JSFC SISTEMA AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements as of June 30, 2008 and December 31, 2007 and for the six months ended June 30, 2008 and 2007

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS’ REVIEW REPORT

To the Shareholders of JSFC Sistema:

We have reviewed the accompanying condensed consolidated balance sheet of JSFC Sistema and subsidiaries (the “Group”) as of June 30, 2008 and the related condensed consolidated statements of operations and comprehensive income, changes in shareholders’ equity, and cash flows for the six months ended June 30, 2008 and 2007. These financial statements are the responsibility of the Group’s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

September 17, 2008
Moscow, Russia

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND DECEMBER 31, 2007
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2008	December 31, 2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 1,855,416	$ 1,061,733
Short-term investments	5	1,020,296	909,224
Loans to customers and banks, net	6	3,318,853	2,764,763
Accounts receivable, net		1,535,468	1,383,731
Prepaid expenses, other receivables and other current assets, net	7	1,368,360	950,104
VAT receivable		336,423	435,245
Inventories and spare parts		963,487	780,193
Deferred tax assets, current portion		286,692	213,633
Assets of the discontinued operations		-	545,863
Total current assets		10,684,995	9,044,489
NON-CURRENT ASSETS:			
Property, plant and equipment, net	8	11,794,538	10,412,636
Advance payments for non-current assets		331,717	284,396
Goodwill	9	1,162,896	860,019
Licenses, net		1,343,182	730,636
Other intangible assets, net	9	1,847,647	1,665,969
Investments in affiliates		1,533,398	1,336,520
Investments in shares of Svyazinvest		1,549,215	1,485,378
Loans to customers and banks, net of current portion	6	1,688,116	1,468,088
Debt issuance costs, net		90,987	101,904
Deferred tax assets, net of current portion		147,107	108,637
Other non-current assets		565,272	897,986
Total non-current assets		22,054,075	19,352,169
TOTAL ASSETS		$ 32,739,070	$ 28,396,658

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
AS OF JUNE 30, 2008 AND DECEMBER 31, 2007
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2008	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 1,614,428	$ 1,273,487
Bank deposits and notes issued, current portion		2,547,230	1,966,539
Taxes payable		392,142	223,791
Deferred tax liabilities, current portion		80,773	77,893
Subscriber prepayments, current portion		603,112	598,014
Derivative financial instruments	12	74,000	140,563
Accrued expenses and other current liabilities		2,271,946	1,491,822
Short-term loans payable	10	1,768,301	724,905
Current portion of long-term debt	11	1,475,198	1,517,902
Liabilities of the discontinued operations		-	396,132
Total current liabilities		10,827,130	8,411,048
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	11	6,296,280	6,106,937
Subscriber prepayments, net of current portion		138,525	134,280
Bank deposits and notes issued, net of current portion		1,871,258	1,401,925
Deferred tax liabilities, net of current portion		540,504	428,030
Postretirement benefits obligation		45,826	42,370
Deferred revenue		149,465	139,984
Total long-term liabilities		9,041,858	8,253,526
TOTAL LIABILITIES		19,868,988	16,664,574
Minority interests in equity of subsidiaries		5,277,810	4,987,220
Commitments and contingencies	17	-	-
Puttable shares of SITRONICS		89,150	86,100
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,278,328,668 and 9,276,092,868 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively, with par value of 0.09 Russian Rubles)	13	30,057	30,057
Treasury stock (371,671,332 shares as of June 30, 2008 and 373,907,132 shares as of December 31, 2007 with par value of 0.09 Russian Rubles)		(466,345)	(469,365)
Additional paid-in capital		2,439,069	2,439,069
Retained earnings		4,612,266	4,035,157
Accumulated other comprehensive income		888,075	623,846
TOTAL SHAREHOLDERS' EQUITY		7,503,122	6,658,764
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 32,739,070	$ 28,396,658

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2008	Six months ended June 30, 2007
Sales		$ 7,733,214	$ 5,594,331
Revenues from financial services		327,577	165,156
TOTAL REVENUES		**8,060,791**	**5,759,487**
Cost of sales, exclusive of depreciation and amortization shown separately below		(3,216,017)	(2,566,789)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(145,898)	(68,641)
TOTAL COST OF SALES		**(3,361,915)**	**(2,635,430)**
Selling, general and administrative expenses		(1,692,471)	(931,558)
Depreciation and amortization		(1,149,253)	(749,444)
Provision for doubtful accounts		(65,931)	(54,242)
Other operating expenses, net		(68,656)	(88,441)
Equity in net income of investees		47,251	57,790
Gain on disposal of interests in subsidiaries and affiliates		18,759	64,570
OPERATING INCOME		1,788,575	1,422,732
Interest income		38,495	43,781
Change in fair value of derivative instruments		14,518	(26,500)
Interest expense, net of amounts capitalized		(222,505)	(211,841)
Currency exchange and translation gain		235,680	63,461
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		1,854,763	1,291,633
Income tax expense		(553,027)	(478,023)
Minority interests		(744, 578)	(536,344)
Equity in net income of energy companies in the Republic of Bashkortostan, net of minority interests of $33,759 and $11,025, respectively		120,978	70,430
Income from continuing operations		678,136	347,696

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued) FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2008	Six months ended June 30, 2007
(Loss)/Income from discontinued operations, net of income tax benefit/(expense) of $5,391 and ($8,837), respectively	4	(4,194)	7,443
Gain from disposal of discontinued operations, net of income tax effect of $280 and $148,809, respectively	4	2,053	521,963
NET INCOME		$ 675,995	$ 877,102
Other comprehensive income:			
Change in fair value of interest rate swaps, net of income tax effect of $537 and ($307), respectively		(1,700)	973
Effect of disposal of discontinued operations, net of minority interest of $11,586 and income tax effect of $nil		-	(11,205)
Unrecognized actuarial losses, net of minority interest of $512 and income tax effect of $nil		(252)	-
Effect of changes in the functional currency, net of minority interest of $13,125		52,499	(55,762)
Translation adjustment, net of minority interests of $160,349 and $262,588, respectively, and income tax effect of nil	2	213,682	299,290
Comprehensive income		$ 940,224	$ 1,110,398
Weighted average number of common shares outstanding		9,278,169,513	9,357,453,729
Earnings per share, basic and diluted:			
Income from continuing operations, US cent per share		7.3	$ 3.7
Income from discontinued operations, US cent per share		-	5.7
Net income, US cent per share		7.3	9.4

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2008	Six months ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 675,995	$ 877,102
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,149,253	751,489
Gain/(loss) on disposals of property, plant and equipment	(11,077)	2,922
Gain from disposal of discontinued operations	(2,141)	(521,963)
Loss/(income) of discontinued operations	4,282	(6,483)
Currency exchange and translation gain from non-operating activities	(235,680)	(63,964)
Gain on disposal of long term investments	(30,091)	-
Gain on disposal of interests in subsidiaries and affiliates	(18,759)	(64,570)
Non-cash compensation to employees	16,738	97,966
Minority interests	744,578	547,369
Equity in net income of investees	(168,229)	(139,251)
Deferred income tax (benefit)/expense	(94,190)	2,883
Debt issuance cost amortization	11,724	18,027
Change in fair value of derivative financial instruments	(14,518)	26,500
Amortization of connection fees	(31,664)	(44,590)
Provision for doubtful accounts receivable	65,931	52,763
(Recovery of allowance)/allowance for loan losses	(9,372)	14,286
Inventory obsolescence expense	4,382	27,677
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(90,355)	(157,450)
Loans to banks	310,968	(136,610)
Accounts receivable	(171,826)	(69,897)
Prepaid expenses, other receivables and other current assets	(417,992)	(144,825)
VAT receivable	98,822	45,142
Inventories and spare parts	(173,968)	(99,447)
Accounts payable	59,320	(59,965)
Taxes payable	168,030	(96,334)
Subscriber prepayments	41,007	(10,094)
Dividends received	8,132	-
Accrued expenses and other current liabilities	43,997	248,871
Postretirement benefits obligation	3,456	(311)
Net cash provided by operations	$ 1,936,753	$ 1,097,243
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,580,043)	(733,916)
Purchases of intangible assets	(501,477)	(129,886)
Purchases of businesses, net of cash acquired	(947,055)	(386,387)
Proceeds from disposals of interests in subsidiaries and affiliates, net of cash disposed	224,784	636,683
Purchases of long-term investments	(22,203)	(26,318)
Proceeds from sale of long-term investments	30,091	20,000
Purchases of other non-current assets	(105,311)	(121,006)
Proceeds from sale of other non-current assets	120,817	5,548
Decrease in restricted cash	340,221	44,452
Purchases of short-term investments	(167,220)	(411,338)
Proceeds from sale of short-term investments	147,516	47,946
Proceeds from sale of property, plant and equipment	49,318	12,361
Net increase in loans to customers	(1,075,714)	(466,288)
Net cash used in investing activities	$ (3,486,276)	$ (1,508,149)

SFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2008	Six months ended June 30, 2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on short-term borrowings, net	972,843	(546,549)
Net increase in deposits from customers	986,261	380,000
Net increase in bank debt securities issued	74,063	43,782
Debt issuance costs	(807)	(3,860)
Proceeds from long-term borrowings, net of debt issuance costs	1,946,742	878,457
Principal payments on long-term borrowings	(1,800,540)	(321,350)
Principal payments on capital lease obligations	(2,852)	(8,021)
Purchases of treasury stock	-	(136,235)
Proceeds from sale of treasury stock	3,020	-
Proceeds from capital transactions of subsidiaries	131,000	356,463
Net cash provided by financing activities	$ 2,309,730	$ 642,687
Effects of foreign currency translation on cash and cash equivalents	$ 33,476	$ 2,227
INCREASE IN CASH AND CASH EQUIVALENTS	$ 793,683	$ 234,008
CASH AND CASH EQUIVALENTS, beginning of the period	1,061,733	598,381
CASH AND CASH EQUIVALENTS, end of the period	$ 1,855,416	$ 832,389
CASH PAID DURING THE PERIOD FOR:		
Interest, net of amounts capitalized	$ (152,216)	$ (230,332)
Income taxes	(606,100)	(664,977)

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(Amounts in thousands of U.S. dollars)

	Share capital		Treasury stock		Additional		Accumulated other	
	Shares	Amount	Shares	Amount	paid-in capital	Retained earnings	comprehensive income	Total
Balances at January 1, 2007	**9,650,000,000**	**$ 30,057**	**(284,243,000)**	**$ (347,068)**	**$ 2,196,475**	**$ 2,492,930**	**$ 141,944**	**$ 4,514,338**
Effect of FIN No. 48 implementation (	-	-	-	-	-	(18,104)	-	**(18,104)**
Capital transactions of subsidiaries	-	-	-	-	232,496	-	-	**232,496**
Repurchase of common stock	-	-	(101,101,000)	(147,977)	-	-	-	**(147,977)**
Sale of treasury stock	-	-	9,650,000	11,742	-	-	-	**11,742**
Early termination and change in fair value of interest rate swaps, net of income tax effect of $307	-	-	-	-	-	-	973	**973**
Effect of change in functional currency, net of minority interests of $38,750	-	-	-	-	-	-	(55,762)	**(55,762)**
Translation adjustment, net of minority interest of $262,588 and income tax effect of nil	-	-	-	-	-	-	299,290	**299,290**
Effect of disposal of discontinued operations, net of minority interests of $11,586	-	-	-	-	-	-	(11,205)	**(11,205)**
Dividends declared	-	-	-	-	-	(17,942)	-	**(17,942)**
Net income	-	-	-	-	-	877,102	-	**877,102**
Balances at June 30, 2007	**9,650,000,000**	**$ 30,057**	**(375,694,000)**	**$ (483,303)**	**$ 2,428,971**	**$ 3,333,986**	**$ 375,240**	**$ 5,684,951**
Balances at January 1, 2008	**9,650,000,000**	**$ 30,057**	**(373,907,132)**	**$ (469,365)**	**$ 2,439,069**	**$ 4,035,157**	**$ 623,846**	**$ 6,658,764**
Change in fair value of interest rate swaps, net of income tax effect of $537							(1,700)	**(1,700)**
Sale of treasury stock	-	-	2,235,800	3,020	-	-	-	**3,020**
Unrecognized actuarial losses, net of minority interest of $512 and income tax of $nil							(252)	**(252)**
Effect of change in functional currency, net of minority interests of $13,125							52,499	**52,499**
Translation adjustment, net of minority interest of $160,349 and income tax effect of nil	-	-	-	-	-	-	213,682	**213,682**
Dividends declared	-	-	-	-	-	(98,886)	-	**(98,886)**
Net income	-	-	-	-	-	675,995	-	**675,995**
Balances at June 30, 2008	**9,650,000,000**	**$ 30,057**	**(371,671,332)**	**$ (466,345)**	**$ 2,439,069**	**$ 4,612,266**	**$ 888,075**	**$ 7,503,122**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

The financial statements of JSFC Sistema and subsidiaries ("the Group") reflect the consolidation of the separate financial statements of operating entities controlled by means of direct or indirect ownership of a majority voting interest by the Group's holding company, JSFC Sistema. Most of the consolidated entities and the parent company are incorporated in the Russian Federation ("RF").

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives and directors of the Group and 19.6% of outstanding shares of the Group are traded on the London Stock Exchange in the form of GDRs.

The principal activities of the significant entities of the Group are as follows:

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services in CIS
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Shyam Telelink Ltd	Shyam	Wireless telecommunication services in India
Technology Segment:		
SITRONICS and subsidiaries	SITRONICS	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development, IT and systems integration, computer hardware and software distribution
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
Dalcombank	DKB	Banking activities, securities transactions and foreign currency transactions
East-West United Bank	EWUB	Banking activities, securities transactions and foreign currency transactions
Real Estate Segment:		
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects
Mass Media Segment:		
Sistema Mass Media and subsidiaries	Sistema Mass Media	Cable television, advertising, production and distribution of periodicals, movie production
Retail Segment:		
Detsky Mir and subsidiaries	Detsky Mir	Retail and wholesale trading
Detsky Mir-Center and subsidiaries	DM-Center	Retail and wholesale trading
Other businesses:		
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Financial Fleurus Holdings S.A. and subsidiaries	Sistema International	Investing in real estate projects outside the CIS, financing activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In the opinion of the Group's management, these condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods. Certain information and related footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, although the Group believes that disclosures in these financial statements are adequate to make the information presented not misleading. The financial results of operations for interim periods shown are not necessarily indicative of the results for the entire fiscal year.

These interim condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements as of and for the years ended December 31, 2007 and 2006.

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

The beneficial ownership interest and voting interest of JSFC Sistema in the significant subsidiaries as of June 30, 2008 and December 31, 2007 are as follows:

Significant entities	**Ownership interest**		**Voting interest**	
	June 30, 2008	**December, 31 2007**	**June 30, 2008**	**December, 31 2007**
MTS	54%(1)	53%(1)	54%	53%
Comstar UTS	53%(1)	53%(1)	53%	53%
Shyam Telelink Ltd.	74%	0%	74%	0%
SITRONICS	71%	71%	71%	71%
MBRD	87%(1)	95%(1)	91%	99%
EWUB	99%	51%	99%	51%
Sistema-Hals	80%(1)	80%(1)	80%	80%
Intourist	66%	66%	66%	66%
DM-Center	100%	100%	100%	100%
Detsky Mir	96%(1)	75%(1)	96%	75%
Concern RTI	100%	100%	100%	100%
Financial Fleurus	100%	100%	100%	100%
Medsi	83%	83%	83%	83%
Binnofarm	100%	100%	100%	100%

(1) – Including indirect ownership

Change in Accounting Policy – Effective January 1, 2008, the Group has changed its accounting policy for the treatment of acquired businesses. Previously, the year-to-date results of the acquired companies were consolidated in the quarter of acquisition, with the year-to-date earnings prior to acquisition being accounted for as minority interests in the consolidated income statement. According to the new accounting policy the Group consolidates revenues and expenses of the acquired companies from the date of acquisition. All comparative historic information in the income statement has been restated to conform to the new accounting policy. Therefore, unaudited results for the six months ended 30 June 2007 were presented as if the new policy had been followed in 2007.

