

SIGNET JEWELERS LTD

Form PRE 14A

April 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

SIGNET JEWELERS LIMITED

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(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

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(2) Aggregate number of securities to which the transaction applies:

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(1) Amount Previously Paid:

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(4)Date Filed:

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Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

May 1, 2018

DEAR FELLOW SHAREHOLDERS

It is my pleasure to invite you to the 2018 Annual Meeting of the Shareholders of Signet Jewelers Limited, which will be held at Hamilton Princess, 76 Pitts Bay Road, Hamilton, HM 08, Bermuda, on Friday, June 15, 2018 at 11:00 a.m. Atlantic Time.

Signet Jewelers is the world's largest retailer of diamond jewelry with market-leading store banners, including Kay Jewelers, Zales, Jared The Galleria of Jewelry, Piercing Pagoda, H.Samuel, Ernest Jones, Peoples Jewellers, and JamesAllen.com. We have an incredible foundation as a leading retail brand and the market share leader in North America and the U.K. in a large and growing category. We operate many of the most trusted and recognized banners in jewelry, including those with strong appeal to millennial consumers, and we enjoy a competitive advantage in our real estate footprint. We believe Signet has significant opportunity to gain share in a highly-fragmented market through sharper marketing, product and service innovation, a superior OmniChannel experience, and leveraging our scale as the world's largest jewelry retailer.

While the Company had a challenging year, it was an important year for us as we embarked on an important journey under the leadership of our new Chief Executive Officer, Virginia "Gina" C. Drosos, who took the helm in August 2017. Gina has a strong track record of transformational leadership, proven success in brand building and category transformation, a dedication to deep Customer insights and innovation, as well as a relentless focus on strategic imperatives to drive near-term improvement and lasting competitive advantage. Our management team's priority, with full support of our Board, is to position the Company for sustainable profitable growth.

Gina has already put in place a number of important strategic changes to achieve our operational goals and drive our future success. Under her leadership, we have crystalized our vision and strategy: an acute focus on Customer First, delivering a unique and seamless OmniChannel experience, and building a Culture of Agility and Efficiency. To accelerate our progress against these goals, we recently announced Signet's "Path to Brilliance" transformation plan. This plan will be defined by our Company's ability to align its strong brand equity and brick and mortar foundation with its evolving digital and OmniChannel capabilities. We must position ourselves to serve our Customers more efficiently and effectively, and introduce innovative shopping experiences that genuinely excite them.

Our Path to Brilliance transformation efforts focus on the following initiatives:

- Reducing non-Customer facing costs across sourcing, distribution and warehousing, and corporate and support functions to drive cost savings and operational efficiencies;
- Optimizing our real estate footprint through innovative store concepts, opportunistic store relocations and store closures to reduce the Company's mall-based exposure and exiting regional brands;
- Continuing to enhance Signet's OmniChannel focus, leveraging the added capabilities from our recent acquisition of R2Net to accelerate digital innovation and eCommerce growth - especially mobile - as well as realignment of our investments to drive higher returns from digital and social media efforts;
- Strengthening our brand banners to effectively target different Customer segments by reducing overlap, improving banner differentiation, introducing more precision marketing, and increasing relevance through improved fashion assortment to better attract women self-purchasers along with our bridal offerings;
-

Leading innovation and Customer value, facilitated by our newly-launched “Innovation Engine” team, focused on data analytics and consumer insights to improve our product assortment, time to market, marketing and promotional effectiveness, and disruptive innovation; and

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Strengthening our Team Member engagement and culture through enhanced leadership, organizational realignment, and training and development opportunities.

Signet's Path to Brilliance transformation is a three-year journey, which we believe will lead to sustainable market leading growth. Fiscal 2019 is focused on laying a strong foundation of change to drive gradual and continuous improvement over the coming years. The Signet Board is confident that this is the right path forward and is committed to ensuring the success of this transformation plan.

To help guide our Path to Brilliance, we were pleased to further deepen our bench with the recent additions of two highly experienced Directors to our Board—Sharon McCollam and Nancy Reardon. Sharon and Nancy both have held prominent leadership positions that are highly relevant to our business. Sharon joins Signet after a tremendous run as the Chief Financial Officer and Chief Administrative Officer at Best Buy Company, where she distinguished herself as a vital contributor to the Company's turnaround effort. Similarly, Nancy brings a wealth of knowledge from more than three decades in human resources, leading successful cultural development and transformation, most recently as the Chief Human Resources and Communications Officer at Campbell Soup Company. We are very excited about the fresh perspectives these two additions will have on our Board and our Company's ongoing focus on fundamental transformation.

As I close this letter, we request that you carefully consider the information in this proxy statement related to the following proposals:

- the election of directors;
- the appointment of the Company's independent registered auditor;
- the approval of the compensation of the named executive officers; and
- the Signet Jewelers Limited 2018 Omnibus Incentive Plan, the Signet Jewelers Limited Sharesave Scheme, and the Signet Jewelers Limited Employee Share Plan for U.S. Employees.

We appreciate your support for these proposals and our efforts in the upcoming year.

Your Board of Directors is firmly committed to positioning our business for long-term success as we help our customers Celebrate Life and Express Love<sup>®</sup>, and to serving the best interests of our shareholders. We value your continued engagement and support of our Company and welcome your feedback by any of the methods for contacting us detailed in the Proxy Statement. I invite you to review this Proxy Statement to learn more about your Board, Signet's strong corporate governance practices and the proposals on this year's proxy ballot.

Sincerely,  
H. Todd Stitzer  
Chairman

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date: Friday, June 15, 2018

Time: 11:00 a.m. Atlantic Time

Place: Hamilton Princess, 76 Pitts Bay Road, Hamilton, HM 08, Bermuda

Notice is hereby given that the 2018 Annual Meeting of Shareholders (“Meeting”) of Signet Jewelers Limited (the “Company”) will be held at Hamilton Princess, 76 Pitts Bay Road, Hamilton, HM 08, Bermuda, on Friday, June 15, 2018 at 11:00 a.m. Atlantic Time, to consider the following items of business:

1. Election of eleven directors to the Company’s Board of Directors to serve until the next Annual Meeting of Shareholders of the Company or until their respective successors are elected in accordance with the Bye-laws of the Company.
2. Appointment of KPMG LLP as independent auditor of the Company, to hold office from the conclusion of this Meeting until the conclusion of the next Annual Meeting of Shareholders and to authorize the Audit Committee to determine its compensation.
3. Approval, on a non-binding advisory basis, of the compensation of the Company’s named executive officers as disclosed in the Proxy Statement (the “Say-on-Pay” vote).
4. Approval of the Signet Jewelers Limited 2018 Omnibus Incentive Plan, including the authorization of the issuance of additional shares thereunder.
5. Approval of the Signet Jewelers Limited Sharesave Scheme, including the authorization of the issuance of additional shares thereunder.
6. Approval of the Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees, including the authorization of the issuance of additional shares thereunder.

In addition, we will consider the transaction of any other business properly brought at the Meeting or any adjournment or postponement thereof.

Each of the proposals to be presented at the Meeting will be voted upon by a poll.

The Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018 (“Fiscal 2018”) as approved by the Board of Directors (the “Board”) will be presented at the Meeting.

The Board has fixed the close of business on Monday, April 16, 2018, as the record date for the Meeting. All Shareholders of record at the close of business on that date are entitled to notice of, and to be present and vote at, the Meeting and at any adjournment and continuation thereof.

Attendance at the Meeting will be limited to Shareholders of record, beneficial owners with evidence of ownership, corporate representatives of Shareholders, proxies, and guests invited by management. Any person claiming to be an authorized corporate representative of a Shareholder must, upon request, produce written evidence of such authorization.

The Meeting will be conducted pursuant to the Company’s Bye-laws and rules of order prescribed by the Chairman of the Meeting.

By Order of the Board

Mark Jenkins

Chief Governance Officer & Corporate Secretary

May 1, 2018

Important notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on June 15, 2018. The Notice of Internet Availability of Proxy Materials, Notice of Annual Meeting of Shareholders, Proxy Statement, Proxy Card and the Annual Report to Shareholders are available at [www.signetjewelers.com/shareholders](http://www.signetjewelers.com/shareholders).

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING OF SHAREHOLDERS IN PERSON AND REGARDLESS OF THE NUMBER OF SHARES YOU OWN, PLEASE REGISTER YOUR VOTE BY APPOINTING A PROXY ELECTRONICALLY BY INTERNET OR, FOR U.S. SHAREHOLDERS, BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS ON THE PROXY CARD, OR ALTERNATIVELY MARK, SIGN AND DATE THE PROXY CARD IN ACCORDANCE WITH THE INSTRUCTIONS THEREON AND MAIL IT PROMPTLY TO ENSURE THAT YOUR SHARES WILL BE REPRESENTED. YOU MAY VOTE IN PERSON IF YOU ATTEND THE ANNUAL MEETING OF

SHAREHOLDERS. YOUR PROXY IS REVOCABLE AT ANY TIME BY SENDING WRITTEN NOTICE OF REVOCATION OR BY SUBMISSION OF A PROPERLY EXECUTED PROXY BEARING A LATER DATE TO THE TRANSFER AGENT BY THE DEADLINE OF 12:01AM ATLANTIC TIME (4:01AM BRITISH SUMMER TIME) ON JUNE 15, 2018 (11:01PM EASTERN DAYLIGHT TIME ON JUNE 14, 2018) OR BY VOTING IN PERSON AT THE MEETING.

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## Proxy Statement Summary

Highlights of certain information in this Proxy Statement are provided below. As it is only a summary, please refer to the complete Proxy Statement and 2018 Annual Report to Shareholders before you vote.

### 2018 ANNUAL MEETING OF SHAREHOLDERS

#### Date and Time:

June 15, 2018, 11:00 a.m. Atlantic Time

Date proxy materials are first made available to Shareholders:

May 1, 2018

#### Place:

Hamilton Princess, 76 Pitts Bay Road, Hamilton, HM 08, Bermuda

#### Record Date:

April 16, 2018

#### Electronic voting:

Place your vote by visiting [www.signetjewelers.com/shareholders](http://www.signetjewelers.com/shareholders)

## CORPORATE GOVERNANCE

Corporate governance policies reflect best practice

• All Directors are elected annually.

• The Chairman of the Board is an independent Director.

• All Directors are independent with the exception of the Chief Executive Officer (“CEO”).

• Independent Chairman of the Board approves Board meeting agendas and effective Board operation.

• The Company has a separate Chairman and CEO.

• The Company has majority voting for Director elections.

• The Board has been significantly refreshed with recent additions of two highly experienced Directors.

• Board Diversity Policy has been adopted.

• Over 50% of the Board is comprised of women.

• Executive sessions of independent Directors are held at each regularly scheduled Board meeting.

• Company policy prohibits pledging and hedging of Company shares by Directors and employees (Team Members).

• Executive officer and Director Share Ownership Policies have been adopted.

• The Board regularly participates in CEO succession planning.

• Annual Board, Committee and Director evaluations are conducted, including an external Board evaluation in Fiscal 2018.

• Director Tenure Policy is in place.

• Director skills matrix is reviewed and approved by the Board each year.

• Each Director who was in office at the time attended at least 75% of Board and committee meetings during Fiscal 2018.

• Each Director who was in office at the time attended the 2017 Annual Meeting of Shareholders.

• The Board oversees corporate social responsibility.

• The Board oversees risk management.

VOTING MATTERS AND BOARD RECOMMENDATIONS

| Proposal  | Board's Recommendation    | Page |
|---|---------------------------|------|
| 1. Election of Eleven Director Nominees   | FOR all Director Nominees | 10   |
| 2. Appointment of KPMG LLP as Independent Auditor to the Company until the conclusion of the next Annual Meeting of Shareholders  | FOR                       | 14   |
| 3. Approval, on a Non-Binding Advisory Basis, of the Compensation of the Company's Named Executive Officers (the Say-on-Pay vote)                                       | FOR                       | 15   |
| 4. Approval of the Signet Jewelers Limited 2018 Omnibus Incentive Plan, including the authorization of the issuance of additional shares thereunder                     | FOR                       | 16   |
| 5. Approval of the Signet Jewelers Limited Sharesave Scheme, including the authorization of the issuance of additional shares thereunder                                | FOR                       | 22   |
| 6. Approval of the Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees, including the authorization of the issuance of additional shares thereunder | FOR                       | 25   |

EXECUTIVE COMPENSATION PROGRAMS ALIGNED WITH PERFORMANCE

Executive compensation programs are designed to attract, motivate and retain talent and align the interests of executives with Shareholders by paying for performance

Signet's compensation philosophy is to provide market-competitive programs, with pay directly linked to the achievement of short- and long-term business results that deliver against the Company's strategy.

The Compensation Committee reviews program components, targets and payouts on an annual basis to assess the strength of pay-for-performance alignment. Performance is evaluated against short-term goals that support the Company's long-term business strategy and long-term goals that measure the creation of long-term Shareholder value.

Executive compensation programs incorporate strong governance features

• Compensation Committee assesses the pay and performance alignment of incentive plans.

• Substantial majority of long-term and short-term awards are performance-based.

• Cash payments and equity awards following change of control require a qualified termination to vest or be paid, unless awards are not assumed or replaced.

• Clawback Policy is in place.

• Share ownership guidelines are in place for named executive officers ("NEOs") and independent Directors.

• Compensation Committee engages an independent compensation consultant.

• Only limited perquisites are offered to executives.

• No excise tax or income tax gross-ups are provided.

The Company did not meet the performance goals it set for Fiscal 2018, so no payments were made under the Company's annual incentive plan. In addition, performance-based restricted share units granted in Fiscal 2016 did not vest because the applicable performance criteria were not satisfied.

The Company received strong Shareholder support for the executive compensation program in place during the fiscal year ended January 28, 2017 ("Fiscal 2017") with 98.1% of votes cast approving the advisory Say-on-Pay resolution in June 2017. As in prior years, the Committee considered this input from Shareholders as well as input from other stakeholders as part of its annual review of the executive compensation program. Following this review and based on the Committee's assessment of the program, the Compensation Committee continued to apply the same principles in determining the amounts and types of executive compensation for Fiscal 2018.

Please see the Compensation Discussion and Analysis ("CDA") section of this Proxy Statement for a detailed description of executive compensation.



## Ownership of the Company

## SHAREHOLDERS WHO BENEFICIALLY OWN AT LEAST FIVE PERCENT OF THE COMMON SHARES

The table below shows all persons who were known to the Company to be beneficial owners (determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of more than five percent of the Common Shares as of April 16, 2018. The table is based upon reports filed with the United States Securities and Exchange Commission (the “SEC”). Copies of these reports are publicly available from the SEC on its website, [www.sec.gov](http://www.sec.gov).

| Name and address of beneficial owner  | Amount and nature of beneficial ownership | Percent of class |   |
|---|---|------------------|---|
| Leonard Green<br>11111 Santa Monica Boulevard, Suite 2000<br>Los Angeles, CA 90025, USA         | 6,838,063 <sup>(1)</sup>                  | 11.3             | % |
| Capital Research Global Investors<br>333 South Hope Street, 55th Floor<br>Los Angeles, CA 90071 | 6,178,233 <sup>(2)</sup>                  | 10.2             | % |
| The Vanguard Group, Inc.<br>100 Vanguard Boulevard<br>Malvern, PA 19355, USA                    | 5,972,224 <sup>(3)</sup>                  | 9.86             | % |
| BlackRock Inc.<br>55 East 52nd Street<br>New York, NY 10055, USA                                | 3,501,899 <sup>(4)</sup>                  | 5.8              | % |

None of the Company’s Common Shares entitle the holder to any preferential voting rights.

Based upon a Schedule 13D filed on October 13, 2016, Green Equity Investors VI,L.P., Green Equity Investors Side VI, L.P., LGP Associates VI-A LLC, LGP Associates VI-B LLC, GEI Capital VI, LLC, Green VI Holdings, LLC, Leonard Green & Partners, L.P., LGP Management Inc., Peridot Coinvest Manager LLC, and Jonathan D.

(1) Sokoloff (collectively, “Leonard Green”) jointly reported shared voting and shared dispositive power of 6,658,059 Common Shares. The Schedule 13D reports 625,000 Series A Convertible Preference Shares, par value \$0.01 per share, which as of the date of the Schedule 13D were convertible into 6,658,059 Common Shares of the Company. Since the filing of the 13D, the conversion rate has changed and the 625,000 Series A Convertible Preference Shares are now convertible into 6,838,063 shares.

(2) Based upon a Schedule 13G/A filed on February 14, 2018, Capital Research Global Investors reported beneficial ownership of 6,178,233 shares as follows: sole voting power over 6,178,233 shares and sole dispositive power over 6,178,233 shares.

Based upon a Schedule 13G/A filed on February 8, 2018, The Vanguard Group, Inc. (“Vanguard”) reported beneficial ownership of 5,972,224 shares as follows: sole voting power over 71,825 shares, shared voting power over 13,240 shares, sole dispositive power over 5,892,601 shares and shared dispositive power over 79,623 shares.

(3) Vanguard reported that Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 65,856 shares as a result of its serving as investment manager of collective trust accounts, and that Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 19,209 shares as a result of its serving as investment manager of Australian investment offerings.

(4) Based upon a Schedule 13G/A filed on January 30, 2018, BlackRock Inc. reported beneficial ownership of 3,501,899 shares as follows: sole voting power over 3,107,116 shares and sole dispositive power over 3,501,899 shares.



## Ownership of the Company (continued)

## OWNERSHIP BY DIRECTORS, DIRECTOR NOMINEES AND EXECUTIVE OFFICERS

The table below shows the number of Common Shares of the Company beneficially owned (determined in accordance with Rule 13d-3 of the Exchange Act) as of April 16, 2018 by each current Director, each executive officer named in the Summary Compensation Table, and all of the Company's executive officers and Directors as a group.

| Name   | Common Shares <sup>(1)</sup> | Shares that may be acquired upon exercise of options within 60 days <sup>(2)</sup> | Total <sup>(3)</sup> |
|--|------------------------------|--|----------------------|
| H. Todd Stitzer <sup>(4)</sup>                               | 21,985                       | —  | 21,985               |
| Virginia C. Drosos <sup>(4)(5)</sup>                         | 120,832                      | —  | 120,832              |
| R. Mark Graf <sup>(4)</sup>                                  | 2,258                        | —  | 2,258                |
| Helen McCluskey <sup>(4)</sup>                               | 8,455                        | —  | 8,455                |
| Sharon L. McCollam <sup>(4)</sup>                            | —                            | —  | —                    |
| Marianne Miller Parrs <sup>(4)</sup>                         | 21,785                       | —  | 21,785               |
| Thomas Plaskett <sup>(4)</sup>                               | 18,665                       | —  | 18,665               |
| Nancy A. Reardon <sup>(4)</sup>                              | —                            | —  | —                    |
| Jonathan Sokoloff <sup>(4)(6)</sup>                          | 3,548                        | —  | 3,548                |
| Brian Tilzer <sup>(4)</sup>                                  | 3,105                        | —  | 3,105                |
| Eugenia Ulasewicz <sup>(4)</sup>                             | 7,599                        | —  | 7,599                |
| Russell Walls <sup>(4)</sup>                                 | 5,438                        | —  | 5,438                |
| Oded Edelman <sup>(7)</sup>                                  | 130,319                      | —  | 130,319              |
| Sebastian Hobbs <sup>(7)</sup>                               | 11,968                       | —  | 11,968               |
| George Murray <sup>(7)</sup>                                 | 16,572                       | —  | 16,572               |
| Michele Santana <sup>(7)</sup>                               | 19,853                       | —  | 19,853               |
| Mark Light <sup>(8)</sup>                                    | 79,445                       | —  | 79,445               |
| All Executive Officers and Directors as a group (22 persons) | 513,021                      | —  | 513,021              |

(1) No shares are pledged as security. All shares are owned directly with the exception of Oded Edelman who holds 90,398 shares indirectly through Oeysan LTD, a wholly-owned company.

(2) Shares issuable upon the exercise of vested stock options and/or settlement of restricted stock units.

(3) All holdings represent less than 1% of the Common Shares issued and outstanding. No Series A Convertible Preference Shares are held.

(4) Director

(5) CEO

Green Equity Investors VI, L.P. ("GEI VI"), Green Equity Investors Side VI, L.P. ("GEI Side VI"), LGP Associates VI-A LLC ("Associates VI-A") and LGP Associates VI-B LLC ("Associates VI-B") are the direct owners of 625,000

(6) Series A Convertible Preference Shares that are convertible into 6,838,063 Common Shares. Mr. Sokoloff directly (whether through ownership or position) or indirectly through one or more intermediaries, may be deemed to be the indirect beneficial owner of the shares owned by GEI VI, GEI Side VI, Associates VI-A and Associates VI-B.

Mr. Sokoloff disclaims beneficial ownership of the shares except to the extent of his pecuniary interest therein.

(7) Executive officer

(8) Former Director and executive officer.

See CDA and Director Compensation below for a discussion of the Company's Share Ownership Policies applicable to executive officers and Directors, respectively.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's Directors, executive officers and persons who beneficially own more than 10% of a registered class of the Company's equity securities to file with the SEC reports of ownership and changes in ownership. Executive officers, Directors and such security holders are required by SEC regulation to

furnish the Company with copies of all such forms which they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and information provided by the reporting persons, all of its Directors and executive officers filed the required reports on a timely basis during Fiscal 2018.



Proposals for the Annual Meeting of Shareholders

Proposal 1: Election of Eleven Directors (Item 1 on the Proxy Card)

Shareholders will be asked to consider eleven nominees for election to the Board to serve until the next Annual Meeting of Shareholders or until their successors are duly elected. Each current Director standing for election has the endorsement of the Board and the Nomination and Corporate Governance Committee. The Board nominees bring a variety of backgrounds, skills and experiences that contribute to a well-rounded Board to effectively guide the Company's Path to Brilliance transformation strategy and oversee operations in a rapidly changing retail environment. In addition, the Board has been significantly refreshed with recent additions of two highly experienced Directors: Sharon L. McCollam and Nancy A. Reardon.

Mr. Walls has not been nominated for re-election as a Director at this Annual Meeting consistent with the Director Tenure Policy that Directors are expected to retire from the Board at the annual meeting following the earlier of his or her fifteenth anniversary of service on the Board or 75th birthday. The Board had recently reduced the size of the Board from thirteen to twelve following the passing of Mr. Stack, and following Mr. Walls' retirement at this Annual Meeting, the Board size will be reduced to eleven.

NOMINEES FOR DIRECTORS

Below is biographical information of each nominee for Director of the Company. An asterisk indicates an independent Director who satisfies the definitions of independence and has been affirmatively determined by the Board as being independent in accordance with the New York Stock Exchange ("NYSE") Listing Standards.

|  |   |   |
|--|---|---|
| <p>H. TODD STITZER*</p> <p>Age: 66</p> <p>Director Since: January 2012</p> | <p>Private Directorships:</p> <ul style="list-style-type: none"> <li>• Massachusetts Mutual Life Insurance Company</li> </ul> | <p>Former Directorships:</p> <ul style="list-style-type: none"> <li>• Diageo plc (June 2013)</li> </ul> |
|--|---|---|

H. Todd Stitzer has been Chairman of Signet since June 2012. Mr. Stitzer is the Lead Director of privately held Massachusetts Mutual Life Insurance Company and a member of the advisory board of Hamlin Capital Management, a privately held investment advisory firm. Prior to this, Mr. Stitzer was, until its acquisition by Kraft, Inc. in 2010, the Chief Executive Officer of Cadbury plc (previously Cadbury Schweppes plc). Having joined that company in 1983 as Assistant General Counsel for North America, he later moved into strategic planning, marketing and sales roles. Mr. Stitzer became CEO of Cadbury plc's wholly-owned subsidiary, Dr Pepper/7 Up Inc., in 1997 and then of Cadbury plc in 2003. Mr. Stitzer practiced as an attorney with Lord, Day & Lord, was a director of publicly held Diageo plc between 2004 and June 2013, and was a member of the advisory committee to the board of Virgin Group Holdings Ltd between 2010 and 2014. It was on the basis of his proven leadership skills and ability to Chair the Board that the Board concluded that Mr. Stitzer should continue to serve on the Board.

|   |   |   |
|---|---|---|
| <p>VIRGINIA C. DROSOS</p> <p>Age: 55</p> <p>Director Since: July 2012</p> | <p>Public Directorships:</p> <ul style="list-style-type: none"> <li>• American Financial Group, Inc.</li> </ul> | <p>Former Directorships:</p> <ul style="list-style-type: none"> <li>• Assurex Health</li> </ul> |
|---|---|---|

Virginia "Gina" C. Drosos was appointed Chief Executive Officer of the Company on August 1, 2017. Ms. Drosos was most recently President and CEO and a director of Assurex Health since August 2013, and she is currently a Director of American Financial Group Inc. Prior to this, Ms. Drosos was Group President of the Procter & Gamble Company until September 2012. During her 25-year career at Procter & Gamble, Ms. Drosos held positions of increasing responsibility. In her role as Group President, Ms. Drosos had responsibility for a \$6 billion business unit's operations, profit and loss, strategy, innovation and long-term business development. With her broad background in strategic, business and financial planning and operations, Ms. Drosos brings valuable skills and insights to the Company. She has proven leadership skills and expertise in strategy, branding, marketing, global operations and business expansions into new geographies. The Board has concluded that Ms. Drosos should continue to serve on the Board for these reasons.

|                                     |  |
|-------------------------------------|--|
| <p>R. MARK GRAF*</p> <p>Age: 53</p> | <p>Former Directorships:</p> <ul style="list-style-type: none"> <li>• BNC Bancorp (2010-2011)</li> </ul> |
|-------------------------------------|--|

Director Since: July 2017

R. Mark Graf has been Chief Financial Officer of Discover Financial Services since 2011. Previously, he served as an Investment Advisor at Aquiline Capital Partners from 2008 to 2010 and a Partner at Barrett Ellman Stoddard Capital Partners from 2006 to 2008. Mr. Graf also served in various roles at Fifth Third Bancorp from 2001 to 2006 and AmSouth Bancorporation from 1994 to 2001. Mr. Graf previously served as a director of the BNC Bancorp board of directors from 2010 to 2011. Mr. Graf was asked to join the Board so that it might benefit from his financial management skills. The Board has concluded that Mr. Graf should continue to serve on the Board for these reasons.

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**HELEN MCCLUSKEY\*** Public Directorships: Former Directorships:  
 Age: 63 • Dean Foods Company • PVH Corporation (June 2014)  
 Director Since: August 2013 • Avon Products, Inc. • The Warnaco Group, Inc. (February 2013)

Helen McCluskey was appointed as a Director of Dean Foods Company in November 2015 and Avon Products Inc. in July 2014. Prior to this, she was President and CEO of The Warnaco Group, Inc. until its 2013 acquisition by PVH Corporation. Ms. McCluskey joined Warnaco as Group President, Intimate Apparel in 2004, and her responsibilities continued to increase, becoming Chief Operating Officer in 2010, and President and Chief Executive Officer in 2012. Prior to joining Warnaco, Ms. McCluskey held various positions of increasing responsibility with Firestone Tire & Rubber Company (1977-1983), Playtex Apparel, Inc (1983-2001) (which was acquired by Sara Lee Corporation in 1991) and Liz Claiborne Inc. (now Fifth & Pacific Companies Inc.) (2001-2004). Ms. McCluskey served as an Independent Director of PVH Corporation until June 2014, which position she assumed following the merger with Warnaco in February 2013. With Ms. McCluskey’s broad background in strategy, business planning and operations, she brings valuable skills and insight to the Company. The Board has concluded that Ms. McCluskey should continue to serve on the Board for these reasons.

**SHARON L. MCCOLLAM\*** Public Directorships: Private Directorships:  
 Age: 55 • Stitch Fix, Inc. • PetSmart (Argos Holdings)  
 Director Since: March 2018 • Hallmark Cards, Inc.  
 • Art.com

Sharon L. McCollam served as the Chief Financial Officer and Chief Administrative Officer of Best Buy Co., Inc. from December 2012 until her retirement in June 2016. She continued to serve as an advisor to Best Buy until January 2017. Prior to Best Buy, Ms. McCollam served as Chief Financial Officer and Executive Vice President of Williams-Sonoma Inc. Ms. McCollam also served as Chief Financial Officer of Dole Fresh Vegetables, Inc. from 1996 to 2000. She is a member of the Board of Directors for Stitch Fix, Inc., a public company. Ms. McCollam is also a St. Jude Children’s Research Hospital/ALSAC Board member. Ms. McCollam has significant experience with major public companies in C-suite positions and has been recognized as the co-pilot of a foremost omni-channel turnaround in the retail sector. The Board has concluded that Ms. McCollam should continue to serve on the Board for these reasons.

**MARIANNE MILLER PARRS\*** Public Directorships:  
 Age: 74 • Stanley Black & Decker, Inc.  
 Director Since: October 2008 • CIT Group Inc.

Marianne Miller Parrs is a Director of Stanley Black & Decker, Inc. (previously The Stanley Works Inc.) and CIT Group Inc. She retired in 2007 as Executive Vice President and Chief Financial Officer of International Paper Company, having joined in 1974 as a Pension Trust Investment Manager and holding a number of positions before first being appointed Senior Vice President and Chief Financial Officer in 1995. She held this position until 1999 when she was appointed Executive Vice President with responsibility for Information Technology, Global Sourcing, Global Supply Chain and Investor Relations. She held this role for six years and she was also reappointed Chief Financial Officer in 2005. Previously Ms. Parrs was a Security Analyst at a number of firms including Merrill Lynch. The Board considered it necessary to recruit to the Board a Director with substantial US financial reporting experience. The Board has concluded that Ms. Parrs should continue to serve on the Board for these reasons.

**THOMAS PLASKETT\*** Private Directorships: Former Directorships:  
 Age: 74 • ESL Technologies, Inc. • Alcon Laboratories, Inc. (May 2011)  
 Director Since: October 2008 • ThermoTek, Inc. • RadioShack Corporation (November 2013)

Thomas Plaskett has been Chairman of Fox Run Capital Associates, a private consulting firm focusing on financial advisory and corporate governance services for emerging companies, since 1991. From 1999 until 2000 he served as the Chairman, President and Chief Executive Officer of Probex Corp., an energy technology company. He also served as Vice Chairman of Legend Airlines from 1997 until 2001. Mr. Plaskett served as Interim President, Chief Executive Officer, and Acting Chief Financial Officer of Greyhound Lines for two years before becoming Chairman from 1995 until 1999, when the company was sold. Previously, he was Chairman, President and Chief Executive Officer of Pan

Am Corporation from 1988 until 1991. Prior to that, Mr. Plaskett was President and Chief Executive Officer of Continental Airlines from 1986 to 1987. Mr. Plaskett also held several senior management positions at American Airlines Group, Inc. and AMR Company between 1974 and 1986. Mr. Plaskett served as a Director of Alcon Laboratories Inc. and RadioShack Corporation until May 2011 and November 2013, respectively. Mr. Plaskett joined the Board as his considerable general management skills were considered to be an enhancement to the overall efficiency and effectiveness of the Board. The Board has concluded that Mr. Plaskett should continue to serve on the Board for these reasons.

NANCY A. REARDON\*    Public Directorships: Private Directorships:

Age: 65                      • Big Lots, Inc.              • Kids II, Inc.

Director Since: March 2018

Nancy A. Reardon served as Chief Human Resources and Communications Officer of Campbell Soup Company from 2004 until her retirement in April 2012. Previously, she was Executive Vice President, Human Resources of Comcast Corporation from 2002 to 2004. Prior human resources leadership positions include Borden Capital Management Partners, Duracell, Inc., American Express Company, Avon Products, Inc., and General Electric. Ms. Reardon is a Board member of Big Lots, Inc., a public company. She is widely viewed as a leading human resources and communications executive, has significant public company experience, and has played key roles shaping strategic and operating plans, as well as helping transform corporate culture. The Board has concluded that Ms. Reardon should continue to serve on the Board for these reasons.

JONATHAN SOKOLOFF\*    Public Directorships:              Former Directorships:

Age: 60                      • Container Store Group, Inc.  
Director Since: October 2016    • Shake Shack Inc.              • Rite Aid Corporation (May 2011)  
   • Whole Foods Market, Inc.

Jonathan Sokoloff was appointed to the Board on October 5, 2016. Mr. Sokoloff currently serves as a Managing Partner with Leonard Green & Partners, L.P. ("Leonard Green"), one of Signet's significant shareholders, which he joined in 1990. Before joining Leonard Green, he was a Managing Director in Investment Banking at Drexel Burnham Lambert. Mr. Sokoloff currently serves on the boards of the following public companies: Container Store Group, Inc., Shake Shack Inc., and Whole Foods Market, Inc. Previously, Mr. Sokoloff served on the board of Rite Aid Corporation until May 2011. Mr. Sokoloff brings particular knowledge and experience in finance, and broad-based experience in the

leadership of retail businesses and the board practices of other major corporations to the Board. The Board has concluded that Mr. Sokoloff should continue to serve on the Board for these reasons.

**BRIAN TILZER\***

Age: 47

Director Since: February 2017

Brian Tilzer currently serves as Chief Digital Officer at CVS Health Corporation and has more than 20 years of experience in strategic business development, operations and information technology, with a deep concentration in corporate and e-commerce strategy. Prior to joining CVS Health, Mr. Tilzer was the Senior Vice President of Global e-Commerce with Staples, where he developed and led several multi-channel digital innovation strategies. Mr. Tilzer holds a BA from Tufts University, an MBA from The Wharton School, and is a member of the Mass Technology Leadership Council, a leading technology association and the premier network for technology executives, entrepreneurs, investors and policy leaders. Mr. Tilzer has expertise in information technology, omni-channel, e-commerce, and strategic planning and analysis. The Board has concluded that Mr. Tilzer should continue to serve on the Board for these reasons.

**EUGENIA ULASEWICZ\***

Public

Directorships:

- Bunzl plc
- Hudson Ltd.
- Vince Holding Corp.

Age: 64

Director Since: September 2013

Eugenia Ulasewicz is a Director of Bunzl plc, Hudson Ltd. and Vince Holding Corp. She was President of Burberry Group plc's American division, responsible for the US, Canada, Latin America, Central and South America until her retirement in March 2013. Ms. Ulasewicz joined Burberry in 1998 and became a member of its executive committee in 2006. Ms. Ulasewicz has held positions of increasing responsibility with Bloomingdales, a division of Macy's, Inc. (formerly Federated Department Stores, Inc.) (1975-1991), Galeries Lafayette (1991-1993) and Saks, Inc. (1993-1998). She has expertise in retail, branding, marketing, omni-channel, global operations and general management that provides valuable skills and insights to the Company. The Board has concluded that Ms. Ulasewicz should continue to serve on the Board for these reasons.

**SUMMARY OF DIRECTOR QUALIFICATIONS AND EXPERIENCE**

The following table provides a summary of each Director nominee's specific skills, knowledge and experience.

Individuals may possess other valuable skills, knowledge and experience even though they are not indicated below:

|  | H. Todd Stitzer | Virginia C. Drosos | R. Mark Graf | Helen McCluskey | Sharon L. McCollam | Marianne Parrs | Thomas Plaskett | Nancy A. Reardon | Jonathan Sokoloff | Brian Tilzer | Eugenia Ulasewicz |
|--|-----------------|--------------------|--------------|-----------------|--------------------|----------------|-----------------|------------------|-------------------|--------------|-------------------|
| Leadership                                   | ü               | ü                  | ü            | ü               | ü                  | ü              | ü               | ü                | ü                 | ü            | ü                 |
| Financial & Accounting                       | ü               | ü                  | ü            | ü               | ü                  | ü              | ü               | ü                | ü                 | ü            |                   |
| Literacy                                     |                 |                    |              |                 |                    |                |                 |                  |                   |              |                   |
| Capital Allocation                           | ü               | ü                  | ü            | ü               | ü                  | ü              | ü               |                  | ü                 |              | ü                 |
| Strategic Planning & Analysis                | ü               | ü                  | ü            | ü               | ü                  | ü              | ü               | ü                | ü                 | ü            | ü                 |
| Business Development, Mergers & Acquisitions | ü               | ü                  | ü            | ü               |                    |                |                 | ü                | ü                 | ü            |                   |

|  |   |   |   |   |   |   |   |   |   |   |
|--|---|---|---|---|---|---|---|---|---|---|
| Operations,<br>Procurement &<br>Supply Chain<br>Management   | ü | ü | ü | ü | ü |   |   |   |   |   |
| Human<br>Resources &<br>Talent<br>Development  | ü | ü | ü | ü |   |   | ü |   | ü |   |
| Brand<br>Management,<br>Marketing,<br>Merchandising<br>& Product<br>Development  | ü | ü | ü |   |   |   |   |   | ü | ü |
| Retail Industry<br>International<br>Business   | ü | ü | ü | ü | ü | ü | ü | ü | ü | ü |
| Information<br>Technology<br>Security  |   |   |   |   | ü |   |   |   | ü |   |
| Digital,<br>Multi-Channel<br>& Social Media<br>Technology &<br>Innovation  |   | ü |   |   | ü |   |   |   | ü |   |
| Risk Oversight<br>& Management<br>Ethics,<br>Corporate<br>Social<br>Responsibility,<br>Environment &<br>Sustainability | ü |   |   | ü | ü | ü | ü |   | ü | ü |
| Law &<br>Governance<br>Governmental<br>& Geopolitical<br>Public Affairs  | ü |   |   |   |   |   |   | ü |   |   |
| Communication<br>Real Estate   | ü | ü | ü | ü | ü |   | ü |   | ü | ü |

The Board and Nomination and Corporate Governance Committee believe that all Director nominees are highly qualified and should be re-elected at the 2018 Annual Meeting of Shareholders. As the table and Directors' biographies above show, the Directors have significant experience and expertise that qualify them to serve on the Board and collectively contribute to the effectiveness of the Board.

The Company's Corporate Governance guidelines and NYSE listing standards require that independent Directors constitute a majority of the Board. In addition, Signet's Director Tenure Policy requires each independent Director to retire following the earlier of his or her (i) 15th anniversary of service or (ii) 75th birthday. The following summarizes the independence, gender diversity and tenure of Director nominees:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES NAMED ABOVE.

**Proposal 2: Appointment of Independent Auditor (Item 2 on the Proxy Card)**

Proposal 2 is to appoint KPMG LLP (“KPMG”) as independent auditor to the Company until the end of the next Annual Meeting of Shareholders and to authorize the Audit Committee of the Board to determine its compensation.

The Audit Committee is responsible for the recommendation, compensation, retention and oversight of the independent auditor. This Committee has recommended KPMG, the U.S. member firm of KPMG International, as the independent registered public accounting firm to audit the Company’s financial statements and effectiveness of internal control over financial reporting of the Company until the end of the Company’s Annual Meeting of Shareholders in 2019. While Shareholders are required to appoint the independent auditor pursuant to Bermuda law, the Audit Committee is responsible for recommending which independent auditor should be appointed.

A representative of KPMG will attend the Annual Meeting of Shareholders to respond to appropriate questions raised by Shareholders and will be afforded the opportunity to make a statement at the Meeting, if he or she desires to do so.

**FEES AND SERVICES OF KPMG**

The Audit Committee has adopted a policy requiring advance approval of the Company’s independent registered public accounting firm’s fees and services by the Audit Committee. In Fiscal 2018, all KPMG services and fees were reviewed and pre-approved by the Audit Committee (or Chair of the Audit Committee for non-audit work up to \$250,000). This policy also prohibits the Company’s independent registered public accounting firm from performing certain non-audit services for the Company including: (i) bookkeeping, (ii) systems design and implementation, (iii) appraisals or valuations, (iv) actuarial services, (v) internal audit, (vi) management or human resources services, (vii) investment advice or investment banking, (viii) legal services and (ix) expert services unrelated to the audit. All fees paid by the Company to KPMG for Fiscal 2018 and Fiscal 2017 as shown in the table below were approved by the Audit Committee pursuant to this policy.

The following table presents fees for professional audit services provided by KPMG for Fiscal 2018 and Fiscal 2017 for their respective audits of the Company’s consolidated financial statements and the effectiveness of internal control over financial reporting for Fiscal 2018 and Fiscal 2017, and for their respective reviews of the Company’s unaudited condensed consolidated interim financial statements. This table also reflects fees for other services rendered by KPMG during Fiscal 2018 and Fiscal 2017.

|                                   | Fiscal 2018 | Fiscal 2017 |
|-----------------------------------|-------------|-------------|
|                                   | (millions)  | (millions)  |
| Audit Fees                        | \$ 5.5      | \$ 4.4      |
| Audit-Related Fees <sup>(1)</sup> | \$ 0.5      | \$ 0.1      |
| Tax Fees <sup>(2)</sup>           | \$ 0.4      | \$ 0.5      |
| All Other Fees                    | \$ 0.1      | \$ —        |
| Total Fees                        | \$ 6.5      | \$ 5.0      |

(1) Audit-related fees consisted principally of assurance-related services that are reasonably related to the performance of the audit or review of financial statements.

(2) Tax fees consisted principally of professional services rendered for tax compliance and advisory services.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THIS PROPOSAL.**



Proposal 3: Approval, on a Non-Binding Advisory Basis, of the Compensation of the Company's Named Executive Officers as Disclosed in the Proxy Statement (Item 3 on the Proxy Card)

Shareholders are being asked to vote, on a non-binding advisory basis, on the compensation of the Company's NEOs, as disclosed pursuant to the compensation disclosure rules of the SEC, including the CDA, the Fiscal 2018 Summary Compensation Table and related tables and narrative discussion contained in this Proxy Statement.

#### EXPLANATION

The Board recognizes the interest Shareholders have in the compensation of executives. In recognition of that interest and as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), Signet is providing Shareholders with the opportunity to cast a vote, on a non-binding advisory basis, on the compensation of the Company's NEOs as disclosed pursuant to the compensation disclosure rules of the SEC as set forth in this Proxy Statement (also referred to as "Say-on-Pay").

As described in the CDA, Signet's compensation philosophy is to deliver competitive total compensation for achieving annual and long-term financial goals that will attract, motivate and retain leaders who will drive the creation of Shareholder value. Total compensation is targeted at approximately the median of a custom group of comparator companies.

The Compensation Committee believes that the Company's executive compensation programs, executive officer pay levels and individual pay actions approved for executive officers, including NEOs, directly align with Signet's executive compensation philosophy, fully support the Company's goals and provide an appropriate balance between risk and incentives. This past year was a difficult one for the Company, and management's execution on the Company's operating framework fell substantially short of expectations. As a result, no payments were made under the Company's annual incentive plan. In addition, performance-based restricted share units granted in Fiscal 2016 did not vest because the applicable performance criteria were not satisfied. Shareholders are urged to read the CDA section of this Proxy Statement, which discusses in greater detail how compensation policies and procedures implement Signet's executive compensation philosophy, as well as the compensation tables and narrative discussion.

Shareholders are asked to indicate their support for the Company's NEO compensation as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of NEOs and the philosophy, policies and practices described in this Proxy Statement. Accordingly, Shareholders are asked to vote FOR the following resolution at the Annual Meeting of Shareholders:

"RESOLVED, that the compensation paid to Signet's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED."

Shareholders should note that the vote is advisory and not binding on the Company and its Board or Compensation Committee. The Board and Compensation Committee value the opinion of Shareholders, and to the extent there is any significant vote against the NEO compensation as disclosed in the Proxy Statement, Shareholders' concerns will be considered and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY'S NEOs AS DISCLOSED PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.**

Proposal 4: Approval of the Signet Jewelers Limited 2018 Omnibus Incentive Plan, Including the Authorization of the Issuance of Additional Shares Thereunder (Item 4 on the Proxy Card)

The Signet Jewelers Limited 2009 Omnibus Incentive Plan is set to expire in the upcoming year, and therefore Shareholders are being asked to approve the Signet Jewelers Limited 2018 Omnibus Incentive Plan (the “2018 Plan”), which was recommended by the Compensation Committee for approval and approved by the Board on March 1, 2018, subject to Shareholder approval.

## EXPLANATION

The following summary of certain features of the 2018 Plan is not a complete description of all of the provisions of the 2018 Plan, and is qualified in its entirety by reference to the full text of the 2018 Plan, which is attached hereto as Appendix A.

### Reservation of Shares

Subject to adjustments as described below, the maximum aggregate number of Common Shares that may be issued pursuant to awards granted under the 2018 Plan will be [3,575,000], and the maximum number of Common Shares available for granting incentive stock options under the 2018 Plan will be [3,575,000]. Any Common Shares delivered under the 2018 Plan will consist of authorized and unissued shares, or treasury shares. Common Shares available under Signet’s 2009 Omnibus Incentive Plan will not be available for future grants upon Shareholder approval of the 2018 Plan, and will not be transferred to the 2018 Plan.

The Compensation Committee and the Board of Directors considered a number of factors in approving the proposed number of authorized Common Shares under the Plan, including our historical burn rate, the number of Common Shares remaining available under the current plan for future awards, the number of issued and outstanding Common Shares already granted, and dilution resulting from the proposed increase in authorized Common Shares.

| Key Equity Metrics   | Fiscal 2018 | Fiscal 2017 | Fiscal 2016 | 3-Year Average |
|--|-------------|-------------|-------------|----------------|
| Common Shares subject to awards granted during year <sup>(1)</sup> | 0.9 million | 0.3 million | 0.2 million | 0.5 million    |
| Net burn rate during year <sup>(2)</sup>                           | 1.43%       | 0.40%       | 0.25%       | 0.69%          |
| Dilution at end of year <sup>(3)</sup>                             | 7.21%       | 6.44%       | 5.59%       | 6.41%          |

<sup>(1)</sup> Reflects total gross number of Common Shares subject to equity awards granted during the fiscal year, and does not reflect subsequent forfeitures or cancellations.

<sup>(2)</sup> Net burn rate is calculated by dividing the total number of Common Shares subject to equity awards granted during the fiscal year by the total weighted-average number of Common Shares issued and outstanding during the period, and does not reflect subsequent forfeitures or cancellations.

<sup>(3)</sup> Dilution is calculated by dividing the sum of (a) the number of Common Shares subject to equity awards outstanding at the end of the fiscal years, plus (b) the number of Common Shares available for future grants, by the fully diluted number of Common Shares issued and outstanding at the end of the fiscal year.

The Company expects dilution as of April 16, 2018 would be [7.05]% on a fully diluted basis, based on including the additional [3,575,000] million Common Shares that would be available for issuance under the 2018 Plan upon its approval by Shareholders and excluding the Common Shares available under the 2009 Omnibus Incentive Plan. The Compensation Committee feels the expected potential dilution that will result from the Common Share request is reasonable for a company of Signet’s size in its industry.

In the event of any corporate event or transaction involving the Company, a subsidiary and/or an affiliate, such as a merger, amalgamation, consolidation, reorganization, recapitalization, reclassification, separation, share dividend, extraordinary cash dividend, share split, reverse share split, split up, spin-off, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure, appropriate and equitable adjustments will be made to (i) the maximum number and kind of Common Shares, units or other securities or property available for grant under the 2018 Plan, (ii) the number and kind of Common Shares, units or other rights subject to then outstanding awards, (iii) the option price, grant price or purchase price for each share, unit or other rights subject to outstanding awards, (iv) other value determinations applicable to the 2018 Plan or outstanding awards and (v) other terms of the awards

that are affected by the event.

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### Share Replenishment

Any Common Shares delivered to the Company as part or full satisfaction of the purchase price of an option or stock appreciation right, or to satisfy the withholding obligation with respect to an option or stock appreciation right, will not be available for future awards under the 2018 Plan (such that, with respect to a stock appreciation right that is settled in Common Shares, the gross number of Common Shares pursuant to such award shall not be available for future awards). Any Common Shares delivered to the Company as part or full satisfaction of the purchase price of an award, other than an option or stock appreciation right, or to satisfy the withholding obligation with respect to an award, other than an option or stock appreciation right, will be available for future awards under the 2018 Plan. In the event that any outstanding award expires, is forfeited, canceled or otherwise terminated without the issuance of Common Shares or is otherwise settled for cash, the Common Shares retained by the Company will be available for future awards under the 2018 Plan. If the Plan Administrator (defined below) authorizes the assumption under the 2018 Plan, in connection with any merger, amalgamation, consolidation, acquisition of property or stock, or reorganization, of awards granted under another plan, such assumption will not reduce the maximum number of Common Shares available for issuance under the 2018 Plan. In the event that any outstanding award under the 2009 Signet Jewelers Limited Omnibus Incentive Plan expires, is forfeited, cancelled or otherwise terminated without the issuance of Common Shares or is otherwise settled for cash, the Common Shares retained by the Company will be available for future awards under the 2018 Plan.

### Administration

The 2018 Plan will be administered by the Compensation Committee or subcommittee thereof, such other committee of the Board or the Board as a whole (the "Plan Administrator"). Subject to the limitations set forth in the 2018 Plan, the Plan Administrator has the authority to, among other things, determine the persons to whom awards are to be granted, prescribe the restrictions, terms and conditions of all awards, interpret the 2018 Plan and terms of awards, adopt rules for the administration, interpretation and application of the 2018 Plan, make all determinations with respect to a participant's service and the termination of such service for purposes of any award, correct any defects or omissions or reconcile any ambiguities or inconsistencies in the 2018 Plan or any award, accelerate the vesting or exercisability of any award and adopt such procedures, modifications or subplans as are necessary. The Plan Administrator will have the right to delegate in writing to one or more officers of the Company or a subsidiary the authority to grant and determine the terms and conditions of awards, other than with respect to awards granted to any member of the Board or any eligible participant who is subject to Rule 16b-3 under the Exchange Act.

### Eligibility

Awards under the 2018 Plan may be granted to any employees, non-employee directors, consultants or other personal service providers of the Company or any of its subsidiaries. As of April 16, 2018, approximately 160 employees and 11 non-employee directors would be eligible to participate in the 2018 Plan.

### Minimum Vesting

The vesting period for all awards (or any portion of an award) granted under the 2018 Plan will be at least one year; provided that up to 5% of Common Shares that may be issued pursuant to awards granted under the 2018 Plan may be granted without regard to any minimum vesting period.

### Stock Options Awards

Options granted under the 2018 Plan may be issued as either incentive stock options, within the meaning of Section 422 of the Code, or as nonqualified stock options. The option price of an option will be not less than the fair market value of a Common Share on the date of the grant of the option, or such higher amount determined by the Plan Administrator. The Plan Administrator will determine the vesting and/or exercisability requirements and the term of exercise of each option, including the effect of termination of service of a participant or a change of control. The vesting requirements may be based on the continued employment or service of the participant for a specified time period or on the attainment of specified performance goals established by the Plan Administrator. The maximum term of an option will be ten years from the date of grant. Dividends shall not be paid with respect to Common Shares subject to an option and dividend equivalents may not be granted with respect to Common Shares subject to an option. To exercise an option, the participant must pay the aggregate option price in full, at the election of the participant (i) in cash or its equivalent or, (ii) to the extent permitted by the Plan Administrator, in Common Shares having a fair market value equal to the aggregate option price of the Common Shares being purchased and satisfying other

requirements that may be imposed by the Plan Administrator, (iii) partly in cash and, to the extent permitted by the Plan Administrator, partly in Common Shares (as described in (ii) above), (iv) to the extent permitted by the Plan Administrator, by reducing the

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number of Common Shares otherwise deliverable upon the exercise of the option, or (v) if there is a public market for the Common Shares and subject to requirements that may be imposed by the Plan Administrator, through the delivery of irrevocable instructions to a broker to sell Common Shares obtained upon the exercise of the option and to deliver to the Company an amount out of the proceeds equal to the aggregate option price for the Common Shares being purchased. The Plan Administrator may establish any other method of payment that it determines is consistent with applicable law and the purpose of the 2018 Plan. Without the prior approval of the Company's shareholders, the 2018 Plan prohibits the cancellation of underwater options in exchange for cash or another award (other than in connection with a change of control of the Company) or the "repricing" of options.

#### Stock Appreciation Rights

A stock appreciation right may be granted either in tandem with an option or without a related option. A stock appreciation right entitles the participant upon exercise to receive a payment equal to the excess of (a) the fair market value of a specified number of Common Shares on the date of exercise over (b) the grant price of the right. The grant price of the right will be determined by the Plan Administrator on the date of grant, but will not be less than the fair market value of a Common Share on the date of grant. This payment may be in cash, Common Shares, other property or any combination thereof, as determined by the Plan Administrator. The Plan Administrator will determine the vesting requirements and the term of exercise of each stock appreciation right, including the effect of termination of service of a participant or a change of control. The vesting requirements may be based on the continued employment or service of the participant for a specified time period or on the attainment of specified business performance goals established by the Plan Administrator. The maximum term of a stock appreciation right will be ten years. Without the prior approval of the Company's shareholders, the 2018 Plan prohibits the cancellation of underwater stock appreciation rights in exchange for cash or another award (other than in connection with a change of control of the Company) or the "repricing" of stock appreciation rights. Dividends shall not be paid with respect to a stock appreciation right and dividend equivalents may not be granted with respect to a stock appreciation right.

#### Restricted Share Awards

An award of restricted shares is a grant by the Plan Administrator of a specified number of Common Shares that may be forfeited if specified events occur. The Plan Administrator will establish in each award agreement the period(s) of restriction and the specified events that may result in forfeiture, including the participant's termination and the participant's failure to attain specified performance goals. The Plan Administrator will establish in each award agreement whether or not a restricted share holder will have the right to vote the Common Shares during the restriction period and the right to receive dividends during the restriction period. If a restricted share holder has the right to receive dividends, these dividends will be subject to the same vesting terms as the related restricted shares.

#### Restricted Share Units

Restricted Share Units ("RSUs") provide the participant the right to receive Common Shares or cash, or a combination thereof, at a specified date in the future. Any cash payment will be based on the fair market value of a Common Share on the payment date. RSUs may be subject to vesting requirements, restrictions and conditions to payment. Such requirements may be based on the continued service of the participant for a specified time period, the attainment of specified performance goals established by the Plan Administrator, and/or such other terms and conditions as approved by the Plan Administrator. An RSU award will become payable to a participant at the time or times determined by the Plan Administrator and set forth in the award agreement, which may be upon or following the vesting of the award. RSUs are payable in cash or in Common Shares or in a combination of both. Dividend equivalent rights may be granted with respect to Common Shares subject to RSUs; provided that any dividend equivalent rights that are granted will be subject to the same vesting terms that apply to the underlying RSUs. RSU holders will not have any rights as a shareholder with respect to Common Shares subject to RSUs until such times as Common Shares are delivered to the participant.

#### Other Share-Based Awards

Other share-based awards are awards of Common Shares and awards that are valued in whole or in part by reference to the fair market value of Common Shares, including phantom awards. The Plan Administrator will determine the form and conditions of other share-based awards, including the right to receive one or more Common Shares (or the equivalent cash value of such shares) upon completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Dividend or dividend equivalent rights may be granted with respect

to Common Shares subject to other share-based awards; provided that any dividend or dividend equivalent rights that are granted will be subject to the same vesting terms that apply to the underlying other-share based awards.

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#### Cash Awards

A cash award is denominated in a cash amount (rather than in Common Shares) and payment may be based on the attainment of specified levels of performance goals, continued service or such other conditions as determined by the Plan Administrator.

#### Change of Control

Upon the occurrence of a “change of control” (as defined in the 2018 Plan), unless otherwise specifically prohibited under applicable laws or by the applicable rules and regulations of any governing governmental agencies or national securities exchanges, or unless otherwise provided in the applicable award agreement, the Plan Administrator is authorized to make adjustments in the terms and conditions of outstanding awards, including without limitation the following: (i) continuation or assumption of such outstanding awards by the Company or by the surviving company or corporation or its parent; (ii) substitution by the surviving company or corporation or its parent of awards with substantially the same terms as such outstanding awards; (iii) accelerated exercisability, vesting and/or lapse of restrictions; and (iv) upon written notice, provide that any outstanding awards must be exercised, to the extent then exercisable, during a reasonable period of time immediately prior to the scheduled consummation of the event, or such other period as determined by the Plan Administrator (contingent upon the consummation of the event), and at the end of such period, such awards will terminate to the extent not so exercised within the relevant period; and (v) cancellation of all or any portion of outstanding awards for fair value, as determined in the sole discretion of the Plan Administrator and which may be zero.

#### Forfeiture Events

The Plan Administrator may specify in an award agreement that an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, including termination of service for “cause” (as defined in the 2018 Plan), violation of material Company policies or breach of noncompetition, nonsolicitation, confidentiality or other restrictive covenants that may apply to the participant.

Participants may be subject to the Company’s compensation recovery policy, “clawback” or similar policy, as may be in effect from time to time and/or any compensation recovery, “clawback” or similar policy made applicable by law including the Dodd-Frank Act.

#### Awards to Non-U.S. Employees or Directors

To comply with the laws in countries other than the United States in which the Company or any of its subsidiaries or affiliates operates or has employees or directors, the Plan Administrator, in its sole discretion, has the power and authority to (a) determine which subsidiaries or affiliates will be covered by the 2018 Plan; (b) determine which eligible persons outside the United States are eligible to participate in the 2018 Plan; (c) modify the terms and conditions of any award granted to eligible persons outside the United States to comply with applicable foreign laws, (d) take any action, before or after an award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals and (e) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable.

The Company will adopt an addendum to the 2018 Plan applicable to participants who are residents of Israel, which may include terms that vary from the terms described in this summary.

#### Duration, Amendment, Modification, Suspension and Termination

The term of the 2018 Plan is ten years from the date it is adopted by the Board. The Plan Administrator may amend, alter, suspend, discontinue or terminate the 2018 Plan or any portion thereof or any award thereunder at any time, provided that no such action will be made without the written consent of the participant if such action would materially diminish the rights of any participant under any award granted under the 2018 Plan. The Plan Administrator may seek the approval of any such action by the Company’s shareholders if approval is necessary to comply with any tax or regulatory requirement applicable to the 2018 Plan or such action requires shareholder approval under applicable stock exchange requirements. Notwithstanding the foregoing, the Plan Administrator may amend the 2018 Plan or any award thereunder without participant consent to the extent it deems necessary to comply with applicable laws.

#### U.S. Federal Income Tax Consequences Relating to the 2018 Plan

The following is a summary of certain material U.S. federal income tax consequences in effect today applicable to awards under the 2018 Plan. State, local and foreign tax treatment, which is not discussed below, may differ from



federal income tax treatment. This summary is general in nature, and it may not apply to a participant's particular situation.

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### Stock Options

**Non-Qualified Stock Options:** The grant of a nonqualified stock option will not result in federal income tax liability at the time of grant. The participant will recognize ordinary income in the year in which the stock option is exercised in an amount equal to the excess of (a) the fair market value of the Common Shares on the exercise date over (b) the exercise price paid for those Common Shares. A corresponding tax deduction is generally available to the Company. Upon a subsequent sale or exchange of the Common Shares, any gain or loss recognized in the sale or exchange is treated as a capital gain or loss (long-term or short-term depending on the applicable holding period) for which the Company is not entitled to a deduction.

**Incentive Stock Options:** Generally, the participant will not recognize any taxable income at the time the incentive stock option is granted or exercised. The participant will recognize income in the year in which the Common Shares purchased upon exercise of the incentive stock options are sold. With certain exceptions, a disposition of Common Shares purchased under an incentive stock option within two years from the date of grant or within one year after exercise results in ordinary income to the participant (and generally a corresponding tax deduction to the Company) equal to the value of the Common Shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which the Company is not entitled to a deduction. If the sale proceeds from such disposition are less than the fair market value of the Common Shares on the date of exercise, any ordinary income recognized is limited to the gain (if any) realized on the sale. If the participant does not dispose of the Common Shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Company is not entitled to a deduction.

### Share Appreciation Rights

The grant of a share appreciation right will not result in federal income tax liability at the time of grant. The participant will recognize ordinary income in the year in which the share appreciation right is exercised in an amount equal to the value received upon exercise. A corresponding tax deduction is generally available to the Company.

### Restricted Shares

Unless a participant makes a timely election under Section 83(b) of the Internal Revenue (as described below), a recipient will recognize ordinary income in an amount equal to the excess of the fair market value of the restricted shares on the date of vesting of the Common Shares over the purchase price, if any, paid for the Common Shares. Any further gain or loss from the subsequent sale of such Common Shares will constitute capital gain or loss (long-term or short-term depending on the applicable holding period). If the participant makes a timely election under Section 83(b) at the time of grant, then such recipient is taxed at ordinary income rates on the excess of the fair market value of the restricted shares on the date of grant over the purchase price, if any, paid for the Common Shares, and any further gain or loss on the subsequent sale of the Common Shares constitutes a capital gain or loss (long-term or short-term depending on the applicable holding period). The Company will generally be entitled to a tax deduction at the time the recipient recognizes ordinary income.

### Restricted Share Units

The grant of restricted share units will not result in federal income tax liability at the time of grant. The participant will recognize ordinary income in the year the restricted share units are settled by delivery of Common Shares equal to the fair market value of such shares. Upon a subsequent sale or exchange of the Common Shares, any gain or loss recognized in the sale or exchange is treated as a capital gain or loss (long-term or short-term depending on the applicable holding period) for which the Company is not entitled to a deduction.

### Dividend Equivalents

Participants will recognize ordinary income for the amount of any dividend equivalent paid to the participant.

### Share Awards

If the share award is fully vested at grant, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the Common Shares delivered to the participant over the purchase price (if any) paid for such shares. If the share award is not fully vested at grant please see the section titled "Restricted Shares" above. Upon a subsequent sale or exchange of the Common Shares, any gain or loss recognized in the sale or exchange is treated as a capital gain or loss (long-term or short-term depending on the applicable holding period) for which the Company is not entitled to a deduction.



