.

8.3 Covenant Defeasance

Upon the Issuer's exercise of its option to have this Clause 8.3 apply to the outstanding Notes, each of the Issuer and the Guarantor shall be deemed to have been released from their obligations under the covenants contained in Clauses 4.4 through 4.10 and 4.12 and the limitations contained in Clauses 5.1.1(iii) and 5.1.2(iii) hereof with respect to such Notes on and after the date the conditions set forth in Clause 8.4 hereof are satisfied (hereinafter called "**Covenant Defeasance**"), and the Notes thereafter shall be deemed not outstanding for the purposes of any direction, waiver, consent or declaration or act of Holders in connection with such covenants, but shall continue to be deemed outstanding for all other purposes hereunder. For this purpose, Covenant Defeasance means that the Issuer and the Guarantor may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant and such omission to comply shall not constitute a Default or an Event of Default under Clause 6.1 hereof, but, except as specified above, the remainder of this Indenture and the Notes shall be unaffected thereby.

8.4 Conditions to Legal Defeasance or Covenant Defeasance

The following shall be the conditions to the application of either Clause 8.2 or 8.3 hereof to the Notes then outstanding:

8.4.1 The Issuer shall irrevocably have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to the benefits of the Holders of such Notes, (i) United States Dollars in an amount, or (ii) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (iii) a combination thereof, in each case sufficient, after payment of all Taxes imposed by any jurisdiction or other charges or assessments in respect thereof payable by the Trustee, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any instalment of interest coming due on such Notes through the Stated Maturity thereof or the Redemption Date, as the case may be, in accordance with the terms of this Indenture and such Notes.

8.4.2 In the event of an election to have Clause 8.2 hereof apply to the Notes then outstanding, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee stating that (i) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of this Indenture, there has been a change in the applicable U.S. federal income tax law, in either case of (i) or (ii) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Notes will not recognize income, gain or loss for U.S. federal

income tax purposes as a result of the deposit, Legal Defeasance and discharge to be effected with respect to such Notes and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such deposit, Legal Defeasance and discharge were not to occur.

8.4.3 In the event of an election to have Clause 8.3 hereof apply to the Notes then outstanding, the Issuer shall have delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee confirming that the Holders of such Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would be the case if such Covenant Defeasance were not to occur.

8.4.4 No Default or Event of Default with respect to the outstanding Notes shall have occurred and be continuing at the time of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) after giving effect thereto or, with respect to a Default or Event of Default specified in Clause 6.1.12 or Clause 6.1.13, any time on or prior to the 185th calendar day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 185th calendar day).

8.4.5 Such Legal Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming for the purpose of this clause (e) that all Notes are in default within the meaning of the Trust Indenture Act).

8.4.6 Such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture) to which the Issuer, the Guarantor any Subsidiary of the Guarantor is a party or by which the Issuer, the Guarantor or any such Subsidiary is bound.

8.4.7 The Issuer shall have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders of Notes over any other creditors of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others.

8.4.8 Such Legal Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the U.S. Investment Company Act of 1940, as amended, unless such trust shall be registered under the U.S. Investment Company Act of 1940, as amended, or exempt from registration thereunder.

8.4.9 The Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Legal Defeasance or Covenant Defeasance have been complied with.

8.5 Deposited Money and U.S. Government Obligations to be Held in Trust; Miscellaneous Provisions

8.5.1 All money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee pursuant to Clause 8.4.1 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any such Paying Agent as the Trustee may determine, to the Holders of such Notes, of all sums due and to become due thereon in respect of principal and interest, but funds so held in trust need not be segregated from other funds except to the extent required by law. The Issuer shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Clause 8.4 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of outstanding Notes.

8.5.2 Anything in this Clause 8 to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuer from time to time upon receipt from the Issuer of an Order any money or U.S. Government Obligations held by it as provided in Clause 8.4 hereof which, in the opinion of a U.S. nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof that would then be required to be deposited to effect the Legal Defeasance or Covenant Defeasance with respect to the outstanding Notes.

Any funds deposited with the Trustee or any Paying Agent pursuant to this Clause 8 in trust for the payment of the principal of or interest on any Note and remaining unclaimed for two years after the date upon which such payment shall have become due, shall be repaid to the Issuer upon receipt of an Order to such effect by the Trustee; provided, however, that the Issuer shall cause to be published at least once in a newspaper of general circulation in The City of New York and in Europe or mailed to each Holder entitled to such unclaimed funds, notice that such funds remain unclaimed and that, after a date specified therein, which shall be a date not less than 30 days from the date of such publication or mailing, any unclaimed balance of such money remaining as of such date shall be repaid to the Issuer. After repayment to the Issuer, Holders entitled to such funds shall look only to the Issuer for payment without interest thereon, as an unsecured general creditor, and the Trustee and any Paying Agent, subject to applicable law, shall have no further liability with respect to such trust money, and the Issuer shall not be a trustee in respect of such funds.

8.6 Reinstatement

If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Clause 8 with respect to any Notes by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture, the Guarantee and such Notes from which the Issuer and the Guarantor have been discharged or released pursuant to Clause 8.2 or 8.3 hereof shall be revived and reinstated as though no deposit had occurred pursuant to this Clause 8 with respect to such Notes, until such time as the Trustee or Paying Agent is permitted to apply all money or U.S. Government Obligations held in trust pursuant to Clause 8.5 hereof with respect to such Notes in accordance with this Clause 8; provided that if the Issuer or the Guarantor makes any payment of principal of or interest on any such Note following such reinstatement of its obligations, the Issuer shall be subrogated to the rights (if any) of the Holders of such Notes to receive such payment from the money or U.S. Government Obligations so held in trust.

9 Amendments

9.1 Without Consent Of Holders

The Issuer, the Guarantor and the Trustee may, at any time, and from time to time, without notice to or consent of any Holder of Notes, enter into one or more indentures supplemental hereto, in form reasonably satisfactory to the Trustee, for any of the following purposes:

- 9.1.1** to evidence the succession of another Person to the Issuer or the Guarantor and the assumption by such successor of the covenants of the Issuer or the Guarantor herein and contained in the Notes (provided that the Issuer or the Guarantor and such successor provide written notice of such succession and assumption to the Holders of the Notes); or
- 9.1.2** to add to the covenants of the Issuer or the Guarantor, for the benefit of the Holders of all of the Notes, or to surrender any right or power herein conferred upon the Issuer or the Guarantor; or
- 9.1.3** to add any additional Events of Default; or
- 9.1.4** to evidence and provide for the acceptance of appointment hereunder of a successor Trustee; or
- 9.1.5** to secure the Notes; or
- 9.1.6** to comply with the Securities Act, the Exchange Act, the Investment Company Act of 1940, as amended, or the Trust Indenture Act; or
- 9.1.7** to provide for the issuance of Additional Notes in accordance with this Indenture; or
- 9.1.8** to cure any ambiguity, omission or defect herein, or to correct or supplement any provision hereof which may be inconsistent with any other provision hereof; or
- 9.1.9** to add any other provisions with respect to matters or questions arising under this Indenture, or to modify, alter, amend or supplement this Indenture in any other manner; provided that such actions shall not adversely affect the legal rights of the Holders of Notes.

9.2 With Consent of Holders

With the consent of the Holders of at least a majority in principal amount of the Notes then outstanding, by Act of said Holders delivered to the Issuer and the Trustee, the Issuer, the Guarantor and the Trustee may amend this Indenture or the Notes or enter into one or more indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying or waiving in any manner the rights of the Holders; provided that no such amendment, supplemental indenture or waiver shall, without the consent of the Holder of each outstanding Note,

- 9.2.1** change the Stated Maturity or the time for payment of interest of any Note;
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- 9.2.2 reduce the principal amount or the rate of interest, including Defaulted Interest, on any Note;
- 9.2.3 reduce the amount payable upon a redemption of any Note or alter or waive any provision with respect to the redemption of any Note (other than provisions relating to the covenants described under Clause 4.8);
- 9.2.4 amend or modify any payment obligation of the Guarantor under Clause 10 hereof;
- 9.2.5 change the place of payment of any Note (other than changes to or additions or removals of a Paying Agent made in accordance with the provisions of this Indenture) or make any Note payable in a currency other than United States Dollars;
- 9.2.6 impair the right of the Holders to institute suit for the enforcement of any payment on any Note;
- 9.2.7 reduce the percentage of Holders who must consent to an amendment or supplement of this Indenture;
- 9.2.8 modify any provision of this Indenture dealing with modification or waiver;
- 9.2.9 make any change in Clause 6.4 or 6.7 hereof or in the foregoing amendment and waiver provisions;
- 9.2.10 reduce percentage of Holders who must consent to waive compliance by the Issuer or the Guarantor with any of the covenants contained in Clauses 4 or 5 hereof; or
- 9.2.11 change the obligation of the Issuer or the Guarantor to pay Additional Amounts.

