Impairment of Goodwill

Goodwill represents an excess of the cost of a business acquired over the fair market value of identifiable net assets at the date of acquisition. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, we recognize a loss for the difference between the carrying amount and the implied fair value of goodwill. To date, no impairment of goodwill has occurred.

Taxation

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

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 23 to our audited consolidated financial statements.

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

New Accounting Pronouncements

In 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 fair value measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted SFAS No. 157 as of January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our financial position, results of operations and cash flows.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"—including an amendment of FASB Statement No. 115" ("SFAS No.159"), which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or FVO). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No.159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We do not expect that the adoption of SFAS No. 159 will have a material impact on the consolidated financial statements.

In December 2007, the FASB issued FAS No. 141R, "Business Combinations" ("SFAS No. 141R"), and FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160"). These statements substantially elevate the role played by fair value and dramatically change the way companies account for business combinations and noncontrolling interests (minority interests in current GAAP). SFAS No. 141R and SFAS No.160 will require among other changes: (a) more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; (b) liabilities related to contingent consideration to be re-measured at fair value in each subsequent reporting period; (c) an acquirer to expense acquisition-related costs; and (d) noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Both Statements are to be applied prospectively (with one exception related to income taxes) for fiscal years beginning on or after December 15, 2008. However, SFAS No.160 requires entities to apply the presentation and disclosure requirements retrospectively (e.g., by reclassifying noncontrolling interests to appear in equity) to comparative financial statements, if presented. Both standards prohibit early adoption. We are currently evaluating the impact the adoption of SFAS No. 141R and SFAS No. 160 may have on our financial position and results of operations.

In connection with the issuance of SFAS No. 160, the SEC revised EITF Topic D-98 "Classification and Measurement of Redeemable Securities" ("Topic D-98") to include the SEC Staff's views regarding the interaction between Topic D-98 and SFAS No. 160. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance required by Topic D-98 applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price by the holder or upon the occurrence of an event that is not solely within the control of the issuer). This includes noncontrolling interests redeemable at fair value. The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of SFAS No. 160. We are currently evaluating the impact that adoption of SFAS No. 160 and Topic D-98 will have on the accounting and disclosure of our minority interest.

In March 2008 the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on our financial position, results of operations and cash flows.

In April 2008, the FASB issued Staff Position (FSP) No. FAS 142-3, "Determination of the Useful Life of Intangible Assets." The FSP amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets." The FSP affects entities with recognized intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) both intangible assets acquired in business combinations and asset acquisitions. We are currently evaluating the impact that adoption of the FSP will have on our financial position, results of operations and cash flows.

Trend Information

Sales

In 2007, our consolidated revenues increased by 29% from $6,384.3 million to $8,252.4 million. Our subscriber base increased to 82.0 million subscribers as of December 31, 2007 from 72.9 million as of December 31, 2006, or by 12.5%. We expect further growth of our revenues and subscriber base in 2008, as we plan to expand our business through new acquisitions.

In Russia, the average monthly service revenue per subscriber increased to $9 in 2007 from $8 in 2006 due to a combination of our sales and marketing efforts stimulating usage and increased wealth of our subscribers. In the future, we expect our monthly service revenue per subscriber to increase due to the growth of the average disposable income in Russia, increased usage of telecommunications services, including value-added services, and the introduction of new specialized and attractive products and services to our subscribers.

In Ukraine, our subscriber base remained stable at 20.0 million subscribers as of December 31, 2007 and December 31, 2006 amidst an oversaturated Ukrainian market and an intensely competitive environment. Average monthly service revenue per subscriber was $7 in each of the years ended December 31, 2007 and 2006 as a result of the aggressive marketing activities of our competitors offering low tariffs. We expect that the average monthly service revenue per subscriber will remain stable in 2008 due to the mix of attractive competitive tariffs and increased usage of telecommunication services.

Our subscriber base in Uzbekistan, Turkmenistan and Armenia grew by 2.9 million to 4.5 million subscribers in 2007, compared to 1.6 million subscribers in 2006. Of these countries, Uzbekistan had the largest subscriber base, with 2.8 subscribers as of December 31, 2007, as well as the most significant growth, with a 1.4 million increase in its subscriber base in 2007 compared to 2006. We expect that our subscriber base will continue to grow in these countries, which have low penetration rates relative to Russia and Ukraine. The average monthly service revenue per subscriber in these countries decreased from $11 in 2006 to $10 in 2007 for Uzbekistan and from $70 to $52 in Turkmenistan. The decrease is mainly attributable to the decrease in tariffs. We expect the average monthly service revenue per subscriber in these countries to decrease slightly or remain at the same level as a result of decreasing tariffs, offset by increased usage due to growth in personal income levels.

Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period.

The churn rate is highly dependent on competition in our license areas and those subscribers who migrate as a result of such competition. The slight decrease in our churn rate in Russia to 23.1% in 2007 as compared to 23.3% in 2006 is attributable mainly to our increased customer retention activities in 2007. The increase in churn rate during 2006 as compared to 2005 occurred mainly due to the aggressive pricing policies and promotions undertaken by our competitors. We expect that the churn rate in Russia will remain relatively stable in 2008 due to our customer retention efforts aimed at increasing subscriber loyalty.

The churn rate in Ukraine significantly increased to 49.0% in 2007 as compared to 29.9% in 2006. This increase is primarily represented by the churn of prepaid subscribers, which increased from 39% in 2006 to 50% in 2007. Churn of contract, or postpaid subscribers, increased from 27% in 2006 to 29% in 2007. The substantial increase in the churn of prepaid subscribers was caused by two primary factors. First, the competitive environment among mobile operators in Ukraine has significantly intensified in recent years, while at the same time, the proportion of mass-market subscribers, including youth and low-income segment subscribers whose preferences are largely driven by tariff levels and simplified subscription conditions, has grown. As a result, a higher number of mass-market subscribers have migrated over to other operators offering lower tariffs and minimal subscription conditions. Second, our overall churn statistics include subscribers who moved from one tariff plan to another within MTS-Ukraine—i.e., subscribers that did not migrate to another mobile operator, but rather, switched to a different tariff plan within the same mobile operator. Therefore, as our subscriber base in Ukraine remained relatively stable in 2007 as compared to 2006, we believe that the actual churn of subscribers who migrated to other mobile operators in 2007 is lower than 49%. We expect that the churn rate in Ukraine will remain relatively stable in 2008 due to our customer retention efforts aimed at increasing subscriber loyalty.

Technology

We launched our 3G network in St. Petersburg, Russia in May 2008 and plan to develop and launch our 3G network in additional cities in Russia by the end of 2008, and in Uzbekistan and Armenia in 2009. The buildout of the 3G network requires us to implement new equipment and software, which will likely replace existing network equipment. If we are unable to continue using the existing equipment and software, we may be forced to depreciate this equipment, applying accelerated depreciation rates. In turn, this may cause an increase in depreciation charges and a consequent decrease in operating income in future periods. However, it is currently too early to assess the impact of the buildout of our 3G network.

Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under guarantee contracts

As of December 31, 2006 and 2007, our off-balance sheet arrangements consisted of the following debt guarantees issued on behalf of the related parties:

	Guaranteed amount outstanding at December 31,	
	2006	**2007**
	(in millions)	
MTS Belarus	3.0	—
Total	**$ 3.0**	**—**

We issued financial guarantees on behalf of MTS Belarus, our equity investee, to assist it with its financing needs. The guarantees expired in April 2007.

Obligations under derivative contracts

In July 2006, we acquired a 74.99% controlling stake in Dagtelecom, GSM-900 mobile services provider in the Republic of Dagestan, a region in southern Russia. In conjunction with this acquisition, we entered into a put and call option agreement to buy the remaining stake at fair market value within an exercise period commencing from September 1, 2009 and ending in July 2021 for the put option, and from 2009 to 2010 for the call option. The fair values of the option was $nil at December 31, 2007 and 2006. See Note 3 to our audited consolidated financial statements.

In September 2007, we acquired an 80% stake in International Cell Holding Ltd., a 100% indirect owner of K-Telecom CJSC, a wireless telecommunication operator in Armenia. In connection with this acquisition, we also entered into a call and put option agreement for the remaining 20% stake to be exercised not earlier than July 2010. The exercise price will be determined by an independent investment bank at the date the option is exercised. The option is valid until July 2012. The option was accounted for at fair value, which was $nil at December 31, 2007. See Note 3 to our audited consolidated financial statements.