Cash Awards

Participants will recognize ordinary income for the amount of the award when the cash award is paid to the participant.

All grants made under the 2018 Plan are designed and intended to either be exempt from or comply with Section 409A of the Internal Revenue Code. If an award is treated as “nonqualified deferred compensation” and the award does not comply with or is not exempt from Section 409A of the Internal Revenue Code, Section 409A may impose additional taxes, interest and penalties on the participant.

New Plan Benefits

The number of awards that will be received by or allocated to employees, non-employee directors, consultants or other personal service providers under the 2018 Plan is discretionary and undeterminable at this time. Information regarding recent practices with respect to annual incentive awards and share-based compensation under existing plans is presented in “Executive Compensation” below.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THIS PROPOSAL.

Proposal 5: Approval of the Signet Jewelers Limited Sharesave Scheme, Including the Authorization of the Issuance of Additional Shares Thereunder (Item 5 on the Proxy Card)

The existing Signet Jewelers Limited Sharesave Scheme is set to expire in the upcoming year, and therefore Shareholders are being asked to approve a new Sharesave Scheme (the “UK Scheme”), which was recommended by the Compensation Committee for approval and approved by the Board on March 1, 2018, subject to Shareholder approval.

EXPLANATION

Reservation of Shares

The following summary of the UK Scheme is qualified in its entirety by reference to the full text of the UK Scheme which is set forth in Appendix B. Capitalized terms used in this Proposal 5 which are not otherwise defined are defined in the UK Scheme.

The maximum aggregate number of Common Shares that may be purchased under the UK Scheme (including any “sub-plan”) is [1,000,000]. This represents less than [2]% of the total number of the Company’s Common Shares issued and outstanding and less than [2]% of the voting power of the Common Shares as of April 16, 2018. In establishing the number of Common Shares that may be purchased under the UK Scheme, the Board of Directors considered the potential dilutive impact to shareholders, the projected participation rate over the term of the UK Scheme and equity plan guidelines established by certain proxy advisory firms.

Description of the UK Scheme

The purpose of the UK Scheme is to provide employees of the Company (and any of its nominated subsidiaries) (each of the Company and any such subsidiaries, a “Constituent Company”) with an opportunity to purchase Common Shares of the Company using accumulated savings from payroll deductions. The UK Scheme provides for the grant of Options, and is conditioned upon the employee’s entry into a linked savings arrangement pursuant to which a specified amount is deducted from the employee’s monthly earnings via payroll as savings for the Exercise Price. At the end of the relevant savings period, the employee’s savings may be used to exercise the Option and acquire the relevant number of shares underlying such Option. The UK Scheme thus aims to attract, retain and incentivize employees, offering them a direct interest in the Company’s success. The UK Scheme is intended to meet the requirements of Schedule 3 of the UK Income Tax (Earnings and Pensions) Act 2003 (“Schedule 3”).

Pursuant to the rules of the UK Scheme, Irish-resident employees are able to participate in a “sub-plan,” the rules of which are substantially similar to those of the UK Scheme.

A total of 811 employees in the UK, and 10 employees in Ireland, currently participate in similar schemes operated by the Company or one or more of its subsidiaries.

Eligibility

The UK Scheme is a type of “all-employee” scheme, meaning that, to satisfy the requirements of Schedule 3, all eligible UK-resident employees and full-time directors must be invited to participate. The UK Scheme rules broadly define an “Eligible Employee” as:

- any employee of a Constituent Company; or
- any director of a Constituent Company who works more than 25 hours per week and who, in either case, satisfies the minimum qualifying service requirement (which may not exceed five years), as notified by the Board.

As of April 16, 2018, approximately 3,640 employees of Constituent Companies, including four directors of Constituent Companies, would be eligible to participate in the UK Scheme.

#### Administration

If the Board announces an intention to issue invitations to participate in the UK Scheme, invitations must be issued to all Eligible Employees. Eligible Employees may then apply for the grant of an Option and the entry into a linked savings arrangement for a term of either three or five years.

Eligible Employees must confirm the relevant monthly savings contribution to be deducted via payroll, the minimum amount of which must be between £5 and £10 (or such other minimum amount specified by Her Majesty's Revenue & Customs ("HMRC")). HMRC also imposes a limit on the maximum monthly savings contribution to be made by any employee, which is currently set at £500.

Any application from an Eligible Employee is deemed to be for the grant of an Option over the maximum whole number of Company shares that may be acquired at the Exercise Price set out in the invitation out of the expected repayment from the savings arrangements. Although the Board has discretion to determine the Exercise Price, it may not be less than the higher of (i) 80% of the Market Value of the Company shares and (ii) in the case of any Option to be satisfied by the issue of new Company shares, the nominal value of such shares. At the end of the relevant savings period, participants may (subject to the other terms of the UK Scheme) withdraw their savings and apply them to the exercise of their Options. In the event that applications from Eligible Employees would result in the number of Company shares under Option exceeding any specified limit, the UK Scheme includes a procedure for "scaling down" such applications.

Savings arrangements entered into as of a certain date may be eligible for a tax-free "bonus," which is set with reference to the time at which the savings arrangement is entered into. At present, the HMRC bonus rate is zero.

Options may not be granted more than ten years after the date of the UK Scheme's approval by shareholders. They are personal to the Eligible Employees to whom they are granted and are not generally transferable or exercisable by anyone other than the Eligible Employee during the Eligible Employee's lifetime.

#### Exercise of Options

Options may not generally be exercised before the relevant Bonus Date, which is broadly a period of three or five years (as applicable) following the commencement of the savings arrangements. Options must generally be exercised, in whole or in part, within six months of the Bonus Date and, if not so exercised, will lapse immediately.

In accordance with the UK Scheme rules, early exercise of Options may be permitted in certain circumstances, including the death of the participant prior to the Bonus Date, the termination of the participant's employment as the result of injury or disability, redundancy, retirement or a transfer of the relevant employer company or relevant part of the business to a person outside the Company or upon the happening of certain corporate events (including a change of control following a general offer to acquire the Company).

Any exercise of Options must be funded exclusively through the linked savings arrangement.

#### Lapse of Options

Generally, but subject to certain exceptions set out in the UK Scheme rules, Options will lapse on the earliest of:

• the expiration of six months after the Bonus Date;

• the participant ceasing to be employed by any member, unless such termination is the result of injury or disability, redundancy, retirement or a transfer of the relevant employer company or relevant part of the business to a person outside the Company, or in circumstances where the Option was granted to the participant more than three years prior to such termination, in which case the participant will generally be entitled to exercise his or her Option for a period of six months following the termination;

• the expiration of twelve months following the participant's death, if he or she dies before the Bonus Date, or the

• expiration of twelve months following the Bonus Date, if the participant dies during the period of six months after the Bonus Date;

• the date of any resolution or court order for the compulsory winding-up of the Company;

• the date on which the participant becomes bankrupt;

• the date on which the participant gives, or is deemed to give, notice that he or she intends to discontinue the monthly savings contributions or the date on which an application is made for the repayment of the aggregate monthly savings contributions; and

• the date on which the participant purports to transfer his or her Option.



The UK Scheme rules also make specific provision for the exercise (see above - Exercise of Options), lapse and, in some cases, exchange of Options upon the happening of certain corporate events (including a change of control following a general offer to acquire the Company).

#### UK Tax Consequences for Participants

The following is a summary of the general UK tax treatment which would be expected to apply in relation to Options granted to UK Scheme participants who are solely resident in the UK for UK tax purposes, and assuming that the UK Scheme satisfies, and continues to satisfy, the relevant Schedule 3 criteria for SAYE (Sharesave) option schemes. The following comments are based on UK laws currently in effect, which remain subject to change.

The grant of an Option should not give rise to any UK tax liability. The exercise of an Option should also not give rise to any UK income tax liability if the date of exercise is at least three years after the grant date. This treatment should also apply where a participant exercises his or her Option within three years of the grant date as a result of death or termination of employment due to injury or disability, redundancy, retirement, TUPE transfer or the participant's employer company ceasing to be associated with the Company. In the case of certain corporate events, the exercise of Options within three years after the grant date may also be exempt from UK income tax provided the exercise is in accordance with the specific requirements of the applicable legislation (namely, Schedule 3).

If a liability to UK income tax should arise, the participant would be liable to pay tax on the difference between the market value of the Company shares acquired (pursuant to the exercise of the Option) and the Exercise Price.

On any subsequent sale of the underlying Company shares, UK capital gains tax may be payable on the difference between the sale price received by the participant and the Exercise Price.

#### Irish Tax Consequences for Participants

The following is a summary of the general Irish tax treatment which would be expected to apply in relation to Options granted to UK Scheme participants who are solely resident in Ireland for Irish tax purposes. The following comments are based on Irish laws currently in effect, which remain subject to change.

Provided that the Options are not capable of being exercised after the expiration of seven years from the date of grant, the grant of an Option should not give rise to any Irish tax liability. Irish income tax will arise on the exercise, assignment or release of the Options. In the case of exercise, income tax is chargeable on the difference (the "spread") between the Exercise Price (plus the price, if any, paid for grant of the Option) and the market value of the shares at the date of exercise of the option.

The "spread" is treated as a benefit which is part of the employee's employment income taxable under Schedule E of the Irish income tax code. The current income tax rates are the standard rate of 20% and a higher rate of 40% (the marginal rate). Tax on the "spread" will be charged at the marginal rate unless the individual UK Scheme participant applies in writing to the Revenue Commissioners to be taxed at the standard rate of 20%, and the Revenue Commissioners are satisfied that the individual is likely to be chargeable at the standard rate only for the year of assessment. PRSI (currently at 4%) and USC (up to 8%) will also apply.

Income tax is payable within 30 days of the exercise of the right to acquire shares and is outside the PAYE collection system. Accordingly, it is the responsibility of each UK Scheme participant to make the relevant payment of tax and file a return (Form RTS01) containing details of the amount of the gain (i.e. the spread between the Option Price and the market value of the shares at the date of exercise of the Options). If tax is not paid by the due date, interest at a rate of 0.0219% per day or part of a day is payable from the date payment is due until payment is made.

On any subsequent sale of the underlying Common Shares, Irish capital gains tax (currently at 33%) may be payable on the difference between the sale price received by the participant and the Exercise Price.

#### New Plan Benefits

Benefits and purchases of the Common Shares under the UK Scheme depends on choices made by employees and the fair market value of the Common Shares on dates in the future. As a result, it is not possible to determine with any certainty the benefits that will be received by eligible executive officers and other employees in the future under the UK Scheme.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THIS PROPOSAL.**





Proposal 6: Approval of the Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees, Including the Authorization of the Issuance of Additional Shares Thereunder (Item 6 on the Proxy Card)

The existing Signet Jewelers Limited U.S. Employee Stock Savings Plan is set to expire in the upcoming year, and therefore Shareholders are being asked to approve the Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees (the “ESPP”), which was recommended by the Compensation Committee for approval and approved by the Board on March 1, 2018, subject to Shareholder approval.

## EXPLANATION

The ESPP enables eligible employees of the Company and certain of its subsidiaries to use payroll deductions to purchase Common Shares and thereby acquire an ownership interest in the Company. The ESPP is intended to qualify as an “employee stock purchase plan” meeting the requirements of Section 423 of the United States Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”).

The following summary of the ESPP is qualified in its entirety by reference to the full text of the ESPP which is set forth in Appendix C.

### Reservation of Shares

The maximum aggregate number of Common Shares that may be purchased under the ESPP is [1,250,000]. This represents approximately [2]% of the total number of the Company’s Common Shares issued and outstanding and approximately [2]% of the voting power of the Common Shares as of April 16, 2018. In establishing the number of Common Shares that may be purchased under the ESPP, the Board of Directors considered the potential dilutive impact to shareholders, the projected participation rate over the term of the ESPP and equity plan guidelines established by certain proxy advisory firms.

### Administration

The ESPP is administered by the Compensation Committee or subcommittee thereof, such other committee of the Board of Directors or the Board of Directors as a whole, in each case as determined by the Board of Directors (the “Committee”). The Committee has the authority to construe and interpret the ESPP; to prescribe, amend and rescind rules relating to the ESPPs’ administration; and to take any other actions necessary or desirable for the administration of the ESPP including, without limitation, delegating authority to a third party stock plan administrator for administrative purposes or adopting sub-plans applicable to particular subsidiaries or locations, which sub-plans may be designed to be outside the scope of Section 423 of the Internal Revenue Code. The Committee may correct any defect or supply any omission or reconcile any inconsistency or ambiguity in the ESPP. The decisions of the Committee are final and binding.

### Shares Subject to the ESPP

In the event of any corporate event or transaction involving the Company, a subsidiary and/or an affiliate such as a merger, amalgamation, consolidation, reorganization, recapitalization, reclassification, separation, share dividend, extraordinary dividend, share split, reverse share split, split up, spin-off, combination of Common Shares, exchange of Common Shares, dividend in kind, or other like change in capital structure (other than normal cash dividends to shareholders of the Company), in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the ESPP, the Committee will adjust, in a manner it considers appropriate or equitable, the number and kind of shares that may be granted or delivered under the ESPP, the purchase price per share, the number of Common Shares covered by each outstanding option under the ESPP and other share-related calculations.

### Eligibility

Participation in the ESPP is limited to employees of the Company and any of its participating subsidiaries who have been continuously employed by the Company or a participating subsidiary for at least six (6) months as of September 1st prior to the beginning of an offering period. The Committee has the discretion to exclude highly compensated employees (within the meaning of Section 414(q) of the Internal Revenue Code) from participation in the ESPP. Under the ESPP, participating subsidiaries include any subsidiary (within the meaning of Section 424(f) of the Internal Revenue Code) of the Company that has been designated by the Committee as eligible to participate in the ESPP.



As of April 16, 2018, approximately 29,190 employees would be eligible to participate in the ESPP, including approximately eight executive officers.

#### Offering Periods

The ESPP allows eligible employees to purchase Common Shares for twelve-month offering periods, commencing on the first business day of the second payroll period in the month of October of each year. The Committee may change the commencement date, the ending date and the duration of the offering periods (subject to a maximum offering period of 27 months). If the ESPP is not approved by shareholders at the Annual Meeting, the ESPP will be terminated and any accumulated payroll deductions (if any) will be returned to the applicable participants, and no shares will be sold under the ESPP.

#### Method of Participation

Common Shares will be purchased under the ESPP on the last trading day of each offering period (a “purchase date”) using accumulated payroll deductions, unless the Committee provides otherwise with respect to the employees of a participating subsidiary in a manner consistent with Section 423 of the Internal Revenue Code. In order to participate in the ESPP, an eligible employee must complete and submit to the Company an enrollment election including a payroll deduction authorization in accordance with procedures prescribed by the Committee. Participation in the ESPP is entirely voluntary.

Participation will be effective as of the first day of an offering period. Participants may elect payroll deductions in an amount equal to at least \$10.00, but not more than \$913.46 of the participant’s total eligible compensation per payroll period within an offering period, up to a maximum of \$23,750 per offering period. Eligible compensation includes base salary, wages, overtime and cash incentive compensation. During an offering period, a participant may not change the rate of his or her payroll deductions applicable to that offering period. A participant may decrease (including canceling) or increase his or her rate of payroll deductions for future offering periods by submitting a new enrollment election authorizing the new rate of payroll deductions during the next enrollment period. The deduction rate selected by the participant will remain in effect for subsequent offering periods unless the participant submits a new enrollment election, withdraws from the ESPP or terminates employment or otherwise becomes ineligible to participate in the ESPP.

#### Grant and Exercise of Option to Purchase

On the first trading day of each offering period, each participant in that offering period will be granted an option to purchase, on the purchase date, a number of Common Shares determined by dividing the participant’s accumulated payroll deductions by the applicable purchase price.

The number of Common Shares which a participant may purchase may be reduced if the offering is over-subscribed or if the total number of Common Shares purchased by all participants in such offering would exceed the total number of Common Shares remaining available under the ESPP. If the Committee determines that, on a particular purchase date, the number of Common Shares with respect to which options are to be exercised exceeds the number of Common Shares then available under the ESPP, the Company shall make a pro rata allocation of the Common Shares remaining available for purchase in as uniform a manner as practicable and as the Committee determines to be equitable.

In addition, no participant will be granted an option under the ESPP if (i) immediately after the grant of the option, such employee (or any other person whose shares would be attributed to such employee pursuant to Section 424(d) of the Internal Revenue Code) would own shares of the Company and/or hold outstanding options to purchase shares, in the aggregate, possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or any subsidiary or (ii) such option would permit his or her rights to purchase shares under all employee share purchase plans (as described in Section 423 of the Internal Revenue Code) of the Company and its subsidiaries to accrue at a rate that exceeds \$25,000 of the fair market value of such shares (determined at the time the option is granted) for each calendar year in which such option is outstanding at any time.

#### Purchase Price

The purchase price per share of the Common Shares applicable to purchases during each offering period under the ESPP will be ninety-five percent (95%) of the fair market value per share on the purchase date, provided that in no event shall it be less than par value.

#### Withdrawal

A participant may withdraw from any offering by submitting to the Company a revised enrollment election indicating his or her election to withdraw at least 14 days before the end of the offering period. Accumulated payroll deductions held on behalf of the withdrawing participant that have not been used to purchase Common Shares shall be paid to the participant promptly following receipt of the enrollment election indicating his or her election to withdraw and the participant's option shall be

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automatically terminated. If a participant withdraws from an offering period, no payroll deductions will be made during any succeeding offering period, unless the participant re-enrolls.

#### Termination of Eligibility

Upon the termination of a participant's employment with the Company or a subsidiary, or in the event the participant otherwise ceases to qualify as an eligible employee, the participant will be deemed to have withdrawn from the ESPP and any accumulated payroll deductions that have not been used to purchase Common Shares shall be returned to the participant and the participant's option shall be automatically terminated.

#### Shareholder Rights

No participant will have any shareholder rights with respect to the Common Shares covered by his or her option until the shares purchased on the participant's behalf are actually transferred to the participant's account.

#### Transferability

Payroll deductions credited to a participant, rights with respect to the exercise of an option, or any rights to receive Common Shares under the ESPP may not be assigned, transferred, pledged or otherwise disposed of in any way by the participant, other than by will, the laws of descent and distribution and in accordance with a designation of a beneficiary provided by the participant prior to the participant's death.

#### Amendment and Termination of the ESPP

The Committee may, in its sole discretion, amend, suspend or terminate the ESPP at any time and for any reason. If the ESPP is terminated, the Committee may elect to terminate all outstanding offering periods either immediately or once Common Shares have been purchased on the next purchase date (which may, in the discretion of the Committee, be accelerated). If the ESPP is terminated, immediately following the termination of the offering period or the final purchase date, as applicable, all amounts that have not been used to purchase Common Shares will be returned to participants.

#### Effective Date

The ESPP became effective upon adoption by the Board of Directors on March 1, 2018, subject to shareholder approval at the first annual meeting following adoption by the Board.

#### Change of Control

In the event of a "change of control" as defined in the ESPP, the Committee shall have the power and discretion to (i) continue the offering period in effect on the date of such change of control, (ii) shorten the offering period then in progress by setting a new purchase date which shall be before the date of the Company's proposed change of control, (iii) substitute Common Shares available under the ESPP with common stock of the surviving company or its parent, or (iv) terminate the ESPP and return any payroll deductions that have not been used to purchase Common Shares to the participants.

#### U.S. Federal Income Tax Consequences Relating to the ESPP

The following is a summary of certain material U.S. federal income tax consequences in effect today associated with the grant and exercise of purchase rights under the ESPP under current federal tax laws and certain other tax considerations associated with purchase rights under the ESPP. The summary does not address tax rates or non-U.S., state or local tax consequences, nor does it address employment tax or other federal tax consequences except as noted. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. In general, an employee will not recognize U.S. taxable income until the sale or other disposition of Common Shares purchased under the ESPP (the "ESPP Shares"). Upon such sale or disposition, the employee will generally be subject to tax in an amount that depends on the employee's holding period with respect to the ESPP Shares.

If the ESPP Shares are sold or disposed of more than one year from the date of purchase and more than two years after the first day of the offering period in which they were purchased, or upon the employee's death while owning the ESPP Shares, the employee will recognize ordinary income in an amount generally equal to the lesser of: (i) an amount equal to the excess of the fair market value of the ESPP Shares on the first day of the offering period over the purchase price, and (ii) the excess of the sale price of the ESPP Shares over the purchase price. Any additional gain will be treated as long-term capital gain. If the ESPP Shares held for the periods described above are sold and the sale price is less than the purchase price, then the employee will recognize a long-term capital loss in an amount equal to the excess of the purchase price over the sale price of the ESPP Shares.



If the ESPP Shares are sold or otherwise disposed of before the expiration of the holding periods described above, other than following the employee's death while owning the ESPP Shares, the employee generally will recognize as ordinary income an amount equal to the excess of the fair market value of the ESPP Shares on the date the ESPP Shares were purchased over the sale price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the employee's holding period with respect to the ESPP Shares. The Company is not entitled to a U.S. corporate income tax deduction for amounts taxed as ordinary income or capital gain to an employee except to the extent of ordinary income recognized upon a sale or disposition of ESPP Shares prior to the expiration of the holding periods described above.

**New Plan Benefits**

Benefits and purchases of the Common Shares under the ESPP depends on elections made by employees and the fair market value of the Common Shares on dates in the future. As a result, it is not possible to determine the benefits that will be received by eligible executive officers and other employees in the future under the ESPP.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THIS PROPOSAL.



## Equity Compensation Plan Information

The following table sets forth certain information, as of February 3, 2018, concerning Common Shares authorized for issuance under all of the Company's equity compensation plans.

| Plan category  | Equity Compensation Plan Information  |   |  |
|--|---|---|--|
|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup><br>(a) | Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup><br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
| Equity compensation plans approved by security holders     | 983,962   | \$ 18.35  | 3,672,968  |
| Equity compensation plans not approved by security holders | —   | \$ —  | —  |
| Total  | 983,962   | \$ 18.35  | 3,672,968  |

<sup>(1)</sup> Shares indicated include vesting of all future performance conditions being achieved at maximum levels.

<sup>(2)</sup> Calculated at an exchange rate of £1:\$1.41.

## Board of Directors and Corporate Governance

### Role of the Board

The Board's prime objective is the sustainable enhancement of business performance and Shareholder value. It is responsible for determining all major policies, ensuring that effective strategies and management are in place, assessing Signet's performance and that of its senior management, reviewing the systems of internal control and providing oversight of policies relating to corporate social responsibility and other matters.

### SEPARATE AND INDEPENDENT CHAIRMAN

The Company has a Chairman of the Board who is separate from its CEO and whom the Board has determined to be independent under NYSE Listing Standards. The Board considers it to be important for its effectiveness and efficiency to maintain a clear division of responsibilities between the leadership of the Board and the executive responsible for the day-to-day operations of the Company's business; therefore the Board has determined that separating the roles of Chairman and CEO is in the best interests of the Company and its Shareholders at the present time.

The division of responsibilities between the Chairman and the CEO has been specifically determined by the Board.

### CHAIRMAN

In summary, the Chairman is responsible for:

- effective running of the Board, including working with the Nomination and Corporate Governance Committee to evaluate the performance of the Board, its committees and individual Directors, and the Board's compliance with corporate governance requirements and best practices;

- consulting with and advising executive management about planned presentations to the Board, involving but not limited to, topics of longer term strategy, medium-term plans, annual budgeting or, at his discretion, any other significant matters;

- consulting with and advising the CEO on contemplated executive management personnel selections, organizational alignment and responsibilities, and compensation recommendations;

- keeping the other independent Directors appropriately informed of developments within the business and Shareholders' attitudes toward the Company; and

- safeguarding Signet's reputation, and representing it both internally and externally.

### CHIEF EXECUTIVE OFFICER

In summary, the CEO is responsible for:

- providing the executive leadership of the business;

- developing and presenting to the Board strategy, medium-term plans and annual budgets, and within this framework, the performance of the business;

- complying with legal and corporate governance requirements, together with the social, ethical and environmental principles of Signet; and

- making recommendations on the appointment and compensation of senior executive officers, and management development and succession planning.

### EXECUTIVE SESSIONS OF INDEPENDENT DIRECTORS

Independent Directors meet regularly in executive session without management participation. The Chairman presides at those meetings. In addition, at least once each year, the independent Directors, excluding the Chairman, meet separately in executive session to consider the Chairman's performance. The Chairman of the Nomination and Corporate Governance Committee presides at those meetings.

### INDEPENDENT DIRECTORS CONSTITUTE A MAJORITY OF THE BOARD

The Board currently comprises one executive Director and eleven independent Directors including the Chairman. The Board has affirmatively determined that each of the following Directors is "independent" under NYSE Listing Standards: H. Todd Stitzer, R. Mark Graf, Helen McCluskey, Sharon L. McCollam, Marianne Miller Parrs, Thomas Plaskett, Nancy A. Reardon, Jonathan Sokoloff, Brian Tilzer, Eugenia Ulasewicz and Russell Walls. Mr. Walls has not been nominated for re-election as a Director at this Annual Meeting consistent with the Director Tenure Policy. In determining "independence" the Board considers any commercial, consulting, legal,



accounting, charitable or any other business or non-business relationships that a Director or his or her immediate family may have with the Company. No such relationship exists for any of the independent Directors.

#### **BOARD DIVERSITY POLICY**

The Board Diversity Policy provides that in reviewing and assessing Board composition, the Nomination and Corporate Governance Committee will consider diversity of skills, industrial experience, background, ethnicity, gender and other qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board. The Nomination and Corporate Governance Committee will monitor and review the Board Diversity Policy and its effectiveness on an annual basis and report to the Board with respect to any proposed amendments. The Board Diversity Policy is available on request from the Chief Governance Officer & Corporate Secretary and may be downloaded from [www.signetjewelers.com](http://www.signetjewelers.com).

#### **DIRECTOR TENURE POLICY**

The Board adopted a Director Tenure Policy, pursuant to which each independent Director must not stand for re-election to the Board at the next Annual Meeting of Shareholders following the earlier of his or her: (i) fifteenth anniversary of service on the Board, or (ii) seventy-fifth birthday, unless the Board in its absolute discretion determines that it is in the best interests of the Company and its Shareholders to nominate the Director for election to serve for an additional period of time. The Director Tenure Policy is available on request from the Chief Governance Officer & Corporate Secretary and may be downloaded from [www.signetjewelers.com](http://www.signetjewelers.com).

#### **BOARD EVALUATION**

The Corporate Governance Guidelines provide that the Directors will conduct an annual evaluation of the workings and efficiency of the Board, its committees and individual Directors to ensure that each Director continues to contribute effectively and demonstrates commitment to his or her responsibilities as a Director, and to help assess the future development needs of the Board and the Directors. As part of the annual Board evaluation, the Chairman of the Board will consider the balance of skills, experience, independence and knowledge of the Board, while ensuring diverse representation as described in the Board Diversity Policy. In Fiscal 2018, the Board engaged an independent third-party governance expert as part of its annual Board evaluation process. The independent third party interviewed each Director and then summarized and presented to the Board the feedback from these interviews. This review helped shape the focus of the Board's work for Fiscal 2019 and beyond.

#### **DIRECTOR ATTENDANCE AT THE ANNUAL MEETING OF SHAREHOLDERS**

All Directors are required to attend the Annual Meeting of Shareholders. The Board schedules a Board meeting on the date of the Annual Meeting of Shareholders to facilitate attendance at the Annual Meeting of Shareholders by Directors. All Directors who were in office at the time attended the Annual Meeting of Shareholders held in June 2017.

#### **MEETINGS AND ATTENDANCE DURING FISCAL 2018**

In Fiscal 2018, the Board met seventeen times (including meetings by telephone). All incumbent Directors attended at least 75% of the aggregate number of meetings of the Board and those Board committees on which they served during their period of service in Fiscal 2018.

#### **COMMUNICATION WITH DIRECTORS**

The Board welcomes feedback from Shareholders and other interested parties. Any Shareholder or member of the public who wishes to send communications to the Board, the Chairman or any other individual Director may do so in writing, addressed to Mark Jenkins, Chief Governance Officer & Corporate Secretary, c/o Signet Group Services Limited, Imperial Place 3, Maxwell Road, Borehamwood, Hertfordshire, WD6 1JN, United Kingdom. All such communications will be reviewed promptly by the Chief Governance Officer & Corporate Secretary and, where considered appropriate, sent to the Director(s) or Committee Chair with a copy to the Chairman.

#### **TRANSACTIONS WITH RELATED PERSONS**

The Board has adopted written policies and procedures for the review, approval or ratification of transactions in which the Company participates and in which any Director, executive officer, Director nominee, five percent beneficial owner of the Company's voting securities, or immediate family member of such officer, Director, Director nominee or security holder (each, a "Related Person"), has a direct or indirect material interest. In determining whether to approve or ratify any such transaction, the Board, on the recommendation of the Nomination and Corporate Governance Committee and/or the Audit Committee (depending on the nature of the transaction), would consider whether, based

on the specific facts and circumstances of the transaction, such a transaction would be in the best interests of the Company. Any transaction considered to jeopardize the independence of a Director, be contrary to law or regulation, or potentially create or give the appearance of a conflict of interest (also required to be avoided pursuant to the Code of Ethics for Senior Officers and the Code of Conduct) would be prohibited.

Since the beginning of Fiscal 2018, the Company has not participated in any transaction or currently proposed transaction in which a Related Person had or will have a direct or indirect material interest.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (“CSR”) is a core component of Signet’s culture and focuses on four strategic pillars where the Company believes it can have the most impact: People, Responsible Sourcing, Environmental Stewardship and Charitable Giving. Signet’s efforts around CSR are about doing the right thing for all of the Company’s stakeholders—Customers, Team Members, Shareholders, Governments, Civil Society, Suppliers and the Communities in which it does business. These efforts are a part of Signet’s Core Values and the Company strives to put these Values into action because all its stakeholders increasingly expect Signet to support that all Team Members are engaged and motivated, ensure the integrity of its supply chain, minimize its environmental impact, and make a positive and visible impact as a good corporate citizen.

The Company lives its mission every day through the jewelry it sells as it helps customers Celebrate Life and Express Love® and firmly believes that CSR makes the business stronger and more sustainable over the long-term. To emphasize the importance of CSR, Signet has included highlights of its CSR achievements in its Annual Report on Form 10-K. More details can also be found in Signet’s 2017 CSR Report, available at [link].

## RISK MANAGEMENT AND ROLE OF THE BOARD IN RISK OVERSIGHT

The identification of major business risks is carried out in conjunction with operational management and appropriate steps are taken to monitor and mitigate risks. The Chief Legal & Transformation Officer (“CLTO”) coordinates the collection of risk management information and is responsible for assessing the Company’s day-to-day risk management processes and internal control structure, ensuring such processes satisfy the applicable standards at both business function and corporate levels. The findings are reported to the Audit Committee.

The Risk Committee, which is chaired by the CLTO, has a written charter approved by the Board; its members include the CEO, Chief Financial Officer, President & Chief Customer Officer, Chief Human Resources Officer, Chief Information Officer, Chief Communications Officer, Chief Digital Innovation Advisor, General Counsel & Executive Vice President Compliance, Risk & Loss Prevention, UK Executive Director, UK Finance Director, Senior Director Enterprise Risk Management & SOX, Manager Enterprise Risk Management & SOX, and UK Manager of Internal Audit & SOX.

The Risk Committee meets at least two times a year and reviews Signet’s risk management processes, consolidated principal risks identified by the Company, and emerging issues and new regulations. The CLTO and Chair of the Audit Committee meet periodically to discuss key matters arising from Signet’s risk management process and as appropriate, the Risk Committee submits reports to the Board. The Risk Committee has a written charter and requires participation by executive management teams. A U.K. sub-committee has also been established, chaired by the President & Chief Customer Officer. The Senior Director Enterprise Risk Management & SOX attends all sub-committee meetings to provide a consistent approach and additional review.

In its role in providing oversight of risk management, the Board annually agrees on the prioritized risks impacting the Company and the Board’s associated responsibilities, and reviews them on a quarterly basis; periodically invites business heads to present to the Board their prioritized risks impacting the Company and strategies for risk mitigation; and reviews Signet’s internal controls and risk governance framework and developments thereof. In addition, on a periodic basis, the Board reviews risk and internal audit updates provided by the Chair of the Audit Committee, and on a quarterly basis, it reviews and discusses reports provided by the CLTO on functional risk management activity.

## COMPENSATION POLICIES AND RISK TAKING

The Compensation Committee has evaluated the Company’s policies and practices of compensating its employees and has determined that they are not reasonably likely to have a material adverse effect on the Company. The Compensation Committee has reached this conclusion based in part on a review conducted by its independent consultant that analyzed the Company’s compensation policies and practices for all employees, including executive officers. The Compensation Committee noted several aspects of the compensation programs that reduce the likelihood of excessive risk-taking:

- Compensation for the executive officers is a mix of fixed and variable awards, with share-based compensation that vests in accordance with both time- and performance-based criteria;
- The executive officer annual incentive program is predominantly based on operating income, held at constant currency, which the Committee believes is closely tied to the creation of long-term shareholder value. Performance targets for executive officers, which are reviewed and approved by the Compensation Committee, are set in advance

and above-target payouts are reviewed to ensure a reasonable sharing of value created between management and Shareholders. Financial performance is audited by the Company's external auditors before amounts are paid out under the annual incentive program;

Equity compensation is a combination of annually granted time-based restricted shares that generally vest ratably over three years and performance-based restricted share units that vest over three-year overlapping vesting periods. This approach addresses longer "tail" risks as participants remain exposed to the risks associated with their decisions through their ongoing unvested awards;

Long-term incentives are awarded in the form of whole share awards (instead of options), driving long-term share value creation, rather than rewarding share price volatility;

The CEO and other executive officers, including all NEOs, are subject to share ownership requirements;

The Company prohibits hedging of, and speculation in, Company shares by employees and Directors;

The Company has a clawback policy that applies to all employees who receive incentive awards and to all short- and long-term incentives. Certain repayment obligations may be triggered if there is a material restatement of the financial statements. Similarly, in the interest of fairness, should a restatement result in an under payment of incentive compensation, the Company will make up any difference; and

The Compensation Committee is comprised entirely of independent Directors and has engaged an independent consultant to review the risks associated with its compensation programs; it reviews the payouts under the annual incentive program, and it regularly benchmarks executive compensation against a carefully constructed and regularly reviewed peer group.

#### CORPORATE GOVERNANCE GUIDELINES AND CODE OF CONDUCT AND ETHICS

The Company has adopted corporate governance guidelines that address a number of corporate governance matters in accordance with NYSE listing rules. These guidelines may be downloaded from [www.signetjewelers.com/guidelines](http://www.signetjewelers.com/guidelines).

The Company strives to: act in accordance with the laws and customs of each country in which it operates; adopt proper standards of business practice and procedure; operate with integrity; and observe and respect the culture of each country in which it operates. To that end, the Company has adopted a statement of social, ethical and environmental principles and supporting policies applicable to all officers and employees. In addition, the Company has a policy on business integrity, as well as more detailed guidance and regulations as part of its staff orientation, training and operational procedures. These policies include the Code of Conduct, which is applicable to all Directors, officers and employees as required by NYSE listing rules, and the Code of Ethics for Senior Officers, which applies to the Chairman, CEO, Directors and other senior officers. Copies of these codes are available on request from the Chief Governance Officer & Corporate Secretary and may be downloaded from [www.signetjewelers.com/ethics](http://www.signetjewelers.com/ethics). The Company intends to satisfy the disclosure requirement regarding any amendment to, or a waiver of, a provision of the Code of Ethics for Senior Officers for the Company's principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, by posting such information on its website.

#### BOARD COMMITTEES

Certain matters are delegated to Board Committees, each with a written charter detailing its purpose, procedures, responsibilities and powers. The principal committees are: the Audit Committee, Compensation Committee, Nomination and Corporate Governance Committee, and the Corporate Social Responsibility Committee. The composition of each Board Committee is set out below. The Chief Governance Officer & Corporate Secretary acts as Secretary to each Committee.

Each Board Committee acts in accordance with its charter, as adopted by the Board, which is reviewed annually.

Copies of the charters are available on request from the Chief Governance Officer & Corporate Secretary and may be downloaded from [www.signetjewelers.com](http://www.signetjewelers.com).

The composition of each principal Board Committee is detailed below. All members are independent under the NYSE Listing Standards.

| Independent Director  | Audit Committee | Compensation Committee | Nomination & Corporate Governance Committee | Corporate Social Responsibility Committee |
|-----------------------|-----------------|------------------------|---|---|
| H. Todd Stitzer       |                 |                        |   |   |
| R. Mark Graf          |                 |                        |   |   |
| Helen McCluskey       |                 |                        | C   |   |
| Sharon L. McCollam    |                 |                        |   |   |
| Marianne Miller Parrs |                 |                        |   | C   |
| Thomas Plaskett       |                 | C                      |   |   |
| Nancy A. Reardon      |                 |                        |   |   |
| Jonathan Sokoloff     |                 |                        |   |   |



Brian Tilzer

Eugenia Ulasewicz

Russell Walls<sup>(1)</sup>

C

<sup>(1)</sup> Mr. Walls has not been nominated for re-election as a Director at this Annual Meeting consistent with the Director Tenure Policy.

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## AUDIT COMMITTEE

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the Company's financial matters.

All of the members of the Audit Committee have significant financial experience as a result of senior executive positions held in other companies. The Audit Committee met ten times in Fiscal 2018.

The Board has determined that all members of the Audit Committee are financially literate, and that each of Ms. Parrs and Ms. McCollam is an "audit committee financial expert" within the meaning of SEC regulations.

The Audit Committee's responsibilities include:

- reviewing the Company's financial statements, related audit findings and earnings releases, and accounting principles and policies;
- recommending for appointment or termination by Shareholders of the Company's independent registered public accounting firm; providing oversight of such firm; reviewing the quality-control procedures, independence and performance of such firm; and evaluating its proposed audit scope and fee arrangements;
- approving in advance all audit and non-audit services to be rendered by the independent registered public accounting firm;
- providing oversight of the Company's systems of internal control over financial reporting, disclosure controls and procedures and risk management;
- reviewing the effectiveness of the Company's internal auditors and Disclosure Control Committee;
- establishing procedures for complaints regarding accounting, internal accounting controls, auditing or other matters; and
- reviewing and approving related person transactions.

## COMPENSATION COMMITTEE

The Compensation Committee's responsibilities include:

- approving the overall compensation philosophy;
- approving annual and long-term performance targets for executive officers; in consultation with the Chairman, evaluating the performance of the CEO and, in consultation with the CEO, evaluating the performance of the other executive officers against corporate goals and objectives, and determining the total compensation earned by each person;
- recommending to the Board for approval all termination protection agreements, other agreements and incentive compensation plans;
- approving any share-based compensation awarded to employees of the Company; and
- appointing, compensating and assessing the work of any compensation consultant, independent legal counsel or other advisor retained by the Compensation Committee.

The compensation of the independent Directors is determined by the full Board on the basis of recommendations made by the Compensation Committee after consultation with the Chairman, CEO and the Committee's independent compensation consultant. Such recommendations are made after consideration of, among other factors, external comparisons, time commitments and the responsibilities of the independent Directors.

The Compensation Committee met seven times in Fiscal 2018.

The Compensation Committee has retained the services of an independent compensation consultant, Meridian Compensation Partners ("Meridian"). Meridian provides services to the Compensation Committee in connection with its review of executive and independent Director compensation practices, including the competitiveness of executive and Director pay levels, executive incentive design issues, market trends in executive and Director compensation and technical considerations. Meridian's services to the Company are limited to advising the Compensation Committee on executive and Director compensation; Meridian does no other work for the Company. The Compensation Committee reviews and evaluates the independence of its consultant each year and has the final authority to hire and terminate the consultant. In considering Meridian's independence, numerous factors were reviewed relating to Meridian and the individuals employed by Meridian who provided services to the Company, including those factors required to be considered pursuant to SEC and NYSE rules. Based on a review of these factors, the Compensation Committee has determined that Meridian is independent and that its engagement has not raised any conflict of interest.



For additional information regarding the operation of the Compensation Committee, including the role of consultants and management in the process of determining the amount and form of executive compensation, see CDA below.

The Compensation Committee delegates authority to a sub-committee, consisting of any two independent Directors, that has authority between Compensation Committee meetings to (i) approve benefits and perquisites for non-NEOs, (ii) review and approve any modification to any non-equity based incentive compensation plan for non-NEOs, (iii) review and approve employment, benefit and severance agreements for non-NEOs, and (iv) determine and approve the compensation levels for non-NEOs.

#### NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

The Nomination and Corporate Governance Committee's responsibilities include:

- assisting the Board in the selection and nomination of Directors and senior management;
- reviewing the composition and balance of the Board and its Committees, as well as Board and senior management succession;
- coordinating and overseeing the annual evaluation of the Board, its committees and management; and
- assisting the Board in the consideration and development of appropriate corporate governance guidelines and other matters of corporate governance.

The Nomination and Corporate Governance Committee uses the services of external recruitment agencies to identify suitable candidates for senior executive posts and for all Board appointments, with interviews carried out in accordance with a formal process.

In evaluating candidates, the criteria that the Nomination and Corporate Governance Committee generally views as relevant and is likely to consider include experience, particularly experience that is specifically relevant to the business or reflects an area of expertise, and background or diversity that the Committee feels is either missing or particularly important to the Board's effectiveness and efficiency. The candidate must possess the highest level of personal and professional ethics and integrity, and be prepared to consistently commit the time and effort necessary to fulfill the duties and responsibilities of the position. The Board Diversity Policy provides that, in reviewing and assessing Board composition, the Committee will consider diversity of skills, industry experience, background, ethnicity, gender and other qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board. In Fiscal 2018, the Company engaged third-party director search firms.

When the role of the Chairman or any matter relating to succession of the role is discussed, the Chairman may be consulted, but the responsibility for preparing a job specification and making any recommendation to the Board rests with the Nomination and Corporate Governance Committee.

A Shareholder who wishes to recommend an individual to the Nomination and Corporate Governance Committee for its consideration as a nominee for election to the Board may do so in writing to the Chief Governance Officer & Corporate Secretary, c/o Signet Group Services Limited, Imperial Place 3, Maxwell Road, Borehamwood, Hertfordshire, WD6 1JN, United Kingdom. The Nomination and Corporate Governance Committee will evaluate Shareholder recommendations for candidates to the Board in the same manner as candidates suggested by other Directors or search firms.

As more fully described in the Company's Bye-laws, a Shareholder desiring to propose a person for election as a Director must include in a written notice all of the information required to be disclosed in solicitations of proxies for the election of Directors, or as otherwise required pursuant to Regulation 14A under the Exchange Act. This includes the person's written consent to being named in the Proxy Statement as a nominee and serving as a Director if elected, the name and address of the proposing Shareholder and the number of shares of the Company beneficially owned by such Shareholder.

The Nomination and Corporate Governance Committee met six times in Fiscal 2018.

#### CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee's responsibilities include:

- defining the Company's corporate and social obligations as a responsible citizen, overseeing conduct in the context of those obligations, and overseeing the creation of appropriate policies and supporting measures;
- monitoring the Company's engagement with external stakeholders and other interested parties;
- monitoring the Company's overall approach to corporate responsibility and ensuring it is in line with the overall business strategy;

ensuring that the Company has appropriate policies and systems in place relating to community relations, human rights and responsible supply chain management;

- monitoring the implementation of appropriate policies and initiatives with respect to energy management, climate change, carbon footprint, waste management and sustainable sourcing; and
- monitoring community support programs and ensuring appropriate corporate giving policies are adopted.

The Corporate Social Responsibility Committee met three times in Fiscal 2018.

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## Report of the Audit Committee

The Company's Annual Report on Form 10-K includes the audited consolidated balance sheets of the Company and its subsidiaries as of February 3, 2018 ("Fiscal 2018") and January 28, 2017 ("Fiscal 2017"), and the related audited consolidated income statements, statements of comprehensive income, statements of cash flow, and statements of shareholders' equity, for each of Fiscal 2018, Fiscal 2017, and the fiscal year ended January 30, 2016 ("Fiscal 2016"). The balance sheets and statements (the "Audited Financial Statements") were audited and are the subject of reports by the Company's independent registered public accounting firm, KPMG LLP ("KPMG"). The Audited Financial Statements are available at [www.signetjewelers.com](http://www.signetjewelers.com).

The Audit Committee reviewed and discussed the Audited Financial Statements with management and otherwise fulfilled the responsibilities set forth in its charter. An evaluation of the effectiveness of the Company's internal control over financial reporting was discussed by the Audit Committee with management and KPMG.

The Audit Committee also discussed applicable matters under Public Company Accounting Oversight Board ("PCAOB") standards with KPMG, including the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, adopted by the PCAOB. The required written disclosures and letter regarding KPMG communications with the Audit Committee and independence were received by the Audit Committee, and independence was discussed with KPMG.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Company's Board that the Audited Financial Statements be included in the Company's Annual Report on Form 10-K for Fiscal 2018.

The Audit Committee annually reviews the independence and performance of KPMG, including its lead audit partner and engagement team, in connection with the Committee's responsibility for the appointment and oversight of the Company's independent public accountants and determines whether to re-engage KPMG or consider other audit firms. In doing so, the Committee considers, among other things, such factors as:

- the quality and efficiency of KPMG's historical and recent performance on the Company's audit;
- KPMG's capability and expertise;
- the quality and candor of communications and discussions with KPMG;
- the ability of KPMG to remain independent;
- external data relating to audit quality and performance (including recent PCAOB reports on KPMG and its peer firms);
- and the appropriateness of fees charged; and

• KPMG's tenure as the Company's independent public accountants and their familiarity with our operations, businesses, accounting policies and practices, and internal control over financial reporting.

In accordance with the SEC's rules and KPMG's policies, audit partners are subject to rotation requirements to limit the number of consecutive years an individual partner may provide services to the Company. For lead partners, the maximum number of consecutive years of service in that capacity is five years. Accordingly, the process for selection of the Company's lead partner involves meetings between the members of the Audit Committee and the candidate for the role, as well as a discussion by the full Audit Committee and with management.

Based on the foregoing considerations, the Audit Committee believes that the continued retention of KPMG to serve as the Company's independent public accountants is in the best interests of the Company and its Shareholders.

### MEMBERS OF THE AUDIT COMMITTEE

Marianne Miller Parrs (Chair)

R. Mark Graf

Helen McCluskey

Russell Walls

THE INFORMATION CONTAINED IN THE FOREGOING REPORT SHALL NOT BE DEEMED TO BE "SOLICITING MATERIAL" OR TO BE "FILED" WITH THE SEC, NOR SHALL THE INFORMATION BE INCORPORATED BY REFERENCE INTO ANY FUTURE FILING UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934, EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES IT BY REFERENCE IN A FILING.



## Executive Officers of the Company

The executive officers of the Company are:

| Executive Officer            | Age | Position   | Year Joined Signet |
|------------------------------|-----|--|--------------------|
| Virginia C. Drosos           | 55  | Chief Executive Officer  | 2017               |
| Michele Santana              | 47  | Chief Financial Officer  | 2010               |
| Steven Becker <sup>(1)</sup> | 61  | Chief Human Resources Officer                                    | 2005               |
| Lynn Dennison                | 54  | Chief Legal & Transformation Officer                             | 2011               |
| Oded Edelman                 | 51  | President of JamesAllen.com and Chief Digital Innovation Advisor | 2017               |
| Sebastian Hobbs              | 48  | President & Chief Customer Officer                               | 2011               |
| Mark Jenkins <sup>(1)</sup>  | 60  | Chief Governance Officer & Corporate Secretary                   | 2004               |
| Howard Melnick               | 56  | Chief Information Officer  | 2017               |
| George Murray <sup>(1)</sup> | 62  | Chief Retail Insights & Strategy Officer                         | 1992               |
| Carol Schumacher             | 61  | Chief Communications Officer                                     | 2018               |

<sup>(1)</sup> Mr. Becker and Mr. Murray are leaving the Company effective May 5, 2018; Mr. Jenkins is leaving the Company effective June 30, 2018.

Virginia C. Drosos, 55—see biographical information in section “Proposal 1: Election of Directors - Virginia C. Drosos” of this Proxy Statement.

Michele Santana, 47, became Chief Financial Officer of Signet in August 2014, having previously been Senior Vice President and Financial Controller since October 2010. Prior to joining Signet, Ms. Santana was Director of Internal Audit at Cliffs Natural Resources Inc. and also held key leadership positions at KPMG LLP. Ms. Santana is a certified public accountant.

Steven Becker, 61, joined the Sterling Jewelers Division in 2005 as Senior Vice President, Human Resources and was promoted to Chief Human Resources Officer for Signet in May 2014. Prior to joining Signet, Mr. Becker held other senior Human Resources positions, most recently at OfficeMax.

Lynn Dennison, 54, was appointed Chief Legal & Transformation Officer in February 2018. Ms. Dennison joined the Sterling Jewelers Division in January 2011 as Senior Vice President, Legal, Compliance and Risk Management, was promoted to Signet Chief Legal, Risk & Corporate Affairs Officer in December 2014. During her tenure at Signet, she has led numerous functional groups, including Real Estate and Store Planning, Indirect Sourcing and Internal Audit. Prior to joining Signet, Ms. Dennison held other senior legal positions, most recently at Tecumseh Products Company.

Oded Edelman, 51, became Chief Digital Innovation Advisor in September 2017. Mr. Edelman has been the Chief Executive Officer of R2Net Inc., the parent company of online diamond and bridal jewelry retailer, James Allen, since he founded it in 2007. Signet completed the acquisition of R2Net Inc. on September 12, 2017. Mr. Edelman has decades of experience in the diamond industry.

Sebastian Hobbs, 48, was promoted to President & Chief Customer Officer in January 2017, having previously been Managing Director, UK Division since July 2013. Prior to this, Mr. Hobbs was Commercial Director, UK Division from March 2011. Prior to joining Signet, Mr. Hobbs held other senior retail positions, most recently as Group Commercial Director at Blacks Leisure Group plc. Mr. Hobbs is also a Director of Jewelers for Children.

Mark Jenkins, 60, has been Corporate Secretary since 2004 and Chief Governance Officer since December 2014. He was Chief Legal Officer from September 2012 until December 2014. Previously, he was Director and Company Secretary at COLT Telecom Group plc and Group Company Secretary at Peek plc. He is a barrister.

Howard Melnick, 56, became Chief Information Officer (CIO) in February 2018, following his service in this position as interim CIO. Prior to Signet, Mr. Melnick was CIO at Ralph Lauren. Previous technology leadership positions were at Marriott International and Pepsi-Cola International. He is also a Certified Public Accountant.

George Murray, 62, became Chief Retail Insights & Strategy Officer in January 2017, having previously been Chief Merchandising & Marketing Officer since July 2015 and President, Zale Division between July 2014 and July 2015. Prior to this, Mr. Murray served as Senior Vice President of Marketing, Advertising and Public Relations for the Sterling Jewelers Division and held a number of management positions since joining the Sterling Jewelers Division in 1992.



Carol Schumacher, 61, joined Signet in February 2018 as Chief Communications Officer. Her prior experience includes corporate officer positions in communications, investor relations and corporate affairs with Walmart, Home Depot and Intercontinental Exchange.

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## Executive Compensation

### Compensation Discussion and Analysis

This CDA describes the objectives and the role of the Compensation Committee and discusses the philosophy upon which the Compensation Committee bases its decisions in its endeavors to meet these objectives. The CDA also describes the Company's executive compensation policies and the material elements of compensation awarded to, earned by, or paid to the NEOs.

### EXECUTIVE TRANSITIONS

On July 13, 2017, Mark Light retired from the Board and his position as CEO, effective as of July 31, 2017. The Board appointed Virginia C. Drosos, a member of the Board, as the CEO effective August 1, 2017. Oded Edelman became Chief Digital Innovation Advisor of the Company upon the completion of Signet's acquisition of R2Net Inc. on September 12, 2017.

Our NEOs for Fiscal 2018 included:

| NEO                | Position   |
|--------------------|--|
| Virginia C. Drosos | Chief Executive Officer  |
| Michele Santana    | Chief Financial Officer  |
| Oded Edelman       | President of JamesAllen.com and Chief Digital Innovation Advisor |
| George Murray      | Chief Retail Insights & Strategy Officer <sup>(1)</sup>          |
| Sebastian Hobbs    | President & Chief Customer Officer                               |
| Mark Light         | Former Chief Executive Officer                                   |

<sup>(1)</sup> George Murray will be leaving the Company effective May 5, 2018.

### EXECUTIVE SUMMARY

The Compensation Committee considers Signet's business results, among other factors, when evaluating the executive compensation program and incentive payouts. Signet's performance results are summarized below and on the following pages.

The Company's performance directly impacted compensation paid to the NEOs in Fiscal 2018. The past year in the retail industry saw considerable pressure driven by macroeconomic factors and changing dynamics in consumer discretionary spending. In addition, as previously disclosed, the Company experienced execution issues with the disposition of the first phase of its credit program and other operational issues. The Company did not meet the performance goals it set, and no payments were made under the Company's annual incentive plan. In addition, performance-based restricted share units granted in Fiscal 2016 did not vest because the applicable performance criteria were not satisfied. More information with respect to recent performance and these elements of Signet's compensation program is provided below.



## COMPENSATION PHILOSOPHY

Signet's compensation program is designed to attract, incentivize and retain the executive talent needed to achieve the Company's business vision: to be the world's premier jeweler by relentlessly connecting with customers, earning their trust with every interaction everywhere.

Signet must employ, motivate and retain superior management to accomplish corporate goals. Therefore, total compensation is targeted at approximately the median of a custom group of comparator companies. Those companies have been chosen to reflect various attributes similar to Signet and also because they may attempt to attract Signet executives if compensation is not competitive. Executives are paid in a range around the median that is dependent upon, among other things, the executive's experience, internal equity considerations and proven ability to consistently deliver superior performance.

The total aggregate compensation at target performance for the NEOs in Fiscal 2018 fell below the comparator company median.

The principles underlying Signet's executive compensation decisions are as follows:

- The compensation program must align the interests of senior management with those of Shareholders. This is achieved by delivering a significant portion of total compensation for executives as incentives dependent on factors that should reflect long-term growth in Shareholder value.
- With the exception of new-hire awards that might include guaranteed amounts, the only element of guaranteed pay is base salary. The percentage of at-risk compensation increases in line with the responsibility and experience of each executive.
3. Elements of compensation that are at risk should reward annual and multi-year exceptional performance.
  4. Compensation should include a retention component to encourage high performing executives to remain with the Company.
  5. The compensation program should be constructed so that the NEOs understand and are motivated to achieve the performance required to receive various levels of payments.
  6. The compensation program should encourage all executive officers to build a substantial holding of the Company's shares.

## CONSIDERATION OF "SAY-ON-PAY" VOTE

In June 2017, the Company's Say-on-Pay proposal passed with 98.1% of the Shareholder advisory votes in favor of the Company's executive compensation program. The Compensation Committee concluded that Shareholders were supportive of the Company's

executive compensation design and philosophy. The Compensation Committee will continue to consider Say-on-Pay results in the design of the Company's compensation program.

#### TARGET NEO PAY MIX

The following charts illustrate the total target compensation mix for the Company's current CEO and average target compensation mix for other current NEOs, but does not reflect actual compensation mix for Fiscal 2018, as discussed below. As these charts show, the Company aligns pay levels for its NEOs with the Company's performance. Approximately 85% of the CEO's total target compensation, and approximately 67% of the average target total compensation of other NEOs, is based on performance and/or aligned with Shareholder interests over the short-term or long-term.

#### ROLE OF THE COMPENSATION COMMITTEE

The Compensation Committee sets the compensation for the Company's NEOs to motivate them to achieve Signet's business objectives and ensure that they are fairly rewarded for their individual contributions to the Company's performance. In doing so, the Compensation Committee considers the interests of Shareholders, the financial and commercial health of the business, compensation parameters for all levels of the organization, and other conditions throughout Signet. The Compensation Committee also ensures that Signet's compensation remains competitive as discussed above.

#### ROLE OF COMPENSATION CONSULTANTS

The Compensation Committee regularly uses external independent advice. Meridian performs the following services on behalf of the Compensation Committee:

- Competitive market pay analysis for executive positions and non-employee Directors;
- Market trends in executive and non-employee Director compensation;
- Pay-for-performance analysis and review of risk in the Company's pay programs;
- Ongoing support with regard to the latest relevant regulatory, governance, technical, and/or financial considerations impacting executive compensation and benefit programs;
- Assistance with the design of executive compensation or benefit programs, as needed;
- Annual review of the compensation benchmarking peer group; and
- Other items as determined appropriate by the Chair of the Compensation Committee.

For more information on the Committee's independent compensation consultant, Meridian, see section "Role of the Board - Compensation Committee."

#### ROLE OF EXECUTIVES

The CEO provides the Compensation Committee with a performance assessment for each of the other NEOs and makes recommendations for their target compensation levels, including salaries, target bonus levels, and equity awards. The Compensation Committee uses these assessments, along with other information, to determine final NEO compensation. The Chief Financial Officer

and Chief Human Resources Officer regularly attend Compensation Committee meetings at the request of the Committee, but are not present for the executive sessions or for any discussion of their own compensation.

#### COMPETITIVE BENCHMARKING ANALYSIS

When analyzing the market data provided by Meridian, the Compensation Committee focuses on a peer group of companies for benchmarking purposes where possible. The Compensation Committee annually reviews the composition of the peer group to assess its continued appropriateness. The Fiscal 2018 peer group companies had the following characteristics:

- International operations;
- Headquarters in North America and traded on a North American stock exchange;
- Median sales approximating those of Signet's; and
- Revenue generally ranging from half to twice the Company's revenue.

The Fiscal 2018 group consisted of the following 15 companies, which are the same companies used for Fiscal 2017:

|                                 |                            |                       |
|---------------------------------|----------------------------|-----------------------|
| Abercrombie & Fitch Co.         | L Brands, Inc.             | Tapestry Inc.         |
| American Eagle Outfitters, Inc. | Michael Kors Holdings Ltd. | Tiffany & Co.         |
| Dick's Sporting Goods Inc.      | Nordstrom Inc.             | Urban Outfitters Inc. |
| Foot Locker, Inc.               | PVH Corp.                  | V.F. Corporation      |
| Hudson's Bay Company            | Ralph Lauren Corporation   | Williams-Sonoma, Inc. |

The chart below shows the total revenues (in millions) as of the end of Fiscal 2017 for all peers.

This peer group was the primary source of market data for the NEOs, with the exception of the Chief Digital Innovation Advisor, whose compensation was determined through contract negotiations when he joined the Company during Fiscal 2018 with the acquisition of R2Net Inc.

#### DETERMINING EXECUTIVE COMPENSATION

The Compensation Committee's objective is to deliver and maintain competitive executive compensation in accordance with its compensation principles.

The Compensation Committee believes that the greater the responsibility and direct influence over the Company's performance an executive officer has, the more his or her total compensation should be weighted toward incentive payments. The Compensation

Committee considers the annual compensation benchmarking data described earlier, along with other factors such as an executive officer's level of experience, the Company's desire to retain the executive, the availability of replacement personnel, as well as the individual's responsibilities and actual performance when setting target compensation levels. The Compensation Committee also reviews tally sheets covering all elements of compensation including benefits, perquisites, and potential payments upon termination or change of control, to understand how each element of compensation relates to other elements and to the compensation package as a whole.

At the beginning of each fiscal year, the CEO recommends total compensation levels (including salary, target bonus and target long-term incentive value) for the NEOs, other than for herself. The Compensation Committee considers these recommendations and determines final compensation levels for the NEOs as well as the CEO based on the factors described above.

#### COMPENSATION OVERVIEW, OBJECTIVES AND KEY FEATURES

The Compensation Committee has established an executive compensation program that contains the following key components:

| Component  | Objective   | Key Features   |
|--|---|--|
| Base salary  | Provide a fixed level of pay that is not at risk and reflects individual experience and ongoing contribution and performance.                                 | Designed to retain key executive officers by being competitive but is not considered to be the primary means of incentivizing or recognizing performance.  |
| Annual bonus   | Motivate and reward achievement of annual financial results against established annual goals of the Company.  | Cash payments are dependent on the degree of achievement against annual performance targets. This element is payable just after the end of the fiscal year in which it was earned.   |
| Long-term incentives (time-based restricted shares and performance-based restricted share units) | Align management with long-term Shareholder interests; retain executive officers; motivate and reward achievement of sustainable earnings growth and returns. | Time-based restricted share awards vest upon the continuance of service; performance-based restricted share units require achievement of Company financial goals over a three-year performance period and require continued service. |

An additional component of the compensation program is the benefits package, which includes a deferred compensation plan, retirement benefits and health and life insurance. The objective of the benefit package is to retain executive officers over the course of their careers.

#### ELEMENTS OF NEO COMPENSATION

##### (a) Base Salary

Each NEO receives a fixed level of base salary as compensation for services rendered during the fiscal year. Base salaries are monitored to support the executive compensation program's objectives of attracting and retaining management.

Base salaries of the NEOs during Fiscal 2018 and Fiscal 2017 are listed in the table below. None of the NEOs who were employed by the Company in Fiscal 2017 received an increase in base salary for Fiscal 2018, with the exception of Mr. Hobbs, who was promoted to his current position of President & Chief Customer Officer in January 2017.

| NEO                               | Fiscal 2018Fiscal 2017 |            |
|-----------------------------------|------------------------|------------|
|                                   | Salary <sup>(1)</sup>  | Salary     |
| Virginia C. Drosos <sup>(2)</sup> | \$ 1,500,000           | \$ —       |
| Michele Santana                   | \$ 700,000             | \$ 700,000 |
| Oded Edelman <sup>(2)</sup>       | \$ 525,000             | \$ —       |
| George Murray                     | \$ 700,000             | \$ 700,000 |
| Sebastian Hobbs <sup>(3)</sup>    | \$ 700,000             | \$ 504,000 |

<sup>(1)</sup> The actual salary received by each NEO during Fiscal 2018 is set forth in the Summary Compensation Table. Mr. Light's base salary was \$1,250,00 for both Fiscal 2018 and Fiscal 2017.