It shall not be necessary for any Act of Holders under this Clause 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

After an amendment or supplement under this Clause 9.2 becomes effective or a waiver under Clause 6.4 becomes effective the Issuer or the Trustee at the Issuer's request and expense, shall mail to Holders of Notes a notice briefly describing such amendment, supplement or waiver. The failure to give such notice to all Holders of Notes, or any defect therein, shall not impair or affect the validity of an amendment, supplement or waiver. Notwithstanding any other provision hereof, to the extent that any amendment to this Indenture involves the transfer of the obligations of the Issuer or the Guarantor under the Notes or the Guarantee, respectively, to another Person, or the substitution of another Person for the Issuer or the Guarantor, the Issuer, the Guarantor and such other Person shall provide written notice of such transfer or substitution to the Holders of the Notes.

9.3 Effect of Supplemental Indentures

Upon the execution of any supplemental indenture under this Clause 9, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

9.4 Compliance with Trust Indenture Act

Every amendment or supplement to this Indenture or the Notes shall comply with the Trust Indenture Act as then in effect as though this Indenture were qualified thereunder.

9.5 Revocation and Effect of Consents and Waivers

A consent to an amendment, supplement or a waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of such Note or portion of such Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent or waiver is not made on such Note; provided that any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Note or portion of such Note if the Trustee receives the notice of revocation before

the date the amendment, supplement or waiver becomes effective. After an amendment, supplement or waiver becomes effective pursuant to this Clause 9, it shall bind every Holder.

9.6 Notation on or Exchange of Notes

If a supplemental indenture changes the terms of a Note, the Trustee may require the Holder thereof to deliver such Note to the Trustee. The Trustee may place an appropriate notation on such Note regarding the changed terms and return it to the Holder. Alternatively, if the Issuer or the Trustee so determines, the Issuer in exchange for such Note shall issue and the Trustee shall authenticate a new Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Note shall not affect the validity of such amendment or supplement.

9.7 Trustee to Execute Supplemental Indentures

The Trustee shall execute any supplemental indenture authorized pursuant to this Clause 9 if such supplemental indenture does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but shall not be required to, execute such supplemental indenture. In executing any supplemental indenture, the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Clause 7.1 hereof) shall be fully protected in relying upon, an Officer's Certificate (which need only cover the matters set forth in Clause 9.7.1 below) and an Opinion of Counsel reasonable satisfactory to the Trustee provided by the Issuer and the Guarantor stating in effect that:

9.7.1 such supplemental indenture is authorized or permitted by this Indenture and that all conditions precedent to the execution, delivery and performance of such supplemental indenture have been satisfied;

9.7.2 the Issuer or the Guarantor, as the case may be, has all necessary corporate power and authority to execute and deliver the supplemental indenture and that the execution, delivery and performance of such supplemental indenture has been duly authorized by all necessary corporate action of the Issuer and the Guarantor, as the case may be;

9.7.3 the execution and delivery of the supplemental indenture do not conflict with, or result in the breach of or constitute a default under any of the terms, conditions or provisions of the Indenture;

9.7.4 such supplemental indenture has been duly and validly executed and delivered by the Issuer or the Guarantor, as the case may be, and the Indenture together with such supplemental indenture constitutes a valid and binding obligation of the Issuer or the Guarantor enforceable against the Issuer or the Guarantor, as the case may be, in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles; and

9.7.5 the Indenture together with such amendment or supplement complies with the Trust Indenture Act.

Such opinion may be subject to exceptions, limitations and qualifications, including with respect to the opinion in Clause 9.7.4 hereof (i) the effect of bankruptcy, insolvency, reorganization, moratorium, or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors and the judicial application of foreign laws or governmental actions affecting creditors' rights; (ii) the effect of general principles of equity, whether enforcement is considered in a proceeding in equity or at law and the discretion of the court before which any proceeding therefor may be brought; (iii) the unenforceability under certain circumstances under law or court decisions of provisions providing for the indemnification of or contribution to a party with respect to a liability where such indemnification or contribution is contrary to public policy; and (iv) the unenforceability of any provision requiring the payment of attorney's fees, except to the extent that a court determines such fees to be reasonable. In addition, such Opinion of Counsel is not required to express an opinion with respect to whether acceleration of the Notes may affect the collectibility of that portion of the stated principal amount thereof which might be determined to

constitute unearned interest thereon or concerning the enforceability of the waiver of rights or defences regarding stay, extension or usury laws.

10 Guarantee

10.1 Guarantee

Subject to the provisions of this Clause 10, the Guarantor hereby irrevocably and unconditionally guarantees to each Holder and to the Trustee on behalf of the Holders (i) the due and punctual payment of principal of and interest in full on each Note when and as the same shall become due and payable whether at Stated Maturity, by declaration of acceleration, redemption or otherwise and the due and punctual payment of all other sums stated in this Indenture and the Notes to be payable pursuant to this Indenture and the Notes, including, without limitation, any Additional Amounts; (ii) the due and punctual payment of interest on the overdue principal of and interest in full on the Notes, to the extent permitted by law; and (iii) the due and punctual performance of all other duties, agreements, covenants and obligations of the Issuer to the Holders or the Trustee, including without limitation the payment of fees, expenses, indemnification or other amounts, all in accordance with the terms of the Notes and this Indenture. The Guarantor hereby further agrees to pay any and all expenses (including reasonable fees and expenses of counsel) incurred by the Trustee or the Holders in enforcing any rights under the Guarantee.

Each of the Issuer and the Guarantor hereby unconditionally waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger, insolvency or bankruptcy of the Issuer, any right to require a proceeding first against the Issuer or any other Person, protest or notice with respect to the Notes or the Debt evidenced thereby and all demands whatsoever, and covenants that the Guarantee will not be discharged except by complete performance of the obligations contained in the Notes, in this Indenture and pursuant to the Guarantee.

The Guarantor further agrees that, as between the Guarantor, on the one hand, and Holders and the Trustee, on the other hand, (i) for purposes of the Guarantee, the maturity of the obligations guaranteed by such Guarantee may be accelerated as provided in Clause 6, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by the Guarantor for purposes of the Guarantee.

The Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment, or any part thereof, of principal of or interest on any of the Notes is rescinded or must otherwise be returned by the Holders or the Trustee upon the insolvency, bankruptcy or reorganization of the Issuer or the Guarantor, all as though such payment had not been made.

The Guarantor shall be subrogated to all rights of the Holders against the Issuer in respect of any amounts paid by the Guarantor pursuant to the provisions of the Guarantee or this Indenture; provided, however, that the Guarantor shall not be entitled to enforce or to receive any payments until the principal of and interest on all Notes issued hereunder shall have been paid in full.

Where the context so requires in this Indenture, payments by the Guarantor under the Guarantee shall be construed to be payments on or in respect of the Notes.

10.2 Obligations of the Guarantor Unconditional

The Guarantor hereby agrees that its obligations hereunder shall be a guarantee of payment and shall be unconditional, irrespective of and unaffected by the validity, regularity or enforceability of the Notes or this Indenture, or of any amendment thereto or hereto, the absence of any action to enforce the same, the waiver or consent by any Holder or by the Trustee with respect to any provisions thereof or of this Indenture, the entry of any judgment against the Issuer or any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

10.3 Limitation of the Guarantor's Liability

The Guarantor, and by its acceptance hereof each Holder, hereby confirms that it is the intention of all such parties that the Guarantee not constitute a fraudulent transfer or conveyance for purposes of any Bankruptcy Law, the U.S. Uniform Fraudulent Conveyance Act, the U.S. Uniform Fraudulent Transfer Act or any similar law of the United States or any state thereof or any foreign jurisdiction. To effectuate the foregoing intention, the Holders and the Guarantor hereby irrevocable agree that the obligations of the Guarantor under this Clause 10 shall be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of the Guarantor, result in the obligations of the Guarantor under the Guarantee not constituting a fraudulent transfer or conveyance.