In January 2006, we entered into variable-to-fixed interest rate swap agreement with HSBC Bank plc to hedge our exposure to variability of future cash flows caused by the change in EURIBOR related to the syndicated loan. We agreed with HSBC Bank plc to pay a fixed rate of 3.29% and receive a variable interest of EURIBOR on EUR 26.0 million for the period from April 28, 2006 up to October 29, 2013. The instrument qualifies as a cash flow hedge under the requirements of SFAS No. 133 as amended by SFAS No. 149. As of December 31, 2007, we recorded an asset of $1.0 million in relation to this contract in the accompanying consolidated balance sheet and an income of $0.8 million, net of tax of $0.2 million, as other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of this agreement.

In December 2007, we entered into several variable-to-fixed interest rate swap agreements with HSBC Bank plc, Rabobank, Citibank N.A. and ING Bank N.V. to hedge our exposure to variability of future cash flows caused by the change in LIBOR related to our outstanding debt. We agreed with HSBC Bank plc to pay a fixed rate of 4.14% and receive a variable interest of LIBOR on $96.1 million for the period from March 31, 2008 to September 30, 2014. The agreement with Rabobank was to pay a fixed rate of 4.16% and receive a variable interest of LIBOR on $86.1 million for the period from April 9, 2008 to April 9, 2014. We agreed with Citibank N.A. to pay a fixed rate of 4.29% and receive a variable interest of LIBOR on $53.5 million for the period from September 28, 2007 September 30, 2013. Two agreements were signed with ING Bank N.V. Under the first agreement, we will pay to ING Bank N.V. a fixed rate of 4.19% and receive a variable interest of LIBOR on $92.6 million for the period from February 29, 2008 to February 28, 2014. According to the terms of the second agreement, we will pay ING Bank N.V. a fixed rate of 4.41% and receive a variable interest of LIBOR on $67.0 million for the period from July 16, 2007 to January 15, 2014. As of December 31, 2007, we recorded a liability of $1.4 million in relation to the above hedge contracts in the accompanying consolidated balance sheet and loss of $1.1 million, net of tax of $0.3 million, to other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements.

These instruments qualified as a cash flow hedges under the requirements of SFAS No. 133 as amended by SFAS No. 149. As of December 31, 2007, the outstanding hedges are effective. Approximately $0.4 million is expected to be reclassified in net income during the next twelve months. See also Note 11 to our audited consolidated financial statements.

In December 2005, our wholly-owned subsidiary MTS Finance S.A. acquired a 51.0% stake in Tarino Limited (Tarino) from Nomihold Securities Inc. (Nomihold) for $150.0 million in cash based on the belief that Tarino was at that time the indirect owner, through its wholly-owned subsidiaries, of Bitel LLC, a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan. Following the purchase of the 51.0% stake, MTS Finance entered into a put and call option agreement with Nomihold for "Option Shares," representing the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was $170.0 million. The put and call options were recorded at fair value, which approximated $nil at December 31, 2005 in the consolidated balance sheet. At December 31, 2006 and December 31, 2007, a liability of $170.0 million was recorded in our audited consolidated financial statements in connection with this option. See Note 20 to our audited consolidated financial statements.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, capital lease obligations (including interest) and certain committed obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of December 31, 2007:

	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Contractual Obligations:(1)					
Long-Term Principal Debt Obligations	$ 709,977	$ 1,735,314	$ 766,300	$ 184,895	$ 3,396,486
Interest Payments(2)	193,978	239,370	88,301	10,528	532,177
Capital Lease Obligations	3,305	1,876	—	—	5,181
Operating Lease Obligations	184,281	56,149	22,131	37,553	300,114
Purchase Obligations(3)	327,875	22,721	1,300	13,939	365,835
Uncertain income tax position	33,690	—	—	—	33,690
Total	**$ 1,453,106**	**$ 2,055,430**	**$ 878,032**	**$ 246,915**	**$ 4,633,483**

(1) Debt payments could be accelerated upon violation of covenants in our debt agreements.

(2) Interest payments are calculated based on indebtedness as of December 31, 2007, scheduled maturities for the debt and interest rates effective as of December 31, 2007.

(3) Includes future payments under purchase agreements to acquire property, plant and equipment, costs related thereto and services. The amount also includes our capital commitments of $252.7 million as of December 31, 2007 mainly for acquisition of property, plant and equipment, and intangible assets. We plan to finance our capital commitments through operating cash flow and additional borrowings.