(2) Ms. Drosos was appointed CEO in August 2017, and Mr. Edelman was appointed Chief Digital Innovation Advisor in September 2017.

(3) Mr. Hobbs' Fiscal 2017 salary was paid in pounds. The amount reported above is calculated at an exchange rate of £1:\$1.26, the exchange rate as of the last business day of Fiscal 2017.

(b) Annual Bonus (STIP)

Annual bonus performance targets and actual bonuses paid in light of the Company's performance are reviewed and approved by the Compensation Committee each year.

This incentive program focuses management on achieving annual performance objectives. The annual bonus is based on a pre-determined formula based on Company-wide performance. In determining the performance target at the start of each year, the Compensation Committee considers relevant market data, including the relative positioning of the Company's performance in its sector, as well as its current business plans. There is a maximum bonus payout level set each year on such awards, which is twice



the target level. The Committee also sets a threshold performance level, below which no payments are made. This incentive program focuses management on achieving each year's financial objectives.

#### Annual Bonus Fiscal 2018

In setting the performance criteria for Fiscal 2018, the Compensation Committee agreed that the STIP would be based solely on adjusted operating income ("Adjusted STIP Operating Income") to focus on driving profit. In prior years, the Company had focused on both Adjusted STIP Operating Income and comparable store sales. The Compensation Committee decided to shift the focus to Adjusted STIP Operating Income exclusively for Fiscal 2018 given the financial challenges faced by the Company as well as the industry as a whole. The Committee will resume using comparable store sales in Fiscal 2019, as will be discussed further in next year's proxy. Adjusted STIP Operating Income is a non-GAAP measure, calculated as operating income, adjusted to reflect results at constant currency and for the impact of the acquisition of R2Net Inc. and the disposition of the first phase of the Company's credit program. As of the end of Fiscal 2018, target and potential maximum bonuses as a percentage of salary were as set out below. These bonus targets are the same as Fiscal 2017 for those NEOs employed by the Company in Fiscal 2017.

| NEO                         | Position   | Target Bonus as a Percentage of Base Salary <sup>(1)</sup> | Maximum Bonus as a Percentage of Base Salary <sup>(1)</sup> |   |
|-----------------------------|--|--|---|---|
| Virginia C. Drosos          | Chief Executive Officer  | 150  | % 300   | % |
| Michele Santana             | Chief Financial Officer  | 75   | % 150   | % |
| Oded Edelman <sup>(2)</sup> | President of JamesAllen.com and Chief Digital Innovation Advisor | 75   | % 150   | % |
| George Murray               | Chief Retail Insights & Strategy Officer                         | 75   | % 150   | % |
| Sebastian Hobbs             | President & Chief Customer Officer                               | 75   | % 150   | % |

<sup>(1)</sup> Bonus target and maximum levels for Mr. Light during Fiscal 2018 were 150% and 300%, respectively.

<sup>(2)</sup> Mr. Edelman did not participate in Signet's STIP program in Fiscal 2018. His bonus levels apply to the JamesAllen.com STIP, which is discussed in more detail below.

At threshold performance levels, nothing is paid to executives. Performance must exceed threshold goals to earn any bonus payout, which is paid on a linear basis from zero to 100% of the target bonus. There is a target achievement band with a target payout at any point within the band. The Compensation Committee elected to use a target band, rather than a single point target, due to volatile market conditions. Performance in excess of the target band up to the maximum results in a bonus paid on a linear basis from 100% to 200% of the target bonus.

The threshold (the level at which bonus will start to accrue), target band, maximum and actual numbers for Fiscal 2018 were as follows:

|                                | Target Band |             |                 | Actual Achieved |
|--------------------------------|-------------|-------------|-----------------|-----------------|
|                                | Threshold   | Lower Bound | Upper Bound Max |                 |
| Adjusted STIP Operating Income | \$737.0m    | \$766.0m    | \$776.0m        | \$845.0m        |
|                                |             |             |                 | \$612.9m        |

After reviewing the actual performance achieved against the criteria set at the beginning of Fiscal 2018, the Committee approved the performance noted above as part of the Fiscal 2018 year-end process resulting in no bonus payments.

#### Executive

In connection with her hiring, Ms. Drosos and the Board agreed that she would receive a minimum bonus payment for Fiscal 2018 equal to \$1,500,000 (or 67% of her target bonus). This payment was offered because she was hired after the start of the fiscal year and to secure her employment. This payment is reflected in the bonus column of the Summary Compensation Table on page 50.

#### JamesAllen.com STIP

Mr. Edelman participated in a JamesAllen.com STIP program for the portion of Fiscal 2018 after the Company acquired R2Net Inc. The JamesAllen.com STIP program was based 75% on sales and 25% on adjusted operating income (a non-GAAP measure, calculated as operating income, adjusted to exclude the impact of expense allocations from Signet). The Compensation Committee selected these performance criteria to continue the focus on sales growth while also driving profitability and harmonizing R2Net's financial goals with those of Signet. At threshold performance levels, nothing is paid. Performance must exceed threshold goals to earn any bonus payout, which is paid on a linear basis from zero to 100% of the target bonus. The threshold (the level at which bonus will start to accrue), maximum and actual numbers for Fiscal 2018 were as follows:

JamesAllen.com

|       | Threshold | Target  | Max      | Actual Achieved |
|-------|-----------|---------|----------|-----------------|
| Sales | \$87.0m   | \$98.0m | \$109.0m | \$88.1m         |

JamesAllen.com

|                           | Threshold | Target | Max    | Actual Achieved |
|---------------------------|-----------|--------|--------|-----------------|
| Adjusted Operating Income | \$4.8m    | \$5.4m | \$6.0m | \$(2.8)m        |

After reviewing the actual performance achieved against the criteria set at the time of the acquisition, the Committee approved the performance noted above as part of the Fiscal 2018 year-end process resulting in the actual bonus payment to Mr. Edelman of \$11,732, which reflects a payout of 7.5% of his target bonus, prorated to reflect the 145-day period since the Company acquired R2Net Inc. on September 12, 2017.

#### (c) Long-Term Incentive Plans (“LTIP”)

The Compensation Committee believes that long-term share-based incentives are appropriate and necessary to properly focus the executive officers on long-term results and align their interests with those of Shareholders.

#### Long-Term Incentive Grants in Fiscal 2018

The Fiscal 2018 equity grant under the Signet Jewelers Limited Omnibus Incentive Plan (the “Omnibus Plan”) included performance-based restricted share units at 65% and time-based restricted shares at 35% of the overall award granted. Generally, long-term incentive grants are made at the same time as the annual compensation reviews. The value delivered through long-term incentives is determined holistically in the context of total compensation levels. This process, as described above, considers benchmarking data, retention needs, level of responsibility, and individual performance. The number of time-based restricted shares and performance-based restricted share units granted to NEOs in Fiscal 2018 was based upon an award methodology using a share price calculated by averaging the closing price of a Common Share on the NYSE for the 20 trading days commencing on March 10, 2017, the day after the Fiscal 2017 results announcement. The grant date for time-based restricted shares was April 7, 2017, and the grant date for performance-based restricted share units was April 27, 2017. The number of time-based restricted shares and performance-based restricted share units granted to each NEO in Fiscal 2018 using this award methodology is set forth in the “Grants of Plan-Based Awards” table and discussed in more detail below.

In connection with her hiring, Ms. Drosos and the Board agreed that she would receive a Fiscal 2018 long-term incentive grant equal to \$6,000,000 and that it would take the same form as grants made to other executives for the year. This grant was made on August 1, 2017.

#### Performance-Based Restricted Share Units

The Committee determined that the performance-based restricted share unit targets for the Fiscal 2018 grant would cover a three-year performance period, and that awards would be weighted 80% on cumulative adjusted operating income (“Adjusted LTIP Operating Income”) and 20% on return on capital employed (“LTIP ROCE”). Adjusted LTIP Operating Income is a non-GAAP measure, calculated as operating income, adjusted to reflect results at constant currency. LTIP ROCE is a non-GAAP measure calculated as being the adjusted LTIP Operating Income divided by the single point, year-end capital employed balance, using a constant currency exchange rate, per the Company’s consolidated balance sheet. These measures were chosen because the Compensation Committee believes that the appropriate combination of growth and return drive long-term shareholder value. NEOs can earn between 0% and 200% of their share award depending on performance results over the three-year period, subject to continued service with the Company during such period.

For grants made in Fiscal 2018, consistent with past practice, the three-year cumulative performance target is based upon the Company’s consolidated financial projections for Fiscal 2018 to Fiscal 2020, adjusted to exclude the impact of material transactions during the performance period. At the time of the grant in April 2017, the Company was engaged in negotiations to outsource the credit business. To accommodate the complexity and variability under alternative scenarios, the Committee utilized its discretion to set the target component attributable to Fiscal 2018 in April 2017, while establishing the target components attributable to Fiscal 2019 and Fiscal 2020 equal to the Company’s consolidated financial projections established in connection with the Fiscal 2019 long-range planning process in March 2018. As a result, the three-year cumulative performance target is based upon the former Signet business prior to the disposition of the first phase of the Company’s credit portfolio and the acquisition of R2Net Inc. during Fiscal 2018; and for Fiscal 2019 and 2020, it includes R2Net operating income and the impact of the fully outsourced credit model, and excludes costs associated with the Signet Path to Brilliance transformation plan. The

level of achievement for Adjusted LTIP Operating Income will payout at 25% (minimum) upon achievement of approximately 92% of the three-year cumulative performance target and 200% (maximum) upon achievement of approximately 108% of the three-year cumulative performance target. Achievement of any payout over the three-year cumulative performance period will require significant outperformance of operating plans for Fiscal 2019 and Fiscal 2020. The performance target and actual performance as measured against the target will be disclosed at the end of the three-year performance period.

The second goal for the Fiscal 2018 grant is achievement of target LTIP ROCE over the performance period of 26.3%, with a minimum threshold of 19.4% and maximum of 29.1%.

### Time-Based Restricted Shares

One-third of the time-based restricted shares granted in Fiscal 2018 will vest on each of the first, second and third anniversary of the grant date subject to continued service with the Company.

Time-based restricted share awards were granted under an award pool formula established by the Compensation Committee based on Company performance in the prior fiscal year. This award pool formula was intended to comply with the qualified performance-based compensation requirements under section 162(m) of the Internal Revenue Code. For time-based restricted share awards granted in Fiscal 2018, the pool was based on attaining an adjusted operating income performance hurdle for Fiscal 2017. The actual share awards granted from the pool were determined using the process described above under “Long-Term Incentive Grants in Fiscal 2018.”

In connection with her hiring, Ms. Drosos and the Board agreed that she would receive a special one-time grant of 81,900 restricted Common Shares, 50% of which would vest on February 4, 2018, with the balance vesting on February 3, 2019, subject to Ms. Drosos’s continued employment (“One-Time Award”). This grant was made to compensate Ms. Drosos for compensation that she would forfeit by leaving her previous employer and to secure her employment. This grant was made on August 1, 2017.

After completion of the acquisition of R2Net Inc., Mr. Edelman was granted a one-time long-term incentive retention grant of 33,962 shares, one-third of which will vest on the date the Company announces its results for the fiscal year ended February 2, 2019, and two-thirds of which will vest on September 12, 2020 (the 36-month anniversary of the effective date of the Agreement and Plan of Merger related to the acquisition of R2Net). This grant was made to ensure effective integration of R2Net and to further align Mr. Edelman’s interests with Shareholders. This grant was made on November 18, 2017. Mr. Edelman will not be eligible for annual consideration for LTIP awards until Fiscal 2020.

### Determinations Related to Vesting of Previously Granted Performance-Based Long-Term Incentive Awards

In March 2018, the Committee certified performance for the three-year performance-based restricted share unit awards granted in Fiscal 2016, covering the performance period of Fiscal 2016 through Fiscal 2018. These awards were weighted 80% on Adjusted LTIP Operating Income and 20% on LTIP ROCE. Adjusted LTIP Operating Income was further adjusted (i) for the legal settlement over appraisal rights in Fiscal 2016, which was not anticipated when targets were set, and (ii) to reflect results at constant currency.

Performance targets and actual performance for these measures are shown below. The awards vested at 0% of target.

|  | Threshold<br>(Pays 0% of<br>Target) | Target<br>(Pays 100% of<br>Target) | Maximum<br>(Pays 200% of<br>Target) | Actual    | Share Award Vesting (as a<br>Percentage of Target) |
|--|-------------------------------------|------------------------------------|-------------------------------------|-----------|--|
| 3-Year Cumulative Adjusted<br>LTIP Operating Income<br>(in millions) | \$2,425m                            | \$2,634m                           | \$2,766m                            | \$2,098m— | %  |
|  | Threshold<br>(Pays 0% of<br>Target) | Target<br>(Pays 100% of<br>Target) | Maximum<br>(Pays 200% of<br>Target) | Actual    | Share Award Vesting (as a<br>Percentage of Target) |
| LTIP<br>ROCE   | 22.2                                | %24.1                              | %25.3                               | %21       | %—   |

### (d) Retirement & Deferred Compensation

The Company provides retirement and deferred compensation benefits to NEOs and employees, both as a retention mechanism and to provide a degree of financial security post retirement.

#### U.S. Benefits

In the U.S., there are two defined contribution savings vehicles. The primary retirement vehicle is the Company-sponsored Signet Jewelers 401(k) Retirement Savings Plan (the “401(k) Plan”), which is a qualified plan under federal guidelines.

Currently the Company matches 50% of an employee’s elective salary deferral up to a maximum of 6% of the employee’s eligible compensation in order to be market competitive. The annual elective salary deferral for each

employee is subject to certain maximum statutory limitations.

Under federal guidelines, the 401(k) Plan contributions by senior management may be reduced based on the participation levels of lower-paid employees. Therefore, a supplemental plan, the Deferred Compensation Plan (the "DCP"), an unfunded, non-qualified plan under Federal guidelines, was established for senior management to assist with pre-tax retirement savings in addition to the 401(k) Plan. The Company provides a discretionary 50% matching contribution under the DCP for each participant's annual deferral, up to 10% of the participant's annual eligible compensation. Although the DCP also permits additional employer discretionary contributions, the Company did not make any additional discretionary contribution in Fiscal 2018.

The NEOs, other than Mr. Light and Mr. Edelman, are eligible for benefits provided via the 401(k) Plan and the DCP.

#### UK Benefits

In the UK, there is a single defined contribution savings vehicle. Company contributions depend on grade (10% of pensionable salary at the executive level) and in some cases, service (though not in the case of executives). To trigger the Company contribution, an employee must contribute a minimum percentage of pensionable salary (3% at the executive level). The employee may contribute more if they wish. Mr. Hobbs participated in the UK benefit until March 31, 2017, after which time he began participating in the U.S. benefits described above.

#### Israeli Benefits

Mr. Edelman is entitled to participate in or receive certain benefits, such as a pension arrangement (i.e., manager's insurance policy and/or a pension fund, or a combination of plans that best meet his anticipated future needs) and study fund, which are customary benefits provided to executive employees in Israel. A pension arrangement is a combination of severance savings (in accordance with Israeli law), defined contribution tax-qualified pension savings and disability insurance coverage. A study fund is a savings fund of pre-tax contributions to be used after a specified period of time for advanced educational training and other permitted purposes, as set forth in the by-laws of the study fund. The Company will make periodic contributions to these benefit plans based on certain percentages of Mr. Edelman's pensionable salary, including: (i) 8.33% allocated to severance pay; (ii) 6.5% allocated to pension fund payments (which may be increased up to 7.5% if Mr. Edelman chooses manager's insurance, and then such contributions will include contributions to disability insurance); and (iii) 7.5% allocated to the study fund, capped at the tax-exempt ceiling for the study fund set by the applicable law (NIS15,712, or approximately \$4,475). In addition, the Company pays Mr. Edelman an additional monthly payment equal to the Company's contributions to severance pay and pension fund payments based on the part of Mr. Edelman's base salary that exceeds his pensionable salary.

#### (e) Health & Welfare

NEOs participate in various health and welfare programs, as well as life insurance and long-term disability plans, which are generally available to other executive officers of the Company.

#### (f) Perquisites

NEOs receive a limited number of perquisites and supplemental benefits. The Company covers the cost of physical examinations for executives to facilitate and encourage executives to maintain their health. Relocation benefits are provided, including reimbursement for a spouse's travel expenses where the spouse has not also relocated, where applicable and small retirement gifts may be given on occasion. In addition, in limited circumstances, where it is appropriate that spouses attend business related functions, Signet reimburses NEOs for the travel expenses of spouses. The Company does not provide any tax gross-up payments for any perquisites other than for relocation benefits where applicable.

#### (g) Agreements with NEOs

Each NEO, other than Mr. Edelman, has entered into a termination protection agreement with the Company. The termination protection agreements with Messrs. Light and Murray are no longer in effect as they have both entered into separation agreements with the Company. The principal terms of the termination protection agreements and separation agreements with the NEOs are set forth under "NEO Agreements" below. Mr. Edelman entered into an employment agreement in connection with the Company's acquisition of R2Net Inc. The principal terms of Mr. Edelman's employment agreement are set forth under "NEO Agreements" below.

#### (h) Termination for Cause and Violation of Non-Compete and Non-Solicitation Covenants

Performance-based restricted share units and time-based restricted shares will not vest if termination for cause occurs before the conclusion of the performance or vesting period. All NEO termination protection agreements contain a non-competition covenant that has a 12-month post-employment term, as well as a non-solicitation covenant that has a post-employment term between 12 months and two years. Violation of the non-compete covenants will result in potential litigation and the Company's ability to seek injunctive relief and damages. For more information concerning the NEO termination protection agreements, see "NEO Agreements" below. Mr. Edelman entered into a Confidential Information, Non-Compete and Invention Assignment Agreement which contains perpetual confidentiality and non-solicitation and non-competition restrictions for one year following termination of employment.

#### (i) Clawback Policy

The Compensation Committee has adopted a clawback policy that provides that in the event of a material restatement of the Company's financial results, the Compensation Committee will recalculate incentive compensation based on the

restated results. In the event of an overpayment, the Company may seek to recover the difference. Similarly, in the interest of fairness, should a restatement result in an under payment of incentive compensation, the Company will make up any difference.

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(j) Share Ownership Policy

It is the Company's policy that executive officers build a holding of Common Shares. The guidelines for these holdings for the NEOs and other executive officers are currently as follows:

Five times annual base salary—CEO

Three times annual base salary—Chief Financial Officer, Chief Retail Insights & Strategy Officer, and President & Chief Customer Officer; and

Two times annual base salary—President of JamesAllen.com and Chief Digital Innovation Advisor and other executive officers.

All executives are expected to build their holding within five years from a specified date. All executives are required to hold 50% of net after-tax shares received upon vesting or payout until these requirements are met. Once achieved, the holding is to be maintained while the individual remains an officer of the Company. Currently, all NEOs are in compliance with the Share Ownership Policy.

(k) Anti-Hedging and Pledging Policies

It is the Company's policy to prohibit hedging or monetization transactions that would allow an officer, Director or employee who is a security holder to engage in transactions that would separate the risks and rewards of ownership of Company securities from actual ownership of those securities. In addition, the Company prohibits any pledging of Company shares by any officer, Director or employee of the Company.

(l) Limitation under Section 162(m) of the Internal Revenue Code

Prior to 2018, Section 162(m) of the Internal Revenue Code generally denied a federal income tax deduction to the Company for compensation in excess of \$1 million per year paid to the principal executive officer and the next three most highly compensated officers (other than the principal financial officer). This denial of deduction was subject to an exception for "qualified performance-based compensation." Although the Compensation Committee has designed the executive compensation program with tax considerations in mind, the Compensation Committee retains the flexibility to authorize compensation that may not be deductible if the Committee believes doing so is in the best interests of the Company.

The Tax Cuts and Jobs Act, enacted on December 22, 2017, substantially modifies Section 162(m) of the Internal Revenue Code and, among other things, eliminates the "qualified performance-based compensation" exception to the \$1 million deduction limit effective as of January 1, 2018. As a result, beginning in 2018, compensation paid to certain executive officers in excess of \$1 million will generally be nondeductible, whether or not it is performance-based. In addition, beginning in 2018, the executive officers subject to Section 162(m) (the "Covered Employees") will include any individual who served as the CEO or Chief Financial Officer ("CFO") at any time during the taxable year and the three other most highly compensated officers (other than the CEO and CFO) for the taxable year, and once an individual becomes a Covered Employee for any taxable year beginning after December 31, 2016, that individual will remain a Covered Employee for all future years, including following any termination of employment.

The Tax Cuts and Jobs Act includes a transition rule under which the changes to Section 162(m) described above will not apply to compensation payable pursuant to a written binding contract that was in effect on November 2, 2017 and is not materially modified after that date. To the extent applicable to our existing contracts and awards, the Compensation Committee may avail itself of this transition rule. However, because of uncertainties as to the application and interpretation of the transition rule, no assurances can be given at this time that our existing contracts and awards, even if in place on November 2, 2017, will meet the requirements of the transition rule.

Report of the Compensation Committee

The Compensation Committee has reviewed and discussed with the Company's management the Compensation Discussion and Analysis section of this Proxy Statement. Based on this review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement.

Members of the Compensation Committee:

Thomas Plaskett (Chair)

Jonathan Sokoloff

Eugenia Ulasewicz

## Summary Compensation Table

The following table sets forth the compensation during Fiscal 2018, Fiscal 2017 and Fiscal 2016, as appropriate, paid to or earned by NEOs.

| NEO & Position  | Fiscal Year | Salary <sup>(1)</sup> | Bonus <sup>(2)</sup> | Stock Awards <sup>(3)</sup> | Non-Equity Incentive Plan Compensation | All Other Compensation <sup>(4)</sup> | Total        |
|---|-------------|-----------------------|----------------------|-----------------------------|--|---------------------------------------|--------------|
| Virginia C. Drosos<br>CEO   | 2018        | \$773,077             | \$1,500,000          | \$10,828,081                | \$—                                    | \$453,534                             | \$13,554,692 |
| Michele Santana<br>Chief Financial Officer  | 2018        | \$713,462             | \$—                  | \$1,127,926                 | \$—                                    | \$48,199                              | \$1,889,587  |
|   | 2017        | \$690,000             | \$—                  | \$1,103,387                 | \$—                                    | \$76,711                              | \$1,870,098  |
|   | 2016        | \$619,615             | \$50,000             | \$987,318                   | \$612,752                              | \$70,473                              | \$2,340,158  |
| Oded Edelman<br>President of JamesAllen.com<br>and<br>Chief Digital Innovation<br>Advisor | 2018        | \$210,455             | \$—                  | \$2,600,810                 | \$11,732                               | \$46,994                              | \$2,869,991  |
| George Murray<br>Chief Retail Insights &<br>Strategy Officer                              | 2018        | \$713,462             | \$—                  | \$789,539                   | \$—                                    | \$58,730                              | \$1,561,731  |
|   | 2017        | \$687,385             | \$—                  | \$772,491                   | \$—                                    | \$73,973                              | \$1,533,849  |
|   | 2016        | \$615,231             | \$50,000             | \$592,337                   | \$562,579                              | \$75,660                              | \$1,895,807  |
| Sebastian Hobbs<br>President & Chief Customer<br>Officer                                  | 2018        | \$676,560             | \$—                  | \$789,539                   | \$—                                    | \$98,360                              | \$1,564,459  |
| Mark Light<br>Former CEO  | 2018        | \$629,808             | \$—                  | \$4,700,249                 | \$—                                    | \$692,693                             | \$6,022,750  |
|   | 2017        | \$1,226,923           | \$—                  | \$4,598,190                 | \$—                                    | \$184,050                             | \$6,009,163  |
|   | 2016        | \$1,092,308           | \$50,000             | \$3,950,084                 | \$2,170,084                            | \$138,109                             | \$7,400,585  |

The amounts reflected in the table above for Fiscal 2018 reflect actual salaries earned, which may differ from the

(1) base salaries disclosed in section “CDA - Base Salary” based on date of hire or promotion, a 53 (rather than 52) week fiscal year, and in the case of Mr. Light, date of resignation.

In connection with her hiring, Ms. Drosos and the Board agreed that she would receive a minimum bonus payment for Fiscal 2018 equal to \$1,500,000 to secure her employment, as discussed in more detail in section “CDA - Annual Bonus (STIP).” Mr. Edelman participated in a separate bonus plan for employees of R2Net Inc. as disclosed in section “CDA - Annual Bonus (STIP).”

In accordance with FASB ASC Topic 718, the amounts calculated are based on the aggregate grant date fair value of the restricted shares and restricted share units (in the column entitled “Stock Awards”) in the year of grant based upon target value of performance conditions. For information on the valuation assumptions, refer to note 25 in Signet’s Annual Report on Form 10-K for Fiscal 2018. The amounts in the table above reflect the total value of the performance-based restricted share units at the target (or 100%) level of performance achievement plus time-based restricted shares.

(4) The following table provides the incremental Fiscal 2018 cost to the Company for each of the elements included in the column:

| NEO                | 401(k) Matching Contribution | DCP Matching Contribution | Health Care Reimbursements Related to Physical Exam | Life and Disability Insurance Premiums | Salary continuation | Board of Directors Perquisites <sup>(2)</sup> fees <sup>(1)</sup> | Total     |
|--------------------|------------------------------|---------------------------|---|--|---------------------|---|-----------|
| Virginia C. Drosos | \$—                          | \$28,846                  | \$—   | \$2,249                                | \$—                 | \$214,450   | \$207,989 |
| Michele Santana    | \$9,423                      | \$36,346                  | \$—   | \$2,430                                | \$—                 | \$—   | \$48,199  |

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|                 |          |           |          |           |            |      |           |           |
|-----------------|----------|-----------|----------|-----------|------------|------|-----------|-----------|
| Oded Edelman    | \$ —     | \$ —      | \$ —     | \$ —      | \$ —       | \$ — | \$ 46,994 | \$46,994  |
| George Murray   | \$ 9,423 | \$ 36,346 | \$ 2,269 | \$ 10,692 | \$ —       | \$ — | \$ —      | \$58,730  |
| Sebastian Hobbs | \$ 9,031 | \$ 26,923 | \$ —     | \$ 2,283  | \$ —       | \$ — | \$ 60,123 | \$98,360  |
| Mark Light      | \$ 6,298 | \$ 33,894 | \$ —     | \$ 3,453  | \$ 649,048 | \$ — | \$ —      | \$692,693 |

- (1) The amount shown in the table above reflects compensation Ms. Drosos received as an independent Director in Fiscal 2018 before she became CEO. Since becoming CEO, she no longer receives Director fees. Amount reported for Ms. Drosos consists of relocation expenses. Amount reported for Mr. Edelman relates to Company contributions to his Israeli benefit plans, as described in more detail in section “CDA - Retirement and Deferred Compensation.” Amount reported for Mr. Hobbs consists of reimbursements for his wife’s travel from the UK to the U.S. since his relocation to the U.S. (\$43,567), relocation expenses (\$13,967) and a car allowance (\$2,589).

The table below provides the potential value of Fiscal 2018 performance-based restricted share units at target and maximum level of performance.

| NEO                | Potential Value at Target Level | Potential Value at Maximum Level |
|--------------------|---------------------------------|----------------------------------|
| Virginia C. Drosos | \$3,688,547                     | \$ 7,377,094                     |
| Michele Santana    | \$709,846                       | \$ 1,419,692                     |
| Oded Edelman       | \$—                             | \$ —                             |
| George Murray      | \$496,843                       | \$ 993,686                       |
| Sebastian Hobbs    | \$496,843                       | \$ 993,686                       |
| Mark Light         | \$2,957,568                     | \$ 5,915,136                     |

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## CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Act and Item 402(u) of Regulation S-K, the Company is providing the following estimate of the relationship of the median annual total compensation of its employees and the annual total compensation of its CEO, Virginia C. Drosos.

### RATIO

For Fiscal 2018 the annual total compensation of the employee identified at median of the Company (not including the CEO), was \$24,048, and the annual total compensation of the CEO was \$14,281,615.

As Ms. Drosos became CEO on August 1, 2017, the Company elected to annualize her base salary related to her role as CEO for Fiscal 2018. Therefore, the amount reported in the “Total” column of the Summary Compensation Table differs from the amount calculated for purposes of this ratio.

Based on this information, for Fiscal 2018 the ratio of the annual total compensation of the CEO to the median of the annual total compensation of all the Company’s employees other than the CEO was 594 to 1.

### METHODOLOGY

The following information was used to identify the median of the annual total compensation of all employees (other than the CEO):

• As of January 20, 2018, the employee population consisted of 36,621 individuals working at Signet and its consolidated subsidiaries, with employees located in North America, Europe, Asia and Africa.

• Approximately 680 employees of R2Net Inc. and its subsidiaries, which the Company acquired during Fiscal 2018 in a transaction that closed on September 12, 2017, were excluded.

• To determine the “median employee,” the Company used base pay as its measure of compensation.

The “median employee” was a full-time, hourly Jewelry Consultant located in the U.S., with annual total compensation in Fiscal 2018 of \$24,048.

### EVALUATING THE CEO PAY RATIO DISCLOSURE

Of our 36,621 employees, 12,490, or 34.1%, were part-time or seasonal employees. Like other large retailers, a sizeable portion of our workforce is employed on a part-time or seasonal basis. In addition, when Ms. Drosos became CEO in Fiscal 2018, she was awarded certain one-time compensation awards as discussed on pages 44 and 46.

Without these one-time grants, Ms. Drosos’s annual total compensation would have been lower, and the ratio would also have been lower. For these reasons, as well as the flexibility allowed by the SEC in calculating this ratio, the Company’s ratio may not be comparable to ratios at other companies.

Grants of Plan-Based Awards

Set forth below is information concerning grants of plan-based awards made during Fiscal 2018.

| NEO                | Grant Date            | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(6)</sup> |             |             | Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(7)</sup> |        |         | All other Stock Awards: Number of Shares or Units | Grant Date Fair Value of Stock Award <sup>(8)</sup> |
|--------------------|-----------------------|--|-------------|-------------|--|--------|---------|---|---|
|                    |                       | Threshold  | Target      | Max         | Threshold  | Target | Max     |   |   |
| Virginia C. Drosos | (1)                   | \$675,000  | \$2,250,000 | \$4,500,000 |  |        |         |   |   |
|                    | (2) August 1, 2017    |  |             |             | 15,971   | 63,882 | 127,764 |   | \$3,688,547   |
|                    | (3) August 1, 2017    |  |             |             |  |        |         | 34,398  | \$2,111,693   |
|                    | (4) August 1, 2017    |  |             |             |  |        |         | 81,900  | \$5,027,841   |
| Michele Santana    | (1)                   | \$157,500  | \$525,000   | \$1,050,000 |  |        |         |   |   |
|                    | (2) April 27, 2017    |  |             |             | 2,849  | 11,394 | 22,788  |   | \$709,846   |
|                    | (3) April 7, 2017     |  |             |             |  |        |         | 6,132   | \$418,080   |
| Oded Edelman       | (1)                   | \$—  | \$154,953   | \$309,906   |  |        |         |   |   |
|                    | (5) November 18, 2017 |  |             |             |  |        |         | 33,962  | \$2,600,810   |
| George Murray      | (1)                   | \$157,500  | \$525,000   | \$1,050,000 |  |        |         |   |   |
|                    | (2) April 27, 2017    |  |             |             | 1,994  | 7,975  | 15,950  |   | \$496,843   |
|                    | (3) April 7, 2017     |  |             |             |  |        |         | 4,293   | \$292,697   |
| Sebastian Hobbs    | (1)                   | \$157,500  | \$525,000   | \$1,050,000 |  |        |         |   |   |
|                    | (2) April 27, 2017    |  |             |             | 1,994  | 7,975  | 15,950  |   | \$496,843   |
|                    | (3) April 7, 2017     |  |             |             |  |        |         | 4,293   | \$292,697   |
| Mark Light         | (1)                   | \$562,500  | \$1,875,000 | \$3,750,000 |  |        |         |   |   |
|                    | (2) April 27, 2017    |  |             |             | 11,868   | 47,473 | 94,946  |   | \$2,957,568   |
|                    | (3) April 7, 2017     |  |             |             |  |        |         | 25,560  | \$1,742,681   |

Represents bonus opportunities under the Company's annual bonus plan for Fiscal 2018. The target bonus levels for Fiscal 2018 expressed as a percentage of base salary were 150% for Ms. Drosos and Mr. Light and 75% for the other NEOs, and the maximum bonus levels were 300% for Ms. Drosos and Mr. Light and 150% for the other

(1) NEOs, based on goals established by the Compensation Committee for target Adjusted STIP Operating Income. For a more detailed description of the Company's annual bonus plan, including a discussion of the Company's performance with respect to goals and amounts awarded to the NEOs in Fiscal 2017, see "CDA - Annual Bonus (STIP)" above.

(2) Represents performance-based restricted share units granted under the Omnibus Plan. Under the terms of these awards, the restricted share units will vest at the end of the third fiscal year following the grant dates subject to achievement of performance goals and continued service. Vesting may be prorated upon certain terminations of employment or change of control events. Under the terms of these awards, the restricted share units will be forfeited in the event the Company fails to achieve minimum cumulative Adjusted LTIP Operating Income and LTIP ROCE goals for the 3-year performance period covering Fiscal 2018 through Fiscal 2020.

(3) Represents time-based restricted share awards granted under the Omnibus Plan. One third of these time-based restricted shares will vest on each of the first, second and third anniversary of the grant date subject to continued service. Vesting may be prorated upon certain terminations of employment or change of control events.

Time-based restricted shares accrue dividends while restricted, which are paid if and when the awards vest.

(4) Represents a special one-time grant of time-based restricted shares, 50% of which vested on February 4, 2018, with the balance vesting on February 3, 2019, subject to continued service. Vesting may be prorated upon certain terminations of employment or change of control events. Time-based restricted shares accrue dividends while restricted, which are paid if and when the awards vest.

(5)

Represents a one-time retention grant of time-based restricted shares, one-third of which will vest on the date the Company announces its results for the fiscal year ended February 2, 2019, and two-thirds of which will vest on September 12, 2020, subject to continued service. Vesting may be prorated upon certain terminations of employment or change of control events. Time-based restricted shares accrue dividends while restricted, which are paid if and when the awards vest.

(6) Payouts of non-equity incentive plan awards may range from \$0 to the maximum as described above. Below threshold level, nothing is paid to the NEOs; performance must meet or exceed threshold level to earn any bonus payment, which is paid on a linear basis from 30% to 100% of the target and 100% to 200% of the target.

(7) Payouts of equity incentive plan awards may range from \$0 to the maximum as described above. At threshold level, 25% is paid to the NEOs.

(8) Represents the grant date fair value of each equity-based award as determined in accordance with FASB ASC Topic 718. The actual value received by the NEOs with respect to these awards may range from \$0 to an amount greater than the reported amount, depending on the Company's actual financial performance and share value when the shares are received.



## Outstanding Equity Awards at Fiscal Year End 2018

| NEO                | Stock Awards  |   | Equity Incentive Plan Awards:  |   |
|--------------------|---|---|--|---|
|                    | Number of shares or units of stock that have not vested | Market value of shares or units that have not vested <sup>(1)</sup> | Equity Incentive Plan Awards: Number of unearned shares, units or other rights that have not vested <sup>(2)</sup> | Market or payout value of unearned shares, units or other rights that have not vested <sup>(1)(2)</sup> |
| Virginia C. Drosos | 34,398  | <sup>(3)</sup> \$ 1,767,025   | 127,764  | <sup>(5)</sup> \$ 6,563,237   |
|                    | 81,900  | <sup>(4)</sup> \$ 4,207,203   |  |   |
| Michele Santana    | 3,652   | <sup>(6)</sup> \$ 187,603   | 7,304  | <sup>(9)</sup> \$ 375,206   |
|                    | 2,402   | <sup>(7)</sup> \$ 123,391   | 13,388   | <sup>(10)</sup> \$ 687,742  |
|                    | 6,132   | <sup>(8)</sup> \$ 315,001   | 22,788   | <sup>(5)</sup> \$ 1,170,620   |
| Oded Edelman       | 33,962  | <sup>(11)</sup> \$ 1,744,628  |  |   |
| George Murray      | 2,191   | <sup>(6)</sup> \$ 112,552   | 4,382  | <sup>(9)</sup> \$ 225,103   |
|                    | 1,682   | <sup>(7)</sup> \$ 86,404  | 9,372  | <sup>(10)</sup> \$ 481,440  |
|                    | 4,293   | <sup>(8)</sup> \$ 220,531   | 15,950   | <sup>(5)</sup> \$ 819,352   |
| Sebastian Hobbs    | 1,494   | <sup>(6)</sup> \$ 76,747  | 2,988  | <sup>(9)</sup> \$ 153,494   |
|                    | 1,268   | <sup>(7)</sup> \$ 65,137  | 7,076  | <sup>(10)</sup> \$ 363,494  |
|                    | 4,293   | <sup>(8)</sup> \$ 220,531   | 15,950   | <sup>(5)</sup> \$ 819,352   |
| Mark Light         |   |   | 24,246   | <sup>(9)</sup> \$ 1,245,517   |
|                    |   |   | 27,792   | <sup>(10)</sup> \$ 1,427,675  |
|                    |   |   | 15,826   | <sup>(5)</sup> \$ 812,982   |

(1) Calculated using the closing market price of the Company's Common Shares on February 2, 2018, the last business day of Fiscal 2018 (\$51.37 per share).

(2) Amounts reported above reflect payout at maximum, which is 200% of target.

(3) The grant date for this award was August 1, 2017. One third of this grant vests on each of the first, second and third anniversary of the grant date.

(4) The grant date for this award was August 1, 2017. Half of this grant vested on February 4, 2018, and the remaining half will vest on February 3, 2019.

(5) The Compensation Committee will determine whether this grant will vest within 70 days following February 1, 2020.

(6) This grant will vest on April 27, 2018.

The grant date for this award was April 25, 2016. One third of this grant vests on each of the first, second and third anniversary of the grant date. As of February 3, 2018, the awards outstanding represent the amounts eligible for vesting on the second and third anniversary of the grant date.

(8) The grant date for this award was April 7, 2017. One third of this grant vests on each of the first, second and third anniversary of the grant date.

- (9) This award vested on February 3, 2018 and lapsed as a result of performance below the 3-year cumulative threshold as determined by the Compensation Committee.
- (10) The Compensation Committee will determine whether this grant will vest within 70 days following February 2, 2019.  
The grant date for this award was November 18, 2017. One-third of this grant will vest on the date the Company
- (11) announces its results for the fiscal year ended February 2, 2019, and the remaining two-thirds will vest on September 12, 2020, subject to continued service.

## Option Exercises and Shares Vested

The table below shows the number and value of share options exercised and shares vested (or settled) for the NEOs in Fiscal 2018.

| NEO                | Stock Awards                            |   |
|--------------------|---|---|
|                    | Number of shares<br>acquired on vesting | Value realized<br>on vesting <sup>(1)</sup> |
| Virginia C. Drosos | —                                       | \$ —  |
| Michele Santana    | 4,080                                   | \$ 266,661                                  |
| Oded Edelman       | —                                       | \$ —  |
| George Murray      | 4,134                                   | \$ 271,811                                  |
| Sebastian Hobbs    | 3,382                                   | \$ 224,528                                  |
| Mark Light         | 36,093                                  | \$ 2,301,337                                |

<sup>(1)</sup> Represents the value realized upon vesting of shares, based on the market value of the shares on the vesting date.

## Non Qualified Deferred Compensation

The Company maintains the Deferred Compensation Plan (the “DCP”), which is an unfunded, non-qualified plan under Federal guidelines, established for senior management to assist with pre-tax retirement savings in addition to the 401(k) Plan. The Company provides a discretionary 50% matching contribution under the DCP for each participant’s annual deferral, up to 10% of the participant’s annual eligible compensation. Although the DCP also permits additional employer discretionary contributions, the Company did not make any additional discretionary contribution in Fiscal 2018.

| NEO                | Executive contributions in last fiscal year <sup>(1)</sup> | Registrant contribution in last fiscal year <sup>(2)</sup> | Aggregate earnings in last fiscal year <sup>(3)</sup> | Aggregate withdrawals/distributions in last fiscal year <sup>(4)</sup> | Aggregate balance at last fiscal year end <sup>(5)</sup> |
|--------------------|--|--|---|--|--|
| Virginia C. Drosos | \$ 57,692  | \$ 28,846  | \$ 810  | \$ (12   | )\$87,336  |
| Michele Santana    | \$ 72,692  | \$ 36,346  | \$ 29,723   | \$ (275,075  | )\$1,122,528   |
| Oded Edelman       | \$ —   | \$ —   | \$ —  | \$ —   | \$—  |
| George Murray      | \$ 72,692  | \$ 36,346  | \$ 34,947   | \$ (204,662  | )\$1,255,495   |
| Sebastian Hobbs    | \$ 53,846  | \$ 26,923  | \$ 1,444  | \$ (25   | )\$82,188  |
| Mark Light         | \$ 67,789  | \$ 33,894  | \$ 49,503   | \$ (2,040,438  | )\$—   |

(1) All NEO contributions are reflected in their “Salary” or “Non-Equity Incentive Plan Compensation” columns of the Summary Compensation Table.

(2) All registrant contributions reflect the Company match of executive contributions. These contributions are reported in the “All Other Compensation” column of the Summary Compensation Table.

(3) Aggregate earnings represent interest credited to each executive’s account based on the crediting rate of interest declared for the year. For Fiscal 2018, this rate did not exceed 120% of the applicable U.S. federal long-term rate. As such, no amounts are reported in the Summary Compensation Table.

In Fiscal 2018, aggregate withdrawals for each NEO related to the payment of required tax withholdings for

(4) earnings on non-qualified deferred compensation balances and scheduled payouts made based on the terms of the DCP.

(5) The aggregate balance reported as of February 3, 2018 for each executive includes the following amounts that were reported in the Summary Compensation Table in the current and prior year Proxy Statements:

| NEO                | Aggregate balance reported in current and prior Summary Compensation Table |
|--------------------|--|
| Virginia C. Drosos | \$ 86,538  |
| Michele Santana    | \$ 1,034,621   |
| Oded Edelman       | \$ —   |
| George Murray      | \$ 888,044   |
| Sebastian Hobbs    | \$ 80,769  |
| Mark Light         | \$ —   |

## NEO Agreements

This section summarizes the details of the termination protection agreements for each NEO, other than Mr. Light and Mr. Murray, as well as the terms of Mr. Edelman's employment agreement. Information concerning the separation agreements entered into with Mr. Light and Mr. Murray is also shared below. For each NEO, the actual salary paid during Fiscal 2018 is set forth in the Summary Compensation Table and the current annual salary and maximum and target bonus opportunities are described in the CDA.

## TERMINATION PROTECTION AGREEMENTS

Each of the NEOs, other than Mr. Edelman, has entered into a termination protection agreement with a U.S. subsidiary that governs terminations of employment and certain material terms of such NEO's employment. The termination protection agreements with Mr. Light and Mr. Murray are no longer in effect.

Pursuant to the termination protection agreement, the NEO's employment, other than in the case of Ms. Drosos, will continue until the agreement is terminated by the Company at any time by notifying the NEO in writing or by the NEO at any time upon at least 360 days' advance written notice, other than upon the NEO's death or upon a termination for "cause," which terminations may be effective immediately.

Ms. Drosos's termination protection agreement has an initial term of three years, effective from August 1, 2017, and thereafter shall automatically renew for one-year periods, unless either party provides notice of non-renewal at least six months prior to the end of the then current term. Ms. Drosos's employment shall continue until terminated by the Company at any time, by Ms. Drosos with at least 90 days' notice, by either party upon notice of non-renewal of the agreement as described above, or upon Ms. Drosos's death or termination for "cause," which terminations may be effective immediately.

The termination protection agreements provide for compensation, including, (i) an annual base salary, (ii) target and maximum annual bonus, (iii) eligibility to be considered annually for a long-term incentive plan payment, as determined in the sole discretion of the Compensation Committee, and (iv) participation in benefit plans made available to senior executives of the Company.

During employment and for a specified period thereafter, each NEO will be subject to confidentiality, non-solicitation and non-competition restrictions. In addition, the NEOs are required to meet certain share ownership levels, as set by the Board from time to time. The Company has agreed to provide the NEOs with coverage under a directors and officers liability insurance policy, at a level no less than that maintained for substantially all of the executive officers of the Company and the members of the Company's Board.

The NEOs, other than Ms. Drosos, are each entitled to severance payments, subject to the execution and non-revocation of a release of claims, if the NEO is (i) terminated by the Company without "cause" or (ii) if the NEO resigns for "good reason" within one year following a "change of control" (as these terms are defined in the termination protection agreements). In the event of any such termination, the NEO will be entitled to:

- (i) continued payment of base salary for twelve months following the date of termination;
- (ii) a lump sum amount equal to the annual bonus the NEO would have otherwise received for the fiscal year in which such termination occurs, based on actual performance;
- (iii) in respect of each then-ongoing award under the Company's LTIP as of the date of termination, as discussed further in section "Termination Payments - Change of Control" on page 61, (a) with respect to awards that vest in whole or in part based on performance, at the end of each completed performance cycle for each such award, vesting calculated based on actual performance during the full performance cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable performance cycle through the date of termination, payable in accordance with the LTIP and (b) with respect to awards that vest solely based on provision of services, vesting calculated based on the award the executive otherwise would have received for the vesting cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable vesting cycle through the date of termination, payable in accordance with the LTIP; and
- (iv) if the NEO elects coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), a cash payment equal to the employer contribution to the premium payment for actively employed senior executives, payable monthly for twelve months or until such earlier termination of COBRA coverage.

Ms. Drosos is entitled to the following severance payments, subject to the execution and non-revocation of a release of claims, (a) if she is terminated by the Company without “cause” or (b) in the event the Company elects not to renew the termination protection agreement at the end of any term:

(i) payment of the sum of base salary and target annual bonus for twelve months following the date of termination;

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- (ii) a lump sum amount equal to the annual bonus Ms. Drosos would have otherwise received for the fiscal year in which such termination occurs, based on actual performance and pro-rated for the number of days employed during such fiscal year;
- (iii) in respect of each then-ongoing award under the Company's LTIP as of the date of termination, (a) with respect to awards that vest in whole or in part based on performance, at the end of each completed performance cycle for each such award, vesting calculated based on actual performance during the full performance cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable performance cycle through the date of termination, payable in accordance with the LTIP and (b) with respect to awards that vest solely based on provision of services (other than her One-Time Award, which will vest in full upon termination without "cause"), vesting calculated based on the award the executive otherwise would have received for the vesting cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable vesting cycle through the date of termination, payable in accordance with the LTIP; and
- (iv) if Ms. Drosos elects coverage under COBRA, a cash payment equal to the employer contribution to the premium payment for actively employed senior executives, payable monthly for twelve months or until such earlier termination of COBRA coverage.

Ms. Drosos is entitled to the following severance payments, subject to the execution and non-revocation of a release of claims, if in each case within one year following a "change of control" (as defined in the termination protection agreement): (a) she is terminated by the Company without "cause," (b) she resigns for "good reason" (as defined in the termination protection agreement) or (c) in the event the Company elects not to renew the termination protection agreement at the end of any term:

- (i) one and one-half times (1.5x) the sum of base salary and target annual bonus, payable in a lump sum;
- (ii) a lump sum amount equal to the annual bonus Ms. Drosos would have otherwise received for the fiscal year in which such termination occurs, based on actual performance and pro-rated for the number of days employed during such fiscal year;
- (iii) awards granted pursuant to the LTIP, other than her One-Time Award (which will vest in full upon a termination without "cause" or resignation for "good reason"), shall be paid in accordance with the terms of the LTIP and applicable award agreement, as discussed in section "Termination Payments - Change of Control" on page 61; and
- (iv) if Ms. Drosos elects coverage under COBRA, a cash payment equal to the employer contribution to the premium payment for actively employed senior executives, payable monthly for eighteen months or until such earlier termination of COBRA coverage.

If any of the NEO's employment, other than Mr. Edelman's, is terminated by reason of death, the NEO's estate shall be entitled to:

- (i) continued payment of base salary for six months following the date of death;
- (ii) a lump sum amount equal to the annual bonus the NEO would have otherwise received for the fiscal year in which such termination occurs based on actual performance and prorated for the number of calendar days employed during such fiscal year; and
- (iii) in respect of each then-ongoing performance cycle under the LTIP as of the date of termination, (a) with respect to awards that vest in whole or in part based on performance, vesting based on target performance for the performance cycle and prorated for the number of calendar days employed during the performance cycle and (b) with respect to awards that vest solely based on the provision of services, vesting shall be pro-rated based on the number of calendar days employed during the vesting cycle.

If the NEO's employment is terminated by reason of disability, the NEO shall be entitled to the annual bonus the NEO would have otherwise received for the fiscal year in which such termination occurs based on actual performance and prorated for the number of calendar days employed during such fiscal year.

Upon any termination of the NEO's employment, the NEO will be entitled to accrued and unpaid benefits or obligations.

#### Oded Edelman Employment Agreement

Mr. Edelman entered into an employment agreement with R2Net Israel Ltd., a subsidiary of the Company. Mr. Edelman's employment agreement became effective upon the closing of the R2Net Inc. acquisition on September 12, 2017.

Pursuant to the employment agreement, Mr. Edelman's employment will continue until (i) his employment is terminated by the Company without cause upon 12 months notice, (ii) he resigns for any reason upon 30 days notice, (iii) his death or disability or (iv) immediately upon a termination of employment by R2Net Israel Ltd. for "cause." The employment agreement provides for compensation, including, (i) an annual base salary, (ii) target and maximum annual bonus, (iii) eligibility to be considered annually for a long-term incentive plan payment beginning in Fiscal 2020, as determined in the sole discretion of the Compensation Committee, and (iv) participation in benefit plans made available to senior executives of the Company. According to the employment agreement Mr. Edelman is also entitled to social benefit arrangements including a pension arrangement, severance arrangement and study fund, as well as sick leave, recreation pay, vacation and travel allowance benefits.

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In connection with entering into the employment agreement, Mr. Edelman entered into a Confidential Information, Non-Compete and Invention Assignment Agreement. Pursuant to such agreement Mr. Edelman is subject to perpetual confidentiality during the employment period and thereafter and non-solicitation and non-competition restrictions for one year following termination of employment. In addition, Mr. Edelman is also required to meet certain share ownership levels, as set by the Board from time to time. The Company has agreed to provide Mr. Edelman with coverage under a directors and officers liability insurance policy, at a level no less than that maintained for substantially all of the executive officers of the Company and the members of the Company's Board.

In lieu of the notice periods required upon termination of Mr. Edelman's employment described above, Mr. Edelman (or his estate) may receive pay in lieu of notice for the periods set forth above (but in case of death or disability, the pay in lieu of notice is one month). If R2Net Israel Ltd. terminates Mr. Edelman's employment without cause, and he is required to provide services during the notice periods, he is eligible to receive base salary, social benefits, and any bonuses or other incentive compensation during the notice period. However, if R2Net Israel Ltd. elects to terminate Mr. Edelman's employment at any time during such notice period, Mr. Edelman is entitled to receive a lump sum cash payment equal to base salary and the employer contribution to social benefits for the remainder of the notice period.

#### Mark Light Separation Agreement

On July 15, 2017, Signet entered into a separation agreement with Mr. Light (the "Separation Agreement") in connection with his resignation as Chief Executive Officer of Signet effective July 31, 2017 (the "Retirement Date"). As of the Retirement Date, Mr. Light became entitled to receive, in addition to any accrued but unpaid benefits or obligations:

- (i) continued payment of base salary for twelve months following the Retirement Date;
- (ii) an annual bonus for Fiscal 2018 based on actual performance for the full fiscal year;
- (iii) with respect to the time-based restricted stock awards granted on April 27, 2015, April 25, 2016 and April 7, 2017, pro rata vesting based on the number of days employed during each vesting cycle;
- (iv) with respect to the performance-based restricted stock unit awards granted on April 27, 2015, April 25, 2016 and April 27, 2017, at the end of each completed performance cycle for each such award, vesting calculated based on actual performance during the full performance cycle, prorated based on the number of calendar days employed during such performance cycle;
- (v) a lump sum payment equal to \$975,000 payable within ten days following the second anniversary of the Retirement Date and if Mr. Light elects to extend the restrictive covenant period for an additional third year following the Retirement Date, a lump sum payment equal to \$975,000 payable within ten days following the third anniversary of the Retirement Date;
- (vi) a lump sum payment equal to \$200,000 in respect of health benefits;
- (vii) reimbursement for administrative support service expenses of up to \$35,000 for a period of six months following the Retirement Date to facilitate knowledge transfer;
- (viii) a lump sum payment equal to \$50,000 for financial and retirement planning services; and
- (ix) a lump sum payment equal to \$50,000 for legal fees incurred in connection with the Separation Agreement.

For a period of two years after the Retirement Date, Mr. Light will be subject to non-competition restrictions. Mr. Light will also be subject to ongoing confidentiality restrictions. The Separation Agreement also contains other customary provisions.

All severance payments and benefits (other than any payments accrued prior to termination) were conditioned on Mr. Light's (a) execution of a general release of claims against Signet, its affiliates and related parties, (b) full and continued cooperation in good faith with Signet, its subsidiaries and affiliates in connection with certain matters relating to Signet, its subsidiaries and affiliates, and (c) continued compliance with the restrictive covenants discussed above.

Mr. Light was required to comply with written Board policies, including the Signet Code for Securities Transactions and any policies relating to the clawback of compensation.

On March 1, 2018, the Company entered into an amendment to the Separation Agreement that granted Mr. Light a limited waiver from his non-competition covenant in the Separation Agreement to permit him to join the board of directors of a private company, Bedrock Manufacturing Company, LLC, the parent of Shinola LLC, and enter into a consulting agreement with Bedrock Manufacturing Company, LLC. In return for the limited waiver, the amendment

also:

(i) reduces Mr. Light's previously agreed salary continuation by 50% for the period of February 1, 2018 through July 31, 2018;

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(ii) reduces the \$975,000 payment that is payable within ten days following the second anniversary of the Retirement Date to \$487,500 and reduces the \$975,000 payment that is payable within ten days following the third anniversary of the Retirement Date to \$487,500; and

(iii) extends the Restrictive Covenant Period until the third anniversary of the Retirement Date.

#### George Murray Separation Agreement

On February 23, 2018, Signet entered into a separation and release agreement with Mr. Murray in connection with the announcement that he would be leaving Signet as its Chief Retail Insights & Strategy Officer, effective May 5, 2018.

Pursuant to the terms of Mr. Murray's separation agreement, Mr. Murray will be entitled to receive:

(i) continued payment of base salary for twelve months following the date of termination;

(ii) a lump sum amount equal to the annual bonus Mr. Murray would have otherwise received for the fiscal year in which such termination occurs, based on actual performance;

(iii) in respect of each then-ongoing award under the Company's LTIP as of the date of termination, (a) with respect to awards that vest in whole or in part based on performance, at the end of each completed performance cycle for each such award, vesting calculated based on actual performance during the full performance cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable performance cycle through the date of termination, payable in accordance with the LTIP and (b) with respect to awards that vest solely based on provision of services, vesting calculated based on the award the executive otherwise would have received for the vesting cycle, prorated based on the number of calendar days that have elapsed since the beginning of the applicable vesting cycle through the date of termination, payable in accordance with the LTIP;

(iv) if Mr. Murray elects coverage under COBRA, a lump cash payment equal to twelve months of the employer contribution to the premium payment for actively employed senior executives and a gross up for income taxes on such payment;

(v) reimbursement of up to \$20,000 for reasonable outplacement services for a period of up to one year following the termination date; and

(vi) reimbursement of up to \$5,000 in respect of legal fees incurred in connection with finalizing the separation and release agreement.

Such payments and benefits are subject to the execution and non-revocation of a release of claims. Mr. Murray is also subject to non-competition and non-solicitation restrictions for one year following the termination date and perpetual confidentiality, cooperation and non-disparagement provisions.

## Termination Payments

Each of the NEOs is party to a termination protection agreement (described in the prior section) or other arrangement with the Company that may entitle him or her to payments or benefits in the event of:

- Involuntary termination of employment without cause;
- Termination due to death;
- Termination due to disability;
- Voluntary termination with good reason within one year following a change of control; and
- Involuntary termination without cause following a change of control.

## RETIREMENT BENEFITS

NEOs will also receive retirement benefits as disclosed in prior tables.

### CHANGE OF CONTROL

Under the Omnibus Plan and award agreements, in the event of a corporate event or transaction involving the Company, a subsidiary and/or an affiliate, equity awards will be adjusted in such manner as the Compensation Committee shall determine. Under the terms of the Omnibus Plan, if a change of control occurs, unless otherwise prohibited by applicable law, or unless the Compensation Committee determines otherwise in an award agreement, the Committee may (but is not required to) make adjustments in the terms of outstanding awards, such as: (i) continuation or assumption by the surviving company or its parent; (ii) substitution by the surviving company or its parent of awards with substantially the same terms; (iii) accelerated exercisability, vesting and/or lapse of restrictions immediately prior to the occurrence of such event; (iv) upon written notice, provision for mandatory exercise of any outstanding awards, to the extent then exercisable, during a certain period (contingent on the consummation of the change of control) at the end of which the awards terminate; and (v) cancellation of all or any portion for fair value (as determined by the Compensation Committee). While it is the Compensation Committee's intention in the event of a change of control to make adjustments in the terms of outstanding awards in accordance with (i) and (ii) above, as the Compensation Committee is unable to predict the exact circumstance of any change of control, it is considered prudent to reserve to itself the discretion of considering alternatives (iii), (iv) and (v) if the circumstances warrant it. Based on award agreements for outstanding awards, if the awards are not assumed or substituted upon a change of control, restricted shares will fully vest and performance units will vest on a prorated basis, based on the number of calendar days that have elapsed during the performance period through the change of control and based on actual performance to the time of the change of control compared to pro-rated performance targets; and if awards are assumed upon a change of control the restricted shares will continue to vest in accordance with their existing vesting schedule and performance units will be converted to time-based vesting units with a value equal to the value of the units that would have vested at the time of the change of control if the awards were not assumed or substituted, and such remaining award shall be subject to time-based vesting for the original performance period. Following the change of control, such modified awards will be subject to full vesting upon a termination without cause, and pro rata vesting upon a termination due to death, disability or retirement.

### NON-COMPETITION COVENANTS AFFECTED BY CHANGE OF CONTROL

The duration of certain non-competition covenants could be amended with consent following termination of employment in the event of a change of control.

### DEATH OR DISABILITY

If any of the NEOs had died or become disabled during Fiscal 2018, a pro rata portion of the unvested performance-based restricted share units and time-based restricted shares would have vested early, based on target performance for the performance-based restricted share units. For disability, pro rata awards are subject to prior completion of one year of service from the date of grant and calculated based on calendar days of service. The value of early vesting due to death and disability is shown in the Termination Payments table above. See the discussion of Agreements with NEOs above for additional information concerning death and disability benefits available to the NEOs.

## RETIREMENT

If any of the NEOs had retired during Fiscal 2018, and had been of retirement age (which is 65 for all NEOs except Mr. Edelman, whose retirement age is 60) a pro rata portion of the time-based restricted shares would vest on the retirement date and a pro-rated portion of the performance-based restricted share units would be eligible to vest at the end of the applicable performance period based on actual performance. Pro rata awards are subject to prior completion of one year of service from the date of grant and are calculated based on calendar days of service. None of the NEOs were of retirement age as of the last day of Fiscal 2018.