10.4 Application of Certain Terms and Provisions to the Guarantor

- (a) For purposes of any provision of this Indenture which provides for the delivery by the Guarantor of an Officer's Certificate and/or an Opinion of Counsel, the definitions of such terms in Clause 1.1 hereof shall apply to the Guarantor as if references therein to the Issuer were references to the Guarantor.
- (b) Any request, direction, order or demand which by any provision of this Indenture is to be made by the Guarantor, shall be sufficient if evidenced by an Order; provided that the definition of such term in Clause 1.1 hereof shall apply to the Guarantor as if references therein to the Issuer were references to the Guarantor.
- (c) Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders of Notes to or on the Guarantor may be given or served as described in Clause 11.2 as if references therein to the Issuer were references to the Guarantor.
- (d) Upon any demand, request or application by the Guarantor to the Trustee to take any action under this Indenture, the Guarantor shall furnish to the Trustee such certificates and opinions as are required in Clause 11.3 and Clause 11.4 hereof as if all references therein to the Issuer were references to the Guarantor.

10.5 Taxes

The Guarantor shall pay Additional Amounts as required pursuant to Clause 4.11 of this Indenture. The Guarantor shall pay and indemnify the Trustee and the Holders against all documentary, stamp or other similar taxes payable in connection with the execution, delivery or enforcement of this Guarantee. The obligations of the Guarantor under this Clause 10.5 shall survive the termination of this Indenture and the Guarantee and the payment of all amounts under or with respect to this Indenture, the Guarantee and the Notes.

11 Miscellaneous

11.1 Trust Indenture Act Controls

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by, or with another provision (an "incorporated provision") included in this Indenture by operation of, Sections 310 to 318, inclusive, of the Trust Indenture Act, such imposed duties or incorporated provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

11.2 Notices

Any notice or communication shall be in the English language, in writing and delivered in person, mailed by first-class mail (postage prepaid) or transmitted via facsimile (if a facsimile number is given below), addressed as follows:

11.2.1 *if to the Issuer:*

Mobile TeleSystems Finance, S.A.
3 Avenue Pasteur
L-231 Luxembourg
Facsimile: 352-470-619

11.2.2 *if to the Guarantor:*

Mobile TeleSystems OJSC
4, Marksistskaya Street
109147 Moscow
Russian Federation
Facsimile: +7 095 766 0100
Attention: Vice President—Investments and Securities

11.2.3 *if to the Trustee:*

JPMorgan Chase Bank, N.A.
4 New York Plaza
15th Floor
New York, New York 10004
Facsimile: 212-623-6216/5
With a copy to facsimile: +44 1202 34 7438

11.2.4 *if to the Luxembourg Paying Agent:*

J.P. Morgan Bank Luxembourg S.A.
5 Rue Plaetis L-2338 Luxembourg
Facsimile: +352 4626 85380

Any notice to the Issuer, Guarantor, Trustee or Luxembourg Paying Agent (i) if sent by mail as provided above, shall be deemed to have been given, made or served upon receipt, or (b) if given by facsimile transmission, when such facsimile is transmitted to the telephone number specified above and telephonic or written confirmation of receipt thereof is received by the sender.

The Issuer, the Guarantor, the Trustee or the Luxembourg Paying Agent, by notice to the others, may designate additional or different addresses for subsequent notices or communications. Any notice or communication mailed to a Holder shall be sent to the Holder by first-class mail, postage prepaid, at the Holder's address as it appears in the Security Register and shall be duly given if so sent within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed to a Holder in the manner provided in this paragraph, it is duly given, whether or not the addressee receives it. In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give notice by mail to Holders, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

So long as the Notes are listed on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange shall so require, notice shall also be given by publication in a leading newspaper of general circulation in Luxembourg.

11.3 Certificate and Opinion as to Conditions Precedent

Upon any request or application by the Issuer to the Trustee to take or refrain from taking any action under this Indenture, the Issuer shall furnish to the Trustee upon request: (a) an Officer's Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and (b) an Opinion of Counsel reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

11.4 Statements Required in Certificate or Opinion

Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture (other than pursuant to Clause 4.10 hereof) shall include: (a) a statement that the individual making such certificate or opinion has read such covenant or condition; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of such individual, such individual has made such examination or investigation as is necessary to enable such individual to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

11.5 Rules by Trustee, Paying Agent and Registrar

The Trustee may make reasonable additional rules for action by or a meeting of Holders consistent with provisions of this Indenture, and any Registrar and Paying Agent may make reasonable rules for their functions; provided that no such rule shall conflict with terms of this Indenture or the Trust Indenture Act.

11.6 Date of Payments

If any payment on a Note is due on a Saturday, Sunday, legal holiday, or a day that is, in Moscow, Luxembourg or New York, a day on which banking institutions are authorized or obligated by law or executive order to close, then, in Moscow, Luxembourg or New York, such payment need not be made on such day but may be made on the next succeeding day that is not a Saturday, Sunday, legal holiday, or a day that is, in Moscow, Luxembourg or New York, a day on which banking institutions are authorized or obligated by law or executive order to close (a "business day"), with the same force and effect as if made on the date for such payment, and no interest will accrue for the period from and after the date for such payment.

If a regular Record Date is a date that is not a business day, such Record Date shall not be affected.

11.7 Governing Law

11.7.1 This indenture, the guarantee and the notes shall be governed by, and construed in accordance with, the laws of the state of New York without regard to the principles of conflicts of laws thereof.

11.7.2 The application of Articles 86-94-8 of the Luxembourg law on commercial companies of 10 August 1915 (as amended) has been excluded in respect of the notes.

11.8 No Recourse Against Others

No director, officer, employee, incorporator or stockholder of the Issuer or the Guarantor, as such, shall have any liability for any obligations of the Issuer or the Guarantor, as the case may be, under the Notes, the Guarantee or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation, solely by reason of its status as a director, officer, employee, incorporator or stockholder of the Issuer or the Guarantor, as the case may be.
By

accepting a Note, each Holder waives and releases all such liability (but only such liability) as part of the consideration for issuance of such Note to such Holder.

11.9 Successors

All agreements of each of the Issuer and the Guarantor in this Indenture and the Notes shall bind its successors and assigns whether so expressed or not. All agreements of the Trustee in this Indenture shall bind its successors and assigns whether so expressed or not.

11.10 Counterparts

This Indenture may be executed in any number of counterparts and by the parties thereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

11.11 Table of Contents; Headings

The table of contents and headings of the Clauses of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

11.12 Severability

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

11.13 Further Instruments and Acts

Upon request of the Trustee, the Issuer and the Guarantor will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

11.14 Jurisdiction

11.14.1 The Issuer and Guarantor each agrees that any suit, action or proceeding against the Issuer or the Guarantor brought by any Holder or the Trustee arising out of or based upon this Indenture, the Guarantee or the Notes may be instituted in any State or Federal court in the Borough of Manhattan in The City of New York, New York, and waives any objection which it may now or hereafter have to the laying of venue of any such proceeding, and irrevocably submits to the non-exclusive jurisdiction of such courts in any suit, action or proceeding. Each of the Issuer and the Guarantor has appointed Puglisi & Associates, with offices on the date hereof at 850 Library Avenue, Suite 204, Newark, Delaware 19715 as its respective authorized agent (the "Authorized Agent") upon whom process may be served in any suit, action or proceeding arising out of or based upon this Indenture, the Guarantee or the Notes which may be instituted in any State or Federal court in The City of New York, New York, and expressly accepts the non-exclusive jurisdiction of any such court in respect of any such suit, action or proceeding. The Issuer and the Guarantor hereby represent and warrant that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and the Issuer and the Guarantor agree to take any and all commercially reasonable action, including the filing of any and all documents that may be reasonably necessary to continue each such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent in any manner permitted by applicable law shall be deemed, in every respect, effective service of process upon the Issuer and Guarantor, respectively.

11.14.2 Notwithstanding Clause 11.14.1, any action involving the Issuer or the Guarantor arising out of or based upon this Indenture, the Guarantee or the Notes may be submitted to arbitration, as provided in Clause 11.15 hereof.

11.14.3 To the extent that either the Issuer or the Guarantor has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceedings, from jurisdiction of any court or from set-off or any legal process (whether service of process or

notice, attachment in aid or otherwise) with respect to itself or any of its property, the Issuer and the Guarantor hereby irrevocably waive and agree not to plead or claim such immunity in respect of their obligations under this Indenture.