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

Management has determined that the functional currencies of the Group's significant subsidiaries for the six months ended June 30, 2008 are the currencies of the countries of their domicile, with the exception of Intourist, a company incorporated in the RF, Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, and Uzdunrobita, MTS subsidiary in Uzbekistan, whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations.

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

In the beginning of 2008 Sistema-Hals introduced ruble pricing for residential and commercial real estate sale contracts which were previously denominated in US Dollars or unit equivalents and accordingly, in light of the above and certain other measures, reassessed its functional currency. Sistema-Hals changed its functional currency from US Dollars to Russian roubles beginning January 1, 2008. Pursuant to the provisions of US Statement of Financial Accounting Standards ("SFAS") No. 52, Foreign Currency Translation, previously issued financial statements should not be restated, and the change in functional currency should be reported prospectively. The impact of the change in functional currency on the financial statements was an increase in the opening translated carrying values of the following non-monetary assets and liabilities as of January 1, 2008:

Inventories and spare parts	19,300
Property, plant and equipment, net	63,218
Other intangible assets, net	9,651
Accrued expenses and other current liabilities (advances received under development projects)	(24,428)
Deferred taxes	(2,117)
Total	**65,624**

This increase has been reflected in shareholder's equity as part of other comprehensive income as of January 1, 2008.

The Group has selected the USD as its reporting currency and translated into USD financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation gain in the amount of $213.7 million for the six months ended June 30, 2008 and $299.3 million for the six months ended June 30, 2007, net of minority interests of $160.3 million and $262.6 million, respectively, were recorded as a separate component of other comprehensive income.

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

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 dilutive effect of stock options granted to employees. The diluted weighted average number of shares and diluted EPS are not materially different from basic for the six months ended June 30, 2008.

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF equals 24%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions.

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

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

The following fair value hierarchy table presents information regarding Group's assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of June 30, 2008**
Assets:				
Trading securities	290,471	-	-	290,471
Available for sale securities	82,912	-	-	82,912
Derivatives	742	1,441	-	2,183
Total	**374,125**	**1,441**	**-**	**375,566**
Liabilities:				
Interest rate swap agreements (Note 5)	-	(4,144)	-	(4,144)
Put option	-	-	(74,000)	(74,000)
Total		**(4,144)**	**(74,000)**	**(78,144)**

The reconciliation of the balances of put option obligation as of December 31, 2007 and June 30, 2008 is presented below:

Balance as of December 31, 2007	$	88,000
Accrued in the current period		(14,000)
of them:		
included in earnings		(17,586)
included in other comprehensive income		3,586
Balance as of June 30, 2008	$	74,000

Gains/(losses) included in earnings and other comprehensive income for the six months ended June 30, 2008 on recognition of fair value of assets/(liabilities is as follows):

	Gains/(losses) recognized in earnings	**Gains/(losses) recognized in other comprehensive income**	**Total**
Total recognized for the period	(18,437)	2,000	(16,437)
of them unrealized	(832)	(1,700)	(2,532)

In June 2008, the FASB issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP-EITF No. 03-6-1"). Under FSP-EITF No. 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing earnings per share. FSP-EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Group does not expect the adoption of FSP-EITF No. 03-6-1 to have a material impact on the determination or reporting of its earnings per share.

In June 2008, FASB issued EITF 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5" (EITF 08-4). The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF 98-5, that result from EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". EITF 08-4 is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. The Group is currently evaluating the impact of adoption of EITF 08-4 on the consolidated financial statements.

Reclassifications – Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for the six months ended June 30, 2008.

3. ACQUISITIONS

Shyam

In January 2008, Sistema increased its stake in Shyam from 10% to 51% for an additional cash consideration of $91.1 million. Simultaneously, Sistema entered into a call option agreement with Shyam's shareholders. The call agreement gave Sistema the right to increase its stake in Shyam Telelink from 51% up to a maximum of 74% in approximately 16 months from the day of the agreement for a purchase price based on the fair market value of the company at the time of such additional purchase.

In May 2008, Sistema signed an amendment to the call option agreement, which gave Sistema the right to accelerate the purchase of an additional 21% stake in Shyam. In accordance with this amendment, Sistema has exercised a call option and acquired the additional 21% stake in Shyam Telelink for a total cash consideration of $173.3 million.

In June 2008, Sistema increased its stake in Shyam Telelink from 72.0% to 73.7% as a result of its participation in the charter capital increase of Shyam Telelink in the total amount of $470 million with Sistema's contribution being $348 million.

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

Current assets	8,521
Non-current assets	105,569
Customer base cost	228,070
Goodwill	137,526
Current liabilities	(33,506)
Non-current liabilities	(104,338)
Deferred taxes	(54,737)
Purchase price	**$ 287,105**

Additional Interests in MTS

In January-March 2008, one of MTS' subsidiaries, purchased 25,431,500 of MTS' shares for a total cash consideration of $423.0 million. As a result of this transaction, the Group' ownership interest in MTS increased from 53.6%, as of January 1, 2008, to 54.2%. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded trademark cost by $19.7 million, the customer base cost by $4.1 million, the license cost by $5.7 million and $171.0 million was recognized as goodwill. Goodwill is mainly attributable to the economic potential of the markets where MTS is operating.

Kvazar-Micro

In February 2008, SITRONICS acquired a 36% stake in Kvazar-Micro from Melrose Holding Company for a total consideration of $116.9 million. As a result of this, SITRONICS' share in Kvazar-Micro increased to 87%. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the customer-related intangible assets.

Other

In February 2008, MTS acquired a 9% stake in MSS for a total consideration of $16.0 million. As a result of this, MTS' share in MSS increased to 100%.

In June 2008, Comstar UTS acquired 100% stake in Interlink Group for a total cash consideration of $ 8.5 million. The Group comprises Intersvyaz Service, the alternative fixed-line telecommunications operator, and Inter-TV Media, the cable TV operator, which operate under the unified brand "Interlink" in Ryazan and the Ryazan region.

In June 2008 Concern RTI acquired 74.9% in WATT DRIVE for a total cash consideration of $22.3 million. Watt Drive Group is a large European producer of gear units, geared motors, ac motors, and frequency inverters as well as an expert in drive application and system solution.

In March 2008 Sistema acquired 20.0% in Detsky Mir for a total cash consideration of $44.6 million.

4. DISPOSALS

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

5. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Trading securities:		
RF Eurobonds	$ 38,107	$ 73,590
Corporate bonds	285,087	121,734
Government and municipal bonds	27,909	63,856
Corporate shares	3,922	5,496
	355,025	264,676
Other short-term investments:		
Promissory notes and deposit certificates from third parties	275,018	400,385
Promissory notes from and loans to related parties	122,574	111,250
Bank deposits with original maturities exceeding 90 days	140,438	12,640
Advance paid to investment broker	100,270	96,608
Funds under trust management	-	22,149
Other short-term investments	26,971	1,516
	665,271	644,548
Total	**$ 1,020,296**	**$ 909,224**

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

Promissory notes from third parties, mostly denominated in RUB, bear interest rates varying from 5% to 13%, in USD 5.5% as of June 30, 2007. The promissory notes from related parties denominated in RUB bear interests in a range from 12.0% to 14.0%, while USD denominated notes mostly bear an interest rate of 5% as of June 30, 2007.

Interest rates on bank deposits with original maturities exceeding 90 days as of June 30, 2007 are 7%-9% for RUB denominated deposits and 7% on deposits in USD and Euros. As of December 31, 2007, the effective interest rates on bank deposits with original maturities exceeding 90 days were 7% for RUB and USD denominated deposits.