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The below estimated values have been calculated on the basis that the NEO's employment had been terminated as of February 2, 2018, the last business day of Fiscal 2018, using a NYSE closing market price as of that date (\$51.37).

| NEO  | Involuntary termination without cause <sup>(1)(2)(3)</sup> | Death <sup>(4)</sup> | Disability <sup>(4)</sup> | Voluntary termination with good reason within one year following a change of control <sup>(1)(2)</sup> | Involuntary termination without cause following a change of control <sup>(1)(2)(5)</sup> |
|--|--|----------------------|---------------------------|--|--|
| Virginia C. Drosos   |  |                      |                           |  |  |
| Cash severance:  |  |                      |                           |  |  |
| Base salary  | \$ 1,500,000   | \$750,000            | \$—                       | \$2,250,000  | \$2,250,000  |
| Bonus  | \$ 3,750,000   | \$1,500,000          | \$1,500,000               | \$4,875,000  | \$4,875,000  |
| Total cash severance   | \$ 5,250,000   | \$2,250,000          | \$1,500,000               | \$7,125,000  | \$7,125,000  |
| Long term incentives:  |  |                      |                           |  |  |
| Accelerated vesting of performance-based restricted share units <sup>(6)</sup> | \$ 667,810   | \$667,810            | \$—                       | \$667,810  | \$667,810  |
| Accelerated vesting of time-based restricted shares <sup>(7)</sup>             | \$ 4,507,081   | \$1,720,096          | \$—                       | \$4,507,081  | \$5,974,228  |
| Total value of long term incentives  | \$ 5,174,891   | \$2,387,906          | \$—                       | \$5,174,891  | \$6,642,038  |
| Benefits and perquisites   | \$ 18,993  | \$—                  | \$—                       | \$28,490   | \$28,490   |
| Total  | \$ 10,443,884  | \$4,637,906          | \$1,500,000               | \$12,328,381   | \$13,795,528   |
| Michele Santana  |  |                      |                           |  |  |
| Cash severance:  |  |                      |                           |  |  |
| Base salary  | \$ 700,000   | \$350,000            | \$—                       | \$700,000  | \$700,000  |
| Bonus  | \$ —   | \$—                  | \$—                       | \$—  | \$—  |
| Total cash severance   | \$ 700,000   | \$350,000            | \$—                       | \$700,000  | \$700,000  |
| Long term incentives:  |  |                      |                           |  |  |
| Accelerated vesting of performance-based restricted share units <sup>(6)</sup> | \$ 383,749   | \$571,352            | \$407,929                 | \$383,749  | \$805,636  |
| Accelerated vesting of time-based restricted shares <sup>(7)</sup>             | \$ 308,198   | \$308,198            | \$221,400                 | \$308,198  | \$625,995  |
| Total value of long term incentives  | \$ 691,947   | \$879,550            | \$629,329                 | \$691,947  | \$1,431,631  |
| Benefits and perquisites   | \$ 18,993  | \$—                  | \$—                       | \$18,993   | \$18,993   |
| Total  | \$ 1,410,940   | \$1,229,550          | \$629,329                 | \$1,410,940  | \$2,150,624  |

|   | Involuntary<br>termination<br>without cause <sup>(1)(2)(3)</sup> | Death <sup>(4)</sup> | Disability <sup>(4)</sup> | Voluntary<br>termination<br>with good<br>reason<br>within one<br>year<br>following<br>change of<br>control <sup>(1)(2)</sup> | Involuntary<br>termination<br>without<br>cause<br>following<br>a change of<br>control <sup>(1)(2)(5)</sup> |
|---|--|----------------------|---------------------------|--|--|
| <b>George Murray</b>  |  |                      |                           |  |  |
| Cash severance:   |  |                      |                           |  |  |
| Base salary   | \$ 700,000   | \$ 350,000           | \$ —                      | \$ 700,000   | \$ 700,000   |
| Bonus   | \$ —   | \$ —                 | \$ —                      | \$ —   | \$ —   |
| Total cash severance  | \$ 700,000   | \$ 350,000           | \$ —                      | \$ 700,000   | \$ 700,000   |
| Long term incentives:   |  |                      |                           |  |  |
| Accelerated vesting of<br>performance-based restricted share units <sup>(6)</sup> | \$ 268,597   | \$ 381,149           | \$ 266,764                | \$ 268,597   | \$ 650,396   |
| Accelerated vesting of time-based<br>restricted shares <sup>(7)</sup>             | \$ 198,410   | \$ 198,410           | \$ 137,643                | \$ 198,410   | \$ 419,487   |
| Total value of long term incentives   | \$ 467,007   | \$ 579,559           | \$ 404,407                | \$ 467,007   | \$ 1,069,883   |
| Benefits and perquisites  | \$ 18,993  | \$ —                 | \$ —                      | \$ 18,993  | \$ 18,993  |
| Total   | \$ 1,186,000   | \$ 929,559           | \$ 404,407                | \$ 1,186,000   | \$ 1,788,876   |
| <b>Sebastian Hobbs</b>  |  |                      |                           |  |  |
| Cash severance:   |  |                      |                           |  |  |
| Base salary   | \$ 700,000   | \$ 350,000           | \$ —                      | \$ 700,000   | \$ 700,000   |
| Bonus   | \$ —   | \$ —                 | \$ —                      | \$ —   | \$ —   |
| Total cash severance  | \$ 700,000   | \$ 350,000           | \$ —                      | \$ 700,000   | \$ 700,000   |
| Long term incentives:   |  |                      |                           |  |  |
| Accelerated vesting of<br>performance-based restricted share units <sup>(6)</sup> | \$ 230,841   | \$ 307,587           | \$ 193,203                | \$ 230,841   | \$ 591,423   |
| Accelerated vesting of time-based<br>restricted shares <sup>(7)</sup>             | \$ 157,043   | \$ 157,043           | \$ 96,276                 | \$ 157,043   | \$ 362,415   |
| Total value of long term incentives   | \$ 387,884   | \$ 464,630           | \$ 289,479                | \$ 387,884   | \$ 953,838   |
| Benefits and perquisites  | \$ 18,993  | \$ —                 | \$ —                      | \$ 18,993  | \$ 18,993  |
| Total   | \$ 1,106,877   | \$ 814,630           | \$ 289,479                | \$ 1,106,877   | \$ 1,672,831   |

(1) Payments are subject to the execution of a release of claims and compliance with restrictive covenants.

Executives other than Ms. Drosos are entitled to the annual bonus for the fiscal year of termination based on actual performance, but executives did not earn an annual bonus for Fiscal 2018. In the case of involuntary termination without cause, Ms. Drosos is entitled to target annual bonus in addition to her prorated bonus payment in the year of termination; Ms. Drosos received a minimum bonus payment for Fiscal 2018 equal to \$1,500,000 as part of her new hire package. In the case of termination following a change of control, Ms. Drosos is entitled to 1.5 times her target annual bonus in addition to her actual bonus payment in the year of termination.

(3) Ms. Drosos will also receive these payments if the Company elects not to renew her termination protection agreement at the end of any term.

(4) Executives are entitled to the pro-rata annual bonus for the fiscal year of termination based on actual performance, but executives did not earn an annual bonus for Fiscal 2018. However, Ms. Drosos received a minimum bonus

payment for Fiscal 2018 equal to \$1,500,000 as part of her new hire package.

- (5) Ms. Drosos will also receive these payments if the Company elects not to renew her termination protection agreement at the end of any term within one year following a change of control.

Performance-based restricted share unit awards granted in Fiscal 2017 and Fiscal 2018 are earned based on actual performance during the full performance period in the event of an involuntary termination without cause, termination with good reason within one year following a change in control or retirement. Since the performance

- (6) periods for those grants have not been completed, the values reflect target performance, which may be higher or lower than actual performance. In the event of a change in control, the table assumes that awards are substituted in connection with the transaction and performance-based restricted share unit awards will convert to time-based restricted share awards, based on actual performance through the time of the change of control compared to pro-rated performance targets.
- (7) In the event of a change in control, the table assumes that awards are substituted in connection with the transaction.

The amounts reported in the above table are hypothetical amounts based on the disclosure of compensation information about the NEOs. Actual payments will depend on the circumstances and timing of any termination of employment or other triggering event, and compliance with confidentiality, non-solicitation and non-competition restrictions (see “NEO Agreements” above). The amount of annual bonus payable upon certain events of termination is based on, where appropriate, the Company’s actual performance in Fiscal 2018. The value attributed to accelerated vesting of performance-based restricted share units, as applicable, payable upon certain events of termination is based on the Company’s actual performance for performance-based restricted share units granted in Fiscal 2016 and target performance for restricted share units granted in Fiscal 2017 and Fiscal 2018.



## Director Compensation

The following table summarizes the total compensation of each of the Company's Directors during Fiscal 2018.

| Independent Director              | Fees earned<br>or paid in<br>cash | Stock<br>awards <sup>(1)</sup> | Total      |
|-----------------------------------|-----------------------------------|--------------------------------|------------|
| H. Todd Stitzer                   | \$ 280,000                        | \$ 325,464                     | \$ 605,464 |
| Virginia C. Drosos <sup>(2)</sup> | \$ 72,083                         | \$ 142,367                     | \$ 214,450 |
| R. Mark Graf <sup>(3)</sup>       | \$ 61,250                         | \$ 143,835                     | \$ 205,085 |
| Dale W. Hilpert <sup>(4)</sup>    | \$ 52,500                         | \$—                            | \$ 52,500  |
| Helen McCluskey                   | \$ 110,000                        | \$ 142,367                     | \$ 252,367 |
| Sharon L. McCollam <sup>(5)</sup> | \$—                               | \$—                            | \$—        |
| Marianne Miller Parrs             | \$ 135,000                        | \$ 142,367                     | \$ 277,367 |
| Thomas Plaskett                   | \$ 119,583                        | \$ 142,367                     | \$ 261,950 |
| Nancy A. Reardon <sup>(5)</sup>   | \$—                               | \$—                            | \$—        |
| Jonathan Sokoloff <sup>(6)</sup>  | \$ 105,000                        | \$ 142,367                     | \$ 247,367 |
| Robert J. Stack <sup>(7)</sup>    | \$ 106,667                        | \$ 142,367                     | \$ 249,034 |
| Brian Tilzer                      | \$ 96,250                         | \$ 199,540                     | \$ 295,790 |
| Eugenia Ulasewicz                 | \$ 125,000                        | \$ 142,367                     | \$ 267,367 |
| Russell Walls                     | \$ 105,000                        | \$ 142,367                     | \$ 247,367 |

In accordance with FASB ASC Topic 718, the amounts calculated are based on the aggregate grant date fair value of the shares (in the column entitled "Stock awards"). Shares were granted to the independent Directors on the day of the Annual Meeting of Shareholders. For information on the valuation assumptions, refer to note 25 in the Signet Annual Report on Form 10-K for Fiscal 2018. In addition, shares with a grant date fair value of \$57,513 were issued to Mr. Tilzer upon his appointment to the Board on February 1, 2017, in consideration of his service until the Annual Meeting of Shareholders in June 2017.

<sup>(2)</sup> Ms. Drosos was an independent Director before becoming CEO on August 1, 2017. Her Director compensation is included in her total compensation in the Summary Compensation Table on page 50.

<sup>(3)</sup> Mr. Graf joined the Board on July 1, 2017.

<sup>(4)</sup> Mr. Hilpert resigned from the Board at the Annual Meeting of Shareholders in June 2017.

<sup>(5)</sup> Ms. McCollam and Ms. Reardon were appointed effective March 13, 2018 and did not receive any compensation during Fiscal 2018.

<sup>(6)</sup> Mr. Sokoloff's cash fee of \$105,000 was paid to Leonard Green & Partners L.P.

<sup>(7)</sup> Mr. Stack passed away in December 2017.

## ANNUAL COMPENSATION

The Chairman of the Board receives an annual fee of \$600,000 which is split into a cash payment of \$280,000 and \$320,000 paid in Common Shares on the day of the Annual Meeting of Shareholders.

The annual basic fee for independent Directors is \$245,000 which is split into a cash payment of \$105,000 and \$140,000 paid in Common Shares on the day of the Annual Meeting of Shareholders. No committee meeting fees are payable, but additional annual amounts are paid to the Chair of each Board Committee: \$30,000 for the Audit Committee, \$25,000 for the Compensation Committee, \$20,000 for the Nomination and Corporate Governance Committee and \$20,000 for the Corporate Social Responsibility Committee.

## SHARE OWNERSHIP

The Company has a Share Ownership Policy applicable to Directors to better align their interests with those of Shareholders over the long term.

The Chairman is expected to achieve a minimum share ownership value of \$700,000 within five years of being elected to the Board. The independent Directors are expected to achieve a minimum share ownership of three times the value of their annual share award within five years of election to the Board. Once these share ownership holdings are achieved at any given share price, the requirement is considered to have been met notwithstanding any subsequent change in share price. The minimum holding is to be maintained while he or she is a Director of the Company. Each

of the Directors is in compliance with the Share Ownership Policy.

**INDEMNIFICATION**

The Company has entered into indemnification agreements with the independent Directors of the Company, agreeing to indemnify such persons against expenses, judgments, fines and amounts paid in settlement of, or incurred in connection with, any threatened, pending or completed action, suit or proceeding in which the Director was or is, or is threatened to be made, a party by reason of his or her service as a Director, officer, employee or agent of the Company, provided that the Director acted in good faith and in a manner he or she reasonably believed to be in the best interest of the Company and, with respect to any criminal action or proceeding, provided he or she had reasonable cause to believe such actions were lawful. Each indemnification agreement also provides for the advance of expenses incurred by the Director in defending any proceeding.

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## Shareholder Q&A

When and where can I find the Proxy Statement and Internet Notice?

The Signet Proxy Statement and Internet Notice were filed with the SEC and published on the Company's website, [www.signetjewelers.com/shareholders](http://www.signetjewelers.com/shareholders), on May 1, 2018. The Internet Notice will be emailed or mailed to shareholders on or around May 1, 2018. The Signet Annual Report on Form 10-K for Fiscal 2018 was filed with the SEC on April 2, 2018 and is published on the Company's website. Hard copies of Signet's proxy materials will be mailed to those shareholders who have requested these on or around May 1, 2018.

What is included in Signet's proxy materials?

Signet's proxy materials include the following:

• Proxy Statement; and

• Annual Report to Shareholders for Fiscal 2018.

In line with SEC rules, Signet emails or mails many Shareholders the Internet Notice informing them of the availability of proxy materials on the Signet website. The Internet Notice, when mailed to Shareholders, also incorporates Signet's Proxy Voting Instructions.

How do I register my email address for email delivery of proxy materials?

You can register your email address for email delivery of proxy materials in any one of the following ways:

|  |  |
|--|--|
| U.S. Shareholders  | UK and other non-U.S. Shareholders                                     |
| Telephone: 888-776-9962  | 0800 181 4722*   |
| <a href="mailto:info@astfinancial.com">info@astfinancial.com</a> | <a href="mailto:enquires@linkgroup.co.uk">enquires@linkgroup.co.uk</a> |

|  |  |
|--|--|
| Email: Please include the words<br>"Proxy Materials Signet<br>Jewelers Limited" in the subject line. | Please include the words<br>"Proxy Materials Signet Jewelers Limited" in the subject line. |
|--|--|

\*Or +44 371 664 0300 from outside the United Kingdom. Calls to Freephone numbers will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate.

Signet encourages Shareholders to take advantage of the availability of proxy materials on the Company's website and register for email delivery. This allows the Company to significantly reduce its printing and postage costs while ensuring timely delivery to Shareholders and reducing environmental impact.

What will I receive if I register for email delivery?

Shareholders registered for email delivery of Signet proxy materials will receive an email on or around May 1, 2018. The email will contain a link to proxy materials available on the Signet website and details on how to vote.

How do I request a hard copy of the Company's proxy materials?

Instructions for requesting a hard copy of Signet's proxy materials can be found on the Internet Notice and on the Company's website: [www.signetjewelers.com/shareholders](http://www.signetjewelers.com/shareholders). You can also request a hard copy using the same contact details provided under "How do I register my email address for email delivery of proxy materials?" above.

Who is entitled to vote at the 2018 Annual Meeting of Shareholders?

You are entitled to vote at the 2018 Annual Meeting of Shareholders, and any postponement(s) or adjournment(s) thereof, if you owned Signet Jewelers Limited shares as of the close of business on April 16, 2018, the record date for the Meeting. On the record date there were 59,005,896 Common Shares issued and outstanding, excluding treasury shares, and 625,000 Series A Convertible Preference Shares issued and outstanding. Each issued and outstanding Common Share is entitled to one vote on each matter at the Meeting. The holders of the Series A Convertible Preference Shares are entitled to a number of votes equal to the largest number of Common Shares into which all Series A Convertible Preference Shares held by such holders could then be converted. As of the record date, up to 6,838,063 Common Shares were issuable to the holders upon conversion.



What is the difference between a shareholder of record and a beneficial owner of shares held in street name?

Shareholder of record

If your shares were registered directly in your name with one of Signet’s registrars (American Stock Transfer & Trust Company for U.S. Shareholders, and Link Asset Services for UK and other non-U.S. Shareholders) on the record date, you are considered the shareholder of record for those shares.

Signet’s Internet Notice or hard copy proxy materials will be provided directly to you.

Beneficial owner of shares held in street name

If your shares were registered with a broker, bank or other nominee on the record date, you are considered a beneficial owner of shares held in street name.

Signet’s Internet Notice or hard copy proxy materials will be forwarded to you by that entity, which is considered the shareholder of record for those shares. Your broker, bank or other nominee will send you details on how to vote your shares, and you must follow their instructions to vote.

Who can attend the 2018 Annual Meeting of Shareholders and vote in person?

Shareholders of record at the close of business on the record date and their proxies / corporate representatives are entitled to attend and vote at the Meeting.

Beneficial owners of shares held in street name may also attend but must bring proof of ownership to be admitted to the Meeting (for example, a brokerage statement or letter from your broker, bank or other nominee). To vote in person at the Meeting, a beneficial owner of shares held in street name must bring a valid “legal proxy” in their name, issued by the entity that holds their shares.

When is broker discretionary voting permitted and what is the effect of broker non-votes?

In accordance with NYSE rules, in circumstances where a broker, bank or other nominee does not receive specific voting instructions from the beneficial owner of the relevant shares, the broker may use his discretion to vote those shares on certain routine matters on the beneficial owner’s behalf. At the 2018 Annual Meeting of Shareholders, broker discretionary voting is only permitted with respect to Proposal 2 - Appointment of KPMG as Independent Auditor. A “broker non-vote” occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because it does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

What proposals are being voted on at the 2018 Annual Meeting of Shareholders, what vote is required to approve each proposal and what is the effect of abstentions and broker non-votes?

| Proposal                                      | Board’s Recommendation    | Vote Required to Approve                             | Effect of Abstentions                 | Effect of Broker Non-Votes                     |
|---|---------------------------|--|---------------------------------------|--|
| 1. Election of Eleven Directors               |                           |  |                                       |  |
| a) H. Todd Stitzer                            |                           |  |                                       |  |
| b) Virginia C. Drosos                         |                           |  |                                       |  |
| c) R. Mark Graf                               |                           |  |                                       |  |
| d) Helen McCluskey                            |                           |  |                                       |  |
| e) Sharon L. McCollam                         | FOR each Director nominee | Majority of the votes cast FOR each Director nominee | No effect - not counted as votes cast | No effect -not counted as votes cast           |
| f) Marianne Miller Parrs                      |                           |  |                                       |  |
| g) Thomas Plasket                             |                           |  |                                       |  |
| h) Nancy A. Reardon                           |                           |  |                                       |  |
| i) Jonathan Sokoloff                          |                           |  |                                       |  |
| j) Brian Tilzer                               |                           |  |                                       |  |
| k) Eugenia Ulasewicz                          |                           |  |                                       |  |
| 2. Appointment of KPMG as Independent Auditor | FOR                       | Majority of the votes cast FOR                       | No effect - not counted               | Not applicable -broker discretionary voting is |

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|   |     | as votes cast                                  | permitted                             |
|---|-----|--|---------------------------------------|
| 3. Approval, on a Non-Binding Advisory Basis, of the Compensation of the Company's Named Executive Officers (the "Say-on-Pay" vote)                                     | FOR | Majority of the votes cast FOR (advisory only) | No effect - not counted as votes cast |
| 4. Approval of the Signet Jewelers Limited 2018 Omnibus Incentive Plan, including the authorization of the issuance of additional shares thereunder                     | FOR | Majority of the votes cast FOR                 | Counted as votes cast                 |
| 5. Approval of the Signet Jewelers Limited Sharesave Scheme, including the authorization of the issuance of additional shares thereunder                                | FOR | Majority of the votes cast FOR                 | Counted as votes cast                 |
| 6. Approval of the Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees, including the authorization of the issuance of additional shares thereunder | FOR | Majority of the votes cast FOR                 | No effect - not counted as votes cast |

What is a proxy and how does proxy voting work?

A proxy is your legal designation of another person (or persons) to attend and vote your shares at a meeting on your behalf. The person you so designate is known as your proxy.

Your proxy need not be a Shareholder of the Company, but must attend the Annual Meeting of Shareholders in person to vote your shares. You can direct your proxy to vote your shares FOR or AGAINST, or to ABSTAIN from voting with respect to each matter to be voted on at the meeting. A proxy must vote your shares at the Meeting in accordance with your instructions.

The Board has designated H. Todd Stitzer and Mark Jenkins (each with full power of substitution) as proxies available to Shareholders for the 2018 Annual Meeting of Shareholders.

If you appoint a proxy, you may still attend the 2018 Annual Meeting of Shareholders and vote in person. If you vote in person at the Meeting, you will have effectively revoked any previously appointed proxies.

What happens if I appoint more than one proxy?

If you appoint more than one proxy, each proxy must be appointed to exercise the rights attaching to different shares held by you. In circumstances where the Company's registrars receive two or more valid proxy forms in respect of the same share(s) and the same meeting, the form dated last will be treated as replacing and revoking the other(s).

If you appoint a proxy designated by the Board but do not provide voting instructions, the shares represented by your proxy voting instructions will be voted in accordance with the recommendation of the Board.

If you submit voting instructions but do not name a proxy, the Chairman of the Meeting will be appointed as your proxy.

How do I vote?

Details of how Shareholders can appoint a proxy to vote on their behalf at the 2018 Annual Meeting of Shareholders, and any postponement(s) or adjournment(s) thereof, can be found in the table below.

|  | U.S. Shareholders   | UK and other non-U.S. Shareholders   |
|--|---|--|
| Online via the Signet website:   | <a href="http://www.signetjewelers.com/shareholders">www.signetjewelers.com/shareholders</a>                            |  |
| By telephone:  | Call toll-free 1-800-PROXIES (1-800-776-9437)   | Not applicable   |
| By mail:   | Return your duly completed and signed Proxy Voting Instructions to the Company's U.S. registrar:                        | Return your duly completed and signed Proxy Voting Instructions to the Company's UK registrar:     |
| Your Proxy Voting Instructions must be signed to be valid. If signed under a power of attorney or other authority, a copy of this authority must be sent to the registrar with your Proxy Voting Instructions. | American Stock Transfer & Trust Company Operations Center<br>6201 15th Avenue<br>Brooklyn, NY 11219<br>United States    | Link Asset Services<br>PXS1<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU<br>United Kingdom |
| Deadline for receipt by the Company's registrars:  | 12:01 am Atlantic Time (4:01 am British Summer Time) on June 15, 2018 (11:01 pm Eastern Daylight Time on June 14, 2018) |  |

Submitting proxy instructions will not prevent a Shareholder from attending the Annual Meeting of Shareholders.

Can I change my proxy appointment and/or voting instructions?

You can change your proxy appointment and/or voting instructions before the deadline of 12:01 am Atlantic Time (4:01 am British Summer Time) on June 15, 2018 (11:01 pm Eastern Daylight Time on June 14, 2018) by re-submitting your vote as detailed in "How do I vote?" above.

In circumstances where two or more valid forms in respect of the same share(s) and the same meeting are received, the form dated last will be treated as replacing and revoking the other(s).

You may also attend the Annual Meeting of Shareholders and change your vote by voting in person.

If you are a beneficial owner of shares held in street name and you vote by proxy, you may change your vote by submitting new instructions to your broker, bank or other nominee in accordance with that entity's procedure.

Can I revoke the appointment of my proxy without appointing another?

If you are a shareholder of record, you can revoke the appointment of your proxy at any time before your shares are voted by submitting a written notice of revocation to the Company's registrar. U.S. Shareholders should send their written notice of revocation to American Stock Transfer & Trust. UK and other non-U.S. Shareholders should send their written notice of revocation to Link Asset Services. Contact details for both can be found in the table under the heading "How do I vote?" above.



You can also revoke the appointment of your proxy by attending the 2018 Annual Meeting of Shareholders and giving notice of revocation in person. If you vote in person at the Annual Meeting of Shareholders, you will have effectively revoked any previously appointed proxies.

Beneficial owners of shares held in street name must follow the instructions of their broker, bank or other nominee to revoke their voting instructions.

Will my shares be voted if I do nothing?

If you are a shareholder of record and do not appoint a proxy, submit voting instructions or attend the 2018 Annual Meeting of Shareholders to vote in person, your shares will not be voted.

If you are a beneficial owner of shares held in street name, your broker, bank or other nominee may use their discretion to vote your shares with respect to Proposal 2—Appointment of KPMG as Independent Auditor.

What constitutes a quorum in order to transact business at the 2018 Annual Meeting of Shareholders?

The presence at the start of the 2018 Annual Meeting of Shareholders, in person or by proxy, of two holders of Common Shares will constitute a quorum for the transaction of business. Abstentions and “broker non-votes” are treated as present, and are therefore counted in determining the existence of a quorum. The Chief Governance Officer & Corporate Secretary will determine whether or not a quorum is present at the Meeting.

How will voting be conducted at the 2018 Annual Meeting of Shareholders?

Voting at the 2018 Annual Meeting of Shareholders will be conducted by way of a poll. The Company’s U.S. registrar, American Stock Transfer & Trust Company, will be present at the Meeting to explain the voting procedure, conduct the poll, count votes, and certify the results. As each proposal is introduced to the Meeting, Shareholders will be given the opportunity to ask questions. The poll vote will take place at the end of the Meeting in order to simplify the voting procedure.

When and where can I find the final results of the Annual Meeting of Shareholders?

Final voting results will be available on Signet’s website and filed with the SEC as soon as practicable after the conclusion of the Meeting. The results will confirm the number of votes cast for and against each proposal as well as abstentions and broker non-votes (where applicable).

What happens if additional matters are presented at the 2018 Annual Meeting of Shareholders?

The Company’s management are not aware of any matters other than those discussed in this Proxy Statement that will be presented to the 2018 Annual Meeting of Shareholders.

If other matters are presented at the Meeting, your shares will be voted in accordance with the recommendation of the Board if:

• you appointed a proxy designated by the Board; or

• the Chairman of the Meeting was appointed as your proxy because you submitted voting instructions (for other proposals) but did not name a proxy.

How do I submit a shareholder proposal for the Company’s 2019 Annual Meeting of Shareholders?

Shareholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act will be considered for inclusion in the Company’s 2019 Proxy Statement and proxy card if received in writing by the Chief Governance Officer & Corporate Secretary on or before January 1, 2019. Notice of the proposal must comply with SEC rules, Bye-law 26 of the Company’s Bye-laws, and be a proper subject for shareholder action under Bermuda law.

Pursuant to Bye-law 26 of the Company’s Bye-laws, in order for business to be properly brought before the Company’s 2019 Annual Meeting of Shareholders, notice must be received in writing by the Corporate Secretary no earlier than February 15, 2019 and no later than March 17, 2019. The additional procedures detailed in Bye-law 26 must also be followed. The Company’s Bye-laws can be found on Signet’s website: [www.signetjewelers.com](http://www.signetjewelers.com).

Under Bermuda law, shareholders holding not less than five percent of the total voting rights or 100 or more shareholders together may require the Company to give notice to its shareholders of a proposal intended to be submitted at an Annual Meeting of Shareholders. Generally, notice of such a proposal must be received not less than six weeks before the date of the Meeting and must otherwise comply with the requirements of Bermuda law.

Shareholder proposals should be sent to the Company at Clarendon House, 2 Church Street, Hamilton HM11 Bermuda, addressed for the attention of Mark Jenkins, Chief Governance Officer & Corporate Secretary.

Why has my household only received a single copy of the Internet Notice?

Shareholders who share a single address will receive a single Internet Notice (or a single set of proxy materials if a hard copy has been requested) unless contrary instructions have previously been received by the Company. This practice, known as “householding,”

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is permitted under Exchange Act rules and allows the Company to significantly reduce its printing and postage costs while reducing environmental impact. Copies of the Internet Notice and proxy materials can be found on Signet's website: [www.signetjewelers.com](http://www.signetjewelers.com).

If your household receives a single Internet Notice and/or set of proxy materials, but would prefer to receive separate copies of current and/or future documents, please address a request to Signet Jewelers Limited c/o Signet Group Services Limited, Imperial Place 3, Maxwell Road, Borehamwood, Hertfordshire, WD6 1JN, United Kingdom or telephone +44 (0)121 697 7400. If you would like to receive a single copy in the future rather than multiple copies, please contact the Company in the same way. Copies will be dispatched promptly and without charge.

Beneficial owners who would like to change the number of copies received should contact their broker, bank or other nominee to request the change.

Who bears the cost of proxy solicitation?

The Company bears the cost of soliciting proxies which may occur by internet, mail and/or telephone. The Company will also request that banks, brokers, custodian nominees and fiduciaries supply proxy materials to beneficial owners of the Company's Common Shares of whom they have knowledge and reimburse them for their expenses in so doing. Certain Directors, officers and employees of the Company may solicit proxies personally or by mail, email, telephone or fax without additional compensation. The Company has engaged D.F. King & Co., Inc. to solicit proxies on its behalf. The anticipated cost of D.F. King's services is estimated to be approximately \$20,000 plus reasonable out-of-pocket expenses.

Appendix A

Signet Jewelers Limited  
2018 Omnibus Incentive Plan

Article 1. Establishment & Purpose

- Establishment. Signet Jewelers Limited, an exempted company registered in Bermuda hereby establishes the 2018 Signet Jewelers Limited Omnibus Incentive Plan (hereinafter referred to as the “Plan”) as set forth in this document.
- 1.1 The 2009 Signet Jewelers Limited Omnibus Incentive Plan (the “2009 Plan”) shall continue in effect and unchanged with respect to awards outstanding under such plan but no further awards shall be granted thereunder as of the Effective Date, and any Shares available under the 2009 Plan will not be available for Awards under the Plan or otherwise.
- 1.2 Purpose of the Plan. The purpose of this Plan is to attract, retain and motivate officers, employees, non-employee directors, consultants and other personal service providers providing services to the Company, any of its Subsidiaries, or Affiliates and to promote the success of the Company’s business by providing the participants of the Plan with appropriate incentives.

Article 2. Definitions

Whenever capitalized in the Plan, the following terms shall have the meanings set forth below.

- 2.1 “Affiliate” means any entity that the Company, either directly or indirectly, is in common control with, is controlled by or controls, or any entity that the Company has a substantial direct or indirect equity interest in, as determined by the Board.
- 2.2 “Award” means any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Other Share-Based Award or Cash Award that is granted under the Plan.
- 2.3 “Award Agreement” means either (a) a written or electronic agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, or (b) a written or electronic statement issued by the Company, a Subsidiary, or Affiliate to a Participant describing the terms and conditions of the actual grant of such Award.
- 2.4 “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- 2.5 “Board” means the Board of Directors of the Company.
- 2.6 “Cash Award” means an Award denominated in cash granted from time to time under Article 11 of the Plan.
- 2.7 “Change of Control” unless otherwise specified in the Award Agreement, means the occurrence of any of the following events:
- (a) Any Person becomes the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the then outstanding voting shares of the Company entitled to vote generally in the election of its directors (the “Outstanding Company Voting Securities”) including by way of merger, amalgamation, consolidation or otherwise provided, however, that for purposes of this definition, the following acquisitions shall not be taken into account in determining whether a Change of Control has occurred: (i) any acquisition of voting shares of the Company directly from the Company or (ii) any acquisition by the Company or any of its Subsidiaries of Outstanding Company Voting Securities, including an acquisition by any employee benefit plan or related trust sponsored or maintained by the Company, or any of its Subsidiaries;
- (b) The following individuals (the “Incumbent Directors”) cease for any reason to constitute a majority of the number of directors then serving on the Board: individuals who, on the Effective Date, constitute the Board and any new director whose appointment or election by the Board or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least a majority of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended (other than such new director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent or proxy



solicitation, relating to the election of directors of the Company by or on behalf of a Person other than the Board);  
Consummation of a reorganization, merger, amalgamation or consolidation involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, following such Business Combination: (i) individuals and entities that were the Beneficial Owners of Outstanding Company Voting Securities immediately prior to such Business Combination are the Beneficial Owners, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors (or election of members of a comparable governing body) of the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns all or substantially all of the voting power of the outstanding voting securities entitled to vote generally in the election of directors or all or substantially all of the Company’s assets either directly or through one or more Subsidiaries) (the “Successor Entity”) in substantially the same proportions as their ownership immediately prior to such Business Combination and (ii) at least a majority of the members of the board of directors (or comparable governing body) of the Successor Entity immediately following the Business Combination were Incumbent Directors (including persons deemed to be Incumbent Directors) at the time of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, solely for purposes of determining the timing of payment or timing of distribution for purposes of an Award that constitutes “nonqualified deferred compensation” within the meaning of Section 409A, a Change of Control shall not be deemed to have occurred unless the events that have occurred will also constitute a “change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation,” of the Company under Section 409A, or any successor provision.

2.8 “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time.

“Committee” means (i) the Compensation Committee of the Board or a subcommittee of the Compensation Committee of the Board, (ii) such other committee designated by the Board to administer this Plan or (iii) the Board.

2.10 “Company” means Signet Jewelers Limited, registered in Bermuda no. 42069, and any successor thereto.

2.11 “Effective Date” means the date set forth in Section 16.18.

2.12 “Eligible Person” means any person who is an Employee, Non-Employee Director, consultant or other personal service provider of the Company or any of its Subsidiaries or Affiliates.

2.13 “Employee” means an officer or other employee of the Company, a Subsidiary or Affiliate, including a member of the Board who is an employee of the Company, a Subsidiary or Affiliate.

2.14 “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Fair Market Value” means, as of any date, the per Share value determined as follows, in accordance with the applicable provisions of Section 409A of the Code to the extent required for setting the Option Price or grant price:

(a) The closing price on the New York Stock Exchange or other recognized stock exchange or any established over-the-counter trading system on which dealings take place or if such date is not a trading day, the first trading day immediately preceding such date or such other method based on actual transactions in such Shares as reported by such market, as determined by the Committee; or

(b) In the absence of an established market for the Shares of the type described above, the per Share Fair Market Value thereof shall be determined by the Committee in good faith.

2.16 “Incentive Stock Option” means an Option intended to meet the requirements of an incentive stock option as defined in Section 422 of the Code and designated as an Incentive Stock Option.

2.17 “New York Stock Exchange” means the New York Stock Exchange or any successor body carrying on the business of the New York Stock Exchange.

“Non-Employee Director” means a person defined in Rule 16b-3(b)(3) promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission.

2.19 “Nonqualified Stock Option” means an Option that is not an Incentive Stock Option.



- 2.20 “Other Share-Based Award” means any right granted under Article 10 of the Plan.
- 2.21 “Option” means any stock option granted from time to time under Article 6 of the Plan.
- 2.22 “Option Price” means the purchase price per Share subject to an Option, as determined pursuant to Section 6.2 of the Plan.
- 2.23 “Participant” means any Eligible Person (or any permitted holder under Section 16.5) who holds an outstanding Award under the Plan.
- 2.24 “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.
- 2.25 “Plan” means the Signet Jewelers Limited 2018 Omnibus Incentive Plan, as set forth herein, as may be amended from time to time and includes any sub-plan or appendix that may be created and approved by the Board.
- 2.26 “Plan Year” means the applicable fiscal year of the Company.
- 2.27 “Restricted Stock” means Shares granted from time to time under Article 8 of the Plan.
- 2.28 “Restriction Period” means the period during which Restricted Stock awarded under Article 8 of the Plan is subject to forfeiture.
- 2.29 “Service” means a Participant’s employment with the Company or any Subsidiary or Affiliate or a Participant’s service as a Non-Employee Director, consultant or other service provider with the Company or any Subsidiary or Affiliate, as applicable.
- 2.30 “Share” means a common share of the Company, par value \$0.18 per share, or such other class or kind of shares or other securities resulting from the application of Section 13.1.
- 2.31 “Stock Appreciation Right” means any right granted from time to time under Article 7 of the Plan.
- 2.32 “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company (or any parent of the Company) if each of the corporations, other than the last corporation in each unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

### Article 3. Administration

3.1 Committee Members. The Plan shall be administered by a Committee comprised of no fewer than two members of the Board. To the extent determined by the Board, each member shall be (i) a Non-Employee Director and (ii) an “independent director” within the meaning of the listing requirements of any exchange or trading system on which the Company is listed. Notwithstanding the foregoing, the mere fact that a Committee member shall fail to qualify under any of the foregoing requirements shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan. Neither the Company nor any member of the Committee shall be liable for any action or determination made in good faith by the Committee with respect to the Plan or any Award thereunder.

3.2 Authority of the Committee. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (i) determine the Eligible Persons to whom Awards shall be granted under the Plan, (ii) prescribe the restrictions, terms and conditions of all Awards, (iii) interpret the Plan and terms of the Awards, (iv) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and interpret, amend or revoke any such rules, (v) make all determinations with respect to a Participant’s Service and the termination of such Service for purposes of any Award, (vi) correct any defect(s) or omission(s) or reconcile any ambiguity(ies) or inconsistency(ies) in the Plan or any Award thereunder, (vii) make all determinations it deems advisable for the administration of the Plan, (viii) decide all disputes arising in connection with the Plan and to otherwise supervise the administration of the Plan, (ix) subject to the terms of the Plan, amend the terms of an Award, (x) accelerate the vesting or, to the extent applicable, exercisability of any Award at any time (including, but not limited to, upon a Change of Control or upon termination of Service under certain circumstances, as set forth in the Award Agreement or otherwise), and (xi) adopt such procedures, modifications or subplans as are necessary or appropriate to permit participation in the Plan by Eligible Persons who are foreign nationals or employed outside of the United States. The Committee’s determinations under the Plan need not be uniform and may be made by the Committee selectively among Participants and Eligible Persons, whether or not such persons are similarly situated. The Committee shall, in





its discretion, consider such factors as it deems relevant in making its interpretations, determinations and actions under the Plan including, without limitation, the recommendations or advice of any officer or employee of the Company or board of directors of a Subsidiary or such attorneys, consultants, accountants or other advisors as it may select. All interpretations, determinations, and actions by the Committee shall be final, conclusive, and binding upon all parties.

3.3 Delegation. The Committee shall have the right, from time to time, to delegate in writing to one or more officers of the Company or a Subsidiary the authority of the Committee to grant and determine the terms and conditions of Awards granted under the Plan, subject to the requirements of the provisions of the Companies Act 1981, as amended of Bermuda and the bye-laws of the Company (or any successor provision) or such other limitations as the Committee shall determine. In no event shall any such delegation of authority be permitted with respect to Awards granted to any member of the Board or to any Eligible Person who is subject to Rule 16b-3 under the Exchange Act. The Committee shall also be permitted to delegate, to any appropriate officer or employee of the Company or a Subsidiary, responsibility for performing certain ministerial functions under the Plan. In the event that the Committee's authority is delegated to officers or employees in accordance with the foregoing, all provisions of the Plan relating to the Committee shall be interpreted in a manner consistent with the foregoing by treating any such reference as a reference to such officer or employee for such purpose. Any action undertaken in accordance with the Committee's delegation of authority hereunder shall have the same force and effect as if such action was undertaken directly by the Committee and shall be deemed for all purposes of the Plan to have been taken by the Committee.

#### Article 4. Eligibility and Participation

4.1 Eligibility. Participants will consist of such Eligible Persons as the Committee in its sole discretion determines and whom the Committee may designate from time to time to receive Awards. In selecting Eligible Persons to be Participants, and in determining the type and amount of Awards to be granted under the Plan, the Committee shall consider any and all factors that it deems relevant or appropriate. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or, once designated, to receive the same type or amount of Award as granted to the Participant in any other year.

4.2 Type of Awards. Awards under the Plan may be granted in any one or a combination of:

(a) Options, (b) Stock Appreciation Rights, (c) Restricted Stock, (d) Restricted Stock Units, (e) Other Share-Based Awards and (f) Cash Awards. Awards granted under the Plan shall be evidenced by Award Agreements (which need not be identical) that provide additional terms and conditions associated with such Awards, as determined by the Committee in its sole discretion; provided, however, that in the event of any conflict between the provisions of the Plan and any such Award Agreement, the provisions of the Plan shall prevail.

#### Article 5. Shares Subject to the Plan and Maximum Awards

##### 5.1 Number of Shares Available for Awards.

General. Subject to adjustment as provided in Article 13 hereof, the maximum number of Shares available for issuance to Participants pursuant to Awards under the Plan shall be [3,575,000] Shares. The number of Shares (a) available for granting Incentive Stock Options under the Plan shall not exceed [3,575,000] Shares, subject to Article 13 hereof. The Shares available for issuance under the Plan may consist, in whole or in part, of authorized and unissued Shares or treasury Shares.

(b) Share Replenishment. Any Shares delivered to the Company as part or full satisfaction of the Option price or grant price of an Option or Stock Appreciation Right or to satisfy the withholding obligation with respect to an Option or Stock Appreciation Right, shall not be available for future Awards (such that, with respect to a Stock Appreciation Right that is settled in Shares, the gross number of Shares pursuant to such Award shall not be available for future Awards). Any Shares delivered to the Company as part or full satisfaction of the purchase price of an Award, other than an Option or Stock Appreciation Right, or to satisfy the withholding obligation with respect to an Award, other than an Option or Stock Appreciation Right, shall again be available for Awards. In the event that any outstanding Award expires, is forfeited, cancelled or otherwise terminated without the issuance of Shares or is otherwise settled for cash, the Shares subject to such Award, to the extent of any such forfeiture, cancellation, expiration, termination or settlement for cash, shall again be available for Awards. If the Committee authorizes the assumption under this Plan, in connection with any merger, amalgamation, consolidation, acquisition of property or stock, or reorganization, of awards granted under another plan, such assumption shall not reduce the maximum

number of Shares available for issuance under this Plan. In the event that any outstanding award under the 2009 Plan expires, is forfeited, cancelled

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or otherwise terminated without the issuance of Shares or is otherwise settled for cash, the Shares subject to such award, to the extent of any such forfeiture, cancellation, expiration, termination or settlement for cash, shall be available for Awards under the Plan.

Minimum Vesting. The vesting period applicable to all Awards (or any portion of an Award) shall be no less than (c) one year; provided that up to 5% of Shares available for issuance to Participants pursuant to Awards under the Plan may be granted without regard to any minimum vesting period.

Awards Granted to Non-Employee Directors. No Non-Employee Director of the Company or a Subsidiary or (d) Affiliate may be granted, during any Plan Year, Awards having a fair value (determined on the date of grant) that, when added to the cash compensation paid by the Company to the Non-Employee Director during the same Plan Year, exceeds \$1,500,000.

#### Article 6. Stock Options

Grant of Options. The Committee is hereby authorized to grant Options to Eligible Persons. Options may be granted to an Eligible Person to the extent the Company is an “eligible issuer,” as defined in Section 409A, with respect to such person. Options shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall determine. Options shall permit a 6.1 Participant to purchase from the Company a stated number of Shares at an Option Price established by the Committee, subject to the terms and conditions described in this Article 6 and to such additional terms and conditions, as established by the Committee, in its sole discretion, that are consistent with the provisions of the Plan. Options shall be designated as either Incentive Stock Options or Nonqualified Stock Options.

Option Price. The Option Price shall be determined by the Committee at the time of grant, but shall not be less than 6.2 the Fair Market Value of a Share on the date of grant.

Vesting and Exercisability of Options. The Committee shall, in its discretion, prescribe in an Award Agreement the time or times at which or the conditions upon which, an Option or portion thereof shall become vested and/or 6.3 exercisable. The requirements for vesting and exercisability of an Option may be based on the continued Service of the Participant for a specified time period (or periods), on the attainment of a specified performance goal(s) and/or on such other terms and conditions as approved by the Committee in its discretion.

Option Term. The Committee shall in its discretion prescribe in an Award Agreement the period during which a vested Stock Option may be exercised; provided, however, that the maximum term of a Stock Option shall be ten 6.4 (10) years from the date of grant. The Committee may provide that a Stock Option will cease to be exercisable upon or at the end of a specified time period following a termination of Service for any reason as set forth in the Award Agreement or otherwise. Subject to Section 409A of the Code and the provisions of this Article 6, the Committee may extend at any time the period in which a Stock Option may be exercised.

6.5 Method of Exercise. Subject to such terms and conditions as specified in an Award Agreement, an Option may be exercised for all, or any part, of the Shares for which it is then exercisable at any time during the term thereof by notice in the form required by the Company, together with payment of the aggregate Option Price and applicable tax withholding, pursuant to Section 16.3 of the Plan. For purposes of this Article 6, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date payment is received by the Company pursuant to clauses (i), (ii), (iii), (iv) or (v) in the following sentence (including the applicable tax withholding pursuant to Section 16.3 of the Plan). The aggregate Option Price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant (i) in cash or its equivalent (e.g., by cashier’s check), (ii) to the extent permitted by the Committee, in Shares (whether or not previously owned by the Participant) having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee, (iii) partly in cash and, to the extent permitted by the Committee, partly in such Shares (as described in (ii) above), (iv) to the extent permitted by the Committee, by reducing the number of Shares otherwise deliverable upon the exercise of the Option by the number of Shares having a Fair Market Value on the date of exercise equal to the Option Price or (v) if there is a public market for the Shares at such time, subject to such requirements as may be imposed by the Committee, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the aggregate Option Price for the Shares being purchased. The Committee may prescribe any

other method of payment that it determines to be consistent with applicable law and the purpose of the Plan.  
6.6 Additional Rules for Incentive Stock Options.

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Eligibility. An Incentive Stock Option shall be interpreted to comply with Section 422 of the Code and the Treasury Regulations thereunder. Incentive Stock Options may only be granted to an Eligible Person who is (a) considered an employee for purposes of Treasury Regulation Section 1.421-1(h) with respect to the Company or any Subsidiary that qualifies as a “subsidiary corporation” with respect to the Company for purposes of Section 424(f) of the Code.

Annual Limits. No Incentive Stock Option shall be granted to a Participant as a result of which the aggregate Fair Market Value (determined as of the Date of Grant) of the Shares with respect to which incentive stock options under Section 422 of the Code are exercisable for the first time in any calendar year under the Plan and any other (b) stock option plans of the Company or any subsidiary corporation under Section 424(f) of the Code, would exceed \$100,000, determined in accordance with Section 422(d) of the Code. This limitation shall be applied by taking Options into account in the order in which granted. Any Option grant that exceeds such limit shall be treated as a Nonqualified Stock Option.

Additional Limitations. In the case of any Incentive Stock Option granted to an Eligible Person who owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), shares (c) possessing more than ten percent (10%) of the total combined voting power of all classes of shares of the Company or any subsidiary corporation under Section 424(f) of the Code, the Option Price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date of grant and the maximum term shall be five (5) years.

Termination of Service. An Award of an Incentive Stock Option may provide that such Option may be exercised not later than (i) three (3) months following termination of Service of the Participant with the Company and all subsidiary corporations under Section 424(f) of the Code (other than as set forth in clause (ii) of this Section (d) 6.6(d) or (ii) one year following termination of Service of the Participant with the Company and all subsidiary corporations under Section 424(f) of the Code due to death or permanent and total disability within the meaning of Section 22(e)(3) of the Code, in each case as and to the extent determined by the Committee to comply with the requirements of Section 422 of the Code.

Other Terms and Conditions. Any Incentive Stock Option granted hereunder shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as are deemed necessary or desirable by the Committee, (e) which terms, together with the terms of the Plan, shall be intended and interpreted to cause such Incentive Stock Option to qualify as an “incentive stock option” under Section 422 of the Code. An Option that is granted as an Incentive Stock Option shall, to the extent it fails to qualify as an “incentive stock option” under the Code, be treated as a Nonqualified Stock Option

Disqualifying Dispositions. If Shares acquired by exercise of an Incentive Stock Option are disposed of within two years following the date of grant or one year following the transfer of such shares to the Participant upon exercise, (f) the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Company may reasonably require.

Repricing Prohibited. Subject to the adjustment provisions contained in Section 13.1 hereof, without the prior approval of the Company’s shareholders, neither the Committee nor the Board shall cancel an Option when the Option Price per share exceeds the Fair Market Value of one Share in exchange for cash or another Award (other (e) 6.7 than in connection with a Change of Control) or cause the cancellation, substitution or amendment of an Option that would have the effect of reducing the Option Price of such Option previously granted under the Plan or otherwise approve any modification to such Option, that would be treated as a “repricing” under the then applicable rules, regulations or listing requirements adopted by the New York Stock Exchange or other principal exchange on which the Shares are then listed

No Rights as Shareholder. The Participant shall not have any rights as a shareholder with respect to the Shares (e) 6.8 underlying an Option until such time as Shares are delivered to the Participant pursuant to the terms of the Award Agreement. Dividends shall not be paid with respect to Shares subject to an Option and dividend equivalent rights may not be granted with respect to Shares subject to an Option.

## Article 7. Stock Appreciation Rights

### 7.1

Grant of Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons, including a grant of Stock Appreciation Rights in tandem with any Option at the same time such Option is granted (a "Tandem SAR"). Stock Appreciation Rights shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall

determine. Subject to the terms of the Plan and any applicable Award Agreement, a Stock Appreciation Right granted under the Plan shall confer on the Participant a right to receive, upon exercise thereof, the excess of (a) the Fair Market Value of a specified number of Shares on the date of exercise over (b) the grant price of the right as specified by the Committee on the date of the grant. Such payment may be in the form of cash, Share, other property or any combination thereof, as the Committee shall determine in its sole discretion. Stock Appreciation Rights may be granted on a basis that allows for the exercise of the right by the Participant or that provides for the automatic payment of the right upon a specified date or event.

7.2 Grant Price of Stock Appreciation Rights. The grant price of a Stock Appreciation Right shall be determined by the Committee at the time of grant, but shall not be less than the Fair Market Value of a Share on the date of grant.

Vesting of Stock Appreciation Rights. The Committee shall, in its discretion, prescribe in an Award Agreement the time or times at which or the conditions upon which, a Stock Appreciation or portion thereof shall become vested

7.3 and/or exercisable. The requirements for vesting and exercisability of a Stock Appreciation Right may be based on the continued Service of the Participant for a specified time period (or periods), on the attainment of a specified performance goal(s) and/or on such other terms and conditions as approved by the Committee in its discretion.

Stock Appreciation Right Term. The Committee shall in its discretion prescribe in an Award Agreement the period during which a vested Stock Appreciation Right may be exercised and the methods of exercise or settlement;

7.4 provided, however, that the maximum term of a Stock Appreciation Right shall be ten (10) years). The Committee may impose such other conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

Tandem Stock Appreciation Rights and Options. A Tandem SAR shall be exercisable only to the extent that the related Option is exercisable and shall expire no later than the expiration of the related Option. Upon the exercise

7.5 of all or a portion of a Tandem SAR, a Participant shall be required to forfeit the right to purchase an equivalent portion of the related Option (and, when a Share is purchased under the related Option, the Participant shall be required to forfeit an equivalent portion of the Stock Appreciation Right).

Repricing Prohibited. Subject to the adjustment provisions contained in Section 13.1 hereof, without the prior approval of the Company's shareholders, neither the Committee nor the Board shall cancel a Stock Appreciation Right when the grant price per share exceeds the Fair Market Value of one Share in exchange for cash or another Award (other than in connection with a Change of Control) or cause the cancellation, substitution or amendment of

7.6 a Stock Appreciation Right that would have the effect of reducing the grant price of such a Stock Appreciation Right previously granted under the Plan or otherwise approve any modification to such Stock Appreciation Right that would be treated as a "repricing" under the then applicable rules, regulations or listing requirements adopted by the New York Stock Exchange or other principal exchange on which the Shares are then listed.

No Rights as Shareholder. The Participant shall not have any rights as a shareholder with respect to the Stock Appreciation Rights or Tandem SARs until such time as Shares are delivered to the Participant pursuant to the

7.7 terms of the Award Agreement. Dividends shall not be paid with respect to a Stock Appreciation Right or Tandem SAR and dividend equivalent rights may not be granted with respect to a Stock Appreciation Right or Tandem SAR.

#### Article 8. Restricted Stock

Grant of Restricted Stock. The Committee is hereby authorized to grant Restricted Stock to Eligible Persons. An Award of Restricted Stock is a grant by the Committee of a specified number of Shares to the Participant, which

8.1 Shares are subject to forfeiture upon the occurrence of specified events. The Committee may require the payment by the Participant of a specified purchase price in connection with any Award of Restricted Stock. Restricted Stock shall be evidenced by an Award Agreement, which shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall determine.

Vesting of Restricted Stock Awards. The Committee shall, in its discretion, prescribe in an Award Agreement the

8.2 period(s) of restriction and the performance, employment or other conditions (including the termination of a Participant's Service) under which the Restricted Stock may be forfeited to the Company.

Terms of Restricted Stock Awards. Any Restricted Stock granted under the Plan shall be evidenced in such manner

8.3 as the Committee may deem appropriate, including book-entry registration or issuance of a share certificate or certificates (in which case, the certificate(s) representing such Shares shall be legended as to sale,





transfer, assignment, pledge or other encumbrances during the Restriction Period and deposited by the Participant, together with a stock power endorsed in blank, with the Company, to be held in escrow during the Restriction Period). At the end of the Restriction Period, the restrictions imposed hereunder and under the Award Agreement shall lapse with respect to the number of Shares of Restricted Stock as determined by the Committee, and the legend shall be removed and such number of Shares delivered to the Participant (or, where appropriate, the Participant's legal representative).

8.4 Voting and Dividend Rights. The Committee shall determine and set forth in a Participant's Award Agreement whether or not a Participant holding Restricted Stock granted hereunder shall have the right to exercise voting rights with respect to the Restricted Stock during the Restriction Period (the Committee may require a Participant to grant an irrevocable proxy and power of substitution) and have the right to receive dividends on the Restricted Stock during the Restriction Period (and, if so, on what terms); provided that if a Participant has the right to receive dividends paid with respect to Restricted Stock, such dividends shall be subject to the same vesting terms as the related Restricted Stock.

8.5 Section 83(b) Election. If a Participant makes an election pursuant to Section 83(b) of the Code concerning Restricted Stock, the Participant shall be required to file promptly a copy of such election with the Company.

#### Article 9. Restricted Stock Units

9.1 Grant of Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock Units to Eligible Persons. Restricted Stock Units represent the right to receive Shares or cash, or a combination thereof, at a specified date in the future. Restricted Stock Units shall be subject to such restrictions and conditions as the Committee shall determine. Restricted Stock Units shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall determine.

9.2 Vesting of Restricted Stock Units. The Committee shall, in its discretion, prescribe in an award agreement the vesting requirements with respect to Restricted Stock Units. The requirements for vesting of a Restricted Stock Unit may be based on the continued Service of the Participant for a specified time period (or periods) and/or on such other terms and conditions as approved by the Committee (including performance goal(s)).

9.3 Payment of Restricted Stock Units. Restricted Stock Units shall become payable to a Participant at the time or times determined by the Committee and set forth in the Award Agreement, which may be upon or following the vesting of the Award. Payment of a Restricted Stock Unit may be made, as approved by the Committee and set forth in the Award Agreement, in cash or in Shares or in a combination thereof. Any cash payment for or in respect of a Restricted Stock Unit shall be made based upon the Fair Market Value of a Share on the payment date.

9.4 Dividend Equivalent Rights. Dividends shall not be paid with respect to Restricted Stock Units. Dividend equivalent rights may be granted with respect to the Shares subject to Restricted Stock Units to the extent permitted by the Committee and set forth in the applicable Award Agreement; provided that any dividend equivalent rights granted shall be subject to the same vesting terms as the related Restricted Stock Units.

9.5 No Rights as Shareholder. The Participant shall not have any rights as a shareholder with respect to the Shares subject to a Restricted Stock Unit until such time as Shares are delivered to the Participant pursuant to the terms of the Award Agreement

#### Article 10. Other Share-Based Awards

The Committee is hereby authorized, in its discretion, to grant Awards of Shares and Awards that are valued, in whole or in part, by reference to, or are otherwise based on the Fair Market Value of, Shares (the "Other Share-Based Awards"), including without limitation, phantom awards, to Eligible Persons. Other Share-Based Awards shall be evidenced by Award Agreements that shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall determine. The Committee shall determine and set forth in a Participant's Award Agreement whether or not a Participant holding an Other Share-Based Award granted hereunder shall have the right to receive dividends or dividend equivalents with respect to Shares underlying the Other Share-Based Award (and, if so, on what terms); provided that if a Participant has the right to receive dividends or dividend equivalents, such rights shall be subject to the same vesting terms as the related Other Share-Based Award. Such Other Share-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of Service, the occurrence of an event and/or the attainment of performance objectives. Other

Share-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee

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shall determine to whom and when Other Share-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Share-Based Awards, whether such Other Share-Based Awards shall be settled in cash, Shares or a combination of cash and Shares, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable).

#### Article 11. Cash Awards

Grant of Cash Awards. The committee is hereby authorized to grant Cash Awards to Eligible Persons. Each Cash Award shall be denominated in cash and shall be evidenced by an Award Agreement that shall conform to the requirements of the Plan and may contain such other provisions as the Committee may determine. The Committee may accelerate the vesting of a Cash Award upon a Change of Control or termination of Service under certain circumstances, as set forth in the applicable Award Agreement.

Payment. Payment amounts may be based on the attainment of specified levels of the performance goals, including, if applicable, specified threshold, target and maximum performance levels, and performance falling between such levels. The requirements for payment may be also based upon the continued Service of the Participant with the Company or a Subsidiary or Affiliate during a specified period and on such other conditions as determined by the Committee and set forth in the applicable Award Agreement.

#### Article 12. Compliance with Section 409A of the Code and Section 457A of the Code

General. The Company intends that any Awards be structured in compliance with, or to satisfy an exemption from, Section 409A of the Code ("Section 409A"), such that there are no adverse tax consequences, interest, or penalties as a result of the Awards. Notwithstanding the Company's intention, in the event any Award is or may be subject to the taxes and penalties under Section 409A, the Committee may, in its sole discretion and without a Participant's prior consent, amend the Plan and/or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and actions with retroactive effect) as are necessary or appropriate to (a) exempt the Plan and/or any Award from the application of Section 409A, (b) preserve the intended tax treatment of any such Award, or (c) comply with the requirements of Section 409A, including without limitation any such regulations guidance, compliance programs and other interpretative authority that may be issued after the date of the grant.

Payments to Specified Employees. Notwithstanding any contrary provision in the Plan or Award Agreement, any payment(s) of nonqualified deferred compensation (within the meaning of Section 409A) that are otherwise required to be made under the Plan to a "specified employee" (as defined under Section 409A) as a result of his or her separation from service (other than a payment that is not subject to Section 409A) shall be delayed for the first six (6) months following such separation from service (or, if earlier, the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) on the payment date that immediately follows the end of such six-month period or as soon as administratively practicable thereafter, and any remaining payments shall be paid or provided in accordance with the normal payment dates specified for them in the Plan or Award Agreement.

Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of the Plan or any Award Agreement providing for the payment of any amounts or benefits that are considered nonqualified deferred compensation under Section 409A upon or following a termination of employment, unless such termination is also a "separation from service" within the meaning of Section 409A and the payment thereof prior to a "separation from service" would violate Section 409A. For purposes of any such provision of the Plan or any Award Agreement relating to any such payments or benefits, references to a "termination," "termination of employment" or like terms shall mean "separation from service."

Section 457A. The Company intends that any Awards be structured in compliance with, or to satisfy an exemption from, Section 457A of the Code ("Section 457A") and all regulations, guidance, compliance programs and other interpretative authority thereunder, such that there are no adverse tax consequences, interest, or penalties as a result of the payments. Notwithstanding the Company's intention, in the event any Award is subject to Section 457A, the Committee may, in its sole discretion and without a Participant's prior consent, amend the Plan and/or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and actions with retroactive effect) as are necessary or appropriate to (a) exempt the Plan and/or any

Award from the application of Section 457A, (b) preserve the intended tax treatment of any such Award, or (c) comply with the requirements of Section 457A, including without limitation any such regulations, guidance, compliance programs and other interpretative authority that may be issued after the date of the grant.