11.15 Arbitration

11.15.1 The Issuer and the Guarantor agree that any controversy, claim or cause of action brought by any party against any other party or arising out of or relating to this Indenture, the Guarantee or the Notes which cannot be settled amicably may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this Clause 11.15. The place of the arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, appointed by the London Court of International Arbitration in accordance with its Rules. The arbitrators shall have no authority to award punitive or other damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Indenture, the Guarantee or the Notes. In no circumstances shall the Trustee be liable for any consequential, special or punitive damages in connection with its obligations hereunder.

11.15.2 Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

12 Provisions for Meetings of Holders of Notes

12.1 Holders' Meetings

12.1.1 The Trustee may at any time call a meeting of the Holders by notice to the Holders not less than 30 days prior to such meeting, for the purpose of approving a modification or amendment to, or obtaining a waiver of, any provision of this Indenture or the Notes or to consider any other matter of common interest to the Holders. In addition, in case at any time the Issuer or the Guarantor pursuant to a Board Resolution, or the Holders of at least one-tenth in aggregate principal amount of the Notes then outstanding, shall have requested the Trustee to call a meeting of the Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first giving of the notice of such meeting within 20 days after receipt of such request, then the Issuer, the Guarantor or the Holders of the amount above specified may determine the time (not less than 30 days after notice is given) and may call such meeting by giving notice thereof as provided below. Any such meeting will be held in London.

12.1.2 Meetings of Holders are subject to a first and second notice; the second to occur upon the failure of the first. Both the first and second notice convening a meeting of Holders may be made simultaneously, in which case the meeting convened by the second notice, upon the failure of the first, may be held within an hour of such failure. The quorum for the first notice will be persons holding or representing at least two-thirds in aggregate principal amount of Notes then outstanding (other than Notes held by the Issuer, the Guarantor, any Affiliate of the Issuer or the Guarantor, or the Trustee in its individual capacity). No business shall be transacted, unless a quorum is present when the meeting is called to order. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall be adjourned for a period of one hour and the quorum for the reconvened meeting shall be persons holding or representing at least a majority in aggregate principal

amount of Notes then outstanding (other than Notes held by the Issuer, the Guarantor, any Affiliate of the Issuer or the Guarantor, or the Trustee in its individual capacity).

12.1.3 If a meeting is being held pursuant to the written request of Holders, the agenda for the meeting shall be as determined in the request and such meeting shall be held within 40 days from the date such written request is received by the Trustee or the Issuer, as the case may be. Notice of any meeting of Holders, setting forth the time and place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given by publication for five successive business days in leading newspapers having general circulation (i) in the Borough of Manhattan, City of New York, (ii) in Europe and (iii) in Luxembourg and as specified in the Notes, not less than 10 or more than 30 days prior to the date fixed for the meeting. To be entitled to vote at any meeting of Holders a person shall be (i) a Holder of one or more Notes as of the relevant record date determined pursuant to Clause 1.5.5 or (ii) a person or persons appointed by an instrument in writing as proxy by such a Holder of one or more Notes (other than directors, officers or any employee of the Issuer, the Guarantor or any of their Affiliates). The only persons who shall be entitled to be present or to speak at any meeting of Holders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee, the Issuer or the Guarantor and their counsel.

12.1.4 Any Holder who has executed an instrument in writing appointing a person or persons as proxy shall be deemed to be present for the purposes of determining a quorum and be deemed to have voted; provided, that such Holder shall be considered as present or voting only with respect to the matters covered by such instrument in writing. Except as otherwise provided in this Indenture, the Notes or any applicable law, any resolution passed or decision taken at any meeting of Holders duly held in accordance with this Clause shall be binding on all the Holders whether or not present or represented at the meeting.

12.1.5 Notwithstanding any other provision of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any action by or any meeting of Holders, in regard to the proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, and submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think appropriate. Such regulations may fix a record date and time for determining the Holders of record of Notes entitled to vote at such meeting, in which case those and only those Persons who are Holders of Notes at the record date and time so fixed, or their proxies, will be entitled to vote at such meeting whether or not they will be such Holders at the time of the meeting.

12.1.6 The Trustee shall, by any instrument in writing, appoint a person to act on its behalf as representative of the Holders to serve as chairperson of the meeting. If the Trustee fails to appoint such a person, then, another representative of the Holders shall be designated to act as chairperson of the meeting by vote of a majority in aggregate principal amount of the Notes represented at the meeting. A secretary of the meeting shall be elected by vote of the Holders or proxies of a majority in aggregate principal amount of the Notes represented at the meeting. At any meeting each Holder or proxy shall be entitled to one vote for each U.S.\$1,000 principal amount of Notes held or represented by him; provided, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairperson of the meeting to be not outstanding. The chairperson of the meeting shall have no right to vote except as a Holder or proxy. Any meeting of Holders duly called at which a quorum is present may, upon motion of the chairperson, be adjourned once and reconvened within 30 days without further notice.

12.1.7 Any duly passed resolution of Holders of Notes, and any instrument given by or on behalf of any Holder of a Note in connection with any consent to any modification, amendment or waiver of the Indenture or the terms and conditions of the Notes will be

irrevocable once given and will be conclusive and binding on all subsequent Holders of such Notes. Any modifications, amendments or waivers to the terms and conditions of the Notes duly passed, in accordance with the requirements provided in Clause 12.1.8 below, at a duly convened meeting of Holders of Notes will be conclusive and binding on all Holders of Notes, whether or not they voted in favour of such resolution or were present at any meeting, and whether or not notation of such modifications, amendments or waivers is made upon the Notes.

12.1.8 Subject to Clause 9.2 of this Indenture, decisions shall be made by the affirmative vote of Holders of Notes or their proxies representing at least a majority in aggregate principal amount of the Notes represented at the meeting.

12.1.9 The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the Holders or proxies and on which shall be inscribed the serial number or numbers of the Notes held or represented by them.

In witness whereof, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

MOBILE TELESYSTEMS FINANCE S.A.

as Issuer

By:

Name:

Title:

MOBILE TELESYSTEMS OJSC

as Guarantor

By:

Name:

Title:

By:

Name:

Title: Chief Accountant

JPMORGAN CHASE BANK, N.A.

as Trustee, Registrar and Paying Agent

By:

Name:

Title:

J.P. MORGAN BANK LUXEMBOURG S.A.

as Luxembourg Paying Agent

By:

Name:

Title:

EXHIBIT A

FORM OF GLOBAL NOTE

FACE OF GLOBAL NOTE

Mobile TeleSystems Finance S.A. GLOBAL NOTE

REPRESENTING 8.00 per cent. SENIOR NOTES DUE 2012 IN AN AMOUNT OF U.S. \$[•]

CUSIP No. [60741A AF 2] [L64395 AJ 2]

Common Code No. [021121568][021121649]

ISIN No. [US60741AAF21][XS0211216493]

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF **[Reg S note: EUROCLEAR BANK S.A./N.V. ("EUROCLEAR") OR CLEARSTREAM BANKING, SOCIETE ANONYME ("CLEARSTREAM")** **[Rule 144A note: THE DEPOSITORY TRUST COMPANY]** TO MOBILE TELESYSTEMS FINANCE S.A. OR A SUCCESSOR THEREOF OR THE REGISTRAR FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF **[Reg S note: [CHASE NOMINEES LIMITED]]** **[Rule 144A note: CEDE & CO.]** OR SUCH OTHER ENTITY AS HAS BEEN REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF **[Reg S note: EUROCLEAR OR CLEARSTREAM]** **[Rule 144A note: THE DEPOSITORY TRUST COMPANY]**(AND ANY PAYMENT HEREON IS MADE TO **[Reg S note: [CHASE NOMINEES LIMITED]]** **[Rule 144A note: CEDE & CO.]** OR TO SUCH OTHER ENTITY AS HAS BEEN REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF **[Reg S note: EUROCLEAR OR CLEARSTREAM]** **[Rule 144A note: THE DEPOSITORY TRUST COMPANY]**), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, **[Reg S note: [CHASE NOMINEES LIMITED]]** **[Rule 144A note: CEDE & CO.]**, HAS AN INTEREST HEREIN.