In 2007 Comstar UTS contributed cash to investment broker in order to exercise the acquisition of a telecommunication company. Due to changes in market conditions, as of June 30, 2008 and the date of the financial statements, the transaction has not been completed. Management believes the possibility that the transaction will be successfully closed is remote and expects that the contribution will be returned in cash in 2008.

6. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Loans to customers	$ 4,021,253	$ 2,945,540
Loans to banks	1,180,257	1,491,224
	5,201,510	4,436,764
Less: allowance for loan losses	(194,541)	(203,913)
Less: amounts maturing after one year	(1,688,116)	(1,468,088)
Loans to customers and banks, current portion	**$ 3,318,853**	**$ 2,764,763**

Loans to customers as of June 30, 2008 and December 31, 2007 included loans to affiliates and other related parties of $52.0 million and $35.5 million, respectively. Management anticipates no losses in respect of these amounts.

The following table presents the effective average interest rates by categories of loans as of June 30, 2008 and December 31, 2007:

	June 30, 2008			December 31, 2007		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Loans to customers						
- corporate customers	12.5%	7.8%	9.7%	13.7%	12.7%	12.9%
- individuals	17.5%	14.0%	7.0%	17.0%	14.1%	12.6%
Loans to banks	8.2%	6.2%	4.1%	7.8%	5.7%	3.0%

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

Prepaid expenses, other receivables and other current assets, net of provision for doubtful accounts, as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Prepaid expenses and advances to suppliers	$ 984,641	$ 632,510
Prepaid taxes	152,798	103,144
Net investments in leases	58,602	54,545
Assets held for sale	51,931	35,354
Interest receivables	36,126	47,272
Other	99,407	86,954
Less: provision for doubtful accounts	(15,145)	(9,675)
Total	**$ 1,368,360**	**$ 950,104**

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Land	$ 396,947	$ 344,063
Buildings and leasehold improvements	1,722,568	1,481,717
Switches, transmission devices, network and base station equipment	9,408,324	7,943,556
Other plant, machinery and equipment	1,897,856	1,560,830
Construction in-progress	1,915,302	1,831,282
Telecommunication equipment for installation	697,124	778,446
Real estate investments	867,776	661,488
	16,905,897	14,601,382
Less: accumulated depreciation	(5,111,359)	(4,188,746)
Total	**$ 11,794,538**	**$ 10,412,636**

Depreciation expense for the six months ended June 30, 2008 and 2007 amounted to $825.9 million and $530.1 million, respectively.

9. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The carrying amount of goodwill attributable to each reportable operating segment with goodwill balances and changes (including corrections of preliminary purchase price allocations) therein for the six months ended June 30, 2008 are as follows:

	Telecom-munications	Mass Media	Corporate and Other	Total
Balance as of January 1, 2008	$ 685,704	157,632	16,683	860,019
Purchase price allocation	284,155	(7,737)	(8,333)	268,085
Currency translation adjustment	32,101	1,917	774	34,792
Balance as of June 30, 2008	**$ 1,001,960**	**151,812**	**9,124**	**1,162,896**

Intangible assets, other than goodwill and licenses as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008			December 31, 2007		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Acquired customer base	$ 771,174	(241,014)	530,160	601,250	(208,127)	393,123
Radio frequencies	214,219	(76,780)	137,439	199,981	(69,398)	130,583
Numbering capacity with finite contractual life, software and other	2,088,365	(1,131,731)	956,634	1,855,837	(937,974)	917,863
	3,073,758	(1,449,525)	1,624,233	2,657,068	(1,215,499)	1,441,569
Unamortized intangible assets:						
Trademarks	194,316	-	194,316	195,864	-	195,864
Numbering capacity with indefinite contractual life	29,098	-	29,098	28,536	-	28,536
Total intangible assets	**$ 3,297,172**	**(1,449,525)**	**1,847,647**	**2,881,468**	**(1,215,499)**	**1,665,969**

Amortization expense recorded on other intangible assets for the six months ended June 30, 2008 and 2007 amounted to $236.9 million and $113.9 million, respectively. No significant changes in schedule of amortization expense for the future period occurred in the six months ended June 30, 2008.

10. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of June 30, 2008 and December 31, 2007 consisted of the following:

	Interest rate (Actual at June 30, 2008)	June 30, 2008	December 31, 2007
USD-denominated:			
Alexandria	9.3%	$ 200,000	$ -
Gazprom bank	9.5%	199,891	-
Drezdner bank	-	-	125,000
Alfa bank	13.0%	76,636	-
Raiffeisen bank	LIBOR+3.2% (6.8%)	50,000	50,000
Standard bank	LIBOR+2.3% (5.9%)	50,000	-
HSBC bank	LIBOR+2.5% (6.1%)	41,501	
Natexis bank	LIBOR+1.1% (3.6%)	30,000	30,000
The Royal bank of Scotland	LIBOR+0.9% (4.5%)	30,000	
Other	Various	17,052	37,028
		695,080	242,028
EUR-denominated:			
Alpha bank (Greece)	EURIBOR+1.25% (5.4%)	80,558	2,928
Societe Generale – Geniki Bank	EURIBOR+0.9% (5.1%)	33,041	7,320
Emporiki bank	EURIBOR+1.0% (5.1%)	24,388	-
Eurobank	EURIBOR+1.2% (5.3%)	23,286	1,464
Other	Various	53,481	6,078
		214,754	17,790
Borrowings in other currencies:			
MBRD Bonds due 2013	10%-11.5%	260,577	-
National reserve bank	7.8%	42,676	40,753
HSBC	PRIBOR+2.1% (6.0%)	36,660	53,889
Sberbank	8.0-12.0%	34,048	-
Solidarnost bank	10.0%	27,710	52,983
Promsvyazbank	14.0%	17,296	-
Other	Various	78,087	93,740
		497,054	241,365
Loans from related parties	Various	361,413	223,722
Total		**$ 1,768,301**	**$ 724,905**

Short-term loans and notes payable mature in 2008-2009.

11. LONG-TERM DEBT

Long-term debt as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008	December 31, 2007
Loans from banks and financial institutions	$ 5,402,895	$ 5,076,991
Notes and corporate bonds	2,279,713	2,463,684
Loans from related parties	35,765	17,042
Capital leases	15,717	14,581
Vendor financing	2,677	3,150
Other borrowings	34,711	49,391
	7,771,478	7,624,839
Less amounts maturing within one year	(1,475,198)	(1,517,902)
Total	**$ 6,296,280**	**$ 6,106,937**

Notes and corporate bonds as of June 30, 2008 and December 31, 2007 consisted of the following:

	Currency	Interest rate	June 30, 2008	December 31, 2007
MTS Finance Notes due 2018	RUR	8,7%	$ 426,307	-
MTS Finance Notes due 2012	USD	8.0%	400,000	$ 400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
Sistema Capital Notes due 2011	USD	8.9%	345,000	345,000
JSFC Sistema Bonds due 2013	RUR	9.5%	255,784	-
SITRONICS Bonds due 2010	RUB	7.9%	127,892	122,219
MBRD Capital Notes due 2009	USD	8.8%	99,508	100,000
MBRD Loan Participation Notes due 2016	USD	8.9%	60,414	60,000
DM-Center Bonds due 2015	RUB	8.5%	49,025	46,850
Intourist Bonds due 2010	RUB	9.0%	42,631	40,732
MBRD Capital Notes due 2014	RUR	5.5%	30,283	-
MBRD Finance Notes due 2014	RUR	5.0%	27,867	-
MGTS Bonds due 2009	RUB	7.1%	9,060	29,338
MGTS Bonds due 2010	RUB	8.3%	6,554	59,903
MTS Finance Notes due 2008	USD	9.8%	-	400,000
Sistema Finance Notes due 2008	USD	10.3%	-	310,328
MBRD Loan Participation Notes due 2008	USD	8.6%	-	150,000
			2,280,325	2,464,370
Less: unamortized discount			(612)	(686)
Total notes and corporate bonds			**$ 2,279,713**	**$ 2,463,684**

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

MGTS and DMC bonds are listed on MICEX. The principal of DMC bonds is fully and unconditionally guaranteed by the Moscow City Government. Concurrently, JSFC Sistema has pledged to the Moscow City Government real estate and shareholdings for the amount of approximately $62.8 million. Intourist bonds are listed at MICEX.