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### Article 13. Adjustments

Adjustments in Authorized Shares. In the event of any corporate event or transaction involving the Company, a Subsidiary and/or an Affiliate (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, amalgamation, consolidation, reorganization, recapitalization, reclassification, separation, stock dividend, extraordinary cash dividend, stock split, reverse stock split, split up, spin-off, combination of Shares, exchange of Shares, dividend in kind, amalgamation, or other like change in capital structure (other than normal cash dividends to shareholders of the Company), or any similar corporate event or transaction, the Committee shall, in the manner and to the extent it considers appropriate and equitable to

- 13.1 Participants and consistent with the terms of the Plan, cause an adjustment to be made to (i) the maximum number and kind of Shares, units or other securities or property that may be issued under the Plan or under particular forms of Awards, (ii) the number and kind of Shares, units or other rights subject to then outstanding Awards, (iii) the Option Price, grant price or purchase price for each share or unit or other right subject to then outstanding Awards, (iv) other value determinations applicable to the Plan and/or outstanding Awards, and (v) any other terms of an Award that are affected by the event. Notwithstanding the foregoing, in the case of Incentive Stock Options, any such adjustments shall, to the extent practicable, be made in a manner consistent with the requirements of Section 424(a) of the Code, unless otherwise determined by the Committee.
- Change of Control. Upon the occurrence of a Change of Control after the Effective Date, unless otherwise specifically prohibited under applicable laws or by the applicable rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Committee shall determine otherwise in the Award Agreement, the Committee is authorized (but not obligated) to make adjustments in the terms and conditions of outstanding Awards, including without limitation the following (or any combination thereof): (i) continuation or assumption of such outstanding Awards under the Plan by the Company (if it is the surviving company or corporation) or by the surviving company or corporation or its parent; (ii) substitution by the surviving company or corporation or its parent of Awards with substantially the same terms for such outstanding Awards; (iii) accelerated exercisability, vesting and/or lapse of restrictions under outstanding Awards immediately prior to the occurrence of such event; (iv) upon written notice, provide that any outstanding Awards must be exercised, to the extent then exercisable, during a reasonable period of time immediately prior to the scheduled consummation of the event, or such other period as determined by the Committee (contingent upon the consummation of the event), and at the end of such period, such Awards shall terminate to the extent not so exercised within the relevant period; and (v) cancellation of all or any portion of outstanding Awards for fair value (as determined in the sole discretion of the Committee and which may be zero) which, in the case of Options and Stock Appreciation Rights or similar Awards, may equal the excess, if any, of the value of the consideration to be paid in the Change of Control transaction to holders of the same number of Shares subject to such Awards (or, if no such consideration is paid, Fair Market Value of the Shares subject to such outstanding Awards or portion thereof being canceled) over the aggregate Option Price or grant price, as applicable, with respect to such Awards or portion thereof being canceled, or if no such excess, zero; provided further, that if any payments or other consideration payable to holders of Shares are deferred and/or contingent as a result of escrows, earn outs, holdbacks or any other contingencies, payments under this provision may be made subject to the same terms and conditions applicable to the holders of Shares generally in connection with the Change of Control.
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### Article 14. Forfeiture Events

General. The Committee may specify in an Award Agreement at the time of the Award that the Participant's rights, payments and benefits with respect to an Award are subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or

- 14.1 performance conditions of an Award. Such events may include, without limitation, termination of Service for Cause, violation of material Company policies, breach of noncompetition, non-solicitation, confidentiality or other restrictive covenants that may apply to the Participant or other conduct by the Participant that is detrimental to the business or reputation of the Company.
- 14.2 Termination for Cause.
- (a)

Treatment of Awards. Unless otherwise provided by the Committee and set forth in an Award Agreement, if (i) a Participant's Service with the Company or any Subsidiary or Affiliate shall be terminated for Cause or (ii) after termination of Service for any other reason, the Committee determines in its discretion either that, (1) during the Participant's period of Service, the Participant engaged in an act which would have warranted termination of Service for Cause or (2) after termination, the Participant engaged in conduct that violated any continuing obligation or duty of the Participant in respect of the Company or any Subsidiary or Affiliate, such Participant's rights, payments and benefits with respect to an Award shall be subject to cancellation, forfeiture

and/or recoupment. The Committee shall have the power to determine whether the Participant has been terminated for Cause, the date upon which such termination for Cause occurs, whether the Participant engaged in an act which would have warranted termination of Service for Cause or engaged in conduct that violated any continuing obligation or duty of the Participant in respect of the Company or any Subsidiary or Affiliate. Any such determination shall be final, conclusive and binding upon all Persons. In addition, if the Committee shall reasonably determine that a Participant has committed or may have committed any act which could constitute the basis for a termination of such Participant's Service for Cause or violates any continuing obligation or duty of the Participant in respect of the Company or any Subsidiary or Affiliate, the Committee may suspend the Participant's rights to exercise any Stock Option or Stock Appreciation Right, receive any payment or vest in any right with respect to any Award pending a determination by the Committee of whether an act or omission could constitute the basis for a termination for Cause as provided in this Section 14.2.

Definition of Cause. Unless otherwise defined in an Award Agreement, "Cause" shall mean: (i) fraud, embezzlement, gross insubordination on the part of the Participant or any act of moral turpitude or misconduct (which misconduct adversely affects the business or reputation of the Company or any Subsidiary or Affiliate) by the Participant; (ii) (b) conviction of, or the entry of a plea of nolo contendere by, the Participant for any felony; or (iii) a material breach of, or the willful failure or refusal by the Participant to perform and discharge, his duties, responsibilities or obligations under any Agreement with the Company or a Subsidiary or Affiliate and any other agreement relating to the Participant's provision of Service to the Company or any Subsidiary or Affiliate.

Any voluntary termination of Service or other engagement by the Participant in anticipation of an involuntary termination of the Participant's Service for Cause shall be deemed to be a termination for "Cause." Notwithstanding the foregoing, in the event that a Participant is party to an employment, severance or similar agreement with the Company or any of its affiliates and such agreement contains a definition of "Cause," the definition of "Cause" set forth above shall be deemed replaced and superseded, with respect to such Participant, by the definition of "Cause" used in such employment, severance or similar agreement.

Accounting Restatement. If a Participant receives compensation pursuant to an Award under the Plan based on financial statements that are subsequently required to be restated in a way that would decrease the value of such compensation, the Participant will, to the extent not otherwise prohibited by law, upon the written request of the Company, forfeit and repay to the Company the difference between what the Participant received and what the Participant should have received based on the accounting restatement, in accordance with (i) the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time and (ii) any 14.3 compensation recovery, "clawback" or similar policy made applicable by law including the provisions of Section 945 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules, regulations and requirements adopted thereunder by the Securities and Exchange Commission and/or any national securities exchange on which the Company's equity securities may be listed (the "Policy"). By accepting an Award hereunder, the Participant acknowledges and agrees that the Policy, whenever adopted, shall apply to such Award, and all incentive-based compensation payable pursuant to such Award shall be subject to forfeiture and repayment pursuant to the terms of the Policy.

#### Article 15. Duration, Amendment, Modification, Suspension, and Termination

15.1 Duration of the Plan. Unless sooner terminated as provided in Section 15.2, the Plan shall terminate on the tenth (10th) anniversary of the Effective Date.

15.2 Amendment, Modification, Suspension, and Termination of Plan. The Committee may amend, alter, suspend, discontinue, or terminate (for purposes of this Section 15.2, an "Action") the Plan or any portion thereof or any Award (or Award Agreement) thereunder at any time; provided that no such Action shall be made, other than as permitted under Article 12 or 13, (i) without shareholder approval (A) if such approval is necessary to comply with any tax (e.g. with respect to Incentive Stock Options) or regulatory requirement applicable to the Plan or (B) if such Action requires shareholder approval under applicable stock exchange requirements, and (ii) without the written consent of the affected Participant, if such Action would materially diminish the rights of any Participant under any Award theretofore granted to such Participant under the Plan; provided, however, that the Committee may amend the Plan, any Award or any Award Agreement without such consent of the Participant in such manner as it deems necessary to comply with applicable laws.





Article 16. General Provisions

16.1 No Right to Service. The granting of an Award under the Plan shall impose no obligation on the Company, any Subsidiary or any Affiliate to continue the Service of a Participant and shall not lessen or affect any right that the Company, any Subsidiary or any Affiliate may have to terminate the Service of such Participant. No Participant or other Person shall have any claim to be granted any Award.

16.2 Settlement of Awards; Fractional Shares. Each Award Agreement shall establish the form in which the Award shall be settled. The Committee shall determine whether cash, Awards, other securities or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be rounded, forfeited or otherwise eliminated.

16.3 Tax Withholding. The Company shall have the power and the right to deduct or withhold automatically from any amount deliverable under the Award or otherwise, or require a Participant to remit to the Company, the minimum statutory amount (or the maximum or other rate as determined by the Committee in an Award Agreement or otherwise) to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan. With respect to required withholding, Participants may elect (subject to the Company's automatic withholding right set out above), subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory (or the maximum or other rate as determined by the Committee in an Award Agreement or otherwise) total tax that could be imposed on the transaction.

16.4 No Guarantees Regarding Tax Treatment. Participants (or their beneficiaries) shall be responsible for all taxes with respect to any Awards under the Plan. The Committee and the Company make no guarantees to any Person regarding the tax treatment of Awards or payments made under the Plan. Neither the Committee nor the Company has any obligation to take any action to prevent the assessment of any tax on any Person with respect to any Award under Section 409A of the Code or Section 457A of the Code or otherwise and none of the Company, any of its Subsidiaries or Affiliates, or any of their employees or representatives shall have any liability to a Participant with respect thereto.

16.5 Non-Transferability of Awards. Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant except in the event of his death (subject to the applicable laws of descent and distribution) and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate. No transfer shall be permitted for value or consideration. An award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant. Any permitted transfer of the Awards to heirs or legatees of the Participant shall not be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

16.6 Conditions and Restrictions on Shares. The Committee may impose such other conditions or restrictions on any Shares received in connection with an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Participant hold the Shares received for a specified period of time or a requirement that a Participant represent and warrant in writing that the Participant is acquiring the Shares for investment and without any present intention to sell or distribute such Shares. The certificates for Shares may include any legend which the Committee deems appropriate to reflect any conditions and restrictions applicable to such Shares.

16.7 Compliance with Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies, or any stock exchanges on which the Shares are admitted to trading or listed, as may be required. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable national, state or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

The restrictions contained in this Section 16.7 shall be in addition to any conditions or restrictions that the Committee may impose pursuant to Section 16.6. The inability of the Company to obtain authority from any

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regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

Awards to Non-U.S. Employees or Directors. To comply with the laws in countries other than the United States 16.8 in which the Company or any of its Subsidiaries or Affiliates operates or has Employees or Directors, the

Committee, in its sole discretion, shall have the power and authority to:

- (a) Determine which Subsidiaries or Affiliates shall be covered by the Plan;
- (b) Determine which Eligible Persons outside the United States are eligible to participate in the Plan;
- (c) Modify the terms and conditions of any Award granted to Eligible Persons outside the United States to comply with applicable foreign laws;
- (d) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals; and
- (e) Establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section 16.8 by the Committee shall be appendices of the Plan.

Rights as a Shareholder. Except as otherwise provided herein or in the applicable Award Agreement, a Participant 16.9 shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

Trading Policy and Other Restrictions. Transactions involving Awards under the Plan shall be subject to the 16.10 Company's Code for Securities Transactions and other restrictions, terms and conditions, to the extent established by the Committee or by applicable law, including any other applicable policies set by the Committee, from time to time

Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to 16.11 conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person, or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Subsidiaries or Affiliates may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, 16.12 legal representative, or any other Person. To the extent that any Person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. The Plan is not subject to the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

No Constraint on Corporate Action. Nothing in the Plan shall be construed to (a) limit, impair, or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its 16.13 capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets, or (b) limit the right or power of the Company to take any action which such entity deems to be necessary or appropriate.

Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be 16.14 binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, amalgamation, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

16.15

Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation

of the Plan to the substantive law of another jurisdiction. Any action to enforce any of the provisions of the Plan or any Award Agreement shall be brought in a court in the State of Ohio located in Summit County or, if subject matter jurisdiction exists, in the Eastern Division of the U.S. District Court for the Northern District of Ohio. The Company and any Participant consent to the jurisdiction of such courts and to the service of process in any manner provided by applicable Ohio or federal law. Each party irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any such suit, action, or proceeding brought in such court and any claim that such suit, action, or proceeding brought in such court has been brought in an inconvenient forum and agrees that service of process in accordance with the foregoing sentences shall be deemed in every respect effective and valid personal service of process upon such party.

**PARTICIPANT ACKNOWLEDGES THAT, BY ACCEPTING AN AWARD AGREEMENT UNDER THE PLAN, PARTICIPANT IS WAIVING ANY RIGHT THAT PARTICIPANT MAY HAVE TO A JURY TRIAL RELATED TO THIS PLAN OR ANY AWARD AGREEMENT THEREUNDER.**

16.16 **Waiver of Certain Claims.** By participating in the Plan, the Participant waives all and any rights to compensation or damages in consequence of the termination of his or her office or Service with the Company, any Subsidiary or Affiliate for any reason whatsoever, whether lawfully or otherwise, insofar as those rights arise or may arise from his or her ceasing to have rights under the Plan as a result of such termination, or from the loss or diminution in value of such rights or entitlements, including by reason of the operation of the terms of the Plan, any determination by the Board or Committee pursuant to a discretion contained in the Plan or any Award Agreement or the provisions of any statute or law relating to taxation.

16.17 **Data Protection.** By participating in the Plan, the Participant consents to the collection, processing, transmission and storage by the Company in any form whatsoever, of any data of a professional or personal nature which is necessary for the purposes of introducing and administering the Plan. The Company may share such information with any Subsidiary or Affiliate, the trustee of any employee benefit trust, its registrars, trustees, brokers, other third party administrator or any Person who obtains control of the Company or acquires the company, undertaking or part-undertaking which employs the Participant, wherever situated.

16.18 **Effective Date.** The Plan shall be effective as of the date of adoption by the Board, which date is set forth below (the "Effective Date").

16.19 **Shareholder Approval.** The Plan will be submitted for approval by the shareholders of the Company at an annual meeting or any special meeting of shareholders of the Company within twelve (12) months of the Effective Date. Any Awards granted under the Plan prior to such approval of shareholders shall be effective as of the date of grant, but no such Award may be exercised or settled and no restrictions relating to any Award may lapse prior to such shareholder approval, and if shareholders fail to approve the Plan as specified hereunder, the Plan and any Award shall be terminated and cancelled without consideration.

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This Plan was duly adopted and approved by the Board of Directors of the Company by resolution at a meeting held on the 1st day of March, 2018.

Appendix B

Signet Jewelers Limited Sharesave Scheme

1 DEFINITIONS

1.1 In this Scheme, the following words and expressions shall have, where the context so admits, the meanings set forth below:

“Adoption Date” the date of approval of the Scheme by the shareholders of the Company;

“Appropriate Period” in relation to an event giving rise to a change of Control, the applicable period in respect of such event as per Paragraph 38(3) of Schedule 3 to ITEPA;

“Associated Company” an associated company of the Company within the meaning that expression bears in Paragraph 47 of Schedule 3 to ITEPA save in respect of Rule 8.3(b) and 8.5 where the meaning given in Paragraph 35(4) of Schedule 3 to ITEPA shall apply;

“Board” the board of directors for the time being of the Company, or a duly authorised committee thereof;

“Bonus Date” in relation to any Option granted to a Participant, the earliest time when the Relevant Bonus is payable under the Savings Contract entered into by him;

“Code for Securities Transactions” as adopted by the Company and amended from time to time;

“the Company” Signet Jewelers Limited (registered in Bermuda no. 42069);

“Constituent Company”

(A) the Company; and

(B) any other company which is under the Control of the Company, is a Subsidiary of the Company and which has been expressly designated by the Board as being a Constituent Company;

“Control” has the meaning given by section 719 of ITEPA;

“Date of Grant” the date on which an Option is granted;

“Date of Invitation” the date on which the Grantor invites applications for Options;

“Dealing Day” any day on which the New York Stock Exchange is open for the transaction of business;

“Eligible Employee” any individual who at the Date of Grant:

(A) is an employee of a Constituent Company or is an executive director of a Constituent Company who is required to devote more than 25 hours per week (excluding meal breaks) to his duties; and

(B) whose earnings from the office or employment within (A) are (or would be if there were any) general earnings to which section 15 of ITEPA (Earnings for year when employee UK resident) applies; and

(C) has been an employee or executive director of a Constituent Company within Paragraph (A) above at all times during the Qualifying Period;

“Employees’ Share Scheme” has the meaning given by Section 1166 of the Companies Act 2006;

“Exercise Price” the total amount payable in relation to the exercise of an Option, whether in whole or in part, being an amount equal to the relevant Option Price multiplied by the number of Shares in respect of which the Option is exercised;

“Grantor” in relation to an Option, the Company, or (if so appointed by the Company) a Trustee;

“HMRC” HM Revenue & Customs;

“Invitation Period” the period of 42 days commencing on any of the following:

(A) the day immediately following the day on which the Company makes an announcement of its results for the last preceding financial year, half-year or other period;

(B) the day following the end of any Blackout Period to any Designated Person, as set forth (and each as defined) in the Code for Securities Transactions; or

(C) any day on which the Board resolves in its discretion that exceptional circumstances exist which justify the grant of Options, provided that invitations to apply for Options must not be issued at any time if it





would be unlawful, or would breach any requirement of the Code for Securities Transactions or any other regulation or guidance to which the Company is subject or with which the Company complies;

“ITEPA” the Income Tax (Earnings and Pensions) Act 2003;

“Lower Bonus” the bonus (if any) payable at the end of a period of three years from the commencement of a Savings Contract;

“Market Abuse Regulation” Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as it is in force at the relevant time;

“Market Value” in relation to a Share on any day:

its market value determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and any

(A) relevant published HMRC guidance (but, when shares are subject to a Restriction, determined on the basis that no such Restriction applies); and

(B) subject to (A) above, if and so long as the Shares are listed on the New York Stock Exchange, its middle market quotation as derived from the New York Stock Exchange Listings Directory;

“Maximum Contribution” the lesser of:

(A) such maximum monthly contribution as may be permitted pursuant to Paragraph 25 of Schedule 3 to ITEPA; or

(B) such maximum monthly contribution as may be determined from time to time by the Board in accordance with Rule 2.1(d);

“Minimum Contribution” in respect of an Option means the minimum Monthly Contribution specified by the Board in accordance with Rule 2.1(c);

“Monthly Contributions” monthly contributions agreed to be paid by a Participant under their Savings Contract;

“New York Stock Exchange” means the New York Stock Exchange or any successor body carrying on the business of the New York Stock Exchange;

“Option” a right to acquire Shares under the Scheme;

“Option Price” the price per Share, as determined by the Grantor, at which an Eligible Employee may acquire Shares upon the exercise of an Option granted to him being not less than the higher of:

80 per cent. of the Market Value of a Share on the Dealing Day immediately preceding the Date of Invitation (or,

(A) if the Grantor so determines, 80 per cent. of the average of the Market Values on the three Dealing Days

immediately preceding the Date of Invitation or 80 per cent. of the Market Value at such other time or times as may be previously agreed in writing with HMRC); and

(B) if Shares are to be newly issued to satisfy the exercise of the Option, their nominal value, but subject to any adjustment pursuant to Rule 12;

“Participant” any Eligible Employee to whom an Option has been granted, or (where the context so admits) the personal representative(s) of any such person;

“Qualifying Period” means, in relation to an Option, such period as is specified by the Board pursuant to Rule 2.1(f);

“Relevant Bonus” the Lower Bonus or the Standard Bonus (as applicable), as determined by reference to the Option period for which the relevant applicant applies pursuant to Rule 4.1(a);

“Repaid Amount” the amount received by way of repayments of contributions and payments of any Relevant Bonus or interest (if any) under the Savings Contract linked to the relevant Option. The Repaid Amount will not include the amount of any Relevant Bonus, if the Board decides that it will not under Rule 2.1(a) or Rule 6.2 and notifies this to Participants at the Date of Grant;

“Restriction” has the meaning given to it by Paragraph 48(3) of Schedule 3 to ITEPA;

“Savings Contract” a savings contract under a certified SAYE savings arrangement (within the meaning of Section 703 of the Income Tax (Trading and Other Income) Act 2005) that is nominated by the Board and approved by HMRC for the purpose of Schedule 3 to ITEPA;

“Schedule 3 SAYE” means any share option scheme that meets the requirements in force from time to time of Schedule 3 to ITEPA;

“Scheme” the Signet Jewelers Limited Sharesave Scheme, as amended from time to time;



“Share” a common share in the capital of the Company which satisfies the conditions specified in Paragraphs 18 to 20 and 22 of Schedule 3 to ITEPA;

“Standard Bonus” the bonus (if any) payable at the end of a period of five years from the commencement of a Savings Contract;

“Subsidiary” has the meaning given by Section 1159 of the Companies Act 2006;

“Treasury Shares” has the meaning given in sections 724 to 732 of the Companies Act 2006 or the equivalent provision of the Companies Act 1981 of Bermuda;

“Trustee” the trustee or trustees for the time being of any employee benefit trust established for the benefit of beneficiaries including all or substantially all of the Eligible Employees;

“TUPE” the Transfer of Undertakings (Protection of Employment) Regulations 2006; and

“US Securities Laws” has the meaning given by Rule 6.7(a).

1.2 Words and expressions not otherwise defined herein have the same meaning they have in ITEPA.

1.3 References to “Rules” are to the rules of the Scheme.

1.4 The headings in the Rules of the Scheme are for the sake of convenience only and should be ignored when construing the Rules.

1.5 Where the context so admits or requires, words importing the singular shall include the plural and vice versa and words importing the masculine shall include the feminine and vice versa.

1.6 References in the Rules of the Scheme to any statutory provisions are to those provisions as amended, extended or re-enacted from time to time and shall include any regulations made thereunder. The Interpretation Act 1978 shall apply to these Rules mutatis mutandis as if they were an Act of Parliament.

1.7 Any reference to writing or written form shall include any legible format capable of being reproduced on paper, irrespective of the medium used.

1.8 A reference to the Scheme or to any other agreement or document referred to in the Scheme is a reference to the Scheme or such other agreement or document as varied or novated (in each case, other than in breach of the provisions of the Scheme) from time to time.

1.9 Any words following the terms including, include, in particular, for example or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

2 Board Decisions regarding issues of invitations

2.1 On each occasion that the Board decides to issue invitations to apply for Options, the Board must also decide:

(a) whether or not Repaid Amounts will be taken to include a Relevant Bonus;

(b) whether to invite applications for three-year Options or five-year Options (or Options of such other standard periods as may then be available under the HM Treasury specifications for certified savings arrangements), or to offer a choice between those Option periods;

(c) the minimum monthly contribution to be made under a Savings Contract linked to any Option granted as a result of the invitations, such minimum to be between £5 and £10 (or any other minimum or maximum amounts specified in the HM Treasury specifications or Schedule 3 to ITEPA from time to time);

(d) the maximum monthly contribution to be made under a Savings Contract linked to any Option granted as a result of the invitations, such contribution to be equal to or less than £500 per month (or any other maximum amount specified in the HM Treasury specifications or Schedule 3 to ITEPA from time to time);

(e) the maximum number (if any) of Shares over which Options may be granted on this occasion; and

(f) the minimum qualifying period of service (if any) with a Constituent Company which applies for the purposes of determining who is an Eligible Employee. This may not be longer than five years (or such other maximum period then specified in Paragraph 6(2)(b) of Schedule 3 to ITEPA).

3 Invitations for Options

3.1 The Grantor may, during any Invitation Period which falls wholly after the Adoption Date and before the tenth anniversary of the Adoption Date, invite applications for Options at the Option Price from Eligible Employees.

3.2 Invitations must be in a form approved by the Board, must be sent to all Eligible Employees, and may be made by letter, poster, circular, advertisement, electronically or by any other written means or combination of means determined by the Board.

3.3 Invitations shall:

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- (a) incorporate or be accompanied by a proposal for a Savings Contract;
- (b) include a statement that each invitation is subject to these Rules, and that the provisions of these Rules will prevail over any conflicting statement;
- (c) specify the Minimum Contribution;
- (d) specify the Maximum Contribution;
- (e) specify either the Option Price or the basis for determining the Option Price (such basis being consistent with the definition of Option Price);
  - specify (if any) the maximum number of Shares over which Options are to be granted pursuant to invitations issued
- (f) on that occasion, and if there is such a limit, that applications will be scaled down in accordance with Rule 5 if applications are received in excess of that limit;
- (g) specify the Qualifying Period (if any);
  - specify whether applications may be made for three-year Options or five-year Options (or Options of such other standard periods as may then be available under the HM Treasury savings arrangements specifications) or whether there is a choice between those Option periods;
- (h) specify whether Repaid Amounts will be taken to include any Relevant Bonus and, to the extent that this is the case,
- (i) whether or in what circumstances the Relevant Bonus so included will constitute the Standard Bonus or the Lower Bonus; and
  - specify that, to be considered for the grant of Options, completed applications must be received by the Board (or
- (j) any person nominated to receive applications on behalf of the Board) by 11:59pm on the day falling not less than 14 days nor more than 25 days after the Date of Invitation.

3.4 Any accidental failure or omission to deliver an invitation to any Eligible Employee will not invalidate the grant of Options.

#### 4 APPLICATION FOR OPTIONS

4.1 Each application for an Option shall be in such form as the Board may from time to time prescribe, and must:

- (a) state the period of the Option applied for;
  - incorporate or be accompanied by a completed application form to enter into a Savings Contract, in which the
- (b) applicant agrees to make the Monthly Contributions, and the amount of such Monthly Contributions (being a multiple of £1 and not less than the Minimum Contribution);
  - state that the applicant's proposed Monthly Contributions (when taken together with any monthly contribution he
- (c) makes under any other savings contract linked to a Schedule 3 SAYE option scheme) will not exceed the Maximum Contribution; and
- (d) include the applicant's agreement to be bound by the terms of the Scheme, and state that the provisions of these Rules will prevail over any conflicting statement.

Each application shall be deemed to be for an Option over the largest whole number of Shares which can be acquired at the Option Price with the expected Repaid Amount (including, where the Board so allows, any Relevant Bonus) under the related Savings Contract, and each application under this Rule 4 will be treated as being for an Option over the largest whole number of Shares that can be acquired at the relevant Exercise Price with the expected Repaid Amount under the related Savings Contract.

#### 5 SCALING DOWN

- If valid applications are received for a total number of Options over Shares in excess of any maximum number of Shares determined by the Grantor pursuant to Rule 2.1(e) or any limitation under Rule 7, the Grantor shall (or, where applicable, any Trustee, provided the Board has given its prior written approval)
- 5.1 scale down applications by taking, at its absolute discretion, the following successive steps until the number of Shares available equals or exceeds the reduced number of Shares applied for (provided always that in reducing the number of Shares in respect of which Options have been applied for, any adjustments shall ensure that an Eligible Employee's Monthly Contribution remains a multiple of £1):
- (a) first, if Repaid Amounts were intended to be taken to include a Relevant Bonus, by treating each application as an application for an Option under which Repaid Amounts will not be taken to include a Relevant Bonus; then
  - (b) so far as necessary, by reducing the proposed Monthly Contributions pro rata to the excess over £50; then
  - (c)

so far as necessary, by reducing the proposed Monthly Contributions pro rata to the excess over the Minimum Contribution and then, so far as necessary, selecting by lot.

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5.2 If the number of Shares available is insufficient to enable an Option based on Monthly Contributions of the amount of the Minimum Contribution to be granted to each Eligible Employee making a valid application, the Grantor may, as an alternative to selecting by lot, determine in its absolute discretion that no Options shall be granted.

5.3 If the Board so determines, the provisions in Rules 5.1(a), 5.1(b) and 5.1(c) may be modified or applied in any manner that does not breach any of the provisions of Schedule 3 to ITEPA.

5.4 If in applying the scaling down provisions contained in this Rule 5, Options cannot be granted within the 30 day period referred to in Rule 6.3 below, the Grantor may extend that period by up to 12 days, regardless of the expiry of the relevant period specified in Rule 6.3.

#### 6 GRANT OF OPTIONS

6.1 No Option shall be granted to any person if at the Date of Grant that person is not or will have ceased to be an Eligible Employee.

6.2 The Board shall ensure that the question as to whether the Repaid Amounts are to be taken as including any Relevant Bonus will be determined at the Date of Grant.

6.3 Within 30 days of the first Dealing Day (if any) by reference to which the Option Price was fixed (which date shall be within an Invitation Period) the Grantor (in the case of the Grantor being the Trustee, only with the prior written approval of the Board) must, subject to Rules 5.4 and 6.1 above, grant to each Eligible Employee who has submitted a valid application an Option, and subject to Rules 5 and 7, that Option must be in respect of the number of Shares for which the applicant has applied pursuant to Rule 4.

6.4 The Grantor shall issue to each Participant an option certificate in such form (not inconsistent with the provisions of the Scheme) as the Board may from time to time prescribe. Each such certificate shall specify:

(a) the Date of Grant of the Option;

(b) the number of Shares over which the Option is granted;

(c) the Option Price;

(d) that the Option may be exercised from the Bonus Date of the Savings Contract linked to the Option, unless the Option lapses or becomes exercisable under these Rules before that date;

(e) whether the Shares over which the Option is granted are subject to a Restriction and, if so, the details of such Restriction; and

(f) a statement that the Option is subject to these Rules, and that the provisions of these Rules shall prevail over any conflicting statement relating to the Option's terms.

6.5 Except as otherwise provided in Rule 8.2 or as otherwise permitted pursuant to Schedule 3 to ITEPA, every Option shall be personal to the Participant to whom it is granted and shall not be transferable.

6.6 No amount shall be paid in respect of the grant of an Option.

6.7 The grant and the exercise of an Option shall be subject to obtaining any approval or consent required under any applicable laws, regulations of any governmental authority and the requirements of the New York Stock Exchange and any other securities exchange on which the Shares are traded, and in particular, Options must not be granted at any time when the grant is prohibited by, or in breach of:

(a) insofar as applicable, the rules of the New York Stock Exchange, the Code for Securities Transactions or any other law or regulation with the force of law, including but not limited to the US Securities Act of 1933, as amended, the US Securities Exchange Act of 1934, as amended, and the regulations and requirements adopted thereunder by the US Securities and Exchange Commission (the "US Securities Laws"); or

(b) any rule of any investment exchange on which Shares are listed or traded, or any non-statutory rule with a purpose similar to any part of the Market Abuse Regulation that binds the Company or with which the Board has resolved to comply.

#### 7 NUMBER OF SHARES IN RESPECT OF WHICH OPTIONS MAY BE GRANTED

7.1 The number of Shares which may be allocated under the Scheme (including any Sub-Plan established pursuant to Rule 14.7) on any day shall not exceed [one million] and shall not, when added to the aggregate of the number of Shares which have been allocated in the previous 10 years under the Scheme and under any other Employees' Share Scheme adopted by the Company or any Subsidiary, exceed such number as represents 10 per cent. of the common share capital of the Company in issue immediately prior to that day.

7.2 In determining the above limits (i) any Shares issued or which may be issued to satisfy any Options granted by the trustees of any employee benefit trust established by the Company or any Subsidiary shall be regarded as

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Options to subscribe for Shares; and (ii) no account shall be taken of any Shares where the right to acquire such Shares was released or lapsed without being exercised.

References in this Rule to the “allocation” of Shares shall mean, in the case of any share option scheme, the placing of unissued shares under option and, in relation to other types of Employees' Share Scheme, shall mean the issue and allotment of shares.

References to the issue and allotment of Shares shall include the transfer of Shares from treasury, but only until such time as the guidelines issued by institutional investor bodies cease to provide that they need to be so included.

#### RIGHTS OF EXERCISE AND LAPSE OF OPTIONS

(a) Save as provided in Rules 8.2, 8.3 and 9, an Option may not be exercised earlier than the Bonus Date under the relevant Savings Contract.

(b) Save as provided in Rule 8.2, an Option shall not be exercisable later than six months after the Bonus Date under the relevant Savings Contract.

(c) Save as provided in Rules 8.2, 8.3 and 9, an Option may only be exercised by a Participant whilst he is a director or employee of a Constituent Company or an Associated Company.

(d) If, at the Bonus Date, a Participant holds an office or employment in a company which is not a Constituent Company but which is an Associated Company or a company over which the Company has Control, such Option may be exercised within six months of the Bonus Date.

An Option may be exercised by the personal representatives of a deceased Participant at any time:

(a) within 12 months following the date of the Participant's death, if such death occurs before the Bonus Date; or

(b) within 12 months following the Bonus Date in the event of his death on or within six months after the Bonus Date.

Subject to Rule 8.1(b) an Option may be exercised by a Participant within six months following his ceasing to hold the office or employment by virtue of which he is eligible to participate in the Scheme by reason of:

(a) injury, disability, redundancy within the meaning of the Employment Rights Act 1996 or the Employment Rights (Northern Ireland) Order 1996, or retirement; or

(b) his office or employment being in a company which ceases to be an Associated Company by reason of change of control within the meaning of Sections 450 and 451 of the Corporation Tax Act 2010; or

(c) a relevant transfer within the meaning of TUPE; or

(d) the transfer or sale of the undertaking or part-undertaking in which he is employed to a person who is neither an Associated Company nor a company under the Control of the Company where the transfer is not a relevant transfer within the meaning of TUPE; or

(e) cessation of employment in circumstances other than those mentioned in 8.3(a) to 8.3(d) above, provided that the Option was granted to the Participant before the date which falls three years prior to the relevant date of cessation of employment.

An Option may not be exercised when exercise is prohibited by or in breach of the rules of the New York Stock Exchange, the Code for Securities Transactions or any other law or regulation with the force of law, including but not limited to the US Securities Laws.

No person shall be treated for the purposes of Rule 8.3 as ceasing to hold an office or employment by virtue of which that person is eligible to participate in the Scheme until that person ceases to hold any office or employment in the Company or any Associated Company.

Options shall lapse upon the occurrence of the earliest of the following events:

(a) subject to 8.6(b) below, 6 months after the Bonus Date;

(b) where the Participant dies before the Bonus Date, 12 months after the date of death, and where the Participant dies on or in the period of 6 months after the Bonus Date, 12 months after the Bonus Date;

(c) the expiry of any of the 6 month periods specified in Rule 8.3(a) to 8.3(e) save that if at the time any such applicable periods expire time is running under the 12 month periods specified in Rule 8.2, the Option shall not lapse by reason of this sub Rule 8.6(c) until the expiry of the relevant 12 month period in Rule 8.2;

(d) subject to 8.6(b) above, the expiry of any of the periods specified in Rules 9.1, 9.3, 9.4 and 9.5 save where an Option is released in consideration of the grant of a New Option (during one of the periods specified in Rules 9.1, 9.3, 9.4 or 9.5) pursuant to Rule 9.9;



- (e) the Participant ceasing to hold an office or employment with the Company or any Associated Company in any circumstances other than:
- (i) where the cessation of office or employment arises on any of the grounds specified in Rules 8.2 or 8.3; or
  - where the cessation of office or employment arises on any ground whatsoever during any of the periods specified
  - (ii) in Rule 9 save where an Option is released in consideration of the grant of a New Option (during one of the periods specified in Rules 9.1, 9.3, 9.4 or 9.5 pursuant to Rule 9.9);
  - (f) the passing of an effective resolution, or the making of an order by the Court, for the winding-up of the Company;
  - (g) the Participant being deprived of the legal or beneficial ownership of the Option by operation of law, or doing anything or omitting to do anything which causes him to be so deprived or declared bankrupt; or
  - where before an Option has become capable of being exercised, the Participant gives notice that he intends to stop
  - (h) paying Monthly Contributions, or is deemed under the terms of the Savings Contract to have given such notice, or makes an application for repayment of the Monthly Contributions.

#### 9 TAKEOVER, RECONSTRUCTIONS AND WINDING UP

9.1 Subject to Rule 9.3 below, if any person obtains Control of the Company as a result of making, either:

- a general offer to acquire the whole of the issued common share capital of the Company (other than any share capital already held by the person making the offer or any person connected with that person) which is made on a condition such that if it is satisfied the person making the offer will have Control of the Company; or
  - (a) capital already held by the person making the offer or any person connected with that person) which is made on a condition such that if it is satisfied the person making the offer will have Control of the Company; or
  - (b) a general offer to acquire all the shares in the Company which are of the same class as the Shares (except for any shares already held by the person making the offer or a person connected with that person),
- an Option may be exercised within six months of the time when the person making the offer has obtained Control of the Company and any condition subject to which the offer is made has been satisfied.

9.2 For the purpose of this Rule 9, a person shall be treated as obtaining Control of the Company if that person and others acting in concert with that person have together obtained Control of it.

If any person becomes bound or entitled to acquire Shares under Chapter 3 of Part 28 of the UK Companies Act 2006 (or, solely to the extent permissible under Schedule 3 to ITEPA, any equivalent provisions of the Companies Act 1981 of Bermuda) an Option may be exercised during the period in which such person is and remains so bound or entitled.

If it is proposed that the court sanctions under section 899 of the Companies Act 2006 (Court sanction for compromise or arrangement) (or, solely to the extent permissible under Schedule 3 to ITEPA, any equivalent provisions of the Companies Act 1981 of Bermuda) a compromise or arrangement applicable to or affecting:

- (a) all of the ordinary share capital of the Company or all of the shares of the same class as the Shares to which the Option relates; or
- all of the shares, or all of the shares of that same class, which are held by a class of shareholders identified
- (b) otherwise than by reference to their employment or directorships or their participation in the Scheme or any other Schedule 3 SAYE,

or if the Company passes a resolution for the voluntary winding up of the Company, the Company shall give notice thereof to all Participants and the Participant may then exercise the Option within six months from the date on which the court sanctions such compromise or arrangement, or such resolution for voluntary winding up is passed, and thereafter the Option shall lapse. In the case of any circumstance falling within paragraphs (a) or (b) of Rule 9.4, after exercising the Option the Participant shall transfer or otherwise deal with the Shares issued to him so as to place him in the same position (so far as possible) as would have been the case if such shares had been subject to such compromise or arrangement.

9.5 If shareholders of the Company become bound by a non-UK reorganisation arrangement (as defined in Paragraph 47A of Schedule 3 to ITEPA) that is applicable to or affects:

- (a) all the ordinary share capital of the Company or all the shares of the same class as the Shares; or
- all the shares, or all the shares of that same class, which are held by a class of shareholders identified otherwise
- (b) than by reference to their employments or directorships or their participation in the Scheme or any other Schedule 3 SAYE,



an Option may be exercised during the period of six months from the date on which the shareholders became so bound.

If, as a result of the occurrence of a change of Control in the circumstances set out in Rule 9.1, or as a result of any change of Control which arises as a result of any of the circumstances set out in Rules 9.3, 9.4 (other than a 9.6 resolution for a voluntary winding up of the Company) or 9.5, Shares will no longer satisfy the requirements of Part 4 of Schedule 3 to ITEPA, Options may be exercised within the period of 20 days following the change of Control.

If the Board reasonably expects that any of the events set out in Rules 9.1, 9.3, 9.4 or 9.5 will occur, the Board may 9.7 make arrangements permitting Options to be exercised during a period of 20 days ending with the occurrence of such event. If an Option is exercised under this Rule 9.7, it will be treated as having been exercised in accordance with Rule 9.1, 9.3, 9.4 or 9.5 (as applicable).

If the Board makes arrangements for the exercise of Options under Rule 9.7, if the relevant event as set out in Rule 9.8 9.1, 9.3, 9.4 or 9.5 (as applicable) does not occur within 20 days of the purported exercise, the Options shall be treated as not having been exercised, and the purported exercise shall be treated as having had no effect.

If Options become exercisable pursuant to Rules 9.1 or 9.3 above, or any person obtains control of the Company pursuant to 9.4 or 9.5 above, any Participant may at any time within the Appropriate Period, by agreement with the 9.9 acquiring company, release any Option which has not lapsed (the "Old Option") in consideration of the grant to him of an Option (the "New Option") which (for the purposes of Paragraph 39 of Schedule 3 to ITEPA) is equivalent to the Old Option but relates to shares in a different company (whether the company which has obtained Control of the Company itself or some other company falling within Paragraph 18(b) or (c) of Schedule 3 to ITEPA).

The New Option shall not be regarded for the purposes of Rule 9.9 as equivalent to the Old Option unless the 9.10 conditions set out in Paragraph 39(4) of Schedule 3 to ITEPA are satisfied. Where the provisions of Rule 9.9 apply the provisions of the Scheme shall for this purpose be construed as if:

- (a) the New Option were an option granted under the Scheme at the same time as the Old Option;
- (b) except for the purpose of the definition of "Constituent Company" in Rule 1, the reference to Signet Jewelers Limited in the definition of "the Company" in Rule 1 were a reference to the different company mentioned in Rule 9.9; and
- (c) references to the Shares were references to the shares subject to the New Options.

9.11 The acquiring company must issue (or procure the issue of) an option certificate for each New Option as soon as reasonably practicable.

## 10 MANNER OF EXERCISE

An Option may only be exercised during the periods specified in Rules 8 and 9, and only with monies not exceeding the amount of repayments (including any interest and Relevant Bonus) made under the Savings 10.1 Contract as at the date of such exercise, and that are, or are derived from, such repayments. For this purpose, no account shall be taken of such part (if any) of the repayment of any Monthly Contribution, the due date for the payment of which under the Savings Contract arises after the date of the repayment.

10.2 Exercise shall be by the delivery to the Company Secretary as agent for the Grantor (or its duly appointed agent), of:

- a duly completed notice of exercise (in the form prescribed by the Board) and signed by the Participant (or the (a) Participant's duly authorised agent), which sets out the number of Shares over which the Participant wishes to exercise the Option; and
- either: (i) any remittance for the Exercise Price payable to the Company (being comprised solely of monies referred to in Rule 10.1); or (ii) authority to the Company authorising it to withdraw and apply monies from the (b) Savings Contract to acquire the Shares over which the Option is to be exercised on behalf of the relevant Participant.

The effective date of exercise shall be the date of delivery of the notice of exercise together with any remittance 10.3 or authority referred to in Rule 10.2. For the purposes of this Scheme a notice of exercise shall be deemed to be delivered when it is received by the Company.

10.4 Any exercise notice will be invalid to the extent that it is inconsistent with the Participant's rights and obligations under these Rules and the relevant Options.

10.5

The Company may permit a Participant to correct any defect in an exercise notice, but is not obliged to do so. The date of any corrected exercise notice will be the date of the correction.

Shares transferred in satisfaction of the exercise of an Option must be transferred free of any lien, charge or other security interest, and with all rights attaching to them, other than any rights determined by reference to a date before the date of the transfer.

#### 11 ISSUE OR TRANSFER OF SHARES

11.1 Subject to Rule 11.3, Shares to be issued pursuant to the exercise of an Option shall be allotted to the Participant (or his nominee) within 30 days following the date of effective exercise of the Option.

11.2 Subject to Rule 11.3, the Grantor shall procure the transfer of any Shares to be transferred to a Participant (or his nominee) pursuant to the exercise of an Option within 30 days following the date of effective exercise of the Option.

11.3 The allotment or transfer of any Shares under the Scheme shall be subject to obtaining any such approval or consent as is mentioned in Rule 6.7 above.

11.4 Shares issued pursuant to the Scheme shall rank pari passu in all respects with the Shares then in issue, except that they shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

11.5 Shares transferred pursuant to the Scheme shall not be entitled to any rights attaching to Shares by reference to a record date preceding the date of transfer.

11.6 If and so long as the Shares are listed on the New York Stock Exchange or are admitted to trading on any stock exchange, stock market or other recognised exchange (the "Relevant Exchange"), the Company shall apply for any Shares issued pursuant to the Scheme to be admitted to listing on the Relevant Exchange, as soon as practicable after the allotment thereof.

11.7 Any requirements under this Rule 11 to issue, allot, transfer or procure the transfer of any Shares may be met by the transfer of Shares held as Treasury Shares.

#### 12 ADJUSTMENTS

12.1 The number or description of Shares over which an Option is granted and/or the Option Price thereof (and where an Option has been exercised but no Shares have been allotted or transferred pursuant to such exercise, the number of Shares which may be so allotted or transferred and/or the price at which they may be acquired) may be adjusted in such manner as the Board shall determine following any capitalisation issue, any offer or invitation made by way of rights, subdivision, consolidation, reduction or other variation in the share capital of the Company (other than as consideration for an acquisition). Any adjustment made must secure that:

- (a) the total Market Value of the Shares which may be acquired by the exercise of the Option is immediately after the variation substantially the same as it was immediately before the variation or variations; and
- (b) the total price at which those Shares may be acquired is immediately after the variation substantially the same as it was immediately before the variation or variations,

and that following any such variation the requirements of Schedule 3 to ITEPA continue to be met.

12.2 Apart from pursuant to this Rule 12.2, no adjustment under Rule 12.1 above may have the effect of reducing the Option Price to less than the nominal value of a Share. Where an Option subsists over both issued and unissued Shares any such adjustment may only be made if the reduction of the Option Price of Options over both issued and unissued Shares can be made to the same extent. Any adjustment made to the Option Price of Options over unissued Shares shall only be made if and to the extent that the Board shall be authorised to capitalise from the reserves of the Company a sum equal to the amount by which the nominal value of the Shares in respect of which the Option is exercisable exceeds the adjusted Exercise Price and to apply such sum in paying up such amount on such Shares so that on exercise of any Option in respect of which such a reduction shall have been made the Board shall capitalise such sum (if any) and apply the same in paying up such amount as aforesaid.

12.3 The Grantor may take such steps as it may consider necessary to notify Participants of any adjustment made under this Rule 12 and to call in, cancel, endorse, issue or reissue any option certificate consequent upon such adjustment.

#### 13 ADMINISTRATION

13.1 Any notice or other communication under or in connection with the Scheme may be given:

- (a) by personal delivery;

by email to an appropriate email address (which, in the case of the Company, means corporatesecretary@jewels.com, and in the case of an Eligible Employee or a Participant, the email address (b) notified by such Eligible Employee or Participant to the relevant scheme administrator), and where a notice or communication is given by email, it shall be deemed to have been received at 9am on the business day after sending;

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- if by the Company, by uploading to the electronic portal operated by or on behalf of the Company, and where a
- (c) notice or communication is so given, it shall be deemed to have been received at 9am on the business day after being so uploaded; or
- by sending the same by post, in the case of a company to its registered office and in the case of an individual to his last known address or, where he is a director or employee of a Constituent Company or an Associated Company,
- (d) either to his last known address or to the address of the place of business at which he performs the whole or substantially the whole of the duties of his office or employment, and where a notice or other communication is given by first-class post, it shall be deemed to have been received 72 hours after it was put into the post properly addressed and stamped.
- 13.2 The Company may distribute to Participants copies of any notice or document normally sent by the Company to the holders of Shares.
- 13.3 If any option certificate shall be worn out, defaced or lost, it may be replaced on such evidence being provided as the Board may require.
- The Company shall at all times keep available for allotment unissued Shares at least sufficient to satisfy all
- 13.4 Options under which Shares may be subscribed or the Grantor shall procure that sufficient Shares are available for transfer to satisfy all Options under which Shares may be acquired.
- 13.5 The decision of the Board in any dispute relating to an Option or the due exercise thereof or any other matter in respect of the Scheme shall be final and conclusive.
- The costs of introducing and administering the Scheme shall be borne by the Company and any Constituent
- 13.6 Companies, in such proportions as are decided by the Board (and in the absence of any such allocation, shall be borne by the Company).
- Any expenses involved in any issue of Shares in the name of any Participant or his personal representative(s) or
- 13.7 nominee(s) shall be payable by the Company and any expenses involved in the transfer of Shares into the name of any Participant or his personal representative(s) or nominee(s) shall be payable by the Grantor.
- #### 14 ALTERATIONS
- Subject to Rules 14.2 and 14.4, the Board may at any time (but only with the prior consent of the Trustee if there
- 14.1 are subsisting Options which have been granted by the Trustee) alter or add to all or any of the provisions of the Scheme in any respect, provided that:
- (a) the Board may not amend a key feature of the Scheme (as defined in Paragraph 40B(8) of Schedule 3 to ITEPA) if the effect would be that the Scheme would no longer be a Schedule 3 SAYE; and
- (b) if an alteration or addition is made to such a key feature of the Scheme, a declaration shall be made to HMRC in accordance with Paragraph 40B(6) of Schedule 3 to ITEPA.
- Subject to Rule 14.3, and without prejudice to the provisions of Rules 9.9 and 9.10 (in respect of which, for the avoidance of doubt, no shareholder approval shall be required), no alteration or addition to the advantage of
- 14.2 Participants or employees relating to eligibility, the limits on participation, the overall limits on the issue of Shares, the basis for determining a Participant's entitlement to Shares and the adjustment of Options may be made under Rule 14.1 without the prior approval by resolution of the members of the Company in general meeting.
- Rule 14.2 shall not apply to any minor alteration or addition which is to benefit the administration of the Scheme,
- 14.3 is necessary or desirable for the Scheme to comply with Schedule 3 to ITEPA or any other enactment or to take account of any change in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for the Company, or any Subsidiary of the Company or any Participant.
- 14.4 No alteration or addition shall be made under Rule 14.1 which would abrogate or adversely affect the subsisting rights of a Participant, unless it is made:
- with the consent in writing of such number of Participants as hold Options under the Scheme to acquire 75 per
- (a) cent. of the Shares which would be issued or transferred if all Options granted and subsisting under the Scheme were exercised; or
- by a resolution at a meeting of Participants passed by not less than 75 per cent. of the Participants who attend and
- (b) vote either in person or by proxy, and for the purposes of this Rule 14.4 the provisions of the bye-laws of the Company relating to shareholder meetings shall apply mutatis mutandis.
- 14.5

As soon as reasonably practicable after making any alteration or addition under Rule 14.1, the Board shall give written notice thereof to any Participant affected thereby.

14.6 No alteration shall be made to the Scheme if following the alteration the Scheme would cease to be an Employees' Share Scheme.

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- 14.7 The Board may establish further savings-related share option plans to operate in overseas territories as sub-plans to this Scheme, which shall not be Schedule 3 SAYEs (“Sub-Plans”), such Sub-Plans to be governed by rules similar to the rules of the Scheme, but modified to take account of applicable tax, social security, employment, company, exchange control, trust or securities (or any other relevant) law, regulation or practice, provided that:
- (a) all Sub-Plans are subject to the limitations on awards set out in Rule 7;
  - (b) only employees of Constituent or Associated Companies who are resident in the relevant territory are entitled to benefit under any Sub-Plan; and
  - (c) no employee has an entitlement to awards under any Sub-Plan greater than the maximum entitlement of an Eligible Employee under the Scheme.

#### 15 GENERAL

15.1 The Scheme shall terminate on [•] 2028 or at any earlier time by the passing of a resolution by the Board or a resolution of the Company in general meeting. Termination of the Scheme shall be without prejudice to the subsisting rights of Participants.

The Company and any Subsidiary of the Company may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Scheme, or enter into any guarantee or indemnity for those purposes, to the extent permitted by law. In addition, the Company may require 15.2 any Subsidiary to enter into such other agreement or agreements as it shall deem necessary to oblige such Subsidiary to reimburse the Company for any other amounts paid by the Company hereunder, directly or indirectly in respect of such Subsidiary's employees. Nothing in the Scheme shall be deemed to give any employee of any Constituent Company any right to participate in the Scheme.

The rights and obligations of any individual under the terms of his office or employment with a Constituent Company or Associated Company shall not be affected by that individual's participation in the Scheme or any right which that individual may have to participate therein, and an individual who participates therein has no right to, and shall waive, all and any rights to compensation or damages in consequence of: (i) the termination of his office or employment with any such company; (ii) the transfer of ownership (or any part thereof) of any company or business; (iii) the lapse of any Option; (iv) any change to invitations made under the Plan, including any variation of their terms or timing or their complete suspension or termination; or (iv) any failure by the Board to 15.3 (a) nominate an Eligible Company to be a Constituent Company, or (b) to make an invitation to apply for an Option to any person who is not at the relevant time an Eligible Employee where it is in the Board's discretion to do so; and in each case for any reason whatsoever, whether lawfully or otherwise, insofar as those rights arise or may arise from his ceasing to have rights under or be entitled to exercise any Option under the Scheme as a result of such termination or transfer, or from the loss or diminution in value of such rights or entitlements, or such lapse of an Option, change to the basis on which invitations are issued, or any such failure by the Board, including by reason of the operation of the terms of the Scheme or the provisions of any statute or law relating to taxation.

15.4 Benefits under the Scheme shall not form part of a Participant's remuneration for any purpose and shall not be pensionable and shall not give a Participant any rights or additional rights in respect of any pension scheme operated by a Constituent Company or Associated Company.

15.5 A person who is not a party to the Option shall not have any rights under or in connection with it as a result of the Contracts (Rights of Third Parties) Act 1999 except where such rights arise under any provision of the Plan for any employer or former employer of the Participant which is not a party. This Rule 15.5 does not affect any right or remedy of a third party which exists, or is available, apart from that Act.

15.6 The Scheme and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with the laws of England and Wales.

15.7 Each party irrevocably agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim arising out of or in connection with the Scheme or its subject matter or formation (including non-contractual disputes or claims).

15.8 Each party irrevocably consents to any process in any legal action or proceeding under Rule 15.7 above being served on it in accordance with the provisions of the Scheme relating to service of notices. Nothing

contained in the Scheme shall affect the right to serve process in any other manner permitted by law.

Irish Sub-Plan  
established pursuant to the  
Signet Jewelers Limited Sharesave Scheme

## 1 DEFINITIONS

1.1 In this Sub-Plan, the following words and expressions shall have, where the context so admits, the meanings set forth below:

“Adoption Date” the date of approval of the Scheme by the shareholders of the Company;

“Appropriate Period” in relation to an event giving rise to a change of Control, the applicable period in respect of such event as per Paragraph 38(3) of Schedule 3 to ITEPA;

“Associated Company” an associated company of the Company within the meaning that expression bears in Paragraph 47 of Schedule 3 to ITEPA save in respect of Rule 8.3(b) and 8.5 where the meaning given in paragraph 35(4) of Schedule 3 to ITEPA shall apply;

“Board” the board of directors for the time being of the Company or a duly authorised committee thereof;

“Bonus Date” in relation to any Option granted to a Participant, the earliest time when the Relevant Bonus is payable under the Savings Contract entered into by him;

“Code for Securities Transactions” as adopted by the Company and amended from time to time;

“the Company” Signet Jewelers Limited (registered in Bermuda no. 42069);

“Constituent Company”

(A) the Company; and

(B) any other company which is under the Control of the Company, is a Subsidiary of the Company and which has been expressly designated by the Board as being a Constituent Company;

“Control” has the meaning given by section 719 of ITEPA;

“Date of Grant” the date on which an Option is granted;

“Date of Invitation” the date on which the Grantor invites applications for Options;

“Dealing Day” any day on which the New York Stock Exchange is open for the transaction of business;

“Eligible Employee” any individual who at the Date of Grant is a resident of Ireland and:

(A) is an employee of a Constituent Company or is an executive director of a Constituent Company who is required to devote more than 25 hours per week (excluding meal breaks) to his duties; and

(B) whose earnings from the office or employment within (A) are (or would be if there were any) subject to income tax under Schedule E of the TCA; and

(C) has been an employee or executive director of a Constituent Company within Paragraph (A) above at all times during the Qualifying Period;

“Employees' Share Scheme” has the meaning given by Section 1166 of the Companies Act 2006;

“Exercise Price” the total amount payable in relation to the exercise of an Option, whether in whole or in part, being an amount equal to the relevant Option Price multiplied by the number of Shares in respect of which the Option is exercised;

“Grantor” in relation to an Option, the Company, or (if so appointed by the Company) a Trustee;

“HMRC” HM Revenue & Customs;

“Invitation Period” the period of 42 days commencing on any of the following:

(A) the day immediately following the day on which the Company makes an announcement of its results for the last preceding financial year, half-year or other period;

(B) the day following the end of any Blackout Period to any Designated Person, as set forth (and each as defined) in the Code for Securities Transactions; or

(C) any day on which the Board resolves in its discretion that exceptional circumstances exist which justify the grant of Options, provided that invitations to apply for Options must not be issued at any time if it would be unlawful, or would breach any requirement of the Code for Securities Transactions or any other regulation or guidance to which the Company is subject or with which the Company complies;



“ITEPA” the Income Tax (Earnings and Pensions) Act 2003;

“Lower Bonus” the bonus (if any) payable at the end of a period of three years from the commencement of a Savings Contract;

“Market Abuse Regulation” Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as it is in force at the relevant time;

“Market Value” in relation to a Share on any day:

its market value determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and any (A) relevant published HMRC guidance (but, when shares are subject to a Restriction, determined on the basis that no such Restriction applies); and

(B) subject to (A) above, if and so long as the Shares are listed on the New York Stock Exchange, its middle market quotation as derived from the New York Stock Exchange Listings Directory;

“Maximum Contribution” means such maximum monthly contribution as may be determined from time to time by the Board in accordance with Rule 2.1(d);

“Minimum Contribution” in respect of an Option means the minimum Monthly Contribution specified by the Board in accordance with Rule 2.1(c);

“Monthly Contributions” monthly contributions agreed to be paid by a Participant under their Savings Contract;

“New York Stock Exchange” means the New York Stock Exchange or any successor body carrying on the business of the New York Stock Exchange;

“Option” a right to acquire Shares under the Scheme pursuant to this Sub-Plan;

“Option Price” the price per Share, as determined by the Grantor, at which an Eligible Employee may acquire Shares upon the exercise of an Option granted to him being not less than the higher of:

80 per cent. of the Market Value of a Share on the Dealing Day immediately preceding the Date of Invitation (or, (A) if the Grantor so determines, 80 per cent. of the average of the Market Values on the three Dealing Days immediately preceding the Date of Invitation or 80 per cent. of the Market Value at such other time or times as may be previously agreed in writing with HMRC); and

(B) if Shares are to be newly issued to satisfy the exercise of the Option, their nominal value, but subject to any adjustment pursuant to Rule 12;

“Participant” any Eligible Employee to whom an Option has been granted, or (where the context so admits) the personal representative(s) of any such person;

“Qualifying Period” means, in relation to an Option, such period as is specified by the Board pursuant to Rule 2.1(f);

“Relevant Bonus” the Lower Bonus or the Standard Bonus (as applicable) as determined (if relevant) by reference to the Option period for which the relevant applicant applies pursuant to Rule 4.1(a);

“Repaid Amount” the amount received by way of repayments of contributions and payments of any Relevant Bonus or interest (if any) under the Savings Contract linked to the relevant Option. The Repaid Amount will not include the amount of any Relevant Bonus, if the Board decides that it will not under Rule 2.1(a) or Rule 6.2 and notifies this to Participants at the Date of Grant;

“Restriction” has the meaning given to it by Paragraph 48(3) of Schedule 3 to ITEPA;

“Savings Contract” a savings contract that is nominated by the Board;

“Schedule 3 SAYE” means any share option scheme that meets the requirements in force from time to time of Schedule 3 to ITEPA;

“Scheme” the Signet Jewelers Limited Sharesave Scheme, as amended from time to time;

“Share” a common share in the capital of the Company which satisfies the conditions specified in Paragraphs 18 to 20 and 22 of Schedule 3 to ITEPA;

“Standard Bonus” the bonus (if any) payable at the end of a period of five years from the commencement of a Savings Contract;

“Sub-Plan” means this sub-plan, established pursuant to Rule 14.7 of the Scheme;

“Subsidiary” has the meaning given by Section 1159 of the Companies Act 2006;

“TCA” means the Taxes Consolidation Act 1997 of Ireland;

“Treasury Shares” has the meaning given in sections 724 to 732 of the Companies Act 2006 or the equivalent provision of the Companies Act 1981 of Bermuda;





“Trustee” the trustee or trustees for the time being of any employee benefit trust established for the benefit of beneficiaries including all or substantially all of the Eligible Employees;

“TUPE” the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 (S.I. No 131 of 2003) of Ireland; and

“US Securities Laws” has the meaning given by Rule 6.7(a).

1.2 Words and expressions not otherwise defined herein have the same meaning they have in ITEPA.

1.3 References to “Rules” are to the rules of the Sub-Plan, unless a contrary intention is clear.

1.4 The headings in the Rules of the Sub-Plan are for the sake of convenience only and should be ignored when construing the Rules.

1.5 Where the context so admits or requires words importing the singular shall include the plural and vice versa and words importing the masculine shall include the feminine and vice versa.

1.6 References in the Rules of the Sub-Plan to any statutory provisions are to those provisions as amended, extended or re-enacted from time to time and shall include any regulations made thereunder. The Interpretation Act 1978 shall apply to these Rules *mutatis mutandis* as if they were an Act of Parliament.

1.7 Any reference to writing or written form shall include any legible format capable of being reproduced on paper, irrespective of the medium used.

1.8 A reference to the Sub-Plan or to any other agreement or document referred to in the Sub-Plan is a reference to the Sub-Plan or such other agreement or document as varied or novated (in each case, other than in breach of the provisions of the Sub-Plan) from time to time.

1.9 Any words following the terms including, include, in particular, for example or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

2 Board Decisions regarding issues of invitations

2.1 On each occasion that the Board decides to issue invitations to apply for Options, the Board must also decide:

(a) whether or not Repaid Amounts will be taken to include a Relevant Bonus;

(b) whether to invite applications for three-year Options or five-year Options (or Options of such other standard periods the Board may determine, or to offer a choice between those Option periods;

(c) the invitations, being not less than €12 (or, if lower, the minimum amount per month from time to time specified by the Board);

(d) the maximum monthly contribution to be made under a Savings Contract linked to any Option granted as a result of the invitations, such contribution to be equal to or less than €500 per month (or any other maximum amount specified by the Board from time to time);

(e) the maximum number (if any) of Shares over which Options may be granted on this occasion; and

(f) the minimum qualifying period of service (if any) with a Constituent Company which applies for the purposes of determining who is an Eligible Employee.

3 Invitations for Options

3.1 The Grantor may, during any Invitation Period which falls wholly after the Adoption Date and before the tenth anniversary of the Adoption Date, invite applications for Options at the Option Price from Eligible Employees.

3.2 Invitations must be in a form approved by the Board, must be sent to all Eligible Employees, and may be made by letter, poster, circular, advertisement, electronically or by any other written means or combination of means determined by the Board.

3.3 Invitations shall:

(a) incorporate or be accompanied by a proposal for a Savings Contract;

(b) include a statement that each invitation is subject to these Rules, and that the provisions of these Rules will prevail over any conflicting statement;

(c) specify the Minimum Contribution;

(d) specify the Maximum Contribution;

(e) specify either the Option Price or the basis for determining the Option Price (such basis being consistent with the definition of Option Price);



- specify (if any) the maximum number of Shares over which Options are to be granted pursuant to invitations issued (f) on that occasion, and if there is such a limit, that applications will be scaled down in accordance with Rule 5 if applications are received in excess of that limit;
- (g) specify the Qualifying Period (if any);
- specify whether applications may be made for three-year Options or five-year Options (or Options of such other (h) standard periods as the Board may determine, provided however that no Option shall have a term in excess of seven years) or whether there is a choice between those Option periods;
- specify whether Repaid Amounts will be taken to include any Relevant Bonus and, to the extent that this is the case, (i) whether or in what circumstances the Relevant Bonus so included will constitute the Standard Bonus or the Lower Bonus; and
- specify that, to be considered for the grant of Options, completed applications must be received by the Board (or (j) any person nominated to receive applications on behalf of the Board) by 11:59pm on the day falling not less than 14 days nor more than 25 days after the Date of Invitation.
- 3.4 Any accidental failure or omission to deliver an invitation to any Eligible Employee will not invalidate the grant of Options.