TRANSFER OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, AND NOT IN PART, TO **[Reg S note: EUROCLEAR OR CLEARSTREAM OR THE COMMON DEPOSITORY, OR NOMINEES OF EUROCLEAR OR CLEARSTREAM]** **[Rule 144A note: THE DEPOSITORY TRUST COMPANY OR NOMINEES OF THE DEPOSITORY TRUST COMPANY]** OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF INTERESTS IN THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN CLAUSE 2.5 OF THE INDENTURE DATED 28 JANUARY 2005, AS AMENDED OR SUPPLEMENTED, AMONG MOBILE TELESYSTEMS FINANCE S.A., AS ISSUER, MOBILE TELESYSTEMS OJSC, AS GUARANTOR, JPMORGAN CHASE BANK, N.A., AS TRUSTEE AND J.P. MORGAN BANK LUXEMBOURG S.A., AS LUXEMBOURG PAYING AGENT (THE "INDENTURE"), PURSUANT TO WHICH THIS NOTE WAS ISSUED.

[INCLUDE IF THIS GLOBAL NOTE IS A RULE 144A GLOBAL NOTE UNLESS, PURSUANT TO CLAUSE 2.5.9 OF THE INDENTURE, THE ISSUER DETERMINES THAT THE FOLLOWING LEGEND MAY BE REMOVED: THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE. THE OFFER, SALE, PLEDGE OR TRANSFER OF THIS NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS, INCLUDING THOSE SET FORTH IN THE INDENTURE. THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS NOTE, ACKNOWLEDGES THAT THIS NOTE IS A "RESTRICTED SECURITY" THAT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES FOR THE

BENEFIT OF MOBILE TELESYSTEMS FINANCE S.A. (THE "ISSUER") AND MOBILE TELESYSTEMS OJSC (THE "GUARANTOR") THAT THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) TO THE ISSUER, THE GUARANTOR OR AN AFFILIATE THEREOF (UPON REDEMPTION HEREOF OR OTHERWISE) OR (2) PURSUANT TO AND IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.]

ANY PERSON WHO HOLDS (A BENEFICIAL INTEREST IN) THIS OBLIGATION, WHO IS RESIDENT IN THE NETHERLANDS, SHALL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A PROFESSIONAL MARKET PARTY, AND IS ACQUIRING THIS NOTE (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PROFESSIONAL MARKET PARTY, AS DEFINED IN SECTION 1 SUB E OF THE EXEMPTION REGULATION PURSUANT TO THE NETHERLANDS BANKING ACT.

Mobile TeleSystems Finance S.A., a *société anonyme* organized under the laws of Luxembourg, for value received, hereby promises to pay to [**Reg. S note:** [Chase Nominees Limited]][**Rule 144A note:** CEDE & CO.], or its registered assigns, the principal sum indicated on Schedule A hereof, on 28 January 2012.

Interest Payment Dates: 28 January and 28 July commencing on 28 July 2005. Record Dates: The fifteenth calendar day prior to the relevant Interest Payment Date.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been duly executed by the Trustee referred to on the reverse hereof by manual or facsimile signature of one of its authorized signatories, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purposes.

IN WITNESS WHEREOF, Mobile TeleSystems Finance S.A. has caused this Note to be duly executed.

Dated 28 January 2005

Mobile TeleSystems Finance S.A.

By:

Name: Title:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

JPMorgan Chase Bank, N.A.

as Trustee, certifies that this is one of the Notes referred to in the Indenture.

By:

Authorized Officer

Date of incorporation of the Issuer: 10 December 2001

Date of publication of deed of incorporation of the Issuer: 29 March 2002

Number of shares: 1,000

Nominal value: U.S. \$125

Aggregate amount of the Notes issued: U.S. \$400,000,000

Issue guaranteed by: Mobile TeleSystems OJSC

Details of outstanding note issues prior to 28 January 2005:

January 2003: U.S. \$400,000,000 9.75 per cent. notes due 2008, guaranteed by Mobile TeleSystems OJSC

October 2003: U.S. \$400,000,000 8.375 per cent. Floating Rate notes due 2010, guaranteed by Mobile TeleSystems OJSC

REVERSE SIDE OF GLOBAL NOTE

Mobile TeleSystems Finance S.A.

GLOBAL NOTE REPRESENTING 8.00 per cent. SENIOR NOTES DUE 2012

1 Indenture

This Note is one of a duly authorized issue of debt securities of the Issuer (as defined below) designated as its "8.00 per cent. Senior Notes due 2012" (herein called the "**Notes**"), issued under an indenture dated as of 28 January 2005 (as amended or supplemented from time to time, the "**Indenture**") among Mobile TeleSystems Finance S.A., as issuer (including any successors or assigns under the Indenture, the "**Issuer**"), Mobile TeleSystems OJSC, as guarantor (including any successors or assigns under the Indenture, the "**Guarantor**"), JPMorgan Chase Bank, N.A., as trustee (the "**Trustee**", which term includes any successor trustee under the Indenture) and J.P. Morgan Bank Luxembourg S.A., as Luxembourg paying agent (the "**Luxembourg Paying Agent**", which term includes any successor Luxembourg paying agent under the Indenture). The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code §§ 77aaa-77bbb). The Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and such Act for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Issuer, the Guarantor, the Trustee and each Holder of Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. The summary of the terms of this Note contained herein does not purport to be complete and is qualified by reference to the Indenture. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture shall control. All capitalized terms used in this Note which are not defined herein shall have the meanings assigned to them in the Indenture.

The Indenture restricts, among other things, the Issuer's and the Guarantor's ability to incur Debt, to incur Liens to secure Debt, to engage in Sale and Lease-Back Transactions, to merge or consolidate with any other Person, and to sell, transfer, lease, convey or otherwise dispose of substantially all of its or their properties or assets, and the Guarantor's ability to sell, transfer, lease, convey or otherwise dispose of certain assets.

2 Principal and Interest

The Issuer promises to pay the principal amount set forth on Schedule A of this Note to the Holder hereof on 28 January 2012.

The Issuer shall pay interest at an annual rate of 8.00 per cent., from the Issue Date or from the most recent Interest Payment Date thereafter to which interest has been paid or duly provided for, semi-annually in arrear on 28 January and 28 July in each year (each such date, an "**Interest Payment Date**"), commencing on 28 July 2005, in cash, to the Holder hereof until the principal amount hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions provided in the Indenture, be paid to the Person in whose name this Note (or the Note in exchange or substitution for which this Note was issued) is registered at the close of business on the Record Date for interest payable on such Interest Payment Date. The Record Date for any interest payment is the close of business on the fifteenth calendar day prior to the relevant Interest Payment Date, as the case may be, whether or not a business day, immediately preceding the Interest Payment Date on which such interest is payable. Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") shall forthwith cease to be payable to the Holder on such Record Date and shall be paid as provided in Clause 2.10 of the Indenture. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Each payment of interest in respect of an Interest Payment Date will include interest accrued through the day before such Interest Payment Date. If any payment on this Note is due on a day that is, in the City of New York or at any other place of payment, a day on which banking institutions are authorized or obligated by law or executive order to close, then, at each place of payment, such payment need not be made on such day but may be made on the next succeeding day that is not, in the City of New York or at such other place of payment, a day on which banking institutions are authorized or obligated by law or executive order to close, with the same force and effect as if made on the date for such payment, and no interest will accrue for the period from and after such date.

To the extent lawful, the Issuer shall pay interest on any (i) overdue principal of this Note, at the interest rate borne on this Note and (ii) Defaulted Interest (without regard to any applicable grace period), at the same rate. The Issuer's obligation pursuant to the previous sentence shall apply whether such overdue amount is due at its Stated Maturity, as a result of the Issuer's obligations pursuant to Clause 3.4 of the Indenture or otherwise.

3 Method of Payment

The Issuer, through any Paying Agent, shall pay interest on this Note to the registered Holder of this Note, as provided above. The Holder must surrender this Note to a Paying Agent to collect principal payments. The Issuer will pay principal and interest in money of the United States of America that at the time of payment is legal tender for payment of all debts public and private. Interest on this Note shall be paid to the registered Holder hereof at its registered address by U.S. dollar check drawn on a bank in The City of New York or, for Holders of at least U.S.\$1,000,000 of Notes, by wire transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York or in Europe, provided that a written request from the Holder to such effect designating such account is received by the Trustee or a Paying Agent no later than the Record Date. Unless such designation is revoked, any such designation made by such Person with respect to this Note will remain in effect with respect to any future payments with respect to this Note payable to such person. The Issuer will pay any administrative costs imposed by banks in connection with making payments by wire transfer.

4 Paying Agent and Registrar

Initially, the Trustee will act as Paying Agent and Registrar and J.P. Morgan Bank Luxembourg S.A. will act as the Luxembourg Paying Agent under the Indenture. The Issuer may, upon written notice to the Trustee, appoint and change any Paying Agent or Registrar. Neither the Issuer, the Guarantor nor any Affiliate of the Issuer or the Guarantor may act as Registrar or Paying Agent with respect to this Note or the Notes generally.