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

MTS bonds are listed on MICEX. The indentures governing the notes contain certain covenants which limit the Group's ability to delist the notes from the quotation lists and delay the coupon payments.

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

Management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of June 30, 2008.

Loans from banks and financial institutions as of June 30, 2008 and December 31, 2007 consisted of the following:

	Maturity	**Interest rate (Actual at June 30, 2008)**		**June 30, 2008**	**December 31, 2007**
USD-denominated:					
VTB	2010-2012	6.2%-8.5%	$	1,300,000 $	1,300,000
Syndicated Loan Facility to MTS	2009	LIBOR+0.8%-1.2% (3.9%-4.3%)		1,276,154	1,330,000
The Royal Bank of Scotland	2008-2013	LIBOR+0.4%-2.7% (3.5%-5.8%)		289,579	37,721
EBRD	2014	LIBOR+1.5%-3.1% (4.6%-6.2%)		200,000	216,666
Vnesheconombank	2008-2014	LIBOR+3.0%(6.1%,), 8.9%		127,132	141,586
Commerzbank AG, ING Bank AG and HSBC Bank plc	2008-2014	LIBOR+0.3% (3.4%)		120,597	103,533
HSBC Bank plc and ING BHF Bank AG	2008-2013	LIBOR+0.4% (3.5%)		117,258	128,185
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2008-2014	LIBOR+0.3% (3.4%)		101,687	100,567
Citibank International plc and ING Bank N.V.	2008-2014	LIBOR+0.3% (3.4%)		96,138	130,467
Barclays Bank plc	2008-2014	LIBOR+0.2% (3.3%)		78,938	85,515
Merrill Lynch International	2011	LIBOR + 5.4% (8.5%)		57,500	-
HSBC Bank plc		5.2%		50,000	-
Commerzbank (Eurasia)	2008-2010	LIBOR+3.5% (6.6%)		35,111	38,321
Gazprombank	2011	12,5%		26,000	-
Dresdner Bank	2008-2010	LIBOR+1.3% (4.4%)		-	50,000
Other	2008-2015	Various		71,871	52,199
			$	3,947,965 $	3,714,760
EUR-denominated:					
Deutsche Bank AG	2009	EURIBOR+4.0% (9.1%)		125,872	117,768
The Royal Bank of Scotland	2008-2013	EURIBOR+0.4% (5.5%)		29,948	30,396
ING BHF Bank and Commerzbank AG	2009	EURIBOR+0.7% (5.8%)		16,411	22,903
VTB	2010-2012	EURIBOR+3.8%-8.9% (8.1%-9.7%)		11,719	18,984
Syndicated Loan to Intracom Telecom	2009	EURIBOR+1.6% (5.7%)		-	120,253
Other	2008-2010	Various		25,567	26,790
			$	209,517 $	337,094
RUR-denominated:					
Sberbank	2012	7.6%		918,430	877,689
Raiffeisen Bank	2009	MosPrime+2.8% (9.7%)		98,920	47,103
International Moscow Bank	2011	MosPrime+1.8% (8.7%)		32,512	31,070
Other	Various	Various		42,603	13,177
			$	1,092,465 $	969,039
Other currencies	2008-2018	Various	$	152,948 $	56,098
Total			**$**	**5,402,895 $**	**5,076,991**

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

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

The loan facility of 21.5 billion rubles (equivalent of $918.4 million as of June 30, 2008) from Sberbank is collateralized by the pledge of 25.0% plus one share of Svyazinvest. The facility is subject to certain restrictive covenants, including, but not limited to certain financial ratios, requirements to maintain ownership of Comstar UTS in MGTS not less than 50% plus one share of voting shares and requirements to maintain ownership of JSFC Sistema in Comstar UTS not less than 50% plus one share of voting shares.

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

The loan from Dresdner Bank is subject to certain covenants, including, but not limited to, covenants restricting JSFC Sistema's ability to convey or dispose its properties and assets to another person.

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

Equipment with approximate carrying value of $79.0 million is pledged to collateralize some of the other loan facilities provided to the Group.

Management believes that the Group is in compliance with all restrictive provisions of loans and credit facilities as of June 30, 2008.

Loans from related parties and vendor financing are denominated in various currencies and primarily are interest free.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on June 30, 2008 is as follows:

Year ended June 30,		
2009	$	1,475,198
2010		1,588,777
2011		1,561,811
2012		1,217,133
2013		1,086,948
Thereafter		841,611
Total	**$**	**7,771,478**

12. DERIVATIVE FINANCIAL INSTRUMENTS

Comstar UTS

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

The fair value of the call and put option as of December 11, 2006, the grant date, was estimated at $90.0 million and was included in the cost of investment in Svyazinvest. The Group estimates the fair value of the respective liability using an option pricing model and re-measures it as of each balance sheet date. Respective gains and losses are included in the statement of operations for the period and amounted to a $17.6 million gain for the period ended June 30, 2008.

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

On August 26, 2008 Access Telecommunications Cooperatief U.A. has initiated the process of exercising its put option to sell 46,232,000 Comstar shares to MGTS Finance S.A. at the weighted average closing price of the Comstar Global Depositary Receipt on the London Stock Exchange for the 90 trading day period up to and including the trading day prior to the date of exercise of the Put Option ("Option Interest"). The Option Interest represents 11.06% of the total number of issued and outstanding Comstar shares. The transaction is expected to be completed, by means of the transfer of rights and payment, within 60 business days from August 25, 2008.

<u>SITRONICS</u>

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

In addition, if JSFC Sistema contemplates a purchase of additional shares in SITRONICS, either existing or newly issued, EBRD must be given the opportunity to participate in such a purchase on a pro rata basis, unless such purchase is necessary or desirable for the success of an initial public offering of SITRONICS' shares. The Group has the right of first refusal if EBRD decides to divest its interests in SITRONICS. EBRD also agreed not to sell any of its shares for 180 days following the initial public offering of SITRONICS' shares. The term of the agreement extends up to two years after the date of the initial public offering (i.e. February 2009), except in certain circumstances.

In addition, simultaneously with the subscription agreement and the shareholders' agreement, JSFC Sistema entered into a put option agreement with EBRD pursuant to which EBRD has the right to sell to JSFC Sistema all of its shares in SITRONICS under certain circumstances during the period of up to two years after the date of the public offering. If EBRD exercises its put option, Sistema will pay EBRD approximately $80.0 million plus (1) interest at a rate of 10.0% per annum if the value of SITRONICS' shares is between $1.6 billion and $2.1 billion upon the completion of the offering or; (2) interest at the LIBOR+2.5% (5.0% as of June 30, 2008) per annum if the value of SITRONICS' shares is less than $1.6 billion or more than $2.1 billion upon the completion of the offering.

13. SHARE CAPITAL

At January 1, 2008, JSFC Sistema had 9,650,000,000 voting common shares issued and outstanding with a par value of RUB 0.09.

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

14. SEGMENT INFORMATION

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

The Group's operating segments are: Telecommunications, Technology, Banking, Real Estate, Mass Media, Retail, Radars and Aerospace, Healthcare services, Pharmaceutical and Corporate. The Group's management evaluates the performance of the segments based on both operating income and income from continuing operations.