#### 4 APPLICATION FOR OPTIONS

4.1 Each application for an Option shall be in such form as the Board may from time to time prescribe, and must:

- (a) state the period of the Option applied for;
- incorporate or be accompanied by a completed application form to enter into a Savings Contract, in which the (b) applicant agrees to make the Monthly Contributions, and the amount of such Monthly Contributions (being not less than the Minimum Contribution); and
- (c) include the applicant's agreement to be bound by the terms of the Scheme, and state that the provisions of these Rules will prevail over any conflicting statement.

Each application shall be deemed to be for an Option over the largest whole number of Shares which can be acquired at the Option Price with the expected Repaid Amount (including, where the Board so allows, any (b) Relevant Bonus) under the related Savings Contract, and each application under this Rule 4 will be treated as being for an Option over the largest whole number of Shares that can be acquired at the relevant Exercise Price with the expected Repaid Amount under the related Savings Contract.

#### 5 SCALING DOWN

If valid applications are received for a total number of Options over Shares in excess of any maximum number of Shares determined by the Grantor pursuant to Rule 2.1(e) or any limitation under Rule 7, the Grantor shall (or, (b) where applicable, any Trustee, provided the Board has given its prior written approval) scale down applications by taking, at its absolute discretion, the following successive steps until the number of Shares available equals or exceeds the reduced number of Shares applied for:

- (a) first, if Repaid Amounts were intended to be taken to include a Relevant Bonus, by treating each application as an application for an Option under which Repaid Amounts will not be taken to include a Relevant Bonus; then
- (b) so far as necessary, by reducing the proposed Monthly Contributions pro rata to the excess over €50; then
- (c) so far as necessary, by reducing the proposed Monthly Contributions pro rata to the excess over the Minimum Contribution and then, so far as necessary, selecting by lot.

5.2 If the number of Shares available is insufficient to enable an Option based on Monthly Contributions of the amount of the Minimum Contribution to be granted to each Eligible Employee making a valid application, the Grantor may, as an alternative to selecting by lot, determine in its absolute discretion that no Options shall be granted.

5.3 If the Board so determines, the provisions in Rules 5.1(a), 5.1(b) and 5.1(c) may be modified or applied in any manner.

5.4 If in applying the scaling down provisions contained in this Rule 5, Options cannot be granted within the 30 day period referred to in Rule 6.3 below, the Grantor may extend that period by up to 12 days, regardless of the expiry of the relevant period specified in Rule 6.3.

#### 6 GRANT OF OPTIONS

6.1

No Option shall be granted to any person if at the Date of Grant that person is not or will have ceased to be an Eligible Employee.

6.2 The Board shall ensure that the question as to whether the Repaid Amounts are to be taken as including any Relevant Bonus will be determined at the Date of Grant.

6.3 Within 30 days of the first Dealing Day (if any) by reference to which the Option Price was fixed (which date shall be within an Invitation Period) the Grantor (in the case of the Grantor being the Trustee only with the prior written approval of the Board) must, subject to Rules 5.4 and 6.1 above, grant to each Eligible Employee who has submitted a valid application an Option, and subject to Rules 5 and 7, that Option must be in respect of the number of Shares for which the applicant has applied pursuant to Rule 4.

6.5 The Grantor shall issue to each Participant an option certificate in such form (not inconsistent with the provisions of the Scheme) as the Board may from time to time prescribe. Each such certificate shall specify:

(a) the Date of Grant of the Option;

(b) the number of Shares over which the Option is granted;

(c) the Option Price;

(d) that the Option may be exercised from the Bonus Date of the Savings Contract linked to the Option, unless the Option lapses or becomes exercisable under these Rules before that date;

(e) whether the Shares over which the Option is granted are subject to a Restriction and, if so, the details of such Restriction; and

(f) a statement that the Option is subject to these Rules, and that the provisions of these Rules shall prevail over any conflicting statement relating to the Option's terms.

6.6 Except as otherwise provided in Rule 8.2 or as otherwise permitted by the Board, every Option shall be personal to the Participant to whom it is granted and shall not be transferable.

6.7 No amount shall be paid in respect of the grant of an Option.

6.8 The grant and the exercise of an Option shall be subject to obtaining any approval or consent required under any applicable laws, regulations of any governmental authority and the requirements of the New York Stock Exchange and any other securities exchange on which the Shares are traded, and in particular, Options must not be granted at any time when the grant is prohibited by, or in breach of:

(a) insofar as applicable, the rules of the New York Stock Exchange, the Code for Securities Transactions or any other law or regulation with the force of law, including but not limited to the US Securities Act of 1933, as amended, the US Securities Exchange Act of 1934, as amended, and the regulations and requirements adopted thereunder by the US Securities and Exchange Commission (the "US Securities Laws"); or

(b) any rule of any investment exchange on which Shares are listed or traded, or any non-statutory rule with a purpose similar to any part of the Market Abuse Regulation that binds the Company or with which the Board has resolved to comply.

#### 7 NUMBER OF SHARES IN RESPECT OF WHICH OPTIONS MAY BE GRANTED

The number of Shares which may be allocated under the Scheme (including this Sub-Plan) on any day shall not exceed [one million] and shall not, when added to the aggregate of the number of Shares which have been

7.1 allocated in the previous 10 years under the Scheme and under any other Employees' Share Scheme adopted by the Company or any Subsidiary, exceed such number as represents 10 per cent. of the common share capital of the Company in issue immediately prior to that day.

7.2 In determining the above limits (i) any Shares issued or which may be issued to satisfy any Options granted by the trustees of any employee benefit trust established by the Company or any Subsidiary shall be regarded as Options to subscribe for Shares; and (ii) no account shall be taken of any Shares where the right to acquire such Shares was released or lapsed without being exercised.

7.3 References in this Rule to the "allocation" of Shares shall mean, in the case of any share option scheme, the placing of unissued shares under option and, in relation to other types of Employees' Share Scheme, shall mean the issue and allotment of shares.

7.4 References to the issue and allotment of Shares shall include the transfer of Shares from treasury, but only until such time as the guidelines issued by institutional investor bodies cease to provide that they need to be so included.

#### 8 RIGHTS OF EXERCISE AND LAPSE OF OPTIONS

8.1 (a) Save as provided in Rules 8.2, 8.3 and 9, an Option may not be exercised earlier than the Bonus Date under the relevant Savings Contract.



- (b) Save as provided in Rule 8.2 and subject to Rule 8.6, an Option shall not be exercisable later than six months after the Bonus Date under the relevant Savings Contract.
- (c) Save as provided in Rules 8.2, 8.3 and 9, an Option may only be exercised by a Participant whilst he is a director or employee of a Constituent Company or an Associated Company.
- (d) If, at the Bonus Date, a Participant holds an office or employment in a company which is not a Constituent Company but which is an Associated Company or a company over which the Company has Control, such Option may be exercised within six months of the Bonus Date.

8.2 Subject to Rule 8.6, an Option may be exercised by the personal representatives of a deceased Participant at any time:

- (a) within 12 months following the date of the Participant's death, if such death occurs before the Bonus Date; or
- (b) within 12 months following the Bonus Date in the event of his death on or within six months after the Bonus Date.

8.3 Subject to Rules 8.1(b) and 8.6 an Option may be exercised by a Participant within six months following his ceasing to hold the office or employment by virtue of which he is eligible to participate in the Scheme by reason of:

- (a) injury, disability, redundancy within the meaning of Section 7 of the Redundancy Payments Act 1967 of Ireland, or retirement; or
- (b) his office or employment being in a company which ceases to be an Associated Company by reason of change of control within the meaning of Sections 450 and 451 of the Corporation Tax Act 2010; or
- (c) a relevant transfer within the meaning of TUPE; or the transfer or sale of the undertaking or part-undertaking in which he is employed to a person who is neither an
- (d) Associated Company nor a company under the Control of the Company where the transfer is not a relevant transfer within the meaning of TUPE; or
- (e) cessation of employment in circumstances other than those mentioned in 8.3(a) to 8.3(d) above, provided that the Option was granted to the Participant before the date which falls three years prior to the relevant date of cessation of employment.

8.4 An Option may not be exercised when exercise is prohibited by or in breach of the rules of the New York Stock Exchange, the Code for Securities Transactions or any other law or regulation with the force of law, including but not limited to the US Securities Laws.

8.5 No person shall be treated for the purposes of Rule 8.3 as ceasing to hold an office or employment by virtue of which that person is eligible to participate in the Scheme until that person ceases to hold any office or employment in the Company or any Associated Company.

8.6 An Option may not be exercised later than seven years from the Date of Grant.

8.7 Options shall lapse upon the occurrence of the earliest of the following events:

- (a) subject to 8.7(b) below, 6 months after the Bonus Date;
- (b) where the Participant dies before the Bonus Date, 12 months after the date of death, and where the Participant dies on or in the period of 6 months after the Bonus Date, 12 months after the Bonus Date; the expiry of any of the 6 month periods specified in Rule 8.3(a) to 8.3(e) save that if at the time any such
- (c) applicable periods expire time is running under the 12 month periods specified in Rule 8.2, the Option shall not lapse by reason of this sub Rule 8.7(c) until the expiry of the relevant 12 month period in Rule 8.2; subject to Rule 8.7(b) above, the expiry of any of the periods specified in Rules 9.1, 9.3, 9.4 and 9.5 save where an
- (d) Option is released in consideration of the grant of a New Option (during one of the periods specified in Rules 9.1, 9.3, 9.4 or 9.5) pursuant to Rule 9.9;
- (e) the Participant ceasing to hold an office or employment with the Company or any Associated Company in any circumstances other than:
  - (i) where the cessation of office or employment arises on any of the grounds specified in Rules 8.2 or 8.3; or
  - (ii) where the cessation of office or employment arises on any ground whatsoever during any of the periods specified in Rule 9 save where an Option is released in consideration of the grant of a New Option (during one of the periods specified in Rules 9.1, 9.3, 9.4 or 9.5 pursuant to Rule 9.9);





- (f) the passing of an effective resolution, or the making of an order by the Court, for the winding-up of the Company;
- (g) the Participant being deprived of the legal or beneficial ownership of the Option by operation of law, or doing anything or omitting to do anything which causes him to be so deprived or declared bankrupt; where before an Option has become capable of being exercised, the Participant gives notice that he intends to stop
- (h) paying Monthly Contributions, or is deemed under the terms of the Savings Contract to have given such notice, or makes an application for repayment of the Monthly Contributions; or
- (i) the expiry of seven years from the Date of Grant.

#### 9 TAKEOVER, RECONSTRUCTIONS AND WINDING UP

9.1 Subject to Rule 9.3 below, if any person obtains Control of the Company as a result of making, either:

- (a) a general offer to acquire the whole of the issued common share capital of the Company (other than any share capital already held by the person making the offer or any person connected with that person) which is made on a condition such that if it is satisfied the person making the offer will have Control of the Company; or
  - (b) a general offer to acquire all the shares in the Company which are of the same class as the Shares (except for any shares already held by the person making the offer or a person connected with that person),
- an Option may be exercised within six months of the time when the person making the offer has obtained Control of the Company and any condition subject to which the offer is made has been satisfied.

9.2 For the purpose of this Rule 9, a person shall be treated as obtaining Control of the Company if that person and others acting in concert with that person have together obtained Control of it.

9.3 If any person becomes bound or entitled to acquire Shares under Chapter 3 of Part 28 of the UK Companies Act 2006 (or, solely to the extent permissible under Schedule 3 to ITEPA, any equivalent provisions of the Companies Act 1981 of Bermuda) an Option may be exercised during the period in which such person is and remains so bound or entitled.

9.4 If it is proposed that the court sanctions under section 899 of the Companies Act 2006 (Court sanction for compromise or arrangement) (or, solely to the extent permissible under Schedule 3 to ITEPA, any equivalent provisions of the Companies Act 1981 of Bermuda) a compromise or arrangement applicable to or affecting:

- (a) all of the ordinary share capital of the Company or all of the shares of the same class as the Shares to which the Option relates; or
- (b) all of the shares, or all of the shares of that same class, which are held by a class of shareholders identified otherwise than by reference to their employment or directorships or their participation in the Scheme or any other Schedule 3 SAYE,

or if the Company passes a resolution for the voluntary winding up of the Company, the Company shall give notice thereof to all Participants and the Participant may then exercise the Option within six months from the date on which the court sanctions such compromise or arrangement, or such resolution for voluntary winding up is passed, and thereafter the Option shall lapse. In the case of any circumstance falling within paragraphs (a) or (b) of Rule 9.4, after exercising the Option the Participant shall transfer or otherwise deal with the Shares issued to him so as to place him in the same position (so far as possible) as would have been the case if such shares had been subject to such compromise or arrangement.

9.5 If shareholders of the Company become bound by a non-UK reorganisation arrangement (as defined in Paragraph 47A of Schedule 3 to ITEPA) that is applicable to or affects:

- (a) all the ordinary share capital of the Company or all the shares of the same class as the Shares; or
- (b) all the shares, or all the shares of that same class, which are held by a class of shareholders identified otherwise than by reference to their employments or directorships or their participation in the Scheme or this Sub-Plan or any other Schedule 3 SAYE,

an Option may be exercised during the period of six months from the date on which the shareholders became so bound.

9.6 If, as a result of the occurrence of a change of Control in the circumstances set out in Rule 9.1, or as a result of any change of Control which arises as a result of any of the circumstances set out in Rules 9.3, 9.4 (other than a resolution for a voluntary winding up of the Company) or 9.5, Shares will no longer satisfy the requirements of Part 4 of Schedule 3 to ITEPA, Options may be exercised within the period of 20 days following the change of Control.



9.7 If the Board reasonably expects that any of the events set out in Rules 9.1, 9.3, 9.4 or 9.5 will occur, the Board may make arrangements permitting Options to be exercised during a period of 20 days ending with the occurrence of such event. If an Option is exercised under this Rule 9.7, it will be treated as having been exercised in accordance with Rule 9.1, 9.3, 9.4 or 9.5 (as applicable).

9.8 If the Board makes arrangements for the exercise of Options under Rule 9.7, if the relevant event as set out in Rule 9.1, 9.3, 9.4 or 9.5 (as applicable) does not occur within 20 days of the purported exercise, the Options shall be treated as not having been exercised, and the purported exercise shall be treated as having had no effect.

9.9 If Options become exercisable pursuant to Rules 9.1 or 9.3 above, or any person obtains control of the Company pursuant to 9.4 or 9.5 above, any Participant may at any time within the Appropriate Period, by agreement with the acquiring company, release any Option which has not lapsed (the "Old Option") in consideration of the grant to him of an Option (the "New Option") which (for the purposes of Paragraph 39 of Schedule 3 to ITEPA) is equivalent to the Old Option but relates to shares in a different company (whether the company which has obtained Control of the Company itself or some other company falling within Paragraph 18(b) or (c) of Schedule 3 to ITEPA).

9.10 The New Option shall not be regarded for the purposes of Rule 9.9 as equivalent to the Old Option unless the conditions set out in Paragraph 39(4) of Schedule 3 to ITEPA are satisfied. Where the provisions of Rule 9.9 apply the provisions of the Sub-Plan shall for this purpose be construed as if:

- (a) the New Option were an option granted under the Scheme at the same time as the Old Option;
- (b) except for the purpose of the definition of "Constituent Company" in Rule 1, the reference to Signet Jewelers Limited in the definition of "the Company" in Rule 1 were a reference to the different company mentioned in Rule 9.9; and
- (c) references to the Shares were references to the shares subject to the New Options.

9.11 The acquiring company must issue (or procure the issue of) an option certificate for each New Option as soon as reasonably practicable.

#### 10 MANNER OF EXERCISE

10.1 An Option may only be exercised during the periods specified in Rules 8 and 9, and only with monies not exceeding the amount of repayments (including any interest and Relevant Bonus) made under the Savings Contract as at the date of such exercise, and that are, or are derived from, such repayments. For this purpose, no account shall be taken of such part (if any) of the repayment of any Monthly Contribution, the due date for the payment of which under the Savings Contract arises after the date of the repayment.

10.2 Exercise shall be by the delivery to the Company Secretary as agent for the Grantor (or its duly appointed agent), of:

- (a) a duly completed notice of exercise (in the form prescribed by the Board) and signed by the Participant (or the Participant's duly authorised agent), which sets out the number of Shares over which the Participant wishes to exercise the Option; and
- (b) either: (i) any remittance for the Exercise Price payable to the Company (being comprised solely of monies referred to in Rule 10.1); or (ii) authority to the Company authorising it to withdraw and apply monies from the Savings Contract to acquire the Shares over which the Option is to be exercised on behalf of the relevant Participant.

10.3 The effective date of exercise shall be the date of delivery of the notice of exercise together with any remittance or authority referred to in Rule 10.2. For the purposes of this Sub-Plan a notice of exercise shall be deemed to be delivered when it is received by the Company.

10.4 Any exercise notice will be invalid to the extent that it is inconsistent with the Participant's rights and obligations under these Rules and the relevant Options.

10.5 The Company may permit a Participant to correct any defect in an exercise notice, but is not obliged to do so. The date of any corrected exercise notice will be the date of the correction.

10.6 Shares transferred in satisfaction of the exercise of an Option must be transferred free of any lien, charge or other security interest, and with all rights attaching to them, other than any rights determined by reference to a date before the date of the transfer.

#### 11 ISSUE OR TRANSFER OF SHARES

11.1 Subject to Rule 11.3, Shares to be issued pursuant to the exercise of an Option shall be allotted to the Participant (or his nominee) within 30 days following the date of effective exercise of the Option.

Subject to Rule 11.3, the Grantor shall procure the transfer of any Shares to be transferred to a Participant (or his 11.2 nominee) pursuant to the exercise of an Option within 30 days following the date of effective exercise of the Option.

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11.3 The allotment or transfer of any Shares under the Scheme shall be subject to obtaining any such approval or consent as is mentioned in Rule 6.7 above.

11.4 Shares issued pursuant to the Scheme shall rank pari passu in all respects with the Shares then in issue, except that they shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

11.5 Shares transferred pursuant to the Scheme shall not be entitled to any rights attaching to Shares by reference to a record date preceding the date of transfer.

11.6 If and so long as the Shares are listed on the New York Stock Exchange or are admitted to trading on any stock exchange, stock market or other recognised exchange (the "Relevant Exchange"), the Company shall apply for any Shares issued pursuant to the Scheme to be admitted to listing on the Relevant Exchange, as soon as practicable after the allotment thereof.

11.7 Any requirements under this Rule 11 to issue, allot, transfer or procure the transfer of any Shares may be met by the transfer of Shares held as Treasury Shares.

## 12 ADJUSTMENTS

12.1 The number or description of Shares over which an Option is granted and/or the Option Price thereof (and where an Option has been exercised but no Shares have been allotted or transferred pursuant to such exercise, the number of Shares which may be so allotted or transferred and/or the price at which they may be acquired) may be adjusted in such manner as the Board shall determine following any capitalisation issue, any offer or invitation made by way of rights, subdivision, consolidation, reduction or other variation in the share capital of the Company (other than as consideration for an acquisition). Any adjustment made must secure that:

- (a) the total Market Value of the Shares which may be acquired by the exercise of the Option is immediately after the variation substantially the same as it was immediately before the variation or variations; and
- (b) the total price at which those Shares may be acquired is immediately after the variation substantially the same as it was immediately before the variation or variations,

and that following any such variation the requirements of Schedule 3 to ITEPA continue to be met.

12.2 Apart from pursuant to this Rule 12.2, no adjustment under Rule 12.1 above may have the effect of reducing the Option Price to less than the nominal value of a Share. Where an Option subsists over both issued and unissued Shares any such adjustment may only be made if the reduction of the Option Price of Options over both issued and unissued Shares can be made to the same extent. Any adjustment made to the Option Price of Options over unissued Shares shall only be made if and to the extent that the Board shall be authorised to capitalise from the reserves of the Company a sum equal to the amount by which the nominal value of the Shares in respect of which the Option is exercisable exceeds the adjusted Exercise Price and to apply such sum in paying up such amount on such Shares so that on exercise of any Option in respect of which such a reduction shall have been made the Board shall capitalise such sum (if any) and apply the same in paying up such amount as aforesaid.

12.2 The Grantor may take such steps as it may consider necessary to notify Participants of any adjustment made under this Rule 12 and to call in, cancel, endorse, issue or reissue any option certificate consequent upon such adjustment.

## 13 ADMINISTRATION

13.1 Any notice or other communication under or in connection with the Scheme may be given:

(a) by personal delivery;

by email to an appropriate email address (which, in the case of the Company, means corporatesecretary@jewels.com, and in the case of an Eligible Employee or a Participant, the email address

(b) notified by such Eligible Employee or Participant to the relevant scheme administrator), and where a notice or communication is given by email, it shall be deemed to have been received at 9am on the business day after sending;

if by the Company, by uploading to the electronic portal operated by or on behalf of the Company, and where a

(c) notice or communication is so given, it shall be deemed to have been received at 9am on the business day after being so uploaded; or

(d)

by sending the same by post, in the case of a company to its registered office and in the case of an individual to his last known address or, where he is a director or employee of a Constituent Company or an Associated Company, either to his last known address or to the address of the place of business at which he performs the whole or substantially the whole of the duties of his office or employment, and where a notice or other communication is given by first-class post, it shall be deemed to have been received 72 hours after it was put into the post properly addressed and stamped.

- 13.2 The Company may distribute to Participants copies of any notice or document normally sent by the Company to the holders of Shares.
- 13.3 If any option certificate shall be worn out, defaced or lost, it may be replaced on such evidence being provided as the Board may require
- The Company shall at all times keep available for allotment unissued Shares at least sufficient to satisfy all
- 13.4 Options under which Shares may be subscribed or the Grantor shall procure that sufficient Shares are available for transfer to satisfy all Options under which Shares may be acquired.
- 13.5 The decision of the Board in any dispute relating to an Option or the due exercise thereof or any other matter in respect of the Scheme shall be final and conclusive.
- The costs of introducing and administering the Scheme shall be borne by the Company and any Constituent
- 13.6 Companies, in such proportions as are decided by the Board (and in the absence of any such allocation, shall be borne by the Company).
- Any expenses involved in any issue of Shares in the name of any Participant or his personal representative(s) or
- 13.7 nominee(s) shall be payable by the Company and any expenses involved in the transfer of Shares into the name of any Participant or his personal representative(s) or nominee(s) shall be payable by the Grantor.
- A Participant shall be responsible for (including for the making of personal returns and filings to the Revenue Commissioners and to the Department of Employment Affairs and Social Protection, each of Ireland (as
- 13.8 appropriate) in respect of) and shall indemnify the Company, each Constituent Company and each Associated Company against any tax, universal social charge or social security liability relating to the grant to that Participant (including the subsequent vesting and exercise of) an Option.
- 14 ALTERATIONS
- Subject to Rules 14.2 and 14.4, the Board may at any time (but only with the prior consent of the Trustees if there
- 14.1 are subsisting Options which have been granted by the Trustees) alter or add to all or any of the provisions of the Sub-Plan in any respect, provided that the Board may not amend the Sub-Plan if the effect would be that the Scheme would no longer be a Schedule 3 SAYE.
- Subject to Rule 14.3, and without prejudice to the provisions of Rules 9.9 and 9.10 (in respect of which, for the avoidance of doubt, no shareholder approval shall be required), no alteration or addition to the advantage of
- 14.2 Participants or employees relating to eligibility, the limits on participation, the overall limits on the issue of Shares, the basis for determining a Participant's entitlement to Shares and the adjustment of Options may be made under Rule 14.1 without the prior approval by resolution of the members of the Company in general meeting.
- 14.3 Rule 14.2 shall not apply to:
- any minor alteration or addition which is to benefit the administration of the Scheme, is necessary or desirable for the Scheme to comply with Schedule 3 to ITEPA or any other enactment or to take account of any change in
- (a) legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for the Company, or any Subsidiary of the Company or any Participant; or
- for the avoidance of doubt, any amendment to the Sub-Plan (including, but not limited to, the amount of any Minimum Contribution or Maximum Contribution) which is necessary to ensure that no Eligible Employee or
- (b) Participant has an entitlement to awards under this Sub-Plan greater than the maximum entitlement of an "Eligible Employee" (as defined in Rule 1.1 of the Scheme) under the Scheme in accordance with Rule 14.7(c) of the Scheme.
- 14.4 No alteration or addition shall be made under Rule 14.1 which would abrogate or adversely affect the subsisting rights of a Participant, unless it is made:
- (a) with the consent in writing of such number of Participants as hold Options to acquire 75 per cent. of the Shares which would be issued or transferred if all Options granted and subsisting to Participants were exercised; or
- by a resolution at a meeting of Participants passed by not less than 75 per cent. of the Participants who attend and
- (b) vote either in person or by proxy, and for the purposes of this Rule 14.4 the provisions of the bye-laws of the Company relating to shareholder meetings shall apply mutatis mutandis.
- 14.5 As soon as reasonably practicable after making any alteration or addition under Rule 14.1, the Board shall give written notice thereof to any Participant affected thereby.
- 14.6

No alteration shall be made to the Sub-Plan if following the alteration the Scheme would cease to be an Employees' Share Scheme.

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15 GENERAL

The Sub-Plan shall terminate on the date of termination of the Scheme or at any earlier time by the passing of a resolution by the Board or a resolution of the Company in general meeting. Termination of the Sub-Plan shall be without prejudice to the subsisting rights of Participants.

The Company and any Subsidiary of the Company may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Sub-Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by law. In addition, the Company may require any Subsidiary to enter into such other agreement or agreements as it shall deem necessary to oblige such Subsidiary to reimburse the Company for any other amounts paid by the Company hereunder, directly or indirectly in respect of such Subsidiary's employees. Nothing in the Sub-Plan shall be deemed to give any employee of any Constituent Company any right to participate in the Scheme.

The rights and obligations of any individual under the terms of his office or employment with a Constituent Company or Associated Company shall not be affected by that individual's participation in the Scheme or any right which that individual may have to participate therein, pursuant to this Sub-Plan or otherwise, and an individual who participates therein has no right to, and shall waive, all and any rights to compensation or damages (including for loss or potential loss which he or she may suffer by reason of being unable to acquire or retain Shares or any interest in the Company (or any equivalent or connected interest), unfair dismissal, wrongful dismissal, breach of contract or otherwise) in consequence of: (i) the termination of his office or employment with any such company; (ii) the transfer of ownership (or any part thereof) of any company or business; (iii) the lapse of any Option; (iv) any change to invitations made under the Plan, including any variation of their terms or timing or their complete suspension or termination; or (v) any failure by the Board to (a) nominate an Eligible Company to be a Constituent Company, or (b) to make an invitation to apply for an Option to any person who is not at the relevant time an Eligible Employee where it is in the Board's discretion to do so; and in each case for any reason whatsoever, whether lawfully or otherwise, insofar as those rights arise or may arise from his ceasing to have rights under or be entitled to exercise any Option under the Scheme as a result of such termination or transfer, or from the loss or diminution in value of such rights or entitlements, or such lapse of an Option, change to the basis on which invitations are issued, or any such failure by the Board, including by reason of the operation of the terms of the Scheme or this Sub-Plan or the provisions of any statute or law relating to taxation.

Benefits under the Scheme shall not form part of a Participant's remuneration for any purpose and shall not be pensionable and shall not give a Participant any rights or additional rights in respect of any pension scheme operated by a Constituent Company or Associated Company.

A person who is not a party to the Option shall not have any rights under or in connection with it as a result of the Contracts (Rights of Third Parties) Act 1999 except where such rights arise under any provision of the Plan for any employer or former employer of the Participant which is not a party. This Rule 15.5 does not affect any right or remedy of a third party which exists, or is available, apart from that Act.

The Scheme (including this Sub-Plan) and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with the laws of England and Wales.

Each party irrevocably agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim arising out of or in connection with the Scheme (including this Sub-Plan) or its subject matter or formation (including non-contractual disputes or claims).

Each party irrevocably consents to any process in any legal action or proceeding under Rule 15.7 above being served on it in accordance with the provisions of the this Sub-Plan relating to service of notices. Nothing contained in the Scheme (including this Sub-Plan) shall affect the right to serve process in any other manner permitted by law.

Appendix C

Signet Jewelers Limited  
Employee Share Purchase Plan  
for U.S. Employees

Purpose. Signet Jewelers Limited, an exempted company registered in Bermuda, hereby establishes this Employee Share Purchase Plan (the “Plan”). The Plan is intended to provide eligible employees of the Company and Participating Subsidiaries with an opportunity to acquire a proprietary interest in the Company through the purchase of Common Shares. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code and a non-compensatory employee share purchase plan under ASC 718, and the Plan shall be interpreted in a manner that is consistent with such intent.

2. Definitions.

“Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 under the General Rules and Regulations under the Exchange Act.

“Board” means the Board of Directors of the Company.

“Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

“Committee” means (i) the Compensation Committee of the Board or a subcommittee of the Compensation Committee of the Board, (ii) such other committee designated by the Board to administer this Plan or (iii) the Board, as determined by the Board.

“Common Share” means a common share of the Company, par value \$0.18 per share.

“Company” means Signet Jewelers Limited, registered in Bermuda no. 42069 and any successor thereto.

“Compensation” means base salary, wages, overtime and cash incentive compensation paid to an Eligible Employee by the Company or a Participating Subsidiary as compensation for services to the Company or the Participating Subsidiary, before deduction for any salary deferral contributions made by the Eligible Employee to any tax-qualified or nonqualified deferred compensation plan.

“Change of Control” means the occurrence of any of the following events:

- Any Person becomes the Beneficial Owner, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the then outstanding voting shares of the Company entitled to vote generally in the election of its directors (the “Outstanding Company Voting Securities”) including by way of merger, amalgamation, consolidation or otherwise provided, however, that for purposes of this definition, the following acquisitions shall not be taken into account in determining whether a Change of Control has occurred: (i) any acquisition of voting shares of the Company directly from the Company or (ii) any acquisition by the Company or any of its Subsidiaries of Outstanding Company Voting Securities, including an acquisition by any employee benefit plan or related trust sponsored or maintained by the Company, or any of its Subsidiaries;
- The following individuals (the “Incumbent Directors”) cease for any reason to constitute a majority of the number of directors then serving on the Board: individuals who, on the Effective Date, constitute the Board and any new director whose appointment or election by the Board or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least a majority of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended (other than such new director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent or proxy solicitation, relating to the election of directors of the Company by or on behalf of a Person other than the Board);
- Consummation of a reorganization, merger, amalgamation or consolidation involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless, following such Business Combination: (i) individuals and entities that were the Beneficial Owners of Outstanding Company Voting Securities immediately prior to such Business Combination are the Beneficial Owners, directly or indirectly, of more than fifty percent (50%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors (or election of members of a comparable governing body) of

the entity resulting from the Business Combination (including, without limitation, an entity which as a result of such transaction owns all or substantially all of the voting power of the outstanding voting

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securities entitled to vote generally in the election of directors or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) (the "Successor Entity") in substantially the same proportions as their ownership immediately prior to such Business Combination and (ii) at least a majority of the members of the board of directors (or comparable governing body) of the Successor Entity immediately following the Business Combination were Incumbent Directors (including persons deemed to be Incumbent Directors) at the time of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, solely for purposes of determining the timing of payment or timing of distribution for purposes of an Award that constitutes "nonqualified deferred compensation" within the meaning of Section 409A, a Change of Control shall not be deemed to have occurred unless the events that have occurred will also constitute a "change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation," of the Company under Section 409A, or any successor provision.

"Designated Broker" means the financial services firm or other agent designated by the Company to maintain ESPP Share Accounts on behalf of Participants who have purchased Common Shares under the Plan.

"Effective Date" means the date as of which this Plan is adopted by the Board, subject to the Plan obtaining shareholder approval in accordance with Section 18.11 hereof.

"Employee" means any person who renders services to the Company or a Participating Subsidiary as an employee pursuant to an employment relationship with such employer in accordance with Section 421 of the Code and the Treasury Regulations thereunder.

"Eligible Employee" means any Employee who has been continuously employed by the Company or a Participating Subsidiary for at least six (6) months as of September 1st prior to the beginning of an Offering Period.

Notwithstanding the foregoing, the Committee may exclude from participation in the Plan or any Offering, Employees who are "highly compensated employees" of the Company or a Participating Subsidiary (within the meaning of Section 414(q) of the Code) or a sub-set of such highly compensated employees.

"Enrollment Election" means an electronic election pursuant to which an Eligible Employee may elect to enroll in the Plan, to authorize a new level of payroll deductions, or to stop payroll deductions and withdraw from an Offering Period.

"ESPP Share Account" means an account in which Common Shares purchased with accumulated payroll deductions at the end of an Offering Period is held on behalf of a Participant.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended from time to time.

"Fair Market Value" means the closing price as reported on the New York Stock Exchange or other recognized stock exchange or established over-the-counter trading systems on which the Common Shares are listed on such date, or if the Common Shares were not traded on such date, then on the first trading day immediately preceding such date, as reported by such responsible reporting service as the Committee may select.

"Offering Date" means the first trading day of each Offering Period as designated by the Committee.

"Offering or Offering Period" means a period of twelve (12) months beginning on the first (1st) business day of the second payroll period in the month of October of each year during the term of the Plan; provided, that, pursuant to Section 5, the Committee may change the duration of future Offering Periods (subject to a maximum Offering Period of twenty-seven (27) months) and/or the start and end dates of future Offering Periods.

"Participant" means an Eligible Employee who is actively participating in the Plan.

"Participating Subsidiary" means a Subsidiary that has been designated as eligible to participate in the Plan by the Committee from time to time in its sole discretion.

"Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof.

"Plan" means this Signet Jewelers Limited Employee Share Purchase Plan, as set forth herein, and as amended from time to time.

"Purchase Date" means the last trading day of each Offering Period.

"Purchase Price" means an amount equal to ninety-five percent (95%) (or such greater percentage as designated by the Committee) of the Fair Market Value of a Common Share on the Purchase Date; provided, that, the Purchase Price per Common Share will in no event be less than the par value of the Common Share.

"Securities Act" means the Securities Act of 1933, as amended, from time to time.

“Subsidiary” means an entity (whether or not a corporation) that is wholly or majority owned or controlled, directly or indirectly, by the Company or any other affiliate of the Company that is so designated, from time to time, by the Committee, during the period of such affiliated status. In all cases, the determination of whether an entity is a Subsidiary shall be made in accordance with Section 424(f) of the Code.

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Administration. The Plan shall be administered by the Committee which shall have the authority to construe and interpret the Plan, prescribe, amend and rescind rules relating to the Plan's administration and take any other actions necessary or desirable for the administration of the Plan including, without limitation, delegating administration to a third party share plan administrator or adopting sub-plans applicable to particular Participating Subsidiaries or locations, which sub-plans may be designed to be outside the scope of Section 423 of the Code. The Committee may correct any defect or supply any omission or reconcile any inconsistency or ambiguity in the Plan. The decisions of the Committee shall be final and binding on all persons. All expenses of administering the Plan shall be borne by the Company.

4. Eligibility. Unless otherwise determined by the Committee in a manner that is consistent with Section 423 of the Code and ASC 718, any individual who is an Eligible Employee as of the first day of the enrollment period designated by the Committee for a particular Offering Period shall be eligible to participate in such Offering Period, subject to the requirements of Section 423 of the Code.

Notwithstanding any provision of the Plan to the contrary, no Eligible Employee shall be granted an option under the Plan if (i) immediately after the grant of the option, such Eligible Employee (or any other person whose shares would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own shares of the Company and/or hold outstanding options to purchase shares, in the aggregate, possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or any Subsidiary or (ii) such option would permit his or her rights to purchase shares under all employee share purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate that exceeds \$25,000 of the Fair Market Value of such shares (determined at the time the option is granted) for each calendar year in which such option is outstanding at any time, pursuant to the requirements of Section 423(b)(8) of the Code. When applying the foregoing limitation, in accordance with Section 423 of the Code and the Treasury Regulations thereunder, (1) the right to purchase Common Shares under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, (2) the right to purchase Common Shares under an option accrues at the rate provided in the option, but in no case may such rate exceed \$25,000 in Fair Market Value of such Common Shares (determined at the time such option is granted) for any one calendar year, and (3) a right to purchase Common Shares which has accrued under one option granted pursuant to the Plan may not be carried over to any other option to purchase Common Shares.

5. Offering Periods. The Plan shall be implemented by a series of Offering Periods. The Committee shall have the authority to change the duration, frequency, start and end dates of future Offering Periods (up to a maximum Offering Period of 27 months).

#### 6. Participation.

Enrollment; Payroll Deductions. An Eligible Employee may elect to participate in the Plan by properly completing an Enrollment Election in accordance with the enrollment procedures established by the Committee. Participation in the Plan is entirely voluntary. By completing an Enrollment Election, the Eligible Employee authorizes payroll deductions from his or her paycheck in an amount equal to at least \$10.00, but not more than \$913.46 of his or her Compensation each pay day occurring during an Offering Period (or such other maximum percentage as the Committee may establish from time to time before an Offering Period begins), up to \$23,750 per Offering Period.

6.1 Payroll deductions shall commence on the first payroll date following the Offering Date and end on the last payroll date on or before the Purchase Date. The Company shall maintain records of all payroll deductions but shall have no obligation to pay interest on payroll deductions or to hold such amounts in a trust or in any segregated account. Unless expressly permitted by the Committee in writing, a Participant may not make any separate contributions or payments to the Plan.

Election Changes. During an Offering Period, a Participant may not change the rate of his or her payroll deductions applicable to such Offering Period. A Participant may decrease or increase his or her rate of payroll deductions for future Offering Periods by completing a new Enrollment Election authorizing the new rate of payroll deductions during the next enrollment period. However, a Participant may withdraw from the Plan in accordance with Section 9.

6.3 Automatic Re-enrollment. The deduction rate selected in the Enrollment Election shall remain in effect for subsequent Offering Periods unless the Participant (a) completes a new Enrollment Election authorizing a new level of payroll deductions in accordance with Section 6.2, (b) withdraws from the Plan in accordance with Section

9, or (c) terminates employment or otherwise becomes ineligible to participate in the Plan.

Grant of Option. On each Offering Date, each Participant in the applicable Offering Period shall be granted an option to purchase, on the Purchase Date, a number of Common Shares determined by dividing the Participant's 6.4 accumulated payroll deductions by the applicable Purchase Price. Any amount remaining in the Participant's notional account as of the Purchase Date in excess of the amount that may be applied to purchase Common Shares as a result of the limitations set forth herein (or as designated by the administrator of the Plan) shall be

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carried over to the next Offering Period. If the Participant does not participate in the next Offering Period, any such remaining amount shall be returned to the Participant.

Exercise of Option/Purchase of Shares. A Participant's option to purchase Common Shares will be exercised automatically on the Purchase Date of each Offering Period. The Participant's accumulated payroll deductions will be used to purchase the maximum number of whole shares that can be purchased with the amounts in the Participant's notional account. If and to the extent provided by the Committee, for so long as such Common Shares 7. are maintained in ESPP Share Accounts, all dividends paid with respect to such Common Shares shall be paid to the Participant in cash. No fractional Common Shares may be purchased, but notional fractional Common Shares will be allocated to the Participant's ESPP Shares Account to be aggregated with other notional fractional Common Shares on future purchase dates, subject to earlier withdrawal by the Participant in accordance with Section 9 or termination of employment in accordance with Section 10.

Transfer of Shares. As soon as reasonably practicable after each Purchase Date, the Company will arrange for the delivery to each Participant of the Common Shares purchased upon exercise of his or her option. The Committee 8. may permit or require that the shares be deposited directly into an ESPP Share Account established in the name of the Participant with a Designated Broker. Participants will not have any voting, dividend or other rights of a shareholder with respect to the Common Shares subject to any option granted hereunder until such shares have been delivered pursuant to this Section 8.

9. Withdrawal.

Withdrawal Procedure. A Participant may withdraw from an Offering by completing a revised Enrollment Election indicating his or her election to withdraw at least fourteen (14) calendar days before the end of the Offering Period. The accumulated payroll deductions held on behalf of a Participant in his or her notional account (that have not 9.1 been used to purchase Common Shares), shall be paid to the Participant promptly following receipt of the Participant's Enrollment Election indicating his or her election to withdraw and the Participant's option shall be automatically terminated. If a Participant withdraws from an Offering Period, no payroll deductions will be made during any succeeding Offering Period, unless the Participant re-enrolls in accordance with Section 6.1 of the Plan. Effect on Succeeding Offering Periods. A Participant's election to withdraw from an Offering Period will not have 9.2 any effect upon his or her eligibility to participate in succeeding Offering Periods that commence following the completion of the Offering Period from which the Participant withdraws.

Termination of Employment; Change in Employment Status. Upon termination of a Participant's employment for any reason, including death, disability or retirement, or a change in the Participant's employment status following which the Participant is no longer an Eligible Employee, which in either case occurs before the Purchase Date, the 10. Participant will be deemed to have withdrawn from the Plan and the payroll deductions in the Participant's notional account (that have not been used to purchase Common Shares), shall be returned to the Participant, or in the case of the Participant's death, to the person(s) entitled to such amounts under Section 16, and the Participant's option shall be automatically terminated.

11. Interest. No interest shall accrue on or be payable with respect to the payroll deductions of a Participant in the Plan.

12. Shares Reserved for Plan.

12.1 Number of Shares. Subject to adjustments as described below, a total of [1,250,000] Common Shares have been reserved for issuance under the Plan.

Over-subscribed Offerings. The number of Common Shares which a Participant may purchase in an Offering under the Plan may be reduced if the Offering is over-subscribed. No option granted under the Plan shall permit a Participant to purchase Common Shares which, if added together with the total number of Common Shares 12.2 purchased by all other Participants in such Offering would exceed the total number of Common Shares remaining available under the Plan. If the Committee determines that, on a particular Purchase Date, the number of Common Shares with respect to which options are to be exercised exceeds the number of Common Shares then available under the Plan, the Company shall make a pro rata allocation of the Common Shares remaining available for purchase in as uniform a manner as practicable and as the Committee determines to be equitable.

13. Transferability. No payroll deductions credited to a Participant, nor any rights with respect to the exercise of an option or any rights to receive Common Shares hereunder may be assigned, transferred, pledged or otherwise



disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 16 hereof) by the Participant. Any attempt to assign, transfer, pledge or otherwise dispose of such rights or amounts shall be without effect.

Application of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose to the extent permitted by applicable law, and the Company shall not be required to segregate such payroll deductions or contributions.

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15. Statements. Participants will have access to statements at least annually which shall set forth the contributions made by the Participant to the Plan, the Purchase Price of any Common Shares purchased with accumulated funds, the number of Common Shares purchased, and any payroll deduction amounts remaining in the Participant's notional account.

Designation of Beneficiary. A Participant may submit a designation of beneficiary who is to receive any Common Shares, if any, from the Participant's ESPP Share Account under the Plan in the event of such Participant's death. In the event that no such designation is submitted, the Common Shares shall be distributed to the Participant's estate. Any option granted hereunder is exercisable only by the Participant during the Participant's lifetime. In the event of the Participant's death prior to the Purchase Date of an Offering Period, any cash withheld through payroll deductions and credited to the Participant's notional account and any cash amounts in respect of notional fractional Common Shares credited to the Participant's ESPP Share Account shall be refunded to the Participant's estate through payroll.

17. Adjustments.

Adjustments. In the event of any corporate event or transaction involving the Company, a Subsidiary and/or an affiliate (including, but not limited to, a change in the Common Shares of the Company or the capitalization of the Company) such as a merger, amalgamation, consolidation, reorganization, recapitalization, reclassification, separation, share dividend, extraordinary cash dividend, share split, reverse share split, split up, spin-off, combination of Common Shares, exchange of Common Shares, dividend in kind, amalgamation, or other like change in capital structure (other than normal cash dividends to shareholders of the Company), or any similar corporate event or transaction, the Committee shall, in the manner and to the extent it considers appropriate and equitable to Participants and consistent with the terms of the Plan, cause an adjustment to be made to (i) the maximum number and kind of Shares that may be delivered under the Plan, (ii) the Purchase Price per share, (iii) the number of Common Shares covered by each outstanding option under the Plan and (iv) the numerical limits of Section 6.4 and Section 12.

Change of Control. In the event of a Change of Control, the Committee shall have the power and discretion to (i) continue the Offering Period in effect on the date of such Change of Control, (ii) shorten the Offering Period then in progress by setting a "New Purchase Date" which shall be before the date of the Company's proposed Change of Control, (iii) substitute Common Shares available under the Plan with shares of common stock of the surviving company or its parent, or (iv) terminate the Plan and return any payroll deductions in the Participant's notional account (that have not been used to purchase Common Shares) to the Participant. In the event of prong (ii), the Committee shall notify each Participant in writing, at least ten (10) trading days prior to the New Purchase Date, that the Purchase Date for the Participant's purchase right has been changed to the New Purchase Date and that Common Shares shall be purchased automatically on the New Purchase Date, unless prior to such date the Participant has withdrawn from the Offering Period as described in Section 9 above, although only five (5) days' notice of withdrawal will be required.

18. General Provisions.

Equal Rights and Privileges. Notwithstanding any provision of the Plan to the contrary and in accordance with Section 423 of the Code and ASC 718, all Eligible Employees who are granted options under the Plan shall have the same rights and privileges.

No Right to Continued Service. Neither the Plan nor any compensation paid hereunder will confer on any Participant the right to continue as an Employee or in any other capacity.

Rights as Shareholder. A Participant will become a shareholder with respect to the Common Shares that are purchased pursuant to options granted under the Plan when the shares are transferred to the Participant or the Participant's ESPP Share Account. A Participant will have no rights as a shareholder with respect to Common Shares for which an election to participate in an Offering Period has been made until such Participant becomes a shareholder as provided above.

Successors and Assigns. The Plan shall be binding on the Company and Participants and their respective successors and assigns.

Entire Plan. This Plan constitutes the entire plan with respect to the subject matter hereof and supersedes all prior plans with respect to the subject matter hereof.

18.6 Compliance with Law. The obligations of the Company with respect to payments under the Plan are subject to compliance with all applicable laws and regulations. Common Shares shall not be issued with respect to an option granted under the Plan unless the exercise of such option and the issuance and delivery of the Common Shares pursuant thereto shall comply with all applicable provisions of law, including, without limitation, the Securities Act, the Exchange Act, and the requirements of any stock exchange or trading system upon which the shares may then be listed.

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18.7 Notice of Disqualifying Dispositions. Each Participant shall give the Company prompt written notice of any disposition or other transfer of Common Shares acquired pursuant to the exercise of an option acquired under the Plan, if such disposition or transfer is made within two years after the Offering Date or within one year after the Purchase Date.

18.8 Term of Plan. The Plan shall become effective on the Effective Date and, unless terminated earlier pursuant to Section 18.9, shall have a term of ten (10) years.

18.9 Amendment or Termination. The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time and for any reason. If the Plan is terminated, the Committee may elect to terminate all outstanding Offering Periods either immediately or once Common Shares have been purchased on the next Purchase Date (which may, in the discretion of the Committee, be accelerated), subject to any adjustment in accordance with Section 17. If the Plan is terminated, immediately following the termination of the Offering Period or the final Purchase Date, as applicable, all amounts that have not been used to purchase Common Shares will be returned to Participants (without interest, except as otherwise required by law) as soon as administratively practicable.

18.10 Applicable Law. The Plan and all rights hereunder shall be governed by the laws of the State of Ohio, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Any action to enforce any of the provisions of the Plan shall be brought in a court in the State of Ohio located in Summit County or, if subject matter jurisdiction exists, in the Eastern Division of the U.S. District Court for the Northern District of Ohio. The Company and any Participant consent to the jurisdiction of such courts and to the service of process in any manner provided by applicable Ohio or federal law. Each party irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any such suit, action, or proceeding brought in such court and any claim that such suit, action, or proceeding brought in such court has been brought in an inconvenient forum and agrees that service of process in accordance with the foregoing sentences shall be deemed in every respect effective and valid personal service of process upon such party.

PARTICIPANT ACKNOWLEDGES THAT, BY ACCEPTING AN AWARD AGREEMENT UNDER THE PLAN, PARTICIPANT IS WAIVING ANY RIGHT THAT PARTICIPANT MAY HAVE TO A JURY TRIAL RELATED TO THIS PLAN OR ANY AWARD AGREEMENT THEREUNDER.

18.11 Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted by the Board. If the Plan is not approved by the shareholders of the Company during such period, the Plan shall be terminated and any payroll deductions accrued under the Plan (if any) shall be returned to Participants.

18.12 Section 423 and ASC 718. The Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code and a non-compensatory employee share purchase plan under ASC 718. Any provision of the Plan that is inconsistent with Section 423 of the Code or a non-compensatory plan under ASC 718 shall be reformed to comply with Section 423 of the Code and the applicable terms of ASC 718.

18.13 Withholding. The Company shall have the power and the right to deduct or withhold automatically from any amount deliverable under the Plan, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan.

18.14 Severability. If any provision of the Plan shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

18.15 Headings. The headings of sections herein are included solely for convenience and shall not affect the meaning of any of the provisions of the Plan.















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rights to assets, the value of which exceeds a certain amount.

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**Strategic Industries Law**

Pursuant to the Strategic Foreign Investment Law, investments resulting in a foreign entity or a group of entities receiving control over a company with strategic importance for the national defense and security of the Russian Federation, or a Strategic Company, require prior approval from the state authorities. The procedure for issuing such consent involves a special governmental commission on control of foreign investments, or the Governmental Commission, which was established by the Resolution of the Government of Russia dated July 6, 2008 as the body responsible for granting such consents, and FAS, which is authorized to process applications for consent from foreign investors. "Control" means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders' (participants') meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company, or otherwise. As a result, "control" will generally be deemed to exist if an entity or a group of entities acquires more than 50% of the shares (or participation interest in share capital) of a Strategic Company, or if through contract or securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company.

Furthermore, if a foreign entity or group of entities holding securities of a Strategic Company or other entity that exercises control over this company becomes a direct or indirect holder of voting shares in an amount that is considered to give it direct or indirect control over this company in accordance with the Strategic Foreign Investment Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (*e.g.*, as a result of a buy-back of its shares by the relevant company), then such entity or group of entities will have to apply for state approval of its control within three months after it received such control.

In addition, foreign investors are required to notify this authorized governmental agency about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies.

On April 8, 2009, MTS OJSC and two of our subsidiaries, Dagtelecom LLC and Sibintertelecom CJSC, were added to the register of companies occupying a dominant position on the market with a market share exceeding 25% for the purpose of the Strategic Foreign Investment Law.

See also "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties It is not yet clear how the new Strategic Foreign Investment Law will affect us and our foreign shareholders."

**Disclosure of Ownership**

Under Russian law, a holder of our common shares is required to publicly disclose an acquisition of 5% or more of the outstanding common shares of the company, as well any change in the amount of common shares held by such holder, if as a result of such change the percentage of common shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the outstanding common shares of the company.

**Notification of Foreign Ownership**

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. However, the procedure for notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisition remains unclear.

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**C. Material Contracts**

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business:

**Eurobonds**

On June 22, 2010, we issued US dollar-denominated Loan Participation Notes in the amount of \$750 million with an annual interest rate of 8.625% and a maturity in June 2020. The proceeds will be used to refinance certain existing debt obligations. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange. Proceeds were on-lent to us pursuant to a loan agreement between us and MTS International Funding Limited.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on October 14, 2003. The 8.375% notes were issued under an indenture dated October 14, 2003. Interest on the notes is payable in arrears on April 14 and October 14 of each year, commencing on April 14, 2003. These notes are guaranteed by us and mature on October 14, 2010. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$395.4 million were used for general corporate purposes, including dividend payments, capital expenditures and repayment of existing indebtedness incurred in connection with our acquisitions of mobile operators in Russia and Ukraine.

We completed a \$400.0 million notes offering through Mobile TeleSystems Finance S.A. on January 28, 2005. The 8.00% notes were issued under an indenture dated January 28, 2005. Interest on the notes is payable in arrears on January 28 and July 28 of each year, commencing on July 28, 2005. These notes are guaranteed by us and mature on January 28, 2012. They are listed on the Luxembourg Stock Exchange. The net proceeds from this offering of \$398.9 million were used to repay a \$140 million loan we received from Credit Suisse First Boston International in October 2004 for general corporate purposes. We used the remaining net proceeds from the offering for general corporate purposes, including acquisitions and increasing our interests in certain of our subsidiaries.

Each of the loan agreement relating to our notes due 2020 and indentures relating to our notes due 2010 and 2012 sets forth various occurrences, each of which would constitute an event of default. If an event of default, other than an event of default arising from events of bankruptcy, insolvency or bankruptcy-related reorganization, occurs and is continuing, either the lender (in the case of our notes due 2020), the trustee or the holders of at least 25% in principal amount of the outstanding notes may accelerate the maturity of all of the notes. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding notes may, under circumstances set forth in the indentures with respect to our notes due 2010 and 2012, rescind the acceleration if all events of default, other than the nonpayment of principal of the notes which have become due solely because of the acceleration, have been cured or waived as provided in the indenture. If an event of default arising from events of our bankruptcy, insolvency or bankruptcy-related reorganization occurs and is continuing, then the principal of, and accrued interest on, all of the notes will automatically become immediately due and payable without any declaration or other act on the part of the lender (in the case of our notes due 2020), holders of notes or the trustee.

Covenants in the loan agreement relating to our notes due 2020 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, the indentures relating to our outstanding notes due in 2010 and 2012 contain covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

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In addition, if we experience certain types of mergers, consolidations or other changes in control, noteholders will have the right to require us to redeem the notes at 101% of their principal amount, plus accrued interest. We are also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's.

If we fail to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable. Pursuant to the guarantees contained in each indenture with respect to our notes due 2010 and 2012, we fully and unconditionally guaranteed all payments of principal and interest on the notes. These guarantees are our general unsecured obligation, senior to all our existing and future subordinated obligations, equal to all our existing and future unsecured obligations, and effectively junior to all our existing and future secured obligations and all existing and future obligations of our subsidiaries.

**Syndicated Loans**

In 2006 we entered into a syndicated U.S. Dollar denominated bank loan facility agreement with a number of international financial institutions (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 Limited). This facility allowed us to borrow up to \$1,330.0 million which was available in two tranches of \$630.0 million and \$700.0 million. The proceeds were used by OJSC MTS for general corporate purposes, including acquisitions and refinancing of existing indebtedness. The first tranche bears interest of LIBOR+0.80% per annum and matures in 2009. The second tranche bears interest of LIBOR+1.00% per annum within the first three years and LIBOR + 1.15% per annum thereafter, matures in April 2011 and is repayable in 13 equal quarterly installments, commencing in April, 2008. An arrangement fee of 0.10% of the original facility amount and agency fee of \$0.05 million per annum should be paid in accordance with the agreement. The commitment fee is 0.40% per annum on the undrawn facility in respect of second tranche. The debt issuance costs in respect of this loan of \$13.4 million were capitalized. The first tranche was fully repaid by us on May 20, 2009. As of December 31, 2009 and December 30, 2008, the balances outstanding under the facility totaled \$323.1 million and \$1,168.5 million, respectively.

On May 18, 2009 we signed a new syndicated loan facility agreement to refinance the first tranche of the above mentioned syndicated loan facility in the amount of \$630 million with a number of financial institutions (ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (ELUOSI), Bank of China (UK) Limited, Joint-Stock company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank plc, ING Bank N.V., J.P. Morgan plc, Societe Generale Corporate and Investment Banking Paris, UniCredit Bank Austria AG, WestLB AG, London Branch, ZAO UniCredit Bank). Funds borrowed are to be used for our general corporate purposes. The facility is available in two tranches of \$360.0 million and €238.1 million bearing interest of LIBOR+6.5% per annum and EURIBOR+6.5% per annum, respectively. Both tranches mature on May 18, 2012 and are repayable in three equal installments on May 18, 2011, November 18, 2011 and May 18, 2012. We paid and capitalized arrangement and management fees in the total amount of \$14.6 million and €7.3 million under the agreement. Additionally, we were required to pay an agency fee at times set forth in a separate fee letter and in an amount equal to the greater of \$1,500 per lender based on the number of lenders as at the relevant payment date and \$25,000. As of December 31, 2009, the balance outstanding under the facility amounted to \$701.6 million. On February 24, 2010, we voluntarily repaid the full amount outstanding under the facility.

**Sberbank Loan Agreements**

In September 2009, we entered into two loan agreements with Sberbank in the amount of RUR 22 billion (\$731.1 million as of September 30, 2009) and RUR 25 billion (\$830.8 million as of

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September 30, 2009), respectively. The funds were used for our investment programs, including for financing our acquisition of a 50.91% stake in Comstar. Both loans bear interest of 16% and are repayable in 7 equal semiannual installments, commencing March 27, 2012. The interest rate is fixed until March 27, 2010; for the subsequent periods (quarters), the rate will be determined as a total of the base rate (16%) plus rate A or rate B. Rate A depends on the average daily bank account balance we maintain with Sberbank for the interest period. If the average daily bank account balance falls below RUR 1.0 billion, rate A will be set at 0.5%. However, rate A will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUR 1.0 billion. Rate B depends on the average daily bank account balance maintained by our subsidiary, CJSC Russian Telephone Company, with Sberbank for the interest period. If the average daily bank account balance falls below RUR 0.5 billion, rate B will be set at 0.5%. However, rate B will not apply, and no extra interest will be charged, if the average daily bank account balance is equal to or exceeds RUR 1.0 billion. Additionally, we have to pay a commission of 0.25% on the outstanding amounts under the agreements for services related to maintenance of the loan accounts. The agreement for RUR 25 billion is secured by pledge of equipment with a net book value of RUR 30 billion as of September 30, 2009 (assigned pledge value of RUR 21 billion) as well as 50.18% stake in Comstar. Related debt issuance cost capitalized by us totaled RUR 1,034.6 million (\$33.6 million at the date of capitalization). In December 2009, we reached an agreement with Sberbank to lower the interest rates for the agreements. The interest rate was reduced by 4.25 percentage points to 11.25%. The changes to the terms of the financing came into effect on December 28, 2009. As of December 31, 2009, the balance outstanding under the agreements amounted to \$1,554.0 million.

Comstar entered into a non-revolving credit line facility with Sberbank in the amount of RUR 26.0 billion in 2007. In June 2007, Comstar drew down approximately RUR17.4 billion (equivalent of \$675.0 million as of the date of transaction) under this facility and used the proceeds to repay a \$675.0 million loan from ABN Amro and Morgan Stanley. In November 2007, Comstar drew down an additional RUR4.1 billion (equivalent of \$167.4 million as of the date of transaction) under the facility to finance the acquisition of a 100% stake in DTN. In December 2008, Comstar drew the remaining RUR4.5 billion to finance the acquisition of Stream TV. Accordingly, as of December 31, 2008 the facility was fully drawn. The facility originally bore interest at 7.6% per annum, which can be increased by Sberbank in conjunction with, but not exclusively, increases in CBR refinancing rate. The interest rate was increased to 9.5% per annum effective June 28, 2008 and further to 13.35% effective January 1, 2009. Interest is paid monthly. The facility is repayable in equal quarterly installments from September 2009 until June 2012 and is secured by pledge of a 25% plus one share stake in Svyazinvest. As of December 31, 2009, the balance payable under this facility amounted to \$859.7 million.

**Comstar Acquisition Agreement**

Pursuant to an Agreement dated October 12, 2009 between Sistema, ECU GEST HOLDING S.A., Sistema Telecom LLC and Telekoms Operator LLC, we acquired a 50.91% stake in Comstar, a leading fixed line operator in Russia, from Sistema. Under the terms of the agreement, our wholly owned subsidiary, Telekoms Operator LLC, purchased Sistema's 50.91% stake in Comstar for 39.15 billion rubles (\$1.32 billion as of October 12, 2009, the date of the acquisition).

**D. Exchange Controls**

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004 sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

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**Repatriation of Export Proceeds**

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing).

**Restrictions on the remittance of dividends, interest or other payments to non-residents**

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999 specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on common shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

**E. Taxation**

**Certain Russian Tax Consequences**

The following discussion describes the material Russian corporate income tax and personal income tax consequences to you if you are a U.S. holder of ADSs and a resident of the United States for purposes of the United States Russia income tax treaty and are fully eligible for benefits under the United States Russia income tax treaty. Subject to certain provisions of the United States Russia income tax treaty relating to limitations on benefits, a U.S. resident under the treaty is generally defined as a person liable, under the laws of the United States, to U.S. tax (other than taxes with respect to only of income from sources in the United States or capital situated therein) by reason of your domicile, residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income). The treaty provides for a procedure to resolve matters where a resident of the United States qualifies as a Russian tax resident under Russian domestic rules. The treaty also provides for the non-application of treaty benefits to certain types of entities.

Additionally, the benefits under the United States Russia income tax treaty discussed in this document generally are not available to U.S. persons who hold ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States Russia income tax treaty. Subject to certain exceptions, a U.S. person's permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a U.S. person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the U.S. person. This summary does not address the treatment of holders described in this paragraph.

Treaty benefits may be potentially available to U.S. tax residents that are not subject to limitations on treaty benefits under the treaty, do not operate through a permanent establishment in Russia and are foreign legal entities (*i.e.*, a legal entity or organization in each case not organized under Russian law) or individuals not considered Russian tax residents under Russian law. Under current Russian law, the Russian tax residency for individuals is generally determined based on the number of days a person spends in Russia in a 12-month period. While the current version of the law specifies that an individual present in Russia for an aggregate period of 183 days in any consecutive 12-month period will be considered as a tax resident, exactly how to apply the 12-month rule is the subject of debate and is not



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entirely clear. The Ministry of Finance of the Russian Federation has issued several letters implying that the final tax status of an individual taxpayer shall still be defined for a whole calendar year by counting the days spent in Russia within the relevant calendar year. Accordingly, the approach used, in practice, to determine the tax residence of an individual for a given tax year (calendar year) remains the same as under the previous legislation *i.e.*, to be considered a Russian tax resident, the taxpayer should spend at least 183 days in Russia in a calendar year.