5 Guarantee

This Note is entitled to the benefits of the Guarantee made for the benefit of the Holders of the Notes pursuant to Clause 10 of the Indenture. The Guarantor has irrevocably and unconditionally guaranteed to each Holder and to the Trustee on behalf of the Holders (i) the due and punctual payment of principal of and interest in full on the Notes when and as the same shall become due and payable whether at Stated Maturity, by declaration of acceleration, redemption or otherwise and the due and punctual payment of all other sums stated in the Indenture and the Notes to be payable pursuant to the Indenture and the Notes, including, without limitation, any Additional Amounts; (ii) the due and punctual payment of interest on the overdue principal of and interest in full on the Notes, to the extent permitted by law; and (iii) the due and punctual performance of all other duties, agreements, covenants and obligations of the Issuer to the Holders or the Trustee, including without limitation the payment of fees, expenses, indemnification or other amounts, all in accordance with the terms of the Notes and the Indenture. The Guarantor has also agreed to pay any and all expenses (including reasonable fees and expenses of counsel) incurred by the Trustee or the Holders in enforcing any rights under the Guarantee, and has further agreed to indemnify

Holders and the Trustee against all documentary, stamp or other similar taxes payable in connection with the execution, delivery or enforcement of the Guarantee.

6 Additional Amounts

All payments by the Issuer in respect of this Note and the Indenture and by the Guarantor in respect of the Guarantee and the Indenture will be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (" **Taxes** ") imposed or levied by or on behalf of Luxembourg, the Russian Federation, any jurisdiction from or through which a payment is made, or any political subdivision or taxing authority thereof or therein (each, a " **Taxing Jurisdiction** "), unless such withholding or deduction is required by law. If the Issuer is required to make any withholding or deduction for or on account of any Taxes from any payment made under or with respect to this Note, or if the Guarantor is required to make any withholding or deduction for or on account of any Taxes imposed by a Taxing Jurisdiction from any payment made under or with respect to the Guarantee, the Issuer (or, in respect of the Guarantee, the Guarantor) will pay as additional interest to the Holder of this Note such additional amounts (the " **Additional Amounts** ") as may be necessary in order that every net payment made by the Issuer on this Note or by the Guarantor on the Guarantee after deduction or withholding for or on account of any Taxes will not be less than the amount then due and payable on this Note or the Guarantee. The foregoing obligation to pay Additional Amounts, however, will not apply to any (i) Taxes that would not have been imposed but for the existence of any present or former connection between the Holder of this Note and any Taxing Jurisdiction other than the mere receipt of such payment or the ownership or holding of this Note; (ii) Taxes that would not have been imposed but for the presentation by the Holder of this Note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later; (iii) Taxes required to be deducted or withheld by any Paying Agent from a payment on this Note or the Guarantee, if such payment can be made without deduction or withholding by any other Paying Agent; (iv) Taxes that would not have been imposed but for the failure of the Holder to comply with the Issuer's written request addressed to the Holder at least 60 days prior to the relevant payment to provide information with respect to any reasonable certification, documentation, information or other reporting requirement concerning the nationality, residence, identity or connection with the Taxing Jurisdiction of the Holder of such Note; (v) Taxes imposed on a payment to an individual that are required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or (vi) estate, inheritance, gift, sale or excise tax.

7 Redemption for Tax Reasons

This Note may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice in accordance with Clause 3 of the Indenture at the principal amount hereof, together with any Additional Amounts and interest accrued to the date fixed for redemption, if (a) the Issuer or the Guarantor has or will become obligated to pay Additional Amounts as described in Clause 6 of this Note and in Clause 4.11 of the Indenture as a result of any change in, or amendment to, the laws, treaties, rulings or regulations of any Taxing Jurisdiction, or any change in, or amendment to the application or official interpretation of such laws, treaties, rulings or regulations, including a holding by a court of competent jurisdiction, which change or amendment becomes effective on or after 28 January 2005 (or in the case of Additional Amounts that a successor to the Guarantor or the Issuer is obligated to pay, the date on which that successor became such pursuant to the Indenture); provided that in the case of Additional Amounts payable by the Guarantor arising from an imposition or levy of Taxes by the Russian Federation or any political subdivision or taxing authority thereof on amounts paid under the Guarantee, the Taxes are imposed or levied at a rate in excess of 30 per cent. on the gross amount

payable under the Guarantee, and (b) such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts were a payment in respect of this Note then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Officer's Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an Opinion of Counsel of recognized international standing to the effect that the Issuer has or will become obligated to pay such Additional Amounts as a result of such change or amendment.

This Note may be redeemed pursuant to this Clause only if all Notes are simultaneously so redeemed.

If money in an amount sufficient to pay the Redemption Price of all Notes to be redeemed on the Redemption Date pursuant to this Clause 7 is deposited with a Paying Agent on or before the applicable Redemption Date and certain other conditions are satisfied, interest on the Notes to be redeemed on the applicable Redemption Date will cease to accrue.

8 Redemption upon a Change in Control

If a Change in Control occurs, the Holder of this Note will have the right to require the Issuer to redeem it at a Redemption Price equal to 101 per cent. of the principal amount hereof plus accrued interest.

Within 30 days after the occurrence of a Change in Control, the Issuer will deliver to the Holders, the Trustee and the Luxembourg Paying Agent notice of the Change in Control and of the resulting redemption right. Upon receipt by the Trustee or the Luxembourg Paying Agent (for so long as the Notes are listed on the Luxembourg Stock Exchange) from a Holder, on or before the 30th day after the date of the Issuer's notice referred to in the previous sentence, of (a) a properly completed notice in the form specified by the Indenture and (b) this Note, the Issuer will redeem this Note no earlier than 30 and no later than 60 days after the date of the Issuer's notice of the Change in Control.

The Holder of this Note may not exercise its right to require the Issuer to redeem it pursuant to this Clause 8 in the event the Issuer has already exercised its option to redeem this Note in accordance with Clause 7 hereof.

9 The Global Note

So long as this Global Note is registered in the name of the [Rule 144A Note: Depositary] [RegS Note: Common Depositary] or a nominee or successor thereof, members of, or account holders or participants in (the " **Agent Members** ") the [Rule 144A Note: Depositary] [RegS Note: Common Depositary] shall have no rights under the Indenture with respect to this Global Note held on their behalf by the [Rule 144A Note: Depositary][RegS Note: Common Depositary] or the Trustee as its custodian, and the [Rule 144A Note: Depositary][RegS Note: Common Depositary] may be treated by the Issuer, the Guarantor, the Trustee and any agent of the Issuer, the Guarantor or the Trustee as the absolute owner of this Global Note for all purposes. Notwithstanding the foregoing, nothing herein shall (i) prevent the Issuer, the Guarantor, the Trustee or any agent of the Issuer, the Guarantor or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the [Rule 144A Note: Depositary] [RegS Note: Common Depositary] or (ii) impair, as between the [Rule 144A Note: Depositary] [RegS Note: Common Depositary] and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of a beneficial interest in the Notes.

The Holder of this Global Note may grant proxies and otherwise authorize any Person, including Agent Members of the [Rule 144A Note: Depositary] [RegS Note: Common Depositary] and

Persons that may hold interests in this Global Note through such Agent Members, to take any action which a Holder of Notes is entitled to take under the Indenture or the Notes.

Whenever, as a result of an exchange for Certificated Notes, this Global Note is redeemed, repurchased or exchanged in part, this Global Note shall be surrendered by the Holder thereof to the Trustee who shall cause an adjustment to be made to Schedule A hereof so that the principal amount of this Global Note will be equal to the portion not redeemed, repurchased or exchanged and the Trustee shall thereafter return this Global Note to such Holder; provided that this Global Note shall be in a principal amount of \$2,000 or integral multiples thereof.

10 Transfer and Exchange

A Holder may transfer or exchange Notes as provided in the Indenture and subject to certain limitations therein set forth. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes, fees and expenses required by law or permitted by the Indenture.

11 Denominations

The Notes are issuable only in fully registered form without coupons in minimum denominations of \$2,000 and integral multiples thereof.