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

An analysis and reconciliation of the Group's business segment information to the respective information in the condensed consolidated financial statements for the six months ended June 30, 2008 and 2007 is as follows:

For the six months ended June 30, 2008	Telecom-munications	Technology	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [a]	5,798,737	783,682	327,577	83,073	160,899	331,732	575,091	8,060,791
Intersegment sales	4,452	143,144	14,424	13,356	66,527	17	11,503[d]	253,423
Depreciation and amortization	(1,036,941)	(33,771)	(12,626)	(28,569)	(11,131)	(10,431)	(15,784)	(1,149,253)
Interest income	32,392	2,254	-	87	5,851	189	38,504	79,277
Interest expense	(112,999)	(16,767)	-	(4,598)	(21,433)	(9,190)	(81,278)	(246,265)
Net interest revenue[b]	-	-	56,248	-	-	-	-	56,248
Operating income/(loss)	1,850,554	12,751	47,738	(6,096)	14,041	(36,350)	16,711	1,899,349
Income tax (expense)/benefit	(470,296)	(15,081)	(13,062)	(1,285)	(17,073)	13,212	(49,442)	(553,027)
Segment assets	18,895,254	2,179,687	6,962,684	587,797	2,225,215	588,505	5,489,245	36,928,387
Indebtedness[c]	(4,378,459)	(704,190)	(680,948)	(89,394)	(1,041,737)	(211,339)	(2,433,711)	(9,539,778)
Capital expenditures	1,444,073	140,858	4,094	36,618	295,748	17,630	142,503	2,081,524

[a] – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group's consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, its performance is assessed based on net interest revenue as reported to chief operating decision maker, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt
[d] – Excluding dividends received by the Corporate segment from the Group's subsidiaries in amount of $535.2 million.

For the six months ended June 30, 2007	Telecommu nications	Technology	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [a]	4,380,876	551,525	165,156	42,980	71,349	192,368	355,233	5,759,487
Intersegment sales	4,511	86,794	8,763	11,198	58,422	15	26,631[d]	196,334
Interest income	23,701	10,744	-	610	12,524	24	35,862	83,465
Interest expense	(101,929)	(28,484)	-	(1,532)	(3,200)	(6,144)	(81,534)	(222,823)
Net interest revenue[b]	-	-	17,152	-	-	-	-	17,152
Depreciation and amortization	(691,223)	(27,147)	(2,632)	(6,758)	(6,054)	(3,763)	(11,867)	(749,444)
Operating income/(loss)	1,584,013	(65,716)	14,520	1,158	(97,057)	(16,076)	32,623	1,453,465
Income tax (expense)/benefit	(437,359)	(2,070)	(5,539)	(387)	(10,241)	334	(22,761)	(478,023)
Segment assets	14,224,350	1,709,113	3,289,492	382,345	1,013,538	343,746	4,885,751	25,848,335
Indebtedness[c]	(3,808,409)	(424,120)	(396,892)	(32,396)	(363,849)	(176,160)	(1,634,734)	(6,836,560)
Capital expenditures	564,406	55,657	59,308	17,963	99,278	43,925	32,763	873,300

[a] – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group's consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, its performance is assessed based on net interest revenue as reported to chief operating decision maker, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt
[d] – Excluding dividends received by the Corporate segment from the Group's subsidiaries in amount of $351.5 million.

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

	June 30, 2008	June 30, 2007
Total segment operating income	$ 1,899,349	$ 1,453,465
Intersegment eliminations	(110,774)	(30,733)
Interest income	38,495	43,781
Change in fair value of derivative financial instruments	14,518	(26,500)
Interest expense	(222,505)	(211,841)
Currency exchange and translation gain	235,680	63,461
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$ 1,854,763**	**$ 1,291,633**

	June 30, 2008	June 30, 2007
Total segment assets	$ 36,928,387	$ 25,848,335
Intersegment eliminations	(4,189,317)	(3,384,148)
Consolidated assets	**$ 32,739,070**	**$ 22,464,187**

The Group reports its revenue by geographic location based on the location of its customers. For the six months ended June 30, 2008 and 2007, the Group's revenues outside of the RF were as follows:

	June 30, 2008	June 30, 2007
Ukraine	$ 1,219,801	$ 1,069,605
Greece	213,819	187,260
Central and Eastern Europe	224,029	102,413
Other	399,996	126,408
Total	**$ 2,057,645**	**$ 1,485,686**

As of June 30, 2008 and December 31, 2007, the Group's long-lived assets located outside of the RF were as follows:

	June 30, 2008	December 31, 2007
Ukraine	$ 2,343,007	$ 2,082,501
Greece	289,241	181,887
Central and Eastern Europe	139,712	41,345
Other	1,205,683	1,262,726
Total	**$ 3,977,643**	**$ 3,568,459**

For the six months ended June 30, 2008 and 2007, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

15. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the six months ended June 30, 2008 and 2007, the Group entered into transactions with related parties as follows:

	June 30, 2008	June 30, 2007
Sale of goods and services	$ (20,317)	$ (20,505)
Telecommunication services provided	(49,513)	(22,826)
Revenues from financial services	(5,136)	(2,851)
Telecommunication services purchased	97,282	66,448
Other	10,725	6,457

Related party balances as of June 30, 2008 and December 31, 2007 are disclosed in the relevant notes to the accompanying condensed consolidated financial statements.

16. STOCK BONUS AND STOCK OPTION PLANS

Comstar UTS

In September 2006, Comstar UTS approved a stock option and stock bonus program for the Board of Directors and top management of Comstar UTS. In order to fund the program, in September 2006, Comstar UTS approved the share buyback of up to 4.5% of the total number of shares issued in the form of GDRs to be completed by December 31, 2009.

From the launch of the program on October 30, 2006 to June 30, 2008 Comstar UTS acquired 10,746,761 shares issued in the form of GDRs, or 2.6% of its total issued shares, for a total cash consideration of approximately $73.9 million.

In November 2006, Comstar UTS approved the grant of options to certain members of its Board of Directors and top management. The exercise price for these options is RUB 122.3 (approximately $4.6 per share as of the grant date). These stock options vest in November 2008.

The following table summarizes information about non-vested common stock options during the six months ended June 30, 2008:

	Shares	Exercise price (per share), USD	Grant date fair value of options (per share), USD
Outstanding as of January 1, 2008	2,403,159	$ 4.60	$ 3.16
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding as of June 30, 2008	**2,403,159**	**$ 4.60**	**$** 3.16

The fair value of options granted during the six months ended June 30, 2008 was estimated using the binomial option pricing model using the following assumptions:

Risk-free rate	2.17%
Expected dividend yield	-
Expected volatility	39.42%
Expected life (years)	2

Employee Phantom Option Program

In March 2008, the Board of Directors of Comstar UTS approved the employee phantom option program, under which the Group's top and middle management were granted 12,965,882 phantom options effective April 1, 2008. The phantom options vest on March 31, 2010. Upon vesting, the participants will be entitled to cash compensation equal to the difference between weighted average price of one GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, multiplied by the number of phantom options granted. The compensation will be adjusted downwards should the return on Comstar UTS GDR be less than the prescribed amount, and will not be paid at all if the Group does not meet the benchmarks set for return on Comstar UTS GDR, revenue growth rate, OIBDA margin and market share.

A summary of the status of the Comstar UTS' phantom stock program is presented below:

	June 30, 2008
Number of shares outstanding	12,575,882
Weighted average exercise price (per share), U.S. Dollars	10.24
Weighted average grant date fair value of options (per share), U.S. Dollars	2.37
Aggregate intrinsic value, thousand of U.S. Dollars	6,456

MTS

The Stock Option Plan

In 2000, MTS established a stock bonus plan and stock option plan for selected officers and key employees. During its initial public offering in 2000 MTS allotted 9,966,631 shares of its common stock to fund the stock option plan.

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

	June 30, 2008
Number of shares outstanding	1,397,256
Weighted average exercise price (per share), U.S. Dollars	6.31
Weighted average grant date fair value of options (per share), U.S. Dollars	5.95
Aggregate intrinsic value, thousand of U.S. Dollars	12,589

Stock options outstanding as of June 30, 2008 will vest during the year ended December 31, 2008. None of the stock options outstanding as of June 30, 2008 were exercisable.