The following discussion is based on:

Russian tax legislation; and

the United States Russia income tax treaty (and judicial and administrative interpretations thereof by the Russian authorities);

all as in effect on the date of this document. All of the foregoing is subject to change, possibly on a retroactive basis, after the date of this document. This discussion is also based, in part, on representations of the depositary, and assumes that each obligation in the deposit agreement and any related agreements will be performed in accordance with its terms. The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations.

The following discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential Russian corporate income and personal income tax consequences to you of ownership of ADSs. We urge you to consult your own tax adviser regarding the specific Russian tax consequences of the ownership and disposition of ADSs under your own particular factual circumstances.

***Specific uncertainties associated with the tax treatment of ADS holders***

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Russian tax authorities have provided limited guidance regarding the treatment of ADS arrangements, and there can be no certainty as to how the Russian tax authorities will ultimately treat those arrangements. In a number of clarifications, the Russian Ministry of Finance stated that ADS holders must be treated as the beneficial owners of income from the underlying shares for purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares. However, double tax treaty relief is available only if the tax treaty residence of the holder is duly confirmed. It is currently unclear whether depositories will be willing or able to provide residency certificates for ADS holders or implement procedures for holders to benefit from applicable tax treaties. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States Russia income tax treaty, in practice such relief may be difficult or impossible to obtain.

If the Russian tax authorities were not to treat U.S. holders as the beneficial owners of income from the underlying shares, then the benefits discussed below regarding the United States Russia income tax treaty would not be available to U.S. holders. Russian tax law and procedures are also not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules without regard to the rule of law. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

***Taxation of Dividends***

Dividends paid to U.S. holders generally will be subject to Russian withholding tax at a 15% rate. The tax burden may be reduced to 5% or 10% under the United States Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning

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10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. See also " United States Russia Income Tax Treaty Procedures."

Notwithstanding the foregoing, treaty relief may not be available to U.S. holders of ADSs. In a number of clarifications, the Ministry of Finance expressed an opinion that ADS holders (rather than the depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the ADS holders are duly confirmed and information on the number of shares and data on the beneficiaries is available in the appropriate form. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of tax treaty beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts would ultimately treat the ADS holders in this regard. Moreover, from a practical perspective, it may not be possible for the depositary to collect residence confirmations from all ADS holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each holder.

Therefore, with respect to legal entities or organizations who are U.S. holders, we may be obligated to withhold income tax at a rate of 15% from dividend payments made to the depositary, unless prior to making such dividend payments to the depositary, we are provided with confirmation that U.S. holders are beneficial owners of dividends within the meaning of the United States Russia income tax treaty and all administrative requirements for claiming treaty benefits are met. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant a refund. See " United States Russia Income Tax Treaty Procedures."

With respect to individuals who are U.S. holders of ADSs and who are Russian tax non-residents, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the depositary. Where withholding of personal income tax is not performed, individuals who are U.S. holders of ADSs will then be required to submit an annual personal tax return to the Russian tax authorities and pay Russian income tax at a rate of 15% as under Russian law an individual should report on his or her tax liabilities in case the relevant tax was due but not withheld by a tax agent from the relevant payment. When submitting the tax return, individuals who are U.S. holders may claim an application of the reduced rates of withholding tax established by the relevant treaty, provided that the procedures described in " United States Russia Income Tax Treaty Procedures" are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome.

If the appropriate documentation has not been provided to us before the start of the payment of dividends by us (*i.e.*, before the second half of August) date, we will withhold tax at the full rate, and U.S. holders that are legal entities qualifying for a reduced rate under the United States Russia income tax treaty then may file claims for refund within three years with the Russian tax authorities.

For individuals claiming treaty relief, the documents substantiating the right for treaty benefits should be submitted to the Russian tax authorities within one year after the end of the year to which these benefits relate. In practice, where withholding is performed, the tax authorities may refuse to refund or credit the 15% tax withheld from payment of dividends to the depositary and, therefore, it is possible that individuals who are U.S. holders may be subject to up to a 30% effective tax rate (general tax rate for Russian tax non-residents) on their share of dividends.

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*Taxation of Capital Gains*

*Legal entities and Organizations*

Generally, capital gains arising from the sale, exchange or other disposition of securities by legal entities or organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, legal entities or organizations that are non-resident holders of the securities should be subject to a 20% withholding tax on the gross proceeds from the sale, exchange or other disposition of securities, the difference between the sales, exchange or other disposition price and the acquisition costs of the ADSs, determined in accordance with Russian tax deductibility rules. The corporate income tax decreased from 24% to 20% starting from January 1, 2009.

However, an exemption applies if immovable property located in Russia constitutes more than 50% of our assets and the securities are traded on a foreign stock exchange. In that case, the proceeds from the sale of securities on that foreign stock exchange shall not be deemed to be income from sources in Russia, and accordingly, will not be subject to taxation in Russia. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

*Individuals*

The taxation of the income of tax non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of securities outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the shares and ADSs by non-resident individual holders in Russia will be considered Russian source income and will be subject to tax at a rate of 30% on the difference between the sales price and the acquisition costs of such securities, as well as other documented expenses, such as depositary expenses and broker fees, among others, defined by the tax rules.

Under Russian law, the acquisition costs and related expenses can be deducted at the source of payment if the sale was made by a non-resident holder through a licensed Russian broker, trust manager or other person that carries out operations under agency or commission agreements, or other agreements in favor of a taxpayer. Such party (as defined above) should also act as a tax agent and withhold the applicable tax. Such tax agent will be required to report to the Russian tax authorities the

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amount of income realized by the non-resident individual and tax withheld upon the sale of the securities.

Otherwise, if the sale is made to individuals but not through a tax agent, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes tax agent responsibility only on professional trustees, brokers or dealers, in practice, the tax authorities may require Russian legal entities and organizations or foreign companies with any registered presence in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Under the United States Russia income tax treaty, capital gains from the sale of the ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term "fixed assets" is used in the Russian version of the United States Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States Russia income tax treaty in relation to capital gains resulting from the sale, exchange or other disposition of the ADSs.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See " United States Russia Income Tax Treaty Procedures "below.

***United States Russia Income Tax Treaty Procedures***

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity or organization seeking to obtain relief from or reduction of Russian withholding tax under a tax treaty must provide to a Russian company or foreign company or organization acting through its Russian registered presence, which is a tax agent (*i.e.*, the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements and a notarized Russian translation attached to it in advance of receiving the relevant income. The tax residency confirmation needs to be renewed on an annual basis and provided to the payer of income before the first payment of income in each calendar year.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder's name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the United States Internal Revenue Service. The procedures for obtaining certification are described in greater detail in the instructions to Internal Revenue Service Form 8802. As obtaining the required certification from the Internal Revenue Service may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

In accordance with the Russian Tax Code, to rely on tax treaty benefits, a non-resident holder who is an individual must present to the tax authorities an official document confirming his residency in the home country issued by the competent authorities in his/her country of residence and also other supporting documentation including a statement confirming the income received and the tax paid in the home country, also confirmed by the relevant foreign tax authorities, duly translated and apostilled. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore, advance relief from or reduction of withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual

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may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received and the tax was withheld.

If a non-resident holder which is a legal entity or organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) apostilled or legalized confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income, as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to ADSs and no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders or that ADS holders would be successful in receiving relevant tax refunds.

Neither the depositary nor us has or will have any obligation to assist an ADS holder with the completion and filing of any tax forms.

**Stamp Duties**

No Russian stamp duty will be payable by the holders of ADSs upon carrying out of transactions with the securities as discussed above (*i.e.*, on a purchase of the securities, sale of the securities, etc.).

**Certain United States Federal Income Tax Consequences**

The following is a general description of certain material United States federal income tax consequences that apply to you if you are, for United States federal income tax purposes, a beneficial owner of ADSs that is an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust, if a United States court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person (in each case, a "U.S. Holder"). This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service, or the IRS, all as publicly available and in effect as of the date of this document. These authorities are subject to differing interpretations and may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of ADSs, or that any such contrary position would not be sustained by a court. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of ADSs, the United States federal income tax treatment of a partner in the partnership will generally

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depend on the status of the partner and the activities of the partnership. Accordingly, partnerships that hold ADSs and partners in such partnerships are urged to consult their tax advisors regarding the specific U.S. federal income tax consequences to them. The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

an insurance company;

a tax-exempt organization;

a financial institution;

a person subject to the alternative minimum tax;

a person who is a broker-dealer in securities or a trader subject to a mark-to-market election;

an S corporation;

a person holding ADSs through a partnership or other pass-through entity;

an expatriate subject to section 877 of the Code;

an owner of, directly, indirectly or by attribution, 10% or more of the outstanding shares of our common stock; or

an owner holding ADSs as part of a hedge, straddle, synthetic security or conversion transaction.

In addition, this summary is limited to U.S. Holders holding ADSs as "capital assets" within the meaning of Section 1221 of the Code and whose functional currency is the U.S. dollar. The discussion below does not address the effect of any United States state or local tax law or foreign tax law. This discussion also does not address any tax consequences relating to the direct ownership of ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. For purposes of applying United States federal income tax law, we believe, and the following discussion assumes, that a holder of an ADS should be treated as the owner of the underlying shares of common stock represented by that ADS, although this matter is not free from doubt.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the shares underlying the ADS may be taking actions that are inconsistent with the beneficial ownership of the underlying shares. Accordingly, the analysis of the creditability of Russian withholding taxes described below and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders (discussed below) could be affected by actions taken by intermediaries in the chain of ownership between the holder of ADSs and our company if as a result of such actions the holders of ADSs are not properly treated as beneficial owners of underlying shares and future actions that may be taken by the U.S. Treasury. The remainder of this discussion assumes that a holder of an ADS will be treated as the beneficial owner of the underlying shares of common stock represented by such ADS for United States federal income tax purposes.

***Taxation of Distributions on ADSs***

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For United States federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, paid by us with respect to ADSs will be treated as a taxable foreign source dividend on the date of actual or constructive receipt by the depository to the extent of our current and accumulated earnings and profits, computed in accordance with United States federal income tax principles. For taxable years beginning before January 1, 2011, if you are a non-corporate U.S. Holder

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such dividends may be "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that certain conditions are satisfied, including (1) certain holding period requirements are satisfied, (2) either (a) our ADSs continue to be listed on the New York Stock Exchange (or other national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934, as amended, or the Nasdaq Stock Market) or (b) we are eligible for the benefits of the United States Russia income tax treaty, and (3) we are not, for the taxable year in which the dividend was paid, or in the preceding taxable year, a "passive foreign investment company" (as discussed below). Distributions with respect to ADSs in excess of our current and accumulated earnings and profits will be applied against and will reduce your tax basis in such ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such ADSs. You should be aware that we do not intend to calculate our earnings and profits for United States federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to ADSs generally will be treated as a dividend, even if such distributions would otherwise be treated as a return of capital or as capital gain pursuant to the rules described above. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on ADSs, which is generally available for dividends paid by U.S. corporations. U.S. Holders are strongly urged to consult their tax advisors as to the U.S. federal income tax treatment of any distribution received with respect to ADSs.

The amount of any distribution paid in rubles will equal the U.S. dollar value of such rubles, calculated using the exchange rate in effect on the date of receipt by the depository, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date of receipt by the depository to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. Additionally, you may be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States Russia income tax treaty to the extent the United States dollar value of the refund differs from the dollar equivalent of that amount on the date of receipt of the underlying distribution.

Russian withholding tax at the rate applicable to you under the United States Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States Russia income tax treaty, you may not be entitled to credits for the excess amount, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will generally be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For United States foreign tax credit purposes, a dividend distribution with respect to the ADSs will be treated as foreign source "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income." The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax advisors with respect to those rules.

***Taxation on Sale or Other Taxable Disposition of ADSs***

The sale or other taxable disposition of ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and your adjusted basis in such ADSs. That gain or loss will be capital gain or loss and will



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be long-term capital gain or loss if the ADSs have been held for more than one year. If you are a non-corporate U.S. Holder, such recognized long-term capital gain is generally subject to a reduced rate of United States federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain or loss recognized on the sale of ADSs will generally be treated as U.S. source income or loss for foreign tax credit purposes. The use of any foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of ADSs.

***Passive Foreign Investment Company Considerations***

A foreign corporation generally will be a passive foreign investment company, or a PFIC, in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through" rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income.

We do not believe that we were a PFIC for the year ended December 31, 2009. However, our possible status as a PFIC must be determined annually and therefore may be subject to change. Thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or in the future. If we were to be treated as a PFIC, U.S. Holders generally would be required to pay additional taxes on certain distributions and gains on sales or other dispositions (including pledges) of the ADSs, at tax rates that may be higher than those otherwise applicable. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the ADSs.

***Information Reporting and Backup Withholding***

Dividend payments with respect to ADSs and proceeds from the sale or exchange of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

***New Legislation***

Newly enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, capital gains from the sale or other disposition of ADSs for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. Holders who are individuals to report information relating to an interest in the ADSs, subject to certain exceptions (including an exception for ADSs held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the ADSs.

**F. Dividends and Paying Agents**

Not applicable.

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**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

The documents that are exhibits to or incorporated by reference in this document can be read at the U.S. Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 or, from outside the United States, at 1-202-942-8090. Copies may also be obtained from the SEC website at [www.sec.gov](http://www.sec.gov). Information about Mobile TeleSystems OJSC is also available on the Internet at [www.mtsgsm.com](http://www.mtsgsm.com). Information included in our website does not form part of this document.

**I. Subsidiary Information**

Not applicable.

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. We are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Foreign exchange risks exist to the extent our revenues, costs and debt obligations are denominated in currencies other than the functional currency in the countries of our operations.

***Interest Rate Risk***

We are exposed to variability in cash flow risk related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate notes. As of December 31, 2009, \$2,909.0 million, or 34.9% of our total indebtedness, including capital leases, was variable interest rate debt, while \$5,420.5 million, or 65.1% of our total indebtedness, including capital leases, was fixed interest rate debt.

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The table below presents principal cash flows and related weighted average interest rates for indebtedness by contractual maturity dates as of December 31, 2009.

**Contractual Maturity Date as of December 31, 2009**

| Indebtedness   | Currency | 2010           | 2011             | 2012           | 2013           | 2014           | Thereafter     | Total            | Annual interest rate                        |
|--|----------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|---|
|  |          |                |                  |                |                |                |                |                  | (Actual interest rate at December 31, 2009) |
| (amounts in thousands of U.S. dollars)   |          |                |                  |                |                |                |                |                  |   |
| <b>Variable debt</b>   |          |                |                  |                |                |                |                |                  |   |
| ING Bank N.V., The Bank of Tokyo-Mitsubishi, Bayerische Landesbank, HSBC, Raiffeisen, Sumitomo | USD      | 215,385        | 107,692          |                |                |                |                | 323,077          | 1.58%                                       |
| Citibank International plc and ING Bank N.V  | USD      | 19,741         | 19,741           | 19,741         | 19,741         | 12,021         |                | 90,985           | 0.73%                                       |
| HSBC Bank plc and ING BHF BANK AG  | USD      | 21,799         | 21,799           | 21,799         | 19,163         |                |                | 84,560           | 0.86%                                       |
| EBRD   | USD      | 18,462         | 18,462           | 18,462         | 18,462         | 9,229          |                | 83,077           | 3.53%                                       |
| Commerzbank AG, ING Bank AG and HSBC Bank plc  | USD      | 14,790         | 14,790           | 14,790         | 14,792         | 7,395          |                | 66,557           | 0.73%                                       |
| HSBC Bank plc, ING Bank AG and Bayerische Landesbank   | USD      | 16,609         | 16,609           | 16,609         | 16,609         | 8,730          | 1,014          | 76,180           | 0.73%                                       |
| EBRD   | USD      | 14,872         | 14,872           | 14,872         | 14,872         | 7,435          |                | 66,923           | 1.94%                                       |
| Barclays bank plc  | USD      | 2,850          | 2,850            | 2,850          | 2,851          | 1,425          |                | 12,826           | 0.56%                                       |
| ABN AMRO N.V.  | USD      | 6,287          | 6,287            | 6,287          | 6,288          |                |                | 25,149           | 0.78%                                       |
| ABN AMRO N.V.  | EUR      | 4,965          | 4,965            | 4,965          | 4,964          |                |                | 19,859           | 1.34%                                       |
| Barclays bank plc  | USD      | 10,306         | 10,306           | 10,306         | 10,306         | 5,153          |                | 46,377           | 0.58%                                       |
| Commerzbank  | USD      | 3,508          |                  |                |                |                |                | 3,508            | 0.83%                                       |
| Syndicated loan 2009 <sup>(1)</sup>  | USD      |                | 240,000          | 120,000        |                |                |                | 360,000          | 6.93%                                       |
| Syndicated loan 2009 <sup>(1)</sup>  | EUR      |                | 227,720          | 113,860        |                |                |                | 341,580          | 7.49%                                       |
| EBRD   | EUR      | 25,381         | 25,381           | 25,381         | 25,381         | 25,382         | 38,073         | 164,979          | 7.89%                                       |
| EBRD   | EUR      | 59,105         | 59,105           | 29,554         |                |                |                | 147,764          | 7.49%                                       |
| Nordic Investment Bank   | EUR      | 8,828          | 8,828            | 8,828          | 8,828          | 8,828          | 13,244         | 57,384           | 7.89%                                       |
| Nordic Investment Bank   | EUR      | 22,954         | 22,954           | 11,476         |                |                |                | 57,384           | 7.49%                                       |
| European Investment Bank   | EUR      | 25,381         | 25,381           | 25,381         | 25,381         | 25,381         | 38,074         | 164,979          | 7.39%                                       |
| Sberbank   | RUR      |                | 396,770          |                |                |                |                | 396,770          | 11.00%                                      |
| ING Bank   | USD      | 1,879          | 1,881            | 1,878          | 1,878          |                |                | 7,516            | 4.20%                                       |
| Raiffeisen Bank  | RUR      | 3,307          |                  |                |                |                |                | 3,307            | 13.30%                                      |
| VTB  | EUR      | 2,212          | 2,212            | 1,106          |                |                |                | 5,530            | 4.75%                                       |
| Intracom   | EUR/AMD  | 9,409          | 6,917            | 6,917          |                |                |                | 23,243           | 3.45%                                       |
| Skandinaviska Enskilda Banken AB   | USD      | 31,656         | 31,656           | 31,656         | 31,656         | 31,655         | 74,434         | 232,713          | 0.65%                                       |
| Skandinaviska Enskilda Banken AB   | USD      | 5,851          | 5,851            | 5,851          | 5,851          | 5,851          | 17,551         | 46,806           | 2.23%                                       |
| <b>Total variable debt</b>   |          | <b>545,537</b> | <b>1,293,029</b> | <b>512,569</b> | <b>227,023</b> | <b>148,485</b> | <b>182,390</b> | <b>2,909,033</b> |   |
| <b>Weighted average interest rate</b>  |          | <b>5.37%</b>   | <b>5.89%</b>     | <b>4.39%</b>   | <b>3.59%</b>   | <b>4.04%</b>   | <b>4.25%</b>   | <b>4.59%</b>     |   |

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| Indebtedness                           | Currency | 2010             | 2011             | 2012             | 2013           | 2014       | Thereafter   | Total            | Annual interest rate                        |
|--|----------|------------------|------------------|------------------|----------------|------------|--------------|------------------|---|
|  |          |                  |                  |                  |                |            |              |                  | (Actual interest rate at December 31, 2009) |
| (amounts in thousands of U.S. dollars) |          |                  |                  |                  |                |            |              |                  |   |
| <b>Fixed-rate notes</b>                |          |                  |                  |                  |                |            |              |                  |   |
| 8.38% notes due 2010                   | USD      | 400,000          |                  |                  |                |            |              | 400,000          | 8.38%                                       |
| 8.00% notes due 2012                   | USD      |                  |                  | 399,623          |                |            |              | 399,623          | 8.00%                                       |
| 8.70% notes due 2010                   | RUR      | 321,488          |                  |                  |                |            |              | 321,488          | 8.70%                                       |
| 14.01% notes due 2010                  | RUR      | 247,981          |                  |                  |                |            |              | 247,981          | 14.01%                                      |
| 14.01% notes due 2010                  | RUR      | 248,213          |                  |                  |                |            |              | 248,213          | 14.01%                                      |
| 16.75% notes due 2011                  | RUR      |                  | 495,963          |                  |                |            |              | 495,963          | 16.75%                                      |
| 14.25% notes due 2012                  | RUR      |                  |                  | 495,963          |                |            |              | 495,963          | 14.25%                                      |
| 16.00% notes due 2010                  | RUR      | 402              |                  |                  |                |            |              | 402              | 16.00%                                      |
| <b>Fixed-rate bank loans</b>           |          |                  |                  |                  |                |            |              |                  |   |
| Gazprombank                            | EUR      |                  | 143,460          |                  |                |            |              | 143,460          | 8.00%                                       |
| Gazprombank                            | RUR      |                  |                  | 213,600          |                |            |              | 213,600          | 13.00%                                      |
| Sberbank                               | RUR      |                  |                  | 888,010          | 666,007        |            |              | 1,554,017        | 11.75%                                      |
| Sberbank                               | RUR      | 214,917          | 429,835          | 214,917          |                |            |              | 859,669          | 13.35%                                      |
| CISCO                                  | RUR      | 4,534            | 4,859            | 4,124            |                |            |              | 13,517           | 11.25%                                      |
| Other                                  | Various  | 15,526           | 1,329            | 883              |                | 737        | 4,018        | 22,493           | various                                     |
| <b>Total fixed debt</b>                |          | <b>1,453,061</b> | <b>1,075,446</b> | <b>2,217,120</b> | <b>666,007</b> | <b>737</b> | <b>4,018</b> | <b>5,416,389</b> |   |
| <b>Weighted average interest rate</b>  |          | <b>12.15%</b>    | <b>12.51%</b>    | <b>11.88%</b>    | <b>11.85%</b>  |            |              | <b>8.07%</b>     |   |

(1)

Syndicated loan agreement was signed with the following financial institutions: ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (ELUOSI), Bank of China (UK) Limited, Joint-Stock company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank plc, ING Bank N.V., J.P. Morgan plc, Societe Generale Corporate and Investment Banking Paris, UniCredit Bank Austria AG, WestLB AG, London Branch, ZAO UniCredit Bank.

We would have experienced an additional interest expense of approximately \$26.5 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR/CBR Refinancing Rate by 1% over the current rate as of December 31, 2009. We would have experienced an additional interest expense of approximately \$15.4 million on an annual basis as a result of a hypothetical increase in the LIBOR/EURIBOR by 1% over the current rate as of December 31, 2008. The increase by 72.0% in an additional interest expense is primarily attributable to the LIBOR/EURIBOR/CBR Refinancing Rate fluctuations and change in our debt structure during the year ended December 31, 2009. In addition, the 11.75% interest rate set for our Sberbank facilities due 2014 totaling RUR 47.0 billion (equivalent of \$1,554.0 million as of December 31, 2009) is dependent on the average daily bank account balance maintained by us and RTC, our wholly owned subsidiary, with Sberbank. In case we fail to maintain an average daily bank account balance in any three month period at the minimum levels established, the rate will be increased by 1%. Such rate increase would cause our interest expense to increase by approximately \$15.5 million on an annual basis. The fair value of our publicly traded fixed-rate notes as of December 31, 2009, ranged from 98.4% to 108.3% of the notional amount. As of December 31, 2009, the difference between the carrying value and the fair value of other fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed-rate debt, refer to Note 17 to our audited consolidated financial statements. The fair value of variable rate debt approximates its carrying value.

We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates. We primarily focus on reducing risk caused by the fluctuations in interest rates for our variable-rate long-term debt. According to our policy, we have entered into various variable-to-fixed

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interest rate swap agreements. The table below presents a summary of our variable-to-fixed interest rate swap agreements.

| Type of derivative   | Maturity       | Notional<br>amount (at<br>inception)<br>(amounts in millions of U.S.<br>dollars) | Mark to<br>Market Value<br>as of<br>December 31,<br>2009<br>(amounts in millions of U.S.<br>dollars) |
|--|----------------|--|--|
| <b>Variable-to-fixed Interest Rate Swap Agreements</b>   |                |  |  |
| Swap agreements with ING Bank N.V. to pay a fixed rates of 2.09% to 4.41% and receive a variable interest rate of 6m LIBOR | November 2013  |  |  |
|  | February 2015  | 222.2  | (7.3)  |
| Swap agreements with HSBC bank Plc to pay a fixed rates of 2.18% to 4.14% and receive a variable interest rate of 6m LIBOR | October 2013   |  |  |
|  | September 2014 | 285.5  | (4.0)  |
| Swap agreement with HSBC bank Plc to pay a fixed rate of 3.29% and receive a variable interest rate of 6m EURIBOR          | October 2013   | 37.2   | (0.6)  |
| Swap agreement with Rabobank to pay a fixed rate of 4.16% and receive a variable interest rate of 6m LIBOR                 | April 2014     | 86.1   | (3.6)  |
| Swap agreement with Citibank N.A. to pay fixed rate of 4.29% and receive a variable interest rate of 6m LIBOR              | September 2013 | 53.5   | (2.0)  |
| Swap agreement with ABN AMRO N.V. to pay fixed rate of 2.08% and receive a variable interest rate of 6m LIBOR              | April 2013     | 21.1   | (0.2)  |
| Swap agreement with Calyon to pay fixed rate of 2.07% and receive a variable interest rate of 6m LIBOR                     | October 2013   | 28.3   | (0.2)  |
| Swap agreement with Calyon to pay fixed rate of 2.40% and receive a variable interest rate of 3m LIBOR                     | May 2012       | 295.0  | (6.8)  |
| Swap agreement with Calyon to pay fixed rate of 2.12% and receive a variable interest rate of 3m EURIBOR                   | May 2012       | 307.7  | (3.6)  |
| Swap agreement with Societe General Vostok to pay fixed rate of 2.40% and receive a variable interest rate of 6m LIBOR     | June 2014      | 166.7  | (1.0)  |

We have also entered into several cross-currency interest rate swap agreements. These contracts, which hedge the risk of both interest rate and currency fluctuations, assume periodical exchanges of both principal and interest payments from ruble-denominated amounts to U.S. dollar- and euro-denominated amounts, to be exchanged at specified rates. The rates were determined with reference to the market spot rates upon issuance. These contracts also include an interest rate swap of a fixed U.S. dollar- and euro-denominated interest rate to a fixed ruble-denominated interest rate.

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The table below presents a summary of our cross-currency interest rate swap agreements:

| Type of derivative  | Maturity      | Notional<br>amount (at<br>inception)<br>(amounts in millions of U.S.<br>dollars) | Mark to<br>Market Value<br>as of<br>December 31,<br>2009 |
|---|---------------|--|--|
| <b>Cross-Currency Interest Rate Swap Agreements</b>   |               |  |  |
| Cross-currency swap agreement with ING Bank N.V to pay fixed rate of 10.83% and to receive variable of 3m LIBOR + 115 bp  | April 2011    | 43.1   | (2.9)  |
| Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.73% and to receive variable of 3m LIBOR + 115 bp | April 2011    | 43.1   | (2.9)  |
| Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.65% and to receive variable of 3m LIBOR + 115 bp | April 2011    | 43.1   | (3.0)  |
| Cross-currency swap agreement with HSBC bank Plc to pay fixed rate of 11.96% and to receive variable of 3m LIBOR + 115 bp | April 2011    | 53.9   | (4.6)  |
| Cross-currency swap agreement with Goldman Sachs to pay fixed rate of 7.2% and to receive fixed of 3.91%                  | December 2010 | 166.7  | (4.5)  |
| Cross-currency swap agreement with J.P. Morgan to pay fixed rate of 11.95% and to receive variable of 3m LIBOR + 115 bp   | April 2011    | 86.2   | (3.9)  |
| Cross-currency swap agreement with J.P. Morgan to pay fixed rate of 14.8% and to receive fixed rate of 8.375%             | October 2010  | 75.0   | (4.6)  |
| Cross-currency swap agreement with Barclays Bank to pay fixed rate of 14.75% and to receive fixed rate of 8.375%          | October 2010  | 25.0   | (0.1)  |

As of December 31, 2009, approximately 65% of our variable interest rate debt was hedged against interest rate risks. We continue to consider other financial instruments available to us to mitigate exposure to interest rate fluctuations. We do not enter into derivative financial instruments for trading purposes.

**Foreign Currency Risk**

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may

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differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Rubles per U.S. dollar |       |                        | Period End |
|--------------------------|------------------------|-------|------------------------|------------|
|                          | High                   | Low   | Average <sup>(1)</sup> |            |
| 2005                     | 29.00                  | 27.46 | 28.31                  | 28.78      |
| 2006                     | 28.48                  | 26.18 | 27.09                  | 26.33      |
| 2007                     | 26.58                  | 24.27 | 25.49                  | 24.55      |
| 2008                     | 29.38                  | 23.13 | 24.86                  | 29.38      |
| 2009                     | 36.43                  | 28.67 | 31.72                  | 30.24      |

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

|                | Rubles per U.S. dollar |       |
|----------------|------------------------|-------|
|                | High                   | Low   |
| September 2009 | 31.97                  | 30.00 |
| October 2009   | 30.12                  | 28.94 |
| November 2009  | 29.82                  | 28.67 |
| December 2009  | 30.76                  | 29.06 |
| January 2010   | 30.43                  | 29.38 |
| February 2010  | 30.52                  | 29.88 |
| March 2010     | 29.98                  | 29.19 |
| April 2010     | 29.50                  | 28.93 |
| May 2010       | 31.43                  | 29.15 |

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for June 24, 2010 was 30.97 rubles per U.S. dollar.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the hryvnia and the U.S. dollar, based on data published by the National Bank of Ukraine. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

| Years ended December 31, | Hryvnias per U.S. dollar |      |                        | Period End |
|--------------------------|--------------------------|------|------------------------|------------|
|                          | High                     | Low  | Average <sup>(1)</sup> |            |
| 2005                     | 5.31                     | 5.05 | 5.12                   | 5.05       |
| 2006                     | 5.05                     | 5.05 | 5.05                   | 5.05       |
| 2007                     | 5.05                     | 5.05 | 5.05                   | 5.05       |
| 2008                     | 7.88                     | 4.84 | 5.27                   | 7.70       |
| 2009                     | 8.01                     | 7.61 | 7.81                   | 7.99       |

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

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|                | Hryvnias per<br>U.S. dollar |      |
|----------------|-----------------------------|------|
|                | High                        | Low  |
| September 2009 | 8.01                        | 7.98 |
| October 2009   | 8.01                        | 7.97 |
| November 2009  | 8.01                        | 7.98 |
| December 2009  | 7.99                        | 7.97 |
| January 2010   | 8.01                        | 7.99 |
| February 2010  | 8.01                        | 7.99 |
| March 2010     | 7.99                        | 7.93 |
| April 2010     | 7.93                        | 7.92 |
| May 2010       | 7.93                        | 7.93 |

Source: National Bank of Ukraine.

The exchange rate between the hryvnia and the U.S. dollar quoted by the National Bank of Ukraine for June 24, 2010 was 7.91 hryvnias per U.S. dollar.

We have exposure to fluctuations in the value of the U.S. dollar, which is our reporting currency, relative to the Russian ruble, Ukrainian hryvnia, Turkmenistan manat and Armenian dram, which are the functional currencies in our countries of operation. As a result, we may face translation losses, increased debt service payments and increased capital expenditures and operating costs should these currencies depreciate against the U.S. dollar.

In 2009, we entered into foreign currency option agreements to manage our exposure to changes in currency exchange rates related to our U.S. dollar-denominated debt obligations. Under the agreements, we have a combination of put and call option rights to acquire \$80.0 million of U.S. dollars at rates within a range specified in the contracts. These contracts expire between 2010-2011 and were not designated for hedge accounting purposes.

The translation risk arises when we translate the functional currencies in our countries of operation into U.S. dollars for inclusion in our audited consolidated financial statements. A depreciation in the value these functional currencies against the U.S. dollar will result in a translation loss.

A significant part of our capital expenditures, borrowings and certain operating costs (roaming expenses, cost of customer equipment and other) are either denominated in U.S. dollars or tightly linked to the U.S. dollar exchange rate, and our U.S. dollar-denominated debt represents our primary future risk of exchange loss in U.S. dollar terms. A decline in the value of the ruble, hryvnia, som, manat or dram versus the U.S. dollar would result in currency remeasurement losses as the amount of these currencies required to repay U.S. dollar-denominated debt increases. In addition, if any of the ruble, hryvnia, som, manat or dram declines against the U.S. dollar and tariffs cannot be maintained for competitive or other reasons, our revenues and operating margins could be materially adversely affected and we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness and financing our capital expenditures and operating costs.

A portion of our capital expenditures, borrowings and certain operating costs (roaming expenses, costs of customer equipment and other) are also denominated in euros. We currently do not hedge against the risk of decline in the ruble, hryvnia, som, manat or dram against the euro because settlements denominated in euros are not significant.

We would experience a currency exchange loss of \$392.7 million on our U.S. dollar-denominated net monetary liabilities as a result of a hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to U.S. dollar exchange rate at December 31, 2009. We would experience a currency exchange loss of \$80.8 million in the fair value of our euro-denominated net monetary liabilities as a result of a



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hypothetical 20.0% increase in the ruble/hryvnia/som/manat/dram to euro exchange rate at December 31, 2009. We are unable to estimate future loss of earnings as a result of such changes.

**Item 12. Description of Securities Other Than Equity Securities**

(Only Item 12.D.3-4 are applicable.)

**D. American Depositary Shares****3. Fees and charges that a holder of American Depositary Receipts may have to pay, either directly or indirectly.**

| <b>Category</b>  | <b>Depositary Actions</b>  | <b>Associated Fee</b>  |
|--|--|--|
| (a) Depositing or substituting the underlying shares                           | Each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities | \$5.00 for each 100 ADSs (or portion thereof)  |
| (b) Receiving or distributing dividends  | Distribution of stock dividends  | \$5.00 for each 100 ADSs (or portion thereof)  |
|  | Distribution of cash   | \$0.02 or less per ADS (or portion thereof)  |
| (c) Selling or exercising rights   | Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities   | \$5.00 for each 100 ADSs (or portion thereof)  |
| (d) Withdrawing an underlying security   | Acceptance of ADRs surrendered for withdrawal of deposited securities or cancellation or reduction of ADSs for any other reason  | \$5.00 for each 100 ADSs (or portion thereof)  |
| (e) Transferring, splitting or grouping receipts                               | Transfers, combining or grouping of depositary receipts  | \$1.50 per ADS   |
| (f) General depositary services, particularly those charged on an annual basis | Other services performed by the depositary in administering the ADRs   | \$0.02 per ADS (or portion thereof) per calendar year which may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depositary during each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions |

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| Category                       | Depository Actions  | Associated Fee   |
|--------------------------------|---|--|
|                                | Custodian and share register related issues, including, without limitation, any inspections of the share register maintained by the Russian share registrar or other confirmation of holdings of deposited securities   | \$0.01 or less per ADS (or portion thereof) per year which fee shall be assessed against holders of record as of the date set by the depositary not more often than once each calendar year  |
| (g) Expenses of the depositary | <p>Certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges in connection with:</p> <p>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;</p> <p>depositary or its custodian's compliance with applicable law, rule or regulation;</p> <p>stock transfer or other taxes and other governmental charges;</p> <p>cable, telex, facsimile transmission or delivery charges;</p> <p>if applicable, transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities (which are payable by persons depositing shares or holders withdrawing deposited securities);</p> <p>expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency);</p> <p>any other charge payable by depositary or its agents including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of the shares or other deposited securities</p> | Charges to be assessed against holders as of the record date or dates set by the depositary and payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions |

**4. All fees and other direct and indirect payments made by the depositary to the foreign issuer of the deposited securities.**

The Depositary has agreed to reimburse to us or pay on our behalf certain reasonable expenses related to our ADS program and incurred by us in connection with the program (such as NYSE listing fees, legal and accounting fees incurred with preparation of Form 20-F and on going SEC compliance and listing requirements, investor relations expenses, among others). The Depositary has covered all such expenses incurred by us during 2009 in the amount of \$3.2 million. The amounts the Depositary reimbursed or paid are not perforce related to the fees collected by the depositary from ADS holders.

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As part of its service to us, the Depositary has agreed to waive fees for the standard costs associated with the administration of our ADS program, associated operating expenses and investor relations advice estimated to total \$0.2 million.

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**PART II**

**Item 13. *Defaults, Dividend Arrearages and Delinquencies***

None.

**Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

None.

**Item 15. *Controls and Procedures***

(a) *Disclosure Controls and Procedures.*

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, as of December 31, 2009, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

(b) *Management's annual report on internal control over financial reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control Integrated Framework. As a result of management's evaluation of our internal control over financial reporting, management concluded that our internal control over financial reporting as of December 31, 2009 was effective.

Management excluded from its assessment the internal control over financial reporting at Comstar and its subsidiaries, which we acquired on October 12, 2009 and whose financial statements constitute \$568.8 million and \$2,204.8 million of net assets and total assets, respectively, \$1,484.8 million of revenues and \$146.1 million of net loss attributable to the Group of the consolidated financial statements as of and for year ended December 31, 2009. Such exclusion was in accordance with SEC's guidance that an assessment of a recently acquired business may be omitted in management's report on internal controls over financial reporting in the year of acquisition.

There were no changes in our internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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The effectiveness of our internal control over financial reporting as of December 31, 2009, has been audited and assessed as effective by independent registered public accounting firm ZAO Deloitte & Touche CIS who has also audited and reported on our consolidated financial statements.

(c) *Attestation Report of Independent Registered Public Accounting Firm.*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Open Joint-Stock Company "Mobile TeleSystems":

We have audited the internal control over financial reporting of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (the "Group") as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Open Joint-Stock Company "Comstar United TeleSystems" and its subsidiaries, which were acquired on October 12, 2009 and whose financial statements constitute \$568.8 million and \$2,204.8 million of net assets and total assets, respectively, \$1,484.8 million of revenues and \$146.1 million of net loss attributable to the Group of the consolidated financial statements as of and for the year ended December 31, 2009. Accordingly, our audit did not include the internal control over financial reporting at Open Joint-Stock Company "Comstar United TeleSystems" and its subsidiaries. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the

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risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Group and our report dated April 29, 2010 expressed an unqualified opinion on those financial statements.

/s/ ZAO Deloitte & Touche CIS  
Moscow, Russia  
April 29, 2010

(d) *Changes in internal control over financial reporting.*

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during the period covered by this annual report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on the evaluation we conducted, management has concluded that no such changes have occurred.

**Item 16A. *Audit Committee Financial Expert***

Our Board of Directors has determined that Paul J. Ostling is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Ostling is "independent" as defined in Rule 10A-3 under the Exchange Act and current New York Stock Exchange listing rules applicable to us. For a description of Mr. Ostling's experience, please see "Item 6. Directors, Senior Management and Employees A. Directors and Senior Management Key Biographies."

**Item 16B. *Code of Ethics***

We have adopted a Code of Ethics that applies to our senior officers, including our principal executive officer, principal financial officer and principal accounting officer.

The current version of our Code of Ethics was adopted on October 28, 2009. Whereas we formerly had two codes of ethics one applicable to senior officers (including our principal executive officer, principal financial officer and principal accounting officer) and one more generally applicable to all employees the new Code of Ethics applies to all of our officers, directors and employees. The new Code of Ethics did not substantively alter any element enumerated in Item 16B(b) of the Form 20-F as compared with the code of ethics that was in effect prior to the approval of the new Code of Ethics.

A copy of our Code of Ethics is available on our website at [www.mtsgsm.com](http://www.mtsgsm.com).

**Item 16C. *Principal Accountant Fees and Services***

ZAO Deloitte & Touche CIS has served as our Independent Registered Public Accounting Firm for each of the fiscal years in the three-year period ended December 31, 2009, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the

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aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS in 2008 and 2009.

|                    | Year ended December 31, |                   |
|--------------------|-------------------------|-------------------|
|                    | 2008                    | 2009              |
|                    | (in thousands)          |                   |
| Audit Fees         | \$ 2,933.2              | \$ 3,012.9        |
| Audit-Related Fees | 19.0                    | 30.5              |
| Tax Fees           |                         | 49.7              |
| All Other Fees     |                         |                   |
| <b>Total</b>       | <b>\$ 2,952.2</b>       | <b>\$ 3,093.1</b> |

**Audit Fees**

The Audit Fees for the years ended December 31, 2008 and 2009 were for the reviews and integrated audits of our consolidated financial statements prepared in accordance with U.S. GAAP, statutory audits and services associated with the documents issued in connection with securities offerings. Integrated audits include all services necessary to form an opinion on our consolidated financial statements and to report on our internal controls over financial reporting.

**Audit-Related Fees**

The Audit-Related Fees for the years ended December 31, 2008 and 2009 mainly included fees for agreed-upon procedures related to audited financial statements.

**Tax Fees**

The Tax Fees for the year ended December 31, 2009 include the fees principally related to tax compliance and advice.

**Audit Committee Pre-Approval Policies and Procedures**

The Sarbanes-Oxley Act of 2002 required us to implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of ZAO Deloitte & Touche CIS for all audit and non-audit services, including tax services. Our Audit Committee pre-approved the engagement terms and fees of ZAO Deloitte & Touche CIS for all services performed for the fiscal year ended December 31, 2009.

**Comstar Accountant Fees and Services**

ZAO Deloitte & Touche CIS has also served as the Independent Registered Public Accounting Firm of Comstar for each of the fiscal years in the three-year period ended December 31, 2009. As we acquired a controlling stake in Comstar in October 2009, our Audit Committee did not pre-approve the engagement terms and fees of ZAO Deloitte & Touche CIS for services performed for Comstar and its subsidiaries for the fiscal year ended December 31, 2009 and previous years, and the fees paid by Comstar to ZAO Deloitte & Touche CIS are not included in the table above.

Our Audit Committee is expected to pre-approve the engagement terms and fees of ZAO Deloitte & Touche CIS for all services to be provided to the Company and its subsidiaries, including Comstar, for the fiscal year ended December 31, 2010.

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The following table presents the aggregate fees billed for professional services and other services by ZAO Deloitte & Touche CIS in 2008 and 2009.

|                    | Year ended December 31, |                   |
|--------------------|-------------------------|-------------------|
|                    | 2008                    | 2009              |
|                    | (in thousands)          |                   |
| Audit Fees         | \$ 1,459.3              | \$ 1,507.8        |
| Audit-Related Fees |                         | 100.0             |
| Tax Fees           |                         |                   |
| All Other Fees     |                         |                   |
| <b>Total</b>       | <b>\$ 1,459.3</b>       | <b>\$ 1,607.8</b> |

**Audit Fees**

The Audit Fees for the years ended December 31, 2008 and 2009 were for the audits and reviews of the consolidated financial statements of Comstar and MGTS prepared in accordance with U.S. GAAP and statutory audits.

**Audit-Related Fees**

Audit-Related Fees for the year ended December 31, 2009 were for due diligence related to acquisitions.

**Item 16D. Exemption from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

On September 5, 2006, our Board of Directors authorized a share repurchase program, allowing our wholly-owned subsidiary MTS-Bermuda to repurchase ADSs representing up to 10% of our total outstanding shares over a period of twelve months ending August 31, 2007. On September 4, 2007, the Board of Directors extended the program through August 31, 2008, and on July 31, 2008, the Board of Directors further extended the program through September 1, 2009. The purchases may be made through the open market and private block transactions pursuant to Rule 10b5-1 plans, privately negotiated transactions or other means in accordance with the requirements of the Securities and Exchange Commission as well as other applicable legal requirements and factors. The share repurchase program does not obligate us to acquire a particular number of ADSs, and the program may be suspended or discontinued at our sole discretion. The repurchases could be funded through our own cash flows, commercial paper program or potentially through existing credit facilities. The execution of the program will depend on an on-going assessment of market conditions, and the program may be extended at any time. During the years ended December 31, 2008, 2007 and 2006, we repurchased through MTS-Bermuda 39,431,500, 17,402,835 and 11,161,000 of our shares in the form of ADSs at an average prices of \$78.5, \$73.1 and \$49.2 per ADS for a total amounts of \$619.1 million, \$254.4 million and \$110.0 million, respectively.

The following table sets forth, for each month in 2008 and for the year as a whole, the total number of our ADSs repurchased by MTS-Bermuda pursuant to the share repurchase plan described above, the average price paid per ADS, the number of ADSs that were purchased as part of the



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publicly announced share repurchase plan and the maximum number of ADSs that, at that date, remained eligible for purchases under such plan.

| Period         | Total Number of ADSs Purchased <sup>(1)</sup> | Average Price Paid per ADS | Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of shares that May Yet Be Purchased Under the Plan |
|----------------|---|----------------------------|--|---|
| <b>2008</b>    |   |                            |  |   |
| January 1-31   | 2,706,400                                     | 85.9                       | 8,419,167  | 194,731,730   |
| February 1-28  | 1,975,500                                     | 80.2                       | 10,394,667   | 193,743,980   |
| March 1-31     | 404,400                                       | 79.2                       | 10,799,067   | 193,541,780   |
| April 1-30     |   |                            | 10,799,067   | 193,541,780   |
| May 1-31       |   |                            | 10,799,067   | 193,541,780   |
| June 1-30      |   |                            | 10,799,067   | 193,541,780   |
| July 1-31      | 2,068,300                                     | 70.2                       | 12,867,367   | 192,647,356   |
| August 1-31    | 731,700                                       | 69.7                       | 13,599,067   | 192,281,506   |
| September 1-30 |   |                            | 13,599,067   | 189,114,417   |
| October 1-31   |   |                            | 13,599,067   | 188,505,280   |
| November 1-30  |   |                            | 13,599,067   | 188,505,280   |
| December 1-31  |   |                            | 13,599,067   | 188,505,280   |
| Total          | 7,886,300                                     | 78.5                       | 13,599,067   | 188,505,280   |

(1) All purchases were made pursuant to the publicly announced share repurchase plan described above in the open market and privately negotiated transactions effected on the New York Stock Exchange.

In addition, following the approval of the merger of our two subsidiaries into MTS at the general shareholders meeting in June 2008, we repurchased 37,762,257 of our ordinary shares from investors who voted against or abstained from voting on the merger for a total amount of 11.1 billion rubles (\$446.3 million as of the date of repurchase), or 10% of our net assets as of March 31, 2008 calculated according to Russian accounting standards. See "Item 3. Key Information D. Risk Factors Legal Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us."

We did not repurchase any shares or ADSs in the year ended December 31, 2009.

See "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders."

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

We are a company organized under the laws of the Russian Federation and qualify as a foreign private issuer as such term is defined in Rule 3b-4 of the Exchange Act. In accordance with the NYSE corporate governance rules, listed companies that are foreign private issuers are permitted in some circumstances to follow home country practice in lieu of the provisions of the corporate governance rules contained in Section 303A of the NYSE Listed Company Manual that are applicable to U.S. companies. In addition, foreign private issuers listed on the NYSE must disclose any significant ways in which their corporate governance practices differ from those followed by U.S. companies listed on the

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NYSE. With regard to our corporate governance practices, these differences can be summarized as follows:

For U.S. companies, the NYSE standards require that a majority of directors be independent, as determined by the board. Russian law does not require that a majority of our directors be independent. Of our nine directors, three have been determined by the board to be independent in accordance with the independence standards set forth in SEC Rule 10A-3 and Section 303A.02 of the NYSE Listed Company Manual.

For U.S. companies, the NYSE standards require that the audit committee have a minimum of three members. Russian law does not contain such a requirement. Our audit committee is comprised of two members.

For U.S. companies, the NYSE standards require that non-management directors meet at regularly scheduled executive sessions without management. Russian law does not contain such a requirement. However, our audit committee and remuneration and appointments committee are comprised of independent directors, who meet on a regular basis in connection with their work on these committees.

For U.S. companies, the NYSE standards require that listed companies have a nominating/corporate governance committee and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities, as well as annual performance evaluations of the committee. We do not currently have a nominating/corporate governance committee. We have a corporate conduct and ethics committee comprised of directors and members of management that is responsible for developing and implementing standards for corporate governance and ethics and making recommendations to the Board of Directors on developing our strategy in the area of corporate governance and ethics. This committee is also responsible for conducting annual performance evaluations of the Board of Directors.

We have a remuneration and appointments committee comprised of three independent directors. This committee functions pursuant to bylaws approved by the Board of Directors specifying the committee's purpose, duties and responsibilities. The committee is primarily responsible for recommending appointments to key managerial posts, developing a set of requirements and criteria for directors and management executives and developing a remuneration structure and compensation levels for the Board of Directors, the audit committee and management executives (including the CEO).

For U.S. companies, the NYSE standards require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions. Under Russian law, such approval from shareholders is not required, and our equity compensation plans and material revisions thereto are currently approved by the Board of Directors.

For U.S. companies, the NYSE standards require the adoption and disclosure of corporate governance guidelines addressing certain subjects. Our corporate governance guidelines are consistent with what is required under Russian law and are set forth in our Charter, in the bylaw on our Board of Directors and in the bylaws of our various committees.

In accordance with the corporate governance rules of the NYSE applicable to foreign private issuers, we also disclose these differences between our corporate governance practices and those required by the NYSE of listed U.S. companies on our internet website at [www.mtsgsm.com](http://www.mtsgsm.com).

Table of Contents**PART III****Item 17. Financial Statements**

See instead Item 18.

**Item 18. Financial Statements**

The following financial statements, together with the report of ZAO Deloitte & Touche CIS, are filed as part of this annual report on Form 20-F.

|   |             |
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**Item 19.**

| Exhibits No. | Description  |
|--------------|--|
| 1.1          | Charter of Mobile TeleSystems OJSC, restated version no. 8, as approved by the General Meeting of Shareholders of Mobile TeleSystems OJSC held on June 24, 2010 (English Translation).*  |
| 2.1          | Deposit Agreement, dated as of July 6, 2000, by and among, MTS, Morgan Guaranty Trust Company of New York (as depositary), and holders of ADRs is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000, on Form 20-F. |
| 2.2          | Amendment No. 1 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(2) to Form F-6 (Registration No 333-12008).  |
| 2.3          | Amendment No. 2 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(3) to Form F-6 (Registration No. 333-121240).  |
| 2.4          | Amendment No. 3 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(4) to Form F-6 (Registration No. 333-145190).  |
| 2.5          | Amendment No. 4 to Deposit Agreement is incorporated herein by reference to Exhibit (a)(5) to Form F-6 (Registration No. 333-166178).  |
| 4.1          | Indenture dated as of January 28, 2005 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.3 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, on Form 20-F.                |

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| <b>Exhibits No.</b> | <b>Description</b>  |
|---------------------|---|
| 4.2                 | Indenture dated as of October 14, 2003 between Mobile TeleSystems Finance S.A., Mobile TeleSystems OJSC and JPMorgan Chase Bank is incorporated herein by reference to Exhibit 4.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003, on Form 20-F.   |
| 4.3                 | Loan Agreement between Mobile Telesystems Open Joint-Stock Company and MTS International Funding Limited dated 21 June 2010.  |
| 4.4                 | Non-Revolving Credit Facility Agreement No. 9656 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation).  |
| 4.5                 | Non-Revolving Credit Facility Agreement No. 9657 between Joint Stock Commercial Savings Bank of the Russian Federation and Mobile TeleSystems Open Joint Stock Company dated September 2009 (English Translation).  |
| 4.6                 | Non-Revolving Credit Facility Agreement No. 9463 between Joint Stock Commercial Savings Bank of the Russian Federation and OAO "COMSTAR Integrated TeleSystems" dated June 8, 2007 (English Translation).   |
| 4.7                 | Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Bank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Limited as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated April 21, 2006 is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005, on Form 20-F.   |
| 4.8                 | Facility Agreement for Mobile TeleSystems Open Joint Stock Company arranged by ABN AMRO Bank N.V., Absolut Bank (ZAO), Banc of America Securities Limited, Bank of China (Eluosi), Bank of China (UK) Limited, Joint-Stock Company Banque Societe Generale Vostok, Bayerische Landesbank, BNP Paribas, Credit Suisse International, Export Development Canada, HSBC Bank PLC, ING Bank N.V., J.P. Morgan PLC, Societe Generale Corporate and Investment Banking Paris, Unicredit Bank Austria AG, WestLB AG London Branch and ZAO Unicredit Bank as Mandated Lead Arrangers and ING Bank N.V., London Branch acting as Agent dated May 18, 2009 is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F. |
| 4.9                 | Agreement for the acquisition of 155,310,126 shares of Joint Stock Company COMSTAR United TeleSystems and 6,715,140,080 shares of Closed Joint Stock Company United TeleSystems dated October 12, 2009.   |
| 4.10                | MTS License No. 61443 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the Republic of Buryatiya, Sakha (Yakutia), Khabarovsk, Primorsky, Kamchatka, Zabaykalsky, Chukotsk, Jewish Autonomous Region, Amur, Irkutsk, Magadan, Sakhalin (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.   |
| 4.11                | MTS License No. 33911 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Rostov Region (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.  |

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| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 4.12                | MTS License No. 58749 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of Krasnoyarsk region (English translation) is incorporated herein by reference to Exhibit 2.1 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008, on Form 20-F.  |
| 4.13                | MTS License No. 50789 for provision of mobile radiotelephone communication services using IMT-2000/UMTS mobile radiotelephone networks in the Russian Federation (English translation) is incorporated herein by reference to Exhibit 4.53 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.  |
| 4.14                | UMC License No. 720189 for provision of communication services using the NMT-450, GSM-900, PSN and DCS-1800 networks (English translation) is incorporated herein by reference to Exhibit 4.54 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.  |
| 4.15                | UMC License No. 120375 for provision of communication services using the CDMA-450 network (English translation) is incorporated herein by reference to Exhibit 4.55 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006, on Form 20-F.   |
| 4.16                | MTS License No. 46008 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Novosibirsk region (English translation) is incorporated herein by reference to Exhibit 4.42 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.17                | MTS License No. 49808 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Tatarstan Republic (English translation) is incorporated herein by reference to Exhibit 4.43 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.18                | MTS License No. 49809 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Bashkortostan Republic (English translation) is incorporated herein by reference to Exhibit 4.44 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.19                | MTS License No. 49810 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Krasnodar region (English translation) is incorporated herein by reference to Exhibit 4.45 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.20                | MTS License No. 56081 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territories of the Karelia Republic, the Nenets Autonomous District; the Arkhangelsk, Vologodsk, Kaliningrad, Leningrad, Murmansk, Novgorod, and Pskov regions and city of St. Petersburg (English translation) is incorporated herein by reference to Exhibit 4.46 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F. |

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| <b>Exhibits No.</b> | <b>Description</b>   |
|---------------------|--|
| 4.21                | MTS License No. 56082 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the city of Moscow and the Moscow region (English translation) is incorporated herein by reference to Exhibit 4.47 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 4.22                | MTS License No. 56112 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Belgorod, Bryansk, Vladimir, Voronezh, Ivanov, Kaluga, Kostroma, Kursk, Liptsk, Nizhny Novgorod, Orel, Ryazan, Smolensk, Tambov, Tver, Tula, and Yaroslavl regions (English translation) is incorporated herein by reference to Exhibit 4.48 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.     |
| 4.23                | MTS License No. 56113 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Udmurt Republic, Perm Territory; Khanty-Mansyisk-Ugra and Yamalo-Nenets Autonomous Districts, the Sverdlovsk, Kirov, Chelyabinsk, Kurgan, Orenburg, and Tyumen regions (English translation) is incorporated herein by reference to Exhibit 4.49 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F. |
| 4.24                | MTS License No. 765 for provision of mobile radiotelephone communication services in the 900/1800 MHz band in the territory of the Armenia Republic (English translation) is incorporated herein by reference to Exhibit 4.50 to the Annual Report filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007, on Form 20-F.   |
| 8.1                 | List of Subsidiaries of Mobile TeleSystems OJSC.   |
| 12.1                | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 12.2                | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 13.1                | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 13.2                | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101                 | The following financial statements from the Annual Report on Form 20-F of Mobile TeleSystems OJSC for the year ended December 31, 2009, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial position, (ii) consolidated statements of operations, (iii) consolidated statements of changes in shareholders' equity, (iv) consolidated statements of cash flows and (v) notes to the consolidated financial statements.**   |

\*

Approved at Annual Meeting of Shareholders on June 24, 2010 and will become effective upon registration with the Federal Tax Service.

\*\*

Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 28, 2010

MOBILE TELESYSTEMS OJSC

/s/ MIKHAIL V. SHAMOLIN

By: \_\_\_\_\_  
Name: Mikhail V. Shamolin  
Title: President and Chief Executive Officer  
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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Open Joint-Stock Company "Mobile TeleSystems"

We have audited the accompanying consolidated statements of financial position of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (the "Group") as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2009, the Group changed its method of presentation and accounting for noncontrolling interests.

As discussed in Note 2 to the consolidated financial statements, on October 12, 2009, the Group acquired 50.91% of Open Joint-Stock Company "Comstar United TeleSystems" from Joint Stock Financial Corporation "Sistema", the majority shareholder of the Group, resulting in a change in reporting entity. The transaction was accounted for as a transaction under common control. Assets and liabilities were transferred at historical cost. The change in reporting entity was accounted for in a manner similar to a pooling of interests which has been reflected retrospectively from the first period presented herein.

Further, as discussed in Note 14 to the consolidated financial statements, during the year ended December 31, 2009, the Group recognized an impairment charge on its investment in the shares of Open Joint-Stock Company "Telecommunication Investment Company" ("Svyazinvest") in the amount of \$349 million. The carrying value of this investment was written down to \$860 million as of December 31, 2009 based on the estimated fair value of the investment as of that date. In the absence of readily determinable fair value of the investment in Svyazinvest, management reached its conclusion based on the use of estimates incorporating various unobservable market inputs as discussed in Note 14. Because of the material uncertainties inherent in the valuation of Svyazinvest, the value the Group could realize had a disposal of this investment been made between a willing buyer and seller may differ materially from its resultant carrying amount.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2009 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2010 expressed an unqualified opinion on the Group's internal control over financial reporting.