12 Unclaimed Money

Any funds paid by the Issuer to the Trustee or any Paying Agent in trust for the payment of the principal, interest or Additional Amounts on this Note that remains unclaimed for two years after the date upon which such payment shall have become due, shall be promptly repaid to the Issuer without interest upon receipt by the Trustee of an Order to that effect; provided, however, that the Issuer shall cause to be published at least once in a newspaper of general circulation in The City of New York and in Europe or mailed to the Holder of this Note entitled to such unclaimed funds, notice that such funds remain unclaimed and that, after a date specified therein, which shall be a date not less than 30 days from the date of such publication or mailing, any unclaimed balance of such money remaining as of such date shall be repaid to the Issuer without interest. Holders shall not be entitled to receive interest on such unclaimed funds under any circumstances. After repayment to the Issuer, the Holder of this Note entitled to such unclaimed funds shall look only to the Issuer for payment without interest thereon, as an unsecured general creditor, and the Issuer shall not be liable to pay any taxes or other duties in connection with any such payment. The Trustee and the Paying Agent, subject to applicable law, shall have no further liability with respect to any such money repaid to the Issuer, and the Issuer shall not be a trustee in respect of such funds. Notwithstanding any other provision of this Clause and unless otherwise provided by applicable law, the right to receive payment of principal of this Note (whether at maturity, redemption or otherwise) will become void at the end of 10 years from the relevant date thereof (or such shorter period as may be prescribed by applicable law).

13 Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding, and any existing Default and its consequences may be waived with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Holder of Notes, the Issuer, the Guarantor and the Trustee may amend the Indenture or the Notes: (i) to evidence the succession of another Person to the Issuer or the Guarantor and the assumption by such successor of the covenants of the Issuer and the Guarantor under the Indenture and contained in the Notes; (ii) to add additional covenants or to surrender rights and powers conferred on the Issuer or Guarantor; (iii) to add any additional Events of Default; (iv) to

evidence and provide for the acceptance of appointment under the Indenture of a successor Trustee; (v) to secure the Notes; (vi) to comply with the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the Investment Company Act of 1940, as amended, or the Trust Indenture Act of 1939, as amended; (vii) to issue Additional Notes; (viii) to cure any ambiguity, omission or defect in the Indenture, or to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein; or (ix) to add any other provisions with respect to matters or questions arising under the Indenture or to modify, alter, amend or supplement the Indenture in any other manner, provided that such actions shall not adversely affect the legal rights of the Holders.

14 Defaults and Remedies

Under the Indenture, Events of Default include: (i) a default for 15 calendar days in payment of interest or Additional Amounts on any Note when due and payable; (ii) default in payment of principal of any Note when due and payable at Maturity; (iii) failure by the Issuer to comply with its obligations under Clause 4.8 of the Indenture; (iv) failure by the Issuer or the Guarantor to comply with any of its other agreements or covenants in, or provisions of, the Guarantee, the Indenture or the Notes for 30 days after written notice by the Trustee to the Issuer and the Guarantor or after written notice by Holders of at least 25 per cent. in aggregate principal amount of the Notes then outstanding to the Issuer, the Guarantor and the Trustee; (v) a default under any Debt of the Issuer, the Guarantor or any Subsidiary of the Guarantor (other than the Notes) or under any indenture or other instrument under which any such Debt has been issued or by which it is governed and the expiration of the applicable period of grace, if any, contained in any such Debt, which in the aggregate exceeds U.S.\$5 million (or the equivalent in other currencies), which default (A) results in the acceleration of the payment of such Debt or (B) has not been cured or waived and constitutes the failure to make any payment of principal or interest on such Debt when due, after the expiration of any applicable grace period; (vi) a final action resulting in the suspension for more than 30 days or loss of any of (A) the Guarantor's GSM 900 or 1800 licenses for the Moscow license area; (B) Telecom XXI's GSM 900 or 1800 licenses for the St. Petersburg license area; (C) Kuban GSM's GSM 900 or 1800 licenses for the Krasnodar license area; or (D) UMC's GSM 900 or 1800 licenses for the Ukraine license area, in each case other than, in the case of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's merger or consolidation or a sale of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's assets and properties substantially as a whole in a transaction permitted under Clause 5.1.1 of the Indenture hereof, a loss where the relevant license is issued within 30 days to the Guarantor, the Successor of the Guarantor, Telecom XXI, Kuban GSM or UMC's, or any of the Guarantor's or Successor's Subsidiaries); (vii) the reassignment to other users (other than one of the Guarantor's Subsidiaries), cancellation or other loss of any of the Guarantor's, Telecom XXI's, Kuban GSM's or UMC's assigned spectrum allocations, other than as would not have a material adverse effect on the business, financial condition or results of operations of the Guarantor and its Subsidiaries as a whole; (viii) the express transfer, sale or lease by (A) the Guarantor of any of its GSM 900 or 1800 licenses for the Moscow license area, (B) Telecom XXI of any of its GSM 900 or 1800 licenses for the St. Petersburg license area; (C) Kuban GSM of any of its GSM 900 or 1800 licenses for the Krasnodar license area; or (D) UMC's GSM 900 or 1800 licenses for the Ukraine license area, regardless of whether such transfer, sale or lease is permitted by law, other than in a merger, consolidation, transfer, sale or lease described in and meeting the conditions set forth in Clause 5.1.1 of the Indenture, or that would not have a material adverse effect on the business, financial condition or results of operations of the Guarantor and its Subsidiaries as a whole; (ix) the American Depositary Shares representing the common stock of the Guarantor are no longer listed on the New York Stock Exchange or such listing is suspended for more than 15 days, where such de-listing or suspension is due to the Guarantor's failure to satisfy its obligations under its listing agreement with the New York Stock Exchange; (x) certain events of bankruptcy or insolvency with respect to the Issuer, the Guarantor or any Significant Subsidiary; (xi) the rendering against the Issuer, the Guarantor or any Subsidiary of the Guarantor of a judgment,

decree or order for the payment of money in excess of U.S.\$10 million, and the continuance of such judgment, decree or order unsatisfied and in effect for a period of 60 days without a stay of execution; and (xii) if the Guarantee ceases to be (or is claimed by the Guarantor in writing not to be) in full force and effect.

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25 per cent. in principal amount of the Notes then outstanding, subject to certain limitations set forth in the Indenture, may declare all the Notes to be immediately due and payable. Certain events of bankruptcy or insolvency shall result in the Notes being immediately due and payable upon the occurrence of such Events of Default without any further act of the Trustee or any Holder.

Holders of Notes may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power under the Indenture. The Holders of a majority in principal amount of the Notes then outstanding, by written notice to the Issuer, the Guarantor and the Trustee may rescind any declaration of acceleration and its consequences if certain conditions are met, as more fully set forth in the Indenture. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

15 Individual Rights of Trustee

Subject to certain limitations imposed by the Trust Indenture Act, the Trustee or any Paying Agent or Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Issuer, the Guarantor or their Affiliates with the same rights it would have if it were not Trustee, Paying Agent or Registrar, as the case may be, under the Indenture.

16 No Recourse Against Certain Others

No director, officer, employee, incorporator or stockholder of the Issuer or the Guarantor, as such, shall have any liability for any obligations of the Issuer or the Guarantor under the Notes, the Guarantees or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation, solely by reason of its status as a director, officer, employee, incorporator or stockholder of the Issuer or the Guarantor, as the case may be. By accepting a Note, each Holder waives and releases all such liability (but only such liability) as part of the consideration for issuance of such Note to such Holder.

17 Reports

The Guarantor shall (i) file within the Commission and furnish to the Trustee, within 180 days of the end of each fiscal year, an annual report on Form 20-F (or any successor form) containing the information required to be contained therein (or in such successor form, regardless of whether the Guarantor is then required to file a Form 20-F under the rules promulgated by the Commission, (ii) make public and furnish to the Trustee, within 120 days of the end of each fiscal year, reports for the fourth quarter of such fiscal year containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the fourth quarter; and (iii) submit to the Commission or otherwise make public and furnish to the Trustee, within 60 days of the end of the first three fiscal quarters of each fiscal year, quarterly reports on Form 6-K (or any successor form) containing its consolidated balance sheet, statement of operations and cash flow statement prepared in accordance with U.S. GAAP (but excluding footnotes) and a discussion by its management highlighting critical financial developments during the period. In addition, the Guarantor has agreed that, during any period in which the Issuer is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or is not exempt

from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, it will provide to each Holder of the Notes (or holder of a beneficial interest therein) and to each prospective purchaser of the Notes (as designated by such Holder or holder of a beneficial interest), upon the request of such Holder, prospective purchaser or holder of a beneficial interest, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

18 Authentication

This Note shall not be valid until an authorized signatory of the Trustee manually or in facsimile signs the certificate of authentication on the other side of this Note.