Compensation cost under MTS' stock option plan of $2.9 million, and $nil was recognized in the condensed consolidated statements of operations during the six months ended June 30, 2008 and 2007, respectively.

MTS' Phantom Stock Plan

In June 2007, the Board of Directors of MTS approved a phantom stock plan to provide deferred compensation to certain key employees of MTS. Under the plan, the participants are entitled to a cash payment equal to the difference between the initial grant price and the exercise price of phantom shares, multiplied by the number of phantom shares granted, upon vesting of the award. The initial grant price is determined based on the average market share price during the hundred day period preceding the grant date. The exercise price of the phantom shares is determined based on the average market share price during the hundred day period preceding the vesting date. The vesting period is two years from the grant date, contingent upon the continuing employment of the participants by MTS. Further, the award shall vest only if at the end of the vesting period the cumulative percentage of MTS' market capitalization growth since the grant date exceeds the cumulative cost of equity determined by the Board of Directors of MTS for the same period.

In April 2008, the plan was amended to increase the number of phantom shares available under the plan from the initial 3,600,000 to 9,556,716 MTS' ADRs (equivalent of 18,000,000 and 47,783,580 shares, respectively) and to increase the number of participants potentially eligible for the plan to up to 420 top- and mid-level managers of MTS. Further, under the amended plan, the phantom shares granted in 2008 and thereafter will vest only if, at the end of the vesting period MTS is among the top 20 mobile operators in the world and the top mobile operator in Russia and CIS, in each case in terms of revenue, and cumulative percentage of MTS market capitalization growth since the grant date exceeds the predetermined threshold of 15%. At the end of the vesting period, participants will be entitled to a cash payment equal to the difference between the initial grant price and the price of phantom shares determined based on the average market share price during the hundred day period preceding the vesting date, multiplied by the number of phantom shares granted and adjusted by the ratio that reflects actual market capitalization growth rate. During the six months ended June 30, 2008 4,562,830 ADRs were granted. The award will vest in 14 months after the grant date contingent upon the continuing employment of the participants.

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

	Number of ADRs	Weighted average exercise price (per ADR), U.S. Dollar	Weighted average fair value of options (per ADR), U.S. Dollar	Aggregate intrinsic value
Outstanding at December 31, 2007	683,336	$ 56.79	$ 44.0	$ 30,750
Granted	4,562,830	75.25	10.17	6,205
Exercised	-	-	-	-
Forfeited	(1,330,268)	73.44	11.23	(4,214)
Outstanding at June 30, 2008	**3,915,898**	**$ 72.64**	**$ 11.70**	**$ 15,535**

All phantom shares outstanding as of June 30, 2008 are non-vested and will vest in 2009. None of the phantom shares were exercisable as of June 30, 2008.

The fair value of the phantom options granted under the plan as of June 30, 2008 were estimated using the Monte-Carlo simulation technique based on the following assumptions:

	As of June 30, 2008		As of December 31, 2007
	2008 Grant	**2007 Grant**	**2007 Grant**
Risk free rate	2.6%	2.3%	3.1%
Present value of expected dividends, U.S. Dollars	$3.4	$3.3	$5.3
Expected volatility	40.0%	44.6%	40.3%
Remaining vesting period, years	1.0	1.0	1.5
Cumulative cost of equity	n/a	21.7%	21.7%
Fair value of phantom share award (per ADR), U.S. Dollars	$10.2	$21.0	$44.0

The compensation cost under the plan recognized in the condensed consolidated statements of operations for the six month ended June 30, 2008 amounted to $0.8 million and the related deferred tax benefit amounted to $0.2 million. The respective liability of $11.0 million and $7.6 million was included in other long-term liabilities in the consolidated balance sheet as of June 30, 2008 and December 31, 2007, respectively.

As of June 30, 2008, there was $34.8 million of total unrecognized compensation cost related to non-vested phantom shares. This amount is expected to be recognized over a weighted-average period of 1 year. MTS is required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of phantom shares awards will be achieved and only recognize expense for those shares expected to vest. MTS' estimated forfeiture rate was 5.1%. The effect of forfeitures amounted to $1.0 million for the six months ended June 30, 2008.

Sistema Hals

On May 22, 2007, the Board of Directors of Sistema-Hals approved a stock option and stock bonus program ("the Program") for senior management of Sistema-Hals.

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

The following table summarizes information about non-vested common stock options in the six months ended June 30, 2008:

	Number of shares		Exercise price (per share), USD		Grant date fair value of options (per share), USD
Outstanding as of January 1, 2008	145,820	$	201	$	47.43
Granted	-		-		-
Exercised	-		-		-
Forfeited	(100,952)		201		47.43
Outstanding as of June 30, 2008	**44,868**	**$**	**201**	**$**	**47.43**

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

Risk-free rate	4.97%
Expected dividend yield	0%
Expected volatility	26.2%
Expected option life (years)	1
Grant date fair value of shares (per share)	$ 236

Compensation benefit under the stock option plan of $0.8 million was recognized in the consolidated statements of operations during the six months ended June 30, 2008.

As of June 30, 2008, there is $0.6 million of total unrecognized compensation cost related to non-vested stock-based compensation awards under stock option plan. This amount is expected to be recognized over a period of 36 months.

The stock option plan is out-of-the-money as of June 30, 2008.

SITRONICS

In July 2007, SITRONICS established a stock option plan for certain of its employees. Originally the share pool consisted of 627,783,968 shares, representing 6.57% of the share capital. The shares are to be issued from the SITRONICS' treasury stock. The options are contingent on the continuing employment of the grantees with SITRONICS or, in some cases, with Sistema. According to the terms of the plan, the grantees are entitled to buy option shares in four installments, representing 16.7% of the total amount due to each person during the years 2007, 2008, 2009, and the remaining amount of 49.9% in 2010. The exercise price is 1 RUB per share. All the participants are restricted from selling their shares until 2010.

From the grant date till June 2008, a number of the program participants left SITRONICS and forfeited options exercisable in future periods. During June 2008, a number of new employees were added to the list of participants. The terms of the program were not amended due to the mentioned changes in the number of participants.

The activity relating to the stock options for the 6 months ended June 30, 2008 was as follows:

	Number of shares	Exercise price, USD per share	Fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2008	538,668,491	$ 0.04	$ 0.14	$ 51,297
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(66,617,076)	0.04	0.14	(6,344)
Outstanding at June 30, 2008	**472,051,415**	**$ 0.04**	**$ 0.14**	**$ 44,953**

None of the stock options were exercisable as of June 30, 2008.

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

Grant date fair value price, USD	$0.14
Exercise price, USD	$0.04
Option lifetime, years	1.43
Expected volatility	27.1%
Dividend yield	0.0%
Risk-free rate	4.5%-5.9%

The total intrinsic value of the options outstanding at June 30, 2008 was $38.4 million.
As of June 30, 2008, there was $10.3 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a 2.5 year period. The cost of the plan for the six months ended June 30, 2008 amount to $6.7 million.

17. COMMITMENTS AND CONTINGENCIES

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

Rental expenses under the operating leases amounted to $162.9 million and $111.0 million for the six months ended June 30, 2008 and 2007, respectively. Future minimum rental payments under operating leases in effect as of June 30, 2008, are as follows:

Year ended June 30,	
2009	$ 194,513
2010	147,947
2011	118,385
2012	104,170
2013	99,919
Thereafter	141,180
Total	**$ 806,114**

Operating Licenses – In connection with the provision of telecommunication services, the Group has been issued various operating licenses directly by the Russian Ministry of Information Technologies and Communications. In addition to these licenses, the Group was granted access to various telecommunication licenses through acquisitions. Licenses to the foreign subsidiaries of the Group are granted by the local communication authorities.

Each of MTS' licenses, except for 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. MTS has met these targets or received extensions to these dates in those regional license areas in which MTS has not commenced operations.

The Group's operating licenses do not provide for automatic renewal. The Group has limited experience with the renewal of its existing licenses. Management believes that licenses required for the Group's operations will be renewed upon expiration.

Management believes that the Group is in compliance with all material terms of its licenses.

Capital Commitments – As of June 30, 2008, MTS had executed purchase agreements of approximately $368.8 million to acquire property, plant and equipment, and intangible assets.

Leningradsky 39 – Sistema-Hals has contracted for construction works and other general construction expenditures. Aggregate commitments under these contracts amounted to $226.4 million as of June 30, 2008. In addition, in connection with one of these projects, Sistema-Hals undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 square meters of residential housing. As of June 30, 2008 the remaining obligation amounted to 8,775 square meters with approximate market value of $36.3 million.

Sistema-Hals additionally has a number of construction agreements with aggregate capital commitments over $600.0 million.

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

Importation of Goods **–** Kvazar-Micro, SITRONICS subsidiary in Ukraine, utilizes third parties to import goods into the CIS countries. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as not fully compliant with regulations. The impact that this determination may potentially have on the Group's net income and financial position cannot be quantified at this stage due to the lack of precedent for such determinations. No contingent liabilities have been recorded in the Group's financial statements in relation to these transactions.

Other Commitments – MBRD guaranteed loans for several companies, including related parties, which totaled $333.1 million as of June 30, 2008. EWUB and Dalcombank issued guarantees to several companies and individuals, which totaled $26.7 and $88.7 million as of June 30, 2008, respectively.

The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of June 30, 2008, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at EUR 5.0 million (equivalent of $7.9 million as of June 30, 2008) for each newly-founded bank. As of June 30, 2008, MBRD's share capital amounted to RUB 1,023.0 million (equivalent to $43.6 million as of June 30, 2008). As of June 30, 2008, Dalcombank's share capital amounted to RUB 788.2 million (equivalent to $33.6 million as of June 30, 2008).

Operating Environment – The Russian and Ukrainian economies, while deemed to be of market status, continue 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. The continued success and stability of the Russian and Ukrainian economies will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with the local regulatory environment including, but not limited to, the sale of hard currency on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is represented by a loss from currency translation transactions in Turkmenistan of $7.6 million and $7.8 million recognized as other non-operating expense in the Group's consolidated statements of operations for the six months ended June 30, 2008 and 2007, respectively.

Recent Volatility in Global and Russian Financial Markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets, originating from foreclosures in the US subprime mortgage market. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets globally and in Russia, as at the date these financial statements are authorized for issue there exist economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

Industry Regulations – The Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. For the six months ended June 30, 2008 and 2007 the Group incurred approximately $40.2 million and $28.7 million in USF charges, respectively, which are recorded in other operating expenses in the accompanying condensed consolidated statements of operations.

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

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

Taxation – Russia and Ukraine currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax, UST, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2008, the tax declaration of JSFC Sistema and other subsidiaries in Russia for the preceding one fiscal year was open for further review, assuming the resolution issued based on the results of tax audits of the years ended December 31, 2005 and 2006.

In September 2006, the Russian tax authorities audited MTS OJSC's compliance with tax legislation for the years ended December 31, 2003 and 2004. Based on the results of this audit, the Russian tax authorities assessed that 1,283,660 thousand rubles (approximately $54.7 million as of June 30, 2008) of additional taxes, penalties and fines were payable by the Group. As of June 30, 2008, no provision in relation to the above tax audit was accrued in the Group's condensed consolidated financial statements.

In January 2008, the Russian tax authorities started auditing MTS OJSC's compliance with tax legislation for the years ended December 31, 2005 and 2006. Based on the results of this audit, the Russian tax authorities assessed that RUB 1,123.0 million (approximately $48.2 million as of June 30, 2008) of additional taxes, penalties and fines were payable by the Group. The total amount payable was provided by the Group in the accompanying condensed consolidated financial statements.

There are regulatory uncertainties in Ukraine related to the treatment for VAT purposes of contributions payable to the Ukrainian State Pension Fund ("Pension Fund") in respect of the cash paid for the consumption of telecommunication services by customers. Also it could have an influence on income tax and other taxes paid by the Group.

As a result of a tax audit of the period from July 1, 2004 to April 1, 2007, additional VAT charges (including penalties) calculated on the Pension Fund contributions could be up to $11.5 million. In 2005, UMC initiated a litigation case in respect of this issue against the tax authorities, and has received favorable rulings from the courts on three occasions (the most recent from the Highest Administrative Court of Ukraine). Management believes that VAT was not applicable to the Pension Fund contributions during the period under the tax authorities' review. Further, management believes that UMC is in line with industry practice and has already defended its position in the courts. At June 30, 2008, no VAT charges in relation to the above litigation was accrued in the Group's financial statements or paid to the tax authorities.

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

Further, MTS purchases supplemental software from the foreign suppliers of the telecommunication equipment in the ordinary course of business. The Group's management believes that custom duties are calculated in compliance with the legislation. However there is a risk that the customs authorities may take a different view and impose additional custom duties. As of June 30, 2008 and December 31, 2007, no provision was recorded in the condensed consolidated financial statements in respect of such additional duties.

Certain MGTS agreements with operators connected on the analogue segment of the network do not provide for per-minute settlements based on actual volumes of traffic as prescribed by changes in the legislation effective from July 1, 2006 due to lack of technical ability to execute per-minute settlements. Tax authorities may assess additional taxes on such agreements in the amount that cannot be estimated reliably. Any such assessment may be significant to the financial statements, however, management believes that they can sustain their position in the court.

During the six-month period ended June 30, 2008, Sistema-Hals entered into a number of investing activities in another tax jurisdiction. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax treatment. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

As of June 30, 2008 and December 31, 2007, the tax provision accrued amounted to $30.4 million and $25.4 million, respectively. In addition, the accrual for unrecognized income tax benefit, potential penalties and interest recorded in accordance with FIN No. 48 totalled $56.5 million and $43.5 million as of June 30, 2008 and December 31, 2007, respectively. Management believes that it has adequately provided for tax and customs liabilities in the accompanying unaudited condensed consolidated financial statements. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Legal Disputes

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

Other Contingencies

Bitel – As described in the consolidated financial statements for the year ended December 31, 2007, the Group is involved in a number of legal proceedings in the London Court of International Arbitration and the Isle of Man courts in respect of the acquisition and ownership of Bitel LLC. During the six months ended June 30, 2008 no significant changes occurred. Currently these proceedings are pending and it is not possible to predict their outcome or the amount of damages to be paid, if any.

Siemens Project – In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. The Group also signed a fixed-price agreement with a subcontractor to physically construct the building. During 2007 and 2008 there was significant growth in the prices of materials, labor and other construction costs. As a result of this, the Group is unable to complete the project within the original budget cost estimates. In 2007 the Group initiated negotiations with Siemens to revise the contract price to recover the increased costs. Due to the uncertainties that still exist as of the reporting date, the Group is not able to reasonably determine or estimate the likely outcome of the project. Losses in relation to this project are provided for as at June 30, 2008.

18. SUBSEQUENT EVENTS

Acquisitions

In July 2008, Comstar UTS has acquired 100% stake in LLC "Strategy", the owner of CJSC Ural Telephone Company ("UTC"), a leading alternative telecommunications operator in Ekaterinburg and the Sverdlovsk region, for a total cash consideration of RUB 1.0 billion (approximately $43.4 million).

Other

In July 2008, the Board of Directors of Sistema Hals has approved two 5-year bond issues for a total of RUB 5.0 billion (approximately $200.0 million). Raiffeisenbank and Renaissance Capital are acting as Arrangers of the issues.

In July 2008, JSC Detsky Mir – Center has signed a 5-year syndicated loan agreement with EBRD for $50.0 million. The loan proceeds will finance the expansion of the retail network in 2008.

In July 2008, JSC Detsky Mir – Center has signed a $20.0 million trade finance agreement with Deutsche Bank Russia.

In September 2008, MTS acquired 37,762,257 shares from investors who submitted requests to participate in the legally mandated buyback by the August 11, 2008 deadline. In total MTS spent approximately 11.1 billion roubles (or $446.3 million as of date of repurchase).