19 Abbreviations

Customary abbreviations may be used in the name of a Holder of Notes or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with rights of survivorship and not as tenants in common), CUST (= custodian), and U/G/M/A (= Uniform Gift to Minors Act).

20 CUSIP, Common Code and ISIN Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer has caused CUSIP, Common Code or ISIN numbers, as applicable, to be printed on the Notes and has directed the Trustee to use such numbers in notices of redemption as a convenience to Holders of Notes. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

21 Governing Law

THE INDENTURE, THE GUARANTEE AND THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

The Issuer will furnish to any Holder of Notes upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Note. Requests may be made to:

Mobile TeleSystems Finance S.A.
3 Avenue Pasteur L-2311 Luxembourg

SCHEDULE A

SCHEDULE OF PRINCIPAL AMOUNT

The initial principal amount at maturity of this Note shall be U.S. \$_____. The following decreases/increases in the principal amount in denominations of integral multiples of U.S. \$2,000 at maturity of this Note have been made:

<u>Date of Decrease/Increase</u>	<u>Decrease in Principal Amount at Maturity</u>	<u>Increase in Principal Amount at Maturity</u>	<u>Total Principal Amount at Maturity Following such Decrease/Increase</u>	<u>Notation Made by or on Behalf of Trustee</u>
<hr/>				

ASSIGNMENT

(To be executed by the registered Holder if such Holder desires to transfer this Note)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY OR OTHER TAX IDENTIFYING NUMBER OF TRANSFEREE

(Please print name and address of transferee)

this Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint _____ Attorney to transfer this Note on the Security Register, with full power of substitution.

Dated: _____

Signature of Holder: Signature Guaranteed:

NOTICE: The signature to the foregoing Assignment must correspond to the Name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

EXHIBIT B

RULE 144A GLOBAL NOTE TRANSFER CERTIFICATE

**FORM OF TRANSFER CERTIFICATE FOR EXCHANGE OR TRANSFER FROM RULE 144A
GLOBAL NOTE TO REGULATION S GLOBAL NOTE**

(Exchanges or transfers pursuant to Clause 2.5.2(i) of the Indenture)

JPMorgan Chase Bank, N.A.

as Registrar

4 New York Plaza
15th Floor New York
New York 10004

Re: Mobile TeleSystems Finance, S.A. 8.00 per cent. Senior Notes Due 2012 (the "Notes")

Reference is hereby made to the Indenture dated as of 28 January 2005 (the "**Indenture**") among Mobile TeleSystems Finance, S.A., as Issuer, MTS, as Guarantor, JPMorgan Chase Bank, N.A., as Trustee and J.P. Morgan Bank S.A., as Luxembourg Paying Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to U.S.\$ principal amount of Notes which are

held as a beneficial interest in the Rule 144A Global Note (CUSIP No.60741A AF 2) with the

Depository in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested an exchange or transfer of such beneficial interest for an interest in the Regulation S Global Note (CUSIP No.L64395 AJ 2).

In connection with such request, and in respect of such Notes, the Transferor does hereby certify that such exchange or transfer has been effected in accordance with the transfer restrictions set forth in the Notes and the Indenture and (i) with respect to transfers made in reliance on Regulation S under the Securities Act, the Transferor does hereby certify that:

- (1) the offer of the Notes was not made to a person in the United States,
- [(2) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States,]*
- [(2) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was pre-arranged with a buyer in the United States,]
- (3) no directed selling efforts have been made in contravention of the requirements of Rule 903 (b) or 904(b) of Regulation S, as applicable, and
- (4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act;

or (ii) does hereby certify that the Notes being transferred are not "restricted securities" as defined in Rule 144 under the Securities Act.

* Insert one of these two provisions, which are derived from the definition of "offshore transaction" in Regulation S.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer, the Guarantor and the Initial Purchasers named in the Purchase Agreement.

[Insert Name of Transferor]

By: _____

Name:

Title:

Dated:

cc: Mobile TeleSystems Finance S.A.

EXHIBIT C

REGULATION S GLOBAL NOTE TRANSFER CERTIFICATE

**FORM OF TRANSFER CERTIFICATE FOR EXCHANGE OR TRANSFER FROM REGULATION S
GLOBAL NOTE TO RULE 144A GLOBAL NOTE**

(Exchanges or transfers pursuant to Clause 2.5.2(ii) of the Indenture)

JPMorgan Chase Bank, N.A.

as Registrar
4 New York Plaza
15th Floor New York
New York 10004

Re: Mobile TeleSystems Finance, S.A. 8.00 per cent. Senior Notes Due 2012 (the "Notes")

Reference is hereby made to the Indenture dated as of 28 January 2005 (the "**Indenture**") among Mobile TeleSystems Finance, S.A., as Issuer, MTS, as Guarantor, JPMorgan Chase Bank, N.A., as Trustee and J.P. Morgan Bank S.A., as Luxembourg Paying Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to U.S. \$_____ principal amount of Notes which are

held as a beneficial interest in the Regulation S or Unrestricted (as the case may be) Global Note (CUSIP No. CUSIP No.L64395 AJ 2) with[Euroclear] [Clearstream] * (Common Code021121649)

through the Depositary in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested an exchange or transfer of such beneficial interest in the Notes for an interest in the Rule 144A Global Note.

In connection with such request, and in respect of such Notes, the Transferor does hereby certify that such Notes are being transferred pursuant to and in accordance with Rule 144A under the Securities Act to a transferee that the Transferor reasonably believes is purchasing the Notes for its own account or an account with respect to which the transferee exercises sole investment discretion and that transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and has been informed by the Transferor that the transfer is being made in reliance on Rule 144A under the Securities Act, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer, the Guarantor and the Initial Purchasers named in the Purchase Agreement.

[Insert Name of Transferor]

By: _____

Name:
Title:
Dated:

cc: Mobile TeleSystems Finance, S.A.

* Select appropriate depositary.

EXHIBIT D

Form of Notice of Redemption at the Option of the Holder

ELECTION OF HOLDER TO REQUIRE REDEMPTION

1 Pursuant to Clause 4.8 of the Indenture, the undersigned hereby elects to have this Note redeemed by the Issuer.

2 The undersigned hereby directs the Trustee or the Issuer to pay it or an amount in cash, equal to 101 per cent. of the principal amount of this Note,

plus interest accrued to the Redemption Date, as provided in the Indenture.

Dated:

Signature

Signature Guaranteed

NOTICE: The signature to the foregoing election must correspond to the name as written upon the face of this Note in every particular, without alteration or any change whatsoever.

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EXHIBIT D

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EXHIBIT A FORM OF GLOBAL NOTE FACE OF GLOBAL NOTE Mobile TeleSystems Finance S.A. GLOBAL NOTE REPRESENTING 8.00 per cent. SENIOR NOTES DUE 2012 IN AN AMOUNT OF U.S. \$[•]
REVERSE SIDE OF GLOBAL NOTE
SCHEDULE A SCHEDULE OF PRINCIPAL AMOUNT ASSIGNMENT
EXHIBIT B RULE 144A GLOBAL NOTE TRANSFER CERTIFICATE
EXHIBIT C REGULATION S GLOBAL NOTE TRANSFER CERTIFICATE
EXHIBIT D Form of Notice of Redemption at the Option of the Holder
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Exhibit 12.1

I, Vassily V. Sidorov, certify that:

1. I have reviewed this annual report on Form 20-F of Mobile TeleSystems OJSC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 17, 2005

/s/ Vassily V. Sidorov

Vassily V. Sidorov
President and Chief Executive Officer

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Exhibit 12.2

I, Nikolai V. Tsekhomsky, certify that:

1. I have reviewed this annual report on Form 20-F of Mobile TeleSystems OJSC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 17, 2005

/s/ Nikolai V. Tsekhomsky

Nikolai V. Tsekhomsky
Chief Financial Officer

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Exhibit 13.1

CERTIFICATION PURSUANT TO
SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mobile TeleSystems OJSC (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 17, 2005

/s/ Vassily V. Sidorov

Vassily V. Sidorov
President and Chief Executive Officer

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CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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Exhibit 13.2

CERTIFICATION PURSUANT TO
SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Mobile TeleSystems OJSC (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 20-F of the Company for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 17, 2005

/s/ Nikolai V. Tsekhomsky

Nikolai V. Tsekhomsky
Chief Financial Officer

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CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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