Moscow, Russia  
April 29, 2010, except for Note 31,  
as to which the date is June 25, 2010

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2009 AND 2008**

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

|  | December 31,<br>2009 | 2008<br>(restated<br>see Note 2) |
|--|----------------------|----------------------------------|
| <b>CURRENT ASSETS:</b>   |                      |                                  |
| Cash and cash equivalents (Note 4)   | \$ 2,522,831         | \$ 1,121,669                     |
| Short-term investments, including related party amounts of \$13,413 and \$339,396 (Note 5)   | 217,210              | 360,117                          |
| Trade receivables, net (Note 6)  | 593,102              | 443,184                          |
| Accounts receivable, related parties (Note 25)   | 19,973               | 70,620                           |
| Inventory and spare parts (Note 7)   | 238,693              | 141,113                          |
| Prepaid expenses, including related party amounts of \$1,146 and \$12,883  | 356,530              | 346,399                          |
| Deferred tax assets (Note 23)  | 212,687              | 213,091                          |
| VAT receivable   | 109,928              | 129,598                          |
| Other current assets, including assets held for sale of \$18,519 and \$46,426 (Note 2)   | 124,002              | 196,632                          |
| <b>Total current assets</b>  | <b>4,394,956</b>     | <b>3,022,423</b>                 |
| <b>PROPERTY, PLANT AND EQUIPMENT</b> , net of accumulated depreciation of \$5,095,168 and \$4,038,053 (Note 8), including advances given to related parties of \$30,667 and \$22,485                   | 7,745,331            | 7,758,220                        |
| <b>LICENSES</b> , net of accumulated amortization of \$341,421 and \$295,056 (Notes 3 and 10)  | 364,722              | 488,381                          |
| <b>GOODWILL</b> (Notes 3 and 11)   | 803,773              | 469,471                          |
| <b>OTHER INTANGIBLE ASSETS</b> , net of accumulated amortization of \$1,277,417 and \$971,106 (Notes 3 and 12)   | 1,067,336            | 1,230,643                        |
| <b>DEBT ISSUANCE COSTS</b> , net of accumulated amortization of \$114,251 and \$83,360   | 127,069              | 37,737                           |
| <b>INVESTMENTS IN AND ADVANCES TO ASSOCIATES</b> (Note 13)   | 220,450              | 249,887                          |
| <b>INVESTMENTS IN SHARES OF SVYAZINVEST</b> (Note 14)  | 859,669              | 1,240,977                        |
| <b>OTHER INVESTMENTS</b> , including related party amounts of \$73,987 and \$85,720 (Note 15)  | 78,893               | 111,559                          |
| <b>OTHER NON-CURRENT ASSETS</b> , including restricted cash of \$6,389 and \$23,572 (Note 16), deferred tax assets of \$97,355 and \$63,507 (Note 23) and related party amounts of \$1,615 and \$1,006 | 118,546              | 107,881                          |
| <b>Total assets</b>  | <b>\$ 15,780,745</b> | <b>\$ 14,717,179</b>             |

The accompanying notes are an integral part of these consolidated financial statements.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

AS OF DECEMBER 31, 2009 AND 2008

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

|  | December 31,      |                          |
|--|-------------------|--------------------------|
|  | 2008              |                          |
|  | 2009              | (restated<br>see Note 2) |
| <b>CURRENT LIABILITIES:</b>  |                   |                          |
| Accounts payable, related parties (Note 25)  | \$ 87,403         | \$ 226,482               |
| Trade accounts payable   | 504,967           | 875,428                  |
| Deferred connection fees, current portion (Note 19)  | 46,930            | 55,012                   |
| Subscriber prepayments and deposits  | 501,351           | 438,723                  |
| Debt, current portion (Note 17), including related party amounts of \$10,278 and \$76,710 (Note 25)  | 780,514           | 1,677,529                |
| Notes payable, current portion (Note 17)   | 1,218,084         | 10,435                   |
| Capital lease obligation, current portion, including related party amounts of \$1,344 and \$5,693 (Note 9)   | 3,173             | 8,253                    |
| Income tax payable   | 16,136            | 23,102                   |
| Accrued liabilities (Note 22)  | 825,413           | 563,317                  |
| Bitel liability (Note 30)  | 170,000           | 170,000                  |
| Other payables   | 103,962           | 74,760                   |
| <b>Total current liabilities</b>   | <b>4,257,933</b>  | <b>4,123,041</b>         |
| <b>LONG-TERM LIABILITIES:</b>  |                   |                          |
| Notes payable, net of current portion (Note 17)  | 1,391,549         | 1,578,540                |
| Debt, net of current portion (Note 17), including related party amounts of \$15,929 and \$18,066 (Note 25)   | 4,935,275         | 2,089,488                |
| Capital lease obligation, net of current portion, including related party amounts of \$146 and \$1,352 (Note 25)   | 921               | 4,030                    |
| Deferred connection fees, net of current portion (Note 19)   | 116,168           | 119,213                  |
| Deferred taxes (Note 23)   | 298,453           | 190,712                  |
| Retirement and post-retirement obligations (Note 27)   | 25,537            | 29,250                   |
| Property, plant and equipment contributions (Note 20)  | 90,349            | 93,197                   |
| Long term accounts payable, related parties (Note 25)  | 38,273            | 36,807                   |
| Other long-term liabilities  | 140,957           | 87,246                   |
| <b>Total long-term liabilities</b>   | <b>7,037,482</b>  | <b>4,228,483</b>         |
| <b>Total liabilities</b>   | <b>11,295,415</b> | <b>8,351,524</b>         |
| <b>COMMITMENTS AND CONTINGENCIES (Note 30)</b>   |                   |                          |
| <b>Redeemable noncontrolling interests</b>   | <b>82,261</b>     | <b>145,748</b>           |
| <b>SHAREHOLDERS' EQUITY:</b>   |                   |                          |
| Common stock (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of December 31, 2009 and 2008, 777,396,505 of which are in the form of ADS as of December 31, 2009 and 2008) (Note 26) | 50,558            | 50,558                   |
| Treasury stock (76,456,876 and 108,273,338 common shares at cost as of December 31, 2009 and 2008)   | (1,054,926)       | (1,426,753)              |
| Additional paid-in capital   |                   | 1,090,521                |
| Accumulated other comprehensive loss   | (754,524)         | (451,264)                |
| Retained earnings  | 5,135,842         | 5,642,856                |
| Nonredeemable noncontrolling interest  | 1,026,119         | 1,313,989                |

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Total shareholders' equity</b>                 | <b>4,403,069</b>     | <b>6,219,907</b>     |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 15,780,745</b> | <b>\$ 14,717,179</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

|   | Years ended December 31, |                                  |                                  |
|---|--------------------------|----------------------------------|----------------------------------|
|   | 2009                     | 2008<br>(restated<br>see Note 2) | 2007<br>(restated<br>see Note 2) |
| <b>NET OPERATING REVENUE</b>  |                          |                                  |                                  |
| Services revenue and connection fees (including related party amounts of \$72,149, \$209,990 and \$178,312, respectively)   | \$ 9,505,837             | \$ 11,822,006                    | \$ 9,634,698                     |
| Sales of handsets and accessories (including related party amounts of \$20,689, \$1,500 and \$nil, respectively)  | 317,705                  | 78,928                           | 89,208                           |
|   | <b>9,823,542</b>         | <b>11,900,934</b>                | <b>9,723,906</b>                 |
| Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of \$50,389, \$232,689 and \$161,500, respectively) | 2,004,690                | 2,447,210                        | 1,863,797                        |
| Cost of handsets and accessories  | 349,304                  | 169,925                          | 158,848                          |
| General and administrative expenses (including related party amounts of \$68,903, \$53,870 and \$43,416, respectively) (Note 28)                                      | 1,968,193                | 2,159,777                        | 1,853,624                        |
| Provision for doubtful accounts   | 109,632                  | 154,782                          | 67,720                           |
| Impairment of long-lived assets   | 75,064                   | 1,333                            | 18,556                           |
| Impairment of goodwill  |                          | 49,891                           |                                  |
| Other operating expenses (including related party amounts of \$12,207, \$12,008 and \$8,349, respectively)  | 173,622                  | 188,310                          | 126,308                          |
| Sales and marketing expenses (including related party amounts of \$156,733, \$241,814 and \$200,600, respectively)  | 755,902                  | 931,245                          | 775,240                          |
| Depreciation and amortization expenses  | 1,839,568                | 2,151,125                        | 1,674,885                        |
| <b>Net operating income</b>   | <b>2,547,567</b>         | <b>3,647,336</b>                 | <b>3,184,928</b>                 |
| <b>CURRENCY EXCHANGE AND TRANSACTION LOSS/(GAIN)</b>  |                          |                                  |                                  |
|   | 252,945                  | 565,663                          | (161,856)                        |
| <b>OTHER EXPENSES/(INCOME)</b>  |                          |                                  |                                  |
| Interest income (including related party amounts of \$53,940, \$55,018 and \$26,377)  | (108,543)                | (70,860)                         | (53,507)                         |
| Interest expense, net of capitalized interest (including related party amounts of \$3,613, \$9,400 and \$4,270)   | 571,719                  | 233,863                          | 192,237                          |
| Equity in net income of associates (Note 13)  | (60,313)                 | (75,688)                         | (71,116)                         |
| Change in fair value of derivatives (Note 21)   | 5,420                    | 41,554                           | 145,860                          |
| Impairment of investments (including related party amounts of \$349,370, \$nil and \$21,814) (Notes 14,15)  | 368,355                  |                                  | 22,691                           |
| Other expenses, net (including related party amounts of \$nil, \$2,967 gain and \$5,919 loss)   | 23,254                   | 22,745                           | 38,781                           |
| <b>Total other expenses, net</b>  | <b>799,892</b>           | <b>151,614</b>                   | <b>274,946</b>                   |
| <b>Income before provision for income taxes and noncontrolling interests</b>  | <b>1,494,730</b>         | <b>2,930,059</b>                 | <b>3,071,838</b>                 |
| PROVISION FOR INCOME TAXES (Note 23)  | 503,955                  | 742,881                          | 852,015                          |
| <b>NET INCOME</b>   | <b>990,775</b>           | <b>2,187,178</b>                 | <b>2,219,823</b>                 |
| <b>NET (LOSS)/INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST</b>  | <b>(13,704)</b>          | <b>187,059</b>                   | <b>132,408</b>                   |
| <b>NET INCOME ATTRIBUTABLE TO THE GROUP</b>   | <b>1,004,479</b>         | <b>2,000,119</b>                 | <b>2,087,415</b>                 |
| Weighted average number of common shares outstanding basic (Note 2)   | 1,885,750,147            | 1,921,934,091                    | 1,973,354,348                    |
| Weighted average number of common shares outstanding diluted (Note 2)   | 1,885,750,147            | 1,921,934,091                    | 1,974,074,908                    |
| Earnings per share, basic and diluted (Note 2)  | \$ 0.53                  | \$ 1.04                          | \$ 1.06                          |

The accompanying notes are an integral part of these consolidated financial statements.



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**  
(Amounts in thousands of U.S. Dollars, except share amounts)

|  | Common stock         |                 | Treasury stock      |                    | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income/(loss) | Retained<br>earnings | Total<br>equity<br>attributable<br>to the<br>Group | Non-<br>redeemable<br>noncontrolling<br>interest | Total<br>equity     | Redeemable<br>noncontrolling<br>interest |
|--|----------------------|-----------------|---------------------|--------------------|----------------------------------|--|----------------------|--|--|---------------------|--|
|  | Shares               | Amount          | Shares              | Amount             |                                  |  |                      |  |  |                     |  |
| <b>Balances at<br/>January 1,<br/>2007</b>   | <b>1,993,326,138</b> | <b>\$50,558</b> | <b>(15,922,128)</b> | <b>\$(114,778)</b> | <b>\$1,148,074</b>               | <b>\$ 76,515</b>                                       | <b>\$ 3,578,787</b>  | <b>\$ 4,739,156</b>                                | <b>\$1,231,058</b>                               | <b>\$ 5,970,214</b> | <b>\$</b>                                |
| <b>Comprehensive<br/>income:</b>   |                      |                 |                     |                    |                                  |  |                      |  |  |                     |  |
| Net income   |                      |                 |                     |                    |                                  |  | 2,087,416            | 2,087,416  | 127,869  | 2,215,285           | 4,539                                    |
| Currency<br>translation<br>adjustment, net<br>of tax of<br>\$14,513                    |                      |                 |                     |                    | (214)                            | 360,263  |                      | 360,049  | 90,621   | 450,670             |  |
| Effect of change<br>in functional<br>currency  |                      |                 |                     |                    |                                  | 358,997  |                      | 358,997  |  | 358,997             |  |
| Change in fair<br>value of interest<br>rate swaps, net<br>of tax of \$352<br>(Note 21) |                      |                 |                     |                    |                                  | (1,114)  |                      | (1,114)  |  | (1,114)             |  |
| Unrecognized<br>actuarial gains,<br>net of tax of \$nil<br>(Note 27)                   |                      |                 |                     |                    |                                  | (4,781)  |                      | (4,781)  | (4,308)  | (9,089)             |  |
| <b>Total<br/>comprehensive<br/>income</b>  |                      |                 |                     |                    |                                  |  |                      | <b>2,800,567</b>                                   | <b>214,182</b>                                   | <b>3,014,749</b>    |  |
| Dividends<br>declared  |                      |                 |                     |                    |                                  |  | (742,475)            | (742,475)  | (35,993)   | (778,468)           |  |
| Stock options of<br>MTS exercised<br>(Note 24)   |                      |                 | 848,126             | 869                | 5,188                            |  |                      | 6,057  |  | 6,057               |  |
| Call option of<br>Comstar-UTS<br>exercised<br>(Note 21)                                |                      |                 |                     |                    | (1,756)                          | (4,169)  | 72,833               | 66,908   | 478,774  | 545,682             |  |
| Acquisition of<br>K-Telecom, net<br>of tax (Note 3)                                    |                      |                 |                     |                    |                                  |  | (76,069)             | (76,069)   |  | (76,069)            | 85,232                                   |
| Accrued<br>compensation<br>costs (Note 24)   |                      |                 |                     |                    | 2,486                            |  |                      | 2,486  | (309)  | 2,177               |  |
| Repurchase of<br>common stock<br>of MTS<br>(Note 26)                                   |                      |                 | (17,402,835)        | (254,443)          |                                  |  |                      | (254,443)  |  | (254,443)           |  |
| Increase in<br>ownership in<br>subsidiaries<br>(Note 3)                                |                      |                 |                     |                    | 1,450                            |  |                      | 1,450  | (63,071)   | (61,621)            |  |
| Distribution to<br>the controlling<br>shareholder of                                   |                      |                 |                     |                    | (8,473)                          |  |                      | (8,473)  | (7,635)  | (16,108)            |  |

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|  |  |  |  |  |         |         |         |          |
|--|--|--|--|--|---------|---------|---------|----------|
| Stream-TV<br>Effect of FIN<br>No. 48<br>implementation |  |  |  |  | (9,683) | (9,683) | (2,929) | (12,612) |
|--|--|--|--|--|---------|---------|---------|----------|

**Balances at  
December 31,  
2007**

|   |
|---|
| <b>1,993,326,138 \$50,558 (32,476,837) \$ (368,352) \$1,146,755 \$ 785,711 \$ 4,910,809 \$ 6,525,481 \$1,814,077 \$ 8,339,558 \$ 89,771</b> |
|---|

**Comprehensive  
income/(loss):**

|  |  |  |  |  |             |             |           |             |       |
|--|--|--|--|--|-------------|-------------|-----------|-------------|-------|
| Net income   |  |  |  |  | 2,000,119   | 2,000,119   | 177,261   | 2,177,380   | 9,798 |
| Currency translation adjustment, net of tax of \$nil                         |  |  |  |  | (1,233,846) | (1,233,846) | (303,866) | (1,537,712) |       |
| Change in fair value of interest rate swaps, net of tax of \$3,826 (Note 21) |  |  |  |  | (16,359)    | (16,359)    |           | (16,359)    |       |
| Unrecognized actuarial gains, net of tax of \$nil (Note 27)                  |  |  |  |  | 536         | 536         | 1,085     | 1,621       |       |

**Total  
comprehensive  
income/(loss)**

|                                  |
|----------------------------------|
| <b>750,450 (125,520) 624,930</b> |
|----------------------------------|

|   |              |             |          |        |             |             |           |             |        |
|---|--------------|-------------|----------|--------|-------------|-------------|-----------|-------------|--------|
| Dividends declared  |              |             |          |        | (1,221,893) | (1,221,893) | (38,196)  | (1,260,089) |        |
| Stock options of MTS exercised (Note 24)                      | 1,397,256    | 1,432       | 7,751    |        |             | 9,183       |           | 9,183       |        |
| Put option of Comstar-UTS exercised (Note 21)                 |              |             | (9,358)  | 12,694 |             | 3,336       | (274,472) | (271,136)   |        |
| Accrued compensation costs (Note 24)                          |              |             | 3,489    |        |             | 3,489       |           | 3,489       |        |
| Repurchase of common stock of MTS (Note 26)                   | (77,193,757) | (1,059,833) |          |        |             | (1,059,833) |           | (1,059,833) |        |
| Reorganization of Comstar Direct (Note 3)                     |              |             | (6,539)  |        |             | (6,539)     | (20,283)  | (26,822)    |        |
| Change in fair value of noncontrolling interest of K-Telecom  |              |             |          |        | (2,730)     | (2,730)     |           | (2,730)     | 2,730  |
| Change in fair value of noncontrolling interest of Dagtelecom |              |             |          |        | (43,449)    | (43,449)    |           | (43,449)    | 43,449 |
| Increase in ownership in subsidiaries (Note 3)                |              |             |          |        |             |             | (6,352)   | (6,352)     |        |
| Cash paid by Comstar-UTS for the acquisition of Stream TV     |              |             | (51,577) |        |             | (51,577)    | (35,265)  | (86,842)    |        |



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Balances at  
December 31,  
2008

1,993,326,138 \$50,558 (108,273,338) \$(1,426,753) \$1,090,521 \$ (451,264) \$ 5,642,856 \$ 4,905,918 \$1,313,989 \$ 6,219,907 \$145,748

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**  
(Amounts in thousands of U.S. Dollars, except share amounts)

|  | Common stock         |                  | Treasury stock       |                      | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income/(loss) | Retained<br>earnings | Total<br>equity<br>attributable<br>to the<br>Group | Non-<br>redeemable<br>noncontrolling<br>interest | Total<br>equity     | Redeemable<br>noncontrolling<br>interest |
|--|----------------------|------------------|----------------------|----------------------|----------------------------------|--|----------------------|--|--|---------------------|--|
|  | Shares               | Amount           | Shares               | Amount               |                                  |  |                      |  |  |                     |  |
| <b>Balances at<br/>December 31,<br/>2008</b>                                     | <b>1,993,326,138</b> | <b>\$ 50,558</b> | <b>(108,273,338)</b> | <b>\$(1,426,753)</b> | <b>\$ 1,090,521</b>              | <b>\$(451,264)</b>                                     | <b>\$ 5,642,856</b>  | <b>\$ 4,905,918</b>                                | <b>\$ 1,313,989</b>                              | <b>\$ 6,219,907</b> | <b>\$ 145,748</b>                        |
| <b>Comprehensive<br/>income/(loss):</b>  |                      |                  |                      |                      |                                  |  |                      |  |  |                     |  |
| Net<br>income/(loss)   |                      |                  |                      |                      |                                  |  | 1,004,479            | 1,004,479  | (18,063)   | 986,416             | 4,359                                    |
| Currency<br>translation<br>adjustment, net<br>of tax of \$7,910                  |                      |                  |                      |                      |                                  | (197,429)  |                      | (197,429)  | (30,240)   | (227,669)           | (4,399)                                  |
| Change in fair<br>value of<br>derivatives, net<br>of tax of \$5,895<br>(Note 21) |                      |                  |                      |                      |                                  | (23,579)   |                      | (23,579)   |  | (23,579)            |  |
| Unrecognized<br>actuarial losses,<br>net of tax of \$nil<br>(Note 27)            |                      |                  |                      |                      |                                  | 1,003  |                      | 1,003  | 1,808  | 2,811               |  |
| <b>Total<br/>comprehensive<br/>income/(loss)</b>                                 |                      |                  |                      |                      |                                  |  |                      | <b>784,474</b>                                     | <b>(46,495)</b>                                  | <b>737,979</b>      |  |
| Dividends<br>declared  |                      |                  |                      |                      |                                  |  | (1,221,381)          | (1,221,381)  | (1,005)  | (1,222,386)         |  |
| Accrued<br>compensation<br>costs (Note 24)                                       |                      |                  |                      |                      | 1,173                            |  |                      | 1,173  |  | 1,173               |  |
| Acquisition of<br>Comstar-UTS  |                      |                  |                      |                      | (1,079,559)                      |  | (242,699)            | (1,322,258)  |  | (1,322,258)         |  |
| Legal<br>acquisition of<br>Stream-TV<br>(Note 3)                                 |                      |                  |                      |                      | (1,616)                          | 43   |                      | (1,573)  | (1,470)  | (3,043)             |  |
| Change in fair<br>value of<br>noncontrolling<br>interest of<br>K-Telecom         |                      |                  |                      |                      |                                  |  | 7,495                | 7,495  |  | 7,495               | (7,495)                                  |
| Dividends paid<br>to<br>noncontrolling<br>interest of<br>K-Telecom               |                      |                  |                      |                      |                                  |  |                      |  |  |                     | (12,503)                                 |
| Increase in<br>ownership in<br>subsidiaries<br>(Note 3)                          |                      |                  | 31,816,462           | 371,827              | (10,519)                         | (83,298)   | (54,908)             | 223,102  | (238,900)  | (15,798)            | (43,449)                                 |
| <b>Balances at<br/>December 31,</b>  | <b>1,993,326,138</b> | <b>\$ 50,558</b> | <b>(76,456,876)</b>  | <b>\$(1,054,926)</b> |                                  | <b>\$(754,524)</b>                                     | <b>\$ 5,135,842</b>  | <b>\$ 3,376,950</b>                                | <b>\$ 1,026,119</b>                              | <b>\$ 4,403,069</b> | <b>\$ 82,261</b>                         |

2009

The accompanying notes are an integral part of the consolidated financial statements.

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Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007****(Amounts in thousands of U.S. Dollars)**

|  | Years ended December 31, |                                  |                                  |
|--|--------------------------|----------------------------------|----------------------------------|
|  | 2009                     | 2008<br>(restated<br>see Note 2) | 2007<br>(restated<br>see Note 2) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                          |                                  |                                  |
| Net income   | \$ 990,775               | \$ 2,187,178                     | \$ 2,219,823                     |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                          |                                  |                                  |
| Depreciation and amortization  | 1,839,568                | 2,151,125                        | 1,674,885                        |
| Currency exchange and transaction loss/(gain)  | 212,761                  | 578,643                          | (168,083)                        |
| Impairment of investments  | 368,355                  |                                  | 22,691                           |
| Impairment of long-lived assets  | 75,064                   | 1,333                            | 18,556                           |
| Impairment of goodwill   |                          | 49,891                           |                                  |
| Debt issuance cost amortization  | 36,892                   | 22,087                           | 26,425                           |
| Amortization of deferred connection fees   | (67,057)                 | (95,080)                         | (122,707)                        |
| Equity in net income of associates   | (60,313)                 | (75,688)                         | (71,116)                         |
| Provision for doubtful accounts  | 109,632                  | 154,782                          | 67,720                           |
| Inventory obsolescence expense and other provisions                                      | 12,225                   | 3,599                            | 4,932                            |
| Deferred taxes   | 101,444                  | (206,102)                        | (85,021)                         |
| Gain from deconsolidation of a subsidiary  |                          |                                  | (8,874)                          |
| Write-off of not recoverable VAT receivable  | 9,652                    | 48,374                           | 17,516                           |
| Change in fair value of derivatives  | 5,420                    | 41,554                           | 145,860                          |
| Other non-cash items   | 6,153                    | (10,367)                         | 16,787                           |
| <b>Changes in operating assets and liabilities:</b>                                      |                          |                                  |                                  |
| Increase in accounts receivable  | (216,654)                | (162,908)                        | (173,621)                        |
| (Increase) / decrease in inventory   | (111,998)                | 7,273                            | 67,262                           |
| Decrease / (increase) in prepaid expenses and other current assets                       | 14,676                   | (257,682)                        | 49,840                           |
| Decrease in VAT receivable   | 8,914                    | 128,335                          | 12,567                           |
| Increase in trade accounts payable, accrued liabilities and other current liabilities    | 235,244                  | 436,915                          | 131,030                          |
| Dividends received   | 25,355                   | 26,692                           | 4,900                            |
| <b>Net cash provided by operating activities</b>   | <b>3,596,108</b>         | <b>5,029,954</b>                 | <b>3,851,372</b>                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                          |                                  |                                  |
| Acquisition of subsidiaries, net of cash acquired  | (270,540)                | (86,951)                         | (1,087,031)                      |
| Purchases of property, plant and equipment   | (1,942,402)              | (2,207,861)                      | (1,633,942)                      |
| Purchases of intangible assets   | (385,907)                | (404,964)                        | (265,030)                        |
| Proceeds from sale of property, plant and equipment and assets held for sale             | 28,606                   | 35,636                           | 26,710                           |
| Purchases of short-term investments  | (519,129)                | (569,377)                        | (670,360)                        |
| Proceeds from sale of short-term investments   | 642,164                  | 590,579                          | 364,440                          |
| Purchase of a derivative financial instrument  |                          | (19,422)                         |                                  |
| Purchase of other investments  | (613)                    | (49,922)                         | (18,574)                         |
| Proceeds from sales of other investments   | 44,003                   | 425                              | 38,745                           |
| Investments in and advances to associates  | 1,950                    | (3,654)                          |                                  |
| Decrease / (increase) in restricted cash   | 17,182                   | 7,522                            | (2,278)                          |
| <b>Net cash used in investing activities</b>   | <b>(2,384,686)</b>       | <b>(2,707,989)</b>               | <b>(3,247,320)</b>               |

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

(Amounts in thousands of U.S. Dollars)

|  | Years ended December 31, |                                  |                                  |
|--|--------------------------|----------------------------------|----------------------------------|
|  | 2009                     | 2008<br>(restated<br>see Note 2) | 2007<br>(restated<br>see Note 2) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                          |                                  |                                  |
| Proceeds from stock options exercised  |                          | 9,183                            | 6,057                            |
| Cash payments for the acquisition of Comstar-UTS, Stream TV and non-controlling interests (Note 3) | (1,333,418)              | (109,442)                        |                                  |
| Repurchase of Comstar-UTS shares (Note 3)  |                          | (100,000)                        | (32)                             |
| Disposal of Comstar-UTS shares (Note 3)  |                          |                                  | 322,237                          |
| Contributions from SMM, related party  |                          | 4,439                            |                                  |
| Proceeds from issuance of notes  | 1,003,226                | 986,004                          |                                  |
| Repurchase of common stock   |                          | (1,059,833)                      | (254,443)                        |
| Repayment of notes   | (9,182)                  | (565,074)                        |                                  |
| Notes and debt issuance cost   | (105,137)                | (6,693)                          | (1,863)                          |
| Capital lease obligation principal paid  | (15,592)                 | (14,785)                         | (22,146)                         |
| Dividends paid   | (1,261,728)              | (1,144,719)                      | (794,311)                        |
| Proceeds from loans  | 3,598,100                | 894,803                          | 1,362,695                        |
| Loan principal paid  | (1,728,544)              | (572,425)                        | (876,263)                        |
| <b>Net cash provided by/ (used in) financing activities</b>  | <b>147,725</b>           | <b>(1,678,542)</b>               | <b>(258,069)</b>                 |
| Effect of exchange rate changes on cash and cash equivalents                                       | 42,015                   | (342,338)                        | 112,717                          |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>1,401,162</b>         | <b>301,085</b>                   | <b>458,700</b>                   |
| <b>CASH AND CASH EQUIVALENTS, beginning of the year</b>  | <b>1,121,669</b>         | <b>820,584</b>                   | <b>361,884</b>                   |
| <b>CASH AND CASH EQUIVALENTS, end of the year</b>  | <b>\$ 2,522,831</b>      | <b>\$ 1,121,669</b>              | <b>\$ 820,584</b>                |
| <b>SUPPLEMENTAL INFORMATION:</b>   |                          |                                  |                                  |
| Income taxes paid  | \$ 432,066               | \$ 1,035,095                     | \$ 937,448                       |
| Interest paid  | 510,784                  | 285,212                          | 265,054                          |
| <b>Non-cash investing and financing activities:</b>  |                          |                                  |                                  |
| Contributed property, plant and equipment  | \$ 3,213                 | \$ 3,194                         | \$ 6,299                         |
| Building contributed in the share capital of Sistema Mass Media                                    |                          |                                  | 4,751                            |
| Additions to network equipment and software under capital lease                                    | 830                      | 5,673                            | 6,037                            |
| Purchase of Comstar-UTS' shares funded by issuing of the promissory note                           |                          | 365,552                          |                                  |
| Equipment acquired through vendor financing  | 27,983                   | 13,198                           | 2,770                            |
| Amounts owed for capital expenditures  | 236,364                  | 604,641                          | 383,834                          |
| Payable related to business acquisitions   | 37,985                   | 31,719                           | 14,639                           |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****1. DESCRIPTION OF BUSINESS**

**Business of the Group** Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC", or "the Company") was incorporated on March 1, 2000, through the merger of MTS CJSC and RTC CJSC, its wholly-owned subsidiary. MTS CJSC started its operations in the Moscow license area in 1994 and then began expanding through Russia and the CIS.

In these notes, "MTS" or the "Group" refers to Mobile TeleSystems OJSC and its subsidiaries.

The Group provides a wide range of telecommunications services, including voice and data transmission, internet access, various value added services through wireless and fixed lines as well as selling equipment and accessories. Group's principal operations are located in Russia, Ukraine, Uzbekistan, Turkmenistan and Armenia.

MTS completed its initial public offering in 2000 and listed its shares of common stock, represented by American Depositary Shares, or ADSs, on the New York Stock Exchange under the symbol "MBT". Since 2003 common shares of MTS OJSC have been traded on the Moscow Interbank Currency Exchange ("MICEX").

During the year ended December 31, 2009 through a series of transactions the Group acquired a 61.97% stake in Open Joint-Stock Company Comstar United TeleSystems ("Comstar-UTS"), a provider of fixed line telecommunication services in Russia and the CIS, from Joint-Stock Financial Corporation Sistema ("Sistema") (Note 3). Acquisition of Comstar-UTS provided access to important growth markets in commercial and residential broadband which gives rise to the development of convergent telecommunication services.

During the year ended December 31, 2009, the Group started to expand its own retail network, operated by Russian Telephone Company CJSC, a wholly owned subsidiary of MTS OJSC. During 2009 following this strategy the Group acquired a number of Russian federal and regional mobile retailer operators (Note 3).

**Ownership** As of December 31, 2009 and 2008, MTS' shareholders of record and their respective percentage direct interests in outstanding shares were as follows:

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2009</b>         | <b>2008</b> |
| Joint-Stock Financial Corporation Sistema                            | 33.2%               | 33.7%       |
| Sistema Holding Limited ("Sistema Holding"), a subsidiary of Sistema | 10.1%               | 10.3%       |
| Invest-Svyaz CJSC ("Invest-Svyaz"), a subsidiary of Sistema          | 8.4%                | 8.5%        |
| VAST, Limited Liability Company ("VAST"), a subsidiary of Sistema    | 3.1%                | 3.2%        |
| ADS Holders  | 40.6%               | 41.2%       |
| Free float, GDR Holders and others                                   | 4.6%                | 3.1%        |
|  | 100.0%              | 100.0%      |

The effective ownership of Sistema in MTS was 54.8% and 55.7% as of December 31, 2009 and 2008, respectively.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS**

**Accounting principles** The Group's entities maintain accounting books and records in local currencies of their domicile in accordance with the requirements of respective accounting and tax legislations. The accompanying consolidated financial statements have been prepared in order to present MTS financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are expressed in terms of U.S. Dollars.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect certain adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting, depreciation and valuation of property, plant and equipment, intangible assets and investments.

**Basis of consolidation** Wholly-owned and majority-owned subsidiaries where the Group has operating and financial control are consolidated. All intercompany accounts and transactions are eliminated upon consolidation. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in other investments in the consolidated statements of financial position. The Group's share in the net income of unconsolidated associates is included in other income in the accompanying consolidated statements of operations and disclosed in Note 13. Results of operations of subsidiaries acquired are included in the consolidated statements of operations from the date of their acquisition.

The acquisition of Comstar-UTS, an entity under common control, in the fourth quarter of 2009 (Note 3) has resulted in change in the reporting entity. The consolidated financial statements presented for the periods subsequent to the acquisition include the accounts of MTS OJSC and its subsidiaries, in which MTS OJSC exercises control through the ownership of majority voting interest. As the Group and Comstar-UTS are under the common control of Sistema, the assets and liabilities acquired were recorded at the historical carrying value and the consolidated financial statements were retroactively

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

restated to reflect the Group as if Comstar-UTS had been owned since the beginning of the earliest period presented. The following table presents the significant effects of this restatement.

|  | As previously<br>reported | Comstar-UTS         | Eliminations<br>and other* | As<br>restated      |
|--|---------------------------|---------------------|----------------------------|---------------------|
| <b>As of December 31, 2008:</b>                |                           |                     |                            |                     |
| Total current assets                           | \$ 2,368,734              | \$ 673,577          | \$ (19,888)                | \$ 3,022,423        |
| Goodwill                                       | 377,982                   | 91,489              |                            | 469,471             |
| Property, plant and equipment, net             | 5,900,129                 | 1,858,091           |                            | 7,758,220           |
| Intangible assets, net                         | 1,392,131                 | 230,050             | 96,843                     | 1,719,024           |
| Investments in shares of Svyasinvest           |                           | 1,240,977           |                            | 1,240,977           |
| Other non-current assets                       | 409,358                   | 98,143              | (437)                      | 507,064             |
| <b>Total assets</b>                            | <b>10,448,334</b>         | <b>4,192,327</b>    | <b>76,518</b>              | <b>14,717,179</b>   |
| Total current liabilities                      | 3,307,141                 | 852,192             | (36,292)                   | 4,123,041           |
| Total long-term liabilities                    | 3,062,798                 | 1,133,836           | 31,849                     | 4,228,483           |
| <b>Total liabilities</b>                       | <b>6,369,939</b>          | <b>1,986,028</b>    | <b>(4,443)</b>             | <b>8,351,524</b>    |
| <b>Redeemable noncontrolling interest</b>      |                           |                     | <b>145,748</b>             | <b>145,748</b>      |
| Shareholders' equity attributable to the Group | 4,054,896                 | 798,517             | 52,505                     | 4,905,918           |
| Nonredeemable noncontrolling interests         | 23,499                    | 703,891             | 586,599                    | 1,313,989           |
| <b>Total equity</b>                            | <b>\$ 4,078,395</b>       | <b>\$ 1,502,408</b> | <b>\$ 639,104</b>          | <b>\$ 6,219,907</b> |

\*

Includes the effect of implementation of the provisions of EITF Topic D-98 (see Recently adopted accounting pronouncements).

|   | As previously<br>reported | Comstar-UTS  | Eliminations<br>and other* | As<br>restated |
|---|---------------------------|--------------|----------------------------|----------------|
| <b>For the year ended December 31, 2008:</b>                          |                           |              |                            |                |
| Net operating revenue   | \$ 10,245,293             | \$ 1,765,226 | \$ (109,585)               | \$ 11,900,934  |
| Net operating income  | 3,203,492                 | 441,192      | 2,652                      | 3,647,336      |
| Income before provision for income taxes and noncontrolling interests | 2,570,684                 | 355,134      | 4,241                      | 2,930,059      |
| Net income  | 1,940,063                 | 242,694      | 4,421                      | 2,187,178      |
| Net income attributable to the Group                                  | 1,930,419                 | 109,912      | (40,212)                   | 2,000,119      |
| EPS, basic and diluted, U.S. Dollars                                  | \$ 1.00                   |              |                            | \$ 1.04        |





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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)

|   | As previously<br>reported | Comstar-UTS  | Eliminations<br>and other* | As<br>restated |
|---|---------------------------|--------------|----------------------------|----------------|
| <b>For the year ended December 31, 2007:</b>                          |                           |              |                            |                |
| Net operating revenue   | \$ 8,252,378              | \$ 1,562,291 | \$ (90,763)                | \$ 9,723,906   |
| Net operating income  | 2,733,846                 | 451,635      | (553)                      | 3,184,928      |
| Income before provision for income taxes and noncontrolling interests | 2,829,088                 | 245,517      | (2,767)                    | 3,071,838      |
| Net income  | 2,090,818                 | 131,597      | (2,592)                    | 2,219,823      |
| Net income attributable to the Group                                  | 2,071,504                 | 35,176       | (19,265)                   | 2,087,415      |
| EPS, basic and diluted, U.S. Dollars                                  | \$ 1.05                   |              |                            | \$ 1.06        |

\*

Includes the effect of implementation of the provisions of EITF Topic D-98 (see Recently adopted accounting pronouncements).

As of December 31, 2009 and 2008, the Company had investments in the following significant legal entities:

|   | Accounting<br>method | December 31, |        |
|---|----------------------|--------------|--------|
|   |                      | 2009         | 2008   |
| Sibintertelecom                         | Consolidated         | 100.0%       | 100.0% |
| Dagtelecom                              | Consolidated         | 100.0%       | 74.9%  |
| Russian Telephone Company ("RTC")       | Consolidated         | 100.0%       | 100.0% |
| Evrotel                                 | Consolidated         | 100.0%       |        |
| Ukrainian Mobile Communications ("UMC") | Consolidated         | 100.0%       | 100.0% |
| MTS Finance(1)                          | Consolidated         | 100.0%       | 100.0% |
| Uzdunrobita                             | Consolidated         | 100.0%       | 100.0% |
| BCTI                                    | Consolidated         | 100.0%       | 100.0% |
| MTS Bermuda(2)                          | Consolidated         | 100.0%       | 100.0% |
| K-Telekom                               | Consolidated         | 80.0%        | 80.0%  |
| Comstar-UTS                             | Consolidated         | 64.0%        | 59.4%  |
| MTS Belarus                             | Equity               | 49.0%        | 49.0%  |
| TS-Retail                               | Equity               | 34.6%        | 33.9%  |

(1) Represents beneficial ownership.

(2) A wholly-owned subsidiary established to repurchase the Group's ADSs.

**Functional currency translation methodology** As of December 31, 2009, the functional currencies of the Group entities were the following:

For entities incorporated in Russian Federation, MTS Bermuda and MTS Finance Russian ruble ("RUB");



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

For UMC Ukrainian hryvnia;

For Turkmen branch of BCTI Turkmenian manat;

For K-Telecom Armenian dram;

For MTS-Belarus Belarusian ruble; and

For Uzdurobita and other entities U.S. Dollar ("USD").

The Group's reporting currency is U.S. Dollars. Remeasurement of financial statements into functional currencies where applicable and translation of financial statements into U.S. Dollars has been performed as follows:

For entities whose records are not maintained in their functional currencies, monetary assets and liabilities have been remeasured at the period-end exchange rates. Non-monetary assets and liabilities have been remeasured at historical rates. Revenues, expenses and cash flows have been remeasured at average rates. Remeasurement differences resulting from the use of these rates have been accounted for as currency exchange and transaction gains and losses in the accompanying consolidated statements of operations.

For entities whose records are maintained in their functional currency, which is other than the reporting currency, all year-end statement of financial position items have been translated into U.S. Dollars at the period-end exchange rate. Revenues and expenses have been translated at average exchange rate for the period. Translation differences resulting from the use of these rates are reported as a component of other comprehensive income.

**Management estimates** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, valuation of assets acquired and liabilities assumed in business combinations, income tax benefits, the recoverability of investments, goodwill, intangible assets and other long-lived assets, certain accrued liabilities and valuation of financial instruments.

**Cash and cash equivalents** Cash and cash equivalents represent cash on hand and in bank accounts and short-term investments, including term deposits, having original maturities of less than three months.

**Short-term investments and loans** Short-term investments generally represent investments in promissory notes, loans and time deposits which have original maturities in excess of three months but less than twelve months. These investments are being accounted for at amortized cost.



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

**Accounts receivable** Accounts receivable are stated net of allowance for doubtful accounts. Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

**Provision for doubtful accounts** The Group provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable, advances given, loans and other receivables. Such allowance reflects either specific cases, collection trends or estimates based on evidence of collectibility. For changes in the provision for doubtful loans and accounts receivable see Notes 5 and 6, respectively.

**Prepaid expenses** Prepaid expenses primarily comprise advance payments made to vendors for inventory and services.

**Inventory** Inventory mainly consists of handsets and accessories held for sale, cables and spare parts to be used for equipment maintenance within the next twelve months and advertising materials. Inventory is stated at the lower of cost or market value. Inventory cost is determined using the weighted average cost method.

Handsets and accessories held for sale are expensed when sold. The Group periodically assesses its inventories for obsolete and slow-moving stock.

**Value-added tax ("VAT")** Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

**Assets held for sale** In 2006, the Group management decided to discontinue use of certain telecommunication equipment ("Lucent equipment") in accordance with the Group's network development strategy. The Group accounts for Lucent equipment in accordance with the authoritative guidance on property, plant and equipment, and reports Lucent equipment at the lower of its carrying amount or fair value less costs to sell. The fair value of these assets held for sale was considered a Level 3 valuation as it was based on significant unobservable inputs. The equipment had a fair value less costs to sell of approximately \$46.4 million and \$67.4 million as of December 31, 2009 and 2008, respectively.

The Group initially negotiated with a third party to sell this equipment during the year ended December 31, 2007. However, due to the wide range of geographical areas in which the equipment was located and its diversity, the Group reconsidered the time needed to sell the equipment in 2007 and, as a result, the original plan of sale was extended. The amount of Lucent equipment sold during 2008 and 2009 equaled \$12.8 million and \$25.2 million, respectively. The remaining part of Lucent equipment held for sale in the amount of \$18.5 million is expected to be sold during 2010 and was classified as other current assets in the accompanying consolidated statement of financial position as of December 31, 2009.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

Due to the fact that the initial plan of sale was reconsidered, the fair value of Lucent equipment was determined using the discounted cash flows based on an updated expected timing of sale. As a result, an impairment loss on Lucent equipment in the amount of \$6.8 million was recorded as other operating expenses in the Group's consolidated statement of operations for the year ended December 31, 2007. This loss is entirely attributable to the "Russia Mobile" operating reportable segment. No impairment loss on Lucent equipment was recorded during the years ended December 31, 2008 and 2009.

**Long-term investments and loans** Long-term financial instruments consist primarily of long-term investments and loans and long-term debt. Since quoted market prices are not readily available for all of its long-term investments and loans, the Group estimates their fair values based on the use of estimates incorporating various unobservable market inputs.

The Group does not discount promissory notes of and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

**Property, plant and equipment** Property, plant and equipment, including improvements that extend useful lives, are stated at cost. Property, plant and equipment transferred to MGTS free of charge are capitalized at their fair value at the date of transfer, and corresponding liability is recorded and amortized to the consolidated statements of operations over the contributed asset's useful life. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life as follows:

|  |  |
|--|--|
| Mobile telecommunication equipment     | 5 - 12 years   |
| Fixed line telecommunication equipment | 7 - 31 years   |
| Leasehold improvements                 | Lesser of estimated useful life and<br>lease term (1 - 10 years) |
| Buildings and constructions            | 20 - 50 years  |
| Other fixed assets                     | 3 - 25 years   |

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized. Interest expense incurred during the construction phase of MTS' network is capitalized as part of property, plant and equipment until the relevant projects are completed and placed into service.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

**Asset retirement obligations** The Group calculates asset retirement obligations and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group recorded the present value of asset retirement obligations as other long-term liabilities in the consolidated statement of financial position.

**License costs** License costs are capitalized as a result of (a) the purchase price allocated to licenses acquired in business combinations and (b) licenses purchased directly from government organizations, which require license payments.

The Group's operating licenses do not provide for automatic renewal. As of December 31, 2009, all licenses covering the territories of the Russian Federation were renewed. The cost to renew the licenses was not significant. However, the Group has limited experience with the renewal of its existing licenses covering the territories of the Group's foreign subsidiaries. Management believes that licenses required for the Group's operations will be renewed upon expiration, though there is no assurance of such renewals and the Group has limited experience in seeking renewal of its licenses.

License costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the period of validity, which is from three to fifteen years.

**Other intangible assets and goodwill** Intangible assets represent various purchased software costs, telephone numbering capacity, acquired customer base, rights to use radio frequencies and rights to use premises. A part of the rights to use premises was contributed by shareholders to the Group's charter capital. Telephone numbering capacity with a finite contractual life is being amortized over the contract period which varies from two to ten years. The rights to use premises are being amortized over five to fifteen years. Amortization of numbering capacity costs starts immediately upon the purchase of numbering capacity. Telephone numbering capacity with unlimited contractual life is not amortized, but is reviewed, at least annually, for impairment in accordance with the authoritative guidance on intangibles.

For acquisitions before January 1, 2009 goodwill represents an excess of the consideration paid over the fair market value of net identifiable assets acquired in purchase business combination and is not amortized. For the acquisitions after January 1, 2009 goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with the authoritative guidance on intangibles, and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill (see Note 11).



**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

Software and other intangible assets are amortized over one to fifty years. Customer bases are amortized on a straight-line basis over their respective estimated average subscriber life, being from 20 to 240 months. Rights to use radio frequencies are amortized over the period of their contractual life, being from two to fifteen years. All finite-life intangible assets are amortized using the straight-line method.

**Impairment of long-lived assets** MTS periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, MTS compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When the undiscounted cash flows are less than the carrying amounts of the assets, MTS records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Impairment of property, plant and equipment and intangible assets amounted to \$75.1 million, \$1.3 million and \$10.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The impairment amounts were reported within other operating expenses in the accompanying consolidated statement of operations. The losses are entirely attributable to the "Russia Mobile" operating reportable segment.

**Investments impairment** Management periodically assesses the recoverability of the carrying values of investments and, if necessary, records impairment losses to write the investments down to fair value (see Note 14 and 15).

**Leasing arrangements** Entities of the Group lease operating facilities which include switches, other network equipment, vehicles, premises and sites to install base stations equipment and towers. Rentals payable under operating leases are charged to the statements of operation on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the statement of financial position. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

**Subscriber prepayments** MTS requires the majority of its customers to pay in advance for telecommunication services. All amounts received in advance of services provided are recorded as a subscriber prepayment liability and are not recorded as revenues until the related services have been provided to the subscriber.

**Treasury stock** Shares of common stock repurchased by the Group are recorded at cost as treasury stock and reduce the shareholders' equity in the Group's consolidated financial statements.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

**Revenue recognition** Revenue include all revenues from the ordinary business activities of MTS. Revenues are recorded net of value-added tax. They are recognized in the accounting period in which they are earned in accordance with the realization principle:

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

|   |                |
|---|----------------|
| Mobile subscribers                                    | 14 - 60 months |
| Residential wireline voice phone subscribers          | 15 years       |
| Residential subscribers of broadband internet service | 1 year         |
| Other fixed line subscribers                          | 3 - 5 years    |

The Group calculates an average life of mobile subscribers for each region in which it operates and amortizes regional connection fees.

**Sales of handsets and accessories** MTS sells wireless handsets and accessories to customers who are entering into contracts for service and also as separate distinct transactions. The Group recognizes revenues from the sale of wireless handsets and accessories when the products are delivered to and accepted by the customer, as it is considered to be a separate earnings process from the sale of wireless services in accordance with the authoritative guidance on multiple-element arrangements. The costs of wireless handsets and accessories, whether sold to subscribers through the distribution channel or as part of the service contract, are expensed when the associated revenue is recognized.

**Customer incentives** Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue. However, if the sales incentive is a free product or service delivered at the time of sale, the cost of the free product or service is classified as an expense. In particular, MTS sells handsets at prices below cost to contract subscribers. Such subsidies are recognized in the cost of handsets and accessories when the sale is recorded.

**Prepaid cards** MTS sells prepaid cards to subscribers, separately from the handset. Prepaid cards, used as a method of cash collection, are accounted for as customer advances. These cards allow subscribers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and value-added services. Revenue from the sale of prepaid cards is deferred until the service is rendered to the customer uses the airtime or the card expires.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

**Roaming discounts** Group entered into roaming discount agreements with a number of wireless operators. According to the terms of the agreements MTS is obliged to provide and entitled to receive a discount that is generally dependant on the volume of inter operator roaming traffic. The Group accounts for rebates received from and granted to roaming partners in accordance with the authoritative guidance on customer payments and incentives. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information. The Group accounts for discounts received as a reduction of roaming expenses and rebates granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in consolidated statement of financial position.

**Income taxes** The Group recognizes income tax positions if it is more likely than not that they will be sustained on a tax audit, including resolution of related appeals or litigation processes, if any, and measures them as the largest amount which is more than 50% likely of being realized upon ultimate settlement. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that the assets will not be realized (see Note 23). Interests and penalties related to uncertain tax positions are recognized in income tax expense.

**Sales and marketing expenses** Sales and marketing expenses consist primarily of dealers' commissions and advertising costs. Dealers' commissions are linked to revenues received during the six-month period from the date a new subscriber is activated by a dealer. MTS expenses these costs as incurred. Advertising costs for the years ended December 31, 2009, 2008 and 2007, were \$336.3 million, \$475.6 million and \$422.9 million, respectively.

**Borrowing costs** Borrowing costs include interest incurred on existing indebtedness and debt issuance costs. Interest costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the estimated useful lives of the related assets. The capitalized interest costs for the years ended December 31, 2009, 2008 and 2007 were \$72.3 million, \$84.5 million and \$104.5 million, respectively. Debt issuance costs are capitalized and amortized over the term of the respective borrowings using the effective interest method. Interest expense net of amounts capitalized and amortization of debt issuance costs, for the years ended December 31, 2009, 2008 and 2007, were \$534.3 million, \$211.8 million and \$187.4 million, respectively.

**Retirement benefit and social security costs** The Group contributes to the local state pension and social funds, on behalf of all its employees.

In Russia all social contributions are represented by a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. The UST is allocated to three social funds, including the pension fund, where the rate of contributions

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

varies from 20% to 2%, depending on the annual gross salary of employee. These contributions are expensed as incurred. The amount of UST paid by the Group in Russia amounted to \$95.2 million, \$122.3 million and \$99.6 million in 2009, 2008 and 2007, respectively.

Effective January 1, 2010, UST was abolished and replaced with direct contributions to the Pension Fund of the Russian Federation, Social Security Fund of the Russian Federation and Medical Insurance Fund of the Russian Federation.

MGTS, a subsidiary of the Group, has historically offered its employees certain benefits upon and after retirement. The cost of such benefits includes current service costs and amortization of prior service costs. The expense is recognized during an employee's years of active service with MGTS. The recognition of expense for retirement pension plans is significantly impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, future rates of compensation increase and other related assumptions. The Group accounts for pension plans in accordance with the requirements of the authoritative guidance on retirement benefits.

In Ukraine, Uzbekistan, Turkmenistan and Armenia the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to the local pension fund, unemployment and social security funds. Payments to the pension fund in Ukraine amounted to \$64.9 million, \$14.9 million and \$12.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Amounts contributed to the pension funds in Uzbekistan, Turkmenistan and Armenia were not significant.

The Group does not participate in any pension funds other than described above.

**Earnings per share** Basic earnings per share ("EPS") have been determined using the weighted average number of MTS shares outstanding during the year. Diluted EPS reflect the potential dilutive effect of stock options granted to employees.

**Financial instruments and hedging activities** From time to time to optimize the structure of business acquisitions and to defer payment of the purchase price the Group enters into put and call option agreements to acquire noncontrolling stake in the existing subsidiary. These put and call option agreements are classified as redeemable securities and are accounted for at redemption value which is generally the fair value of redeemable noncontrolling interests as of reporting date. Fair value of redeemable noncontrolling interests is assessed based on discounted future cash flows of the acquired entity ("Level 3" significant unobservable inputs of the hierarchy established by the U.S. GAAP guidance). Changes in redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

The Group uses derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risk exposures. The Group measures derivatives at fair value and recognizes them as either other current or other non-current assets or liabilities in the consolidated statement of financial position. The Group reviews its fair value hierarchy classifications quarterly. Changes in significant observable valuation inputs identified during these reviews may trigger

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2009 and 2008 no reclassifications occurred. The fair value measurement of the Group's hedging agreements is based on the observable yield curves for similar instruments.

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of operations together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statement of operations (Note 21).

The Group does not use financial instruments for trading or speculative purposes.

**Fair value of financial instruments** The fair market value of financial instruments, consisting of cash and cash equivalents, short-term investments, accounts receivable and accounts payable, which are included in current assets and liabilities, approximates the carrying value of these items due to the short term nature of these amounts. The fair value of issued notes based on MICEX and the Luxembourg stock exchange quotes as of December 31, 2009, is disclosed in Note 21.

Based on current market interest rates available to the Group for long-term borrowings with similar terms and maturities, the Group believes the fair value of other fixed rate debt including capital lease obligations and the fair value of variable rate debt approximated its carrying value as of December 31, 2009.

**Comprehensive income** Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

**Stock-based compensation** The Group accounts for stock-based compensation under the authoritative guidance on stock compensations. Under the provisions of this guidance companies must calculate and record the cost of equity instruments, such as stock options awarded to employees for services received, in the statements of operation. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted (with certain exceptions) and recognized over the period during which the employees are required to provide services in exchange for equity instruments.

The Group adopted the guidance using the modified-prospective-application transition method. Under this transition method, compensation cost for all share-based awards granted prior to, but not yet vested as of December 31, 2006, was determined based on the grant date fair value estimated using the same assumptions and taking into account the estimated forfeitures.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

***Recently adopted accounting pronouncements*** On January 1, 2008, the Group adopted the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on fair value measurements for financial assets and liabilities which provides a single definition of fair value, establishes a framework for measuring fair value and expands disclosure requirements of fair value measurement. On January 1, 2009, the Group adopted this guidance for all non-financial instruments accounted for at fair value on a non-recurring basis. The full adoption of this guidance did not have a material impact on the Group's consolidated financial position, results of operations or cash flows at the date of adoption.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on business combinations, including assets acquired and liabilities assumed arising from contingencies. This guidance significantly changes the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. Upon the adoption of this guidance, the Group was required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of this guidance, contingent consideration is to be recorded at fair value as an element of purchase price with subsequent adjustments recognized in operations. Contingent consideration was previously accounted for as a subsequent adjustment of purchase price. Also, changes to valuation allowances for acquired deferred income tax assets and adjustments to unrecognized tax benefits acquired generally are to be recognized as adjustments to income tax expense rather than goodwill. The impact of the adoption of the new guidance on the Group's consolidated financial statements is largely dependent on the size and nature of the future business combinations. In 2009 the Group recognized acquisition-related costs in the amount of \$11.3 million in the consolidated statement of operations and recorded a liability for contingent consideration in amount of \$30.8 million in its consolidated statement of financial position as of December 31, 2009.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB that changes the accounting for noncontrolling interests in the consolidated financial statements. Noncontrolling interests (previously referred to as "minority interest") are to be reported as part of consolidated net earnings, and the accumulated amount of noncontrolling interests is to be included as part of shareholders' equity. In addition to these financial reporting changes, the guidance provides for significant changes in accounting related to noncontrolling interests; specifically, increases and decreases in the Group's controlling financial interests in consolidated subsidiaries will be reported in equity similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings. The adoption of the new guidance resulted in the reclassification of noncontrolling interests to equity and presentation of net income and other comprehensive income gross of amounts attributable to noncontrolling shareholders of the subsidiaries of the Group.

In connection with the issuance of the guidance on noncontrolling interests, EITF Topic D-98, Classification and Measurement of Redeemable Securities, (further "Topic D-98") was revised to include the SEC Staff's views regarding the interaction between Topic D-98 and the new guidance. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

required by Topic D-98 applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price or fair value by the holder or upon the occurrence of an event that is not solely within the control of the issuer). The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of the new guidance. The implementation of the provisions of Topic D-98 as of January 1, 2009 resulted in reduction of Group's retained earnings by \$122.2 million (there of \$78.8 million related to the redeemable noncontrolling interest in K-Telecom and \$43.5 million related to the redeemable noncontrolling interest in Dagtelecom).

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB relating to disclosures about derivative instruments and hedging activities which 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. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB which modifies the determination of the useful life of intangible assets from a requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions to one that requires an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This guidance also requires disclosure of information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and ability to renew or extend the arrangements. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows for the year ended December 31, 2009. The Group expects that the new guidance will have an impact on its accounting for future acquisitions of intangible assets, but the effect is dependent upon the acquisitions that are made in the future.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB for intangible assets acquired in a business combination or asset acquisition that an entity does not intend to actively use but intends to hold as defensive intangible assets to prevent others from obtaining access to them, referred to as defensive intangible assets. Historically, these assets have been typically allocated little or no value. Under this guidance defensive intangible assets are required to be accounted for as a separate identifiable asset recognized at fair value with an assigned useful life. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows for the year ended December 31, 2009. The Group expects that the new guidance will have an impact on its accounting for future acquisitions of intangible assets, but the effect is dependent upon the acquisitions that are made in the future.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on equity method investment accounting considerations. This guidance considers the effects of the issuances of the new guidance related to business combinations and noncontrolling interests on an entity's

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

application of the equity method: determination of the initial carrying value of an equity-method investment, impairment assessment of an underlying indefinite-lived intangible asset of an equity-method investment, accounting for issuance of shares by an equity investee, and accounting for a change in an investment from the equity method to the cost method. The adoption of this guidance did not result in a significant impact of the Group's financial position, results of operations and cash flows.

On January 1, 2009, the Group adopted the authoritative guidance issued by the FASB on an employer's disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures required under this guidance are to provide users of financial statements with an understanding of (a) how investment allocation decisions are made; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The adoption of this guidance had no material impact on the Group's financial statements.

On June 15, 2009, the Group prospectively adopted the authoritative guidance issued by the FASB regarding the accounting for, and disclosure of, events that occur after the statement of financial position date but before the financial statements are issued. The adoption of this guidance had no material impact on the Group's financial statements.

On July 1, 2009, the Group adopted the FASB Accounting Standards Codification ("the Codification") and the revised guidance on Hierarchy of Generally Accepted Accounting Principles introduced by the FASB. The Codification became the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. With the adoption of this codification the Group has accordingly updated the financial statements disclosures.

On October 1, 2009, the Group adopted additional guidance on measuring the fair value of liabilities issued by the FASB in August 2009 and effective the first interim or annual reporting period beginning after August 28, 2009. The new guidance specifies that the entity determine whether a quoted price exists for an identical liability when traded as an asset (i.e. a Level 1 fair value measurement) and if not, the entity must use a valuation technique based on the quoted price of a similar liability traded as an asset, or another valuation technique (i.e. market approach or income approach) and that the entity should not make a separate adjustment for restrictions on the transfer of a liability in estimating fair value. The adoption of this guidance had no material impact on the Group's financial statements.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

*New accounting pronouncements* In June 2009, the FASB updated the guidance related to consolidation accounting for variable interest entities to require an enterprise to perform an analysis to determine whether the entity's variable interest or interests give it a controlling interest in a variable interest entity. The Group does not maintain any variable interest entities and as such, the adoption of this guidance, effective January 1, 2010, is not expected to have an impact on the Group's consolidated financial statements.

In October 2009, the FASB amended the revenue recognition for multiple deliverable arrangements guidance to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This updated guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this guidance, effective January 1, 2011, is not expected to have a significant impact on the Group's consolidated financial statements.

In January 2010, the FASB issued additional guidance that requires new disclosures related to transfers into and out of Level 1 and Level 2 of fair value measurements and separate presentation of information about purchases, sales, issuances, and settlements in the roll forward for Level 3 inputs. The update also clarifies existing guidance for fair value measurements for each class of assets and liabilities as well as for disclosures about inputs and valuation techniques. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures related to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. The adoption of the revised guidance will impact disclosures and will not have an impact on the Group's consolidated financial statements.

In February 2010, the FASB updated the authoritative guidance on the accounting for, and disclosure of, subsequent events to remove the requirement for an entity that files or furnished financial statements with the SEC to disclose a date through which subsequent events have been evaluated in both originally issued and restated financial statements. Restated financial statements include financial statements revised as a result of correction of an error or retrospective application of US GAAP. The updated guidance removes potential conflicts with the SEC's literature. The Group adopted the revised guidance in February 2010.

**3. BUSINESS ACQUISITIONS AND DISPOSALS**

*Acquisitions of certain retail chains* In 2009, in conjunction with the development of its own retail network, MTS acquired controlling interests in the number of retail chains in Russia. The acquisitions were accounted for using the purchase method of accounting.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

The following table summarizes the purchase price allocation of the retail chains acquired as of the acquisition date:

|  | Telefon.ru | Eldorado  | Teleforum | Total     |
|--|------------|-----------|-----------|-----------|
| Month of acquisition                   | February   | March     | October   |           |
| Ownership interest acquired            | 100%       | 100%      | 100%      |           |
| Current assets                         | \$ 48,979  | \$ 2,467  | \$ 2,953  | \$ 54,399 |
| Non-current assets                     | 2,315      | 911       | 745       | 3,971     |
| Brand                                  |            | 374       |           | 374       |
| Goodwill                               | 123,333    | 29,875    | 9,050     | 162,258   |
| Current liabilities                    | (108,701)  | (12,248)  | (3,614)   | (124,563) |
| Non-current liabilities                | (5,926)    | (115)     |           | (6,041)   |
| Fair value of contingent consideration |            | (3,414)   | (6,934)   | (10,348)  |
| Consideration paid                     | \$ 60,000  | \$ 17,850 | \$ 2,200  | \$ 80,050 |

The Group's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Goodwill was mainly attributable to the synergies from the Group's ability to optimize the dealers' compensation structure and to maintain its subscriber market share in Russia. Goodwill is not deductible for income tax purposes and was assigned to "Russia Mobile" operating segment. Brand components are amortized over the periods of 6 months.

Under the terms of the individual purchase agreements, the Group may have to pay additional consideration as follows:

up to \$25 million during the period from 12 to 18 months for Telefon.ru;

up to \$5 million in 12 months for Eldorado; and

up to \$8.8 million in 12 months for Teleforum.

The additional consideration may be reduced by the amount of tax liability related to the activities prior to the acquisition dates. The Group may also deduct amounts of any potential losses arising from the loss of control on any of Teleforum's outlets from the amount of contingent consideration. The financial statements reflect management's estimate of the fair value of the contingent consideration at the acquisition date.

**Eurotel acquisition** In December 2009, MTS acquired a 100% stake in Eurotel OJSC ("Eurotel"), a Russian federal back bone network operator, from a third party. The consideration paid comprised \$90 million. Under the terms of agreement the Group shall pay contingent consideration of up to \$20 million by the end of February 2011 should Eurotel complete the construction of certain fibre-optic lines and the Group retain control over the technical support agreements in relation to the optic cable lines. At the acquisition date the estimated fair value of this contingent consideration was \$20 million.

The acquisition was accounted for using the purchase method. The purchase price allocation for the acquisition has not been finalized as of the date of these financial statements, as the Group has not



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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

completed the valuation of individual assets of Eurotel. The preliminary purchase price allocation for the acquisition was as follows:

|  |           |
|--|-----------|
| Current assets                         | \$ 15,517 |
| Non-current assets                     | 62,792    |
| Goodwill                               | 103,754   |
| Current liabilities                    | (70,960)  |
| Non-current liabilities                | (1,103)   |
| Fair value of contingent consideration | (20,000)  |
| Consideration paid                     | \$ 90,000 |

The excess of the purchase price over the value of net assets acquired and the fair value of contingent consideration was preliminary allocated to goodwill which was assigned to the "Russia Fixed" operating segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the synergies from reduction of interconnect and internet-traffic expenses of the Group.

**Comstar-UTS acquisition** In October 2009, MTS acquired a 50.91% stake in Comstar-UTS, a provider of fixed line communication services in Russia, Ukraine and Armenia, from Sistema. Consideration paid amounted to RUB 39.15 billion (\$1.32 billion as of October 12, 2009) or RUB 184.02 (\$6.21) per global depositary receipt ("GDR").

This acquisition has been accounted for as a common control transaction at carrying amount. The excess of consideration over the carrying value of net assets received has been recorded as a decrease in additional paid-in capital of the Group in the amount of \$1.080 billion and as a decrease in retained earnings in the amount of \$242.7 million (see also Note 2).

Further, in December 2009, in a series of transactions, the Group acquired a 14.2% stake in the Moscow City Networks OJSC ("MGTS") in exchange for 31,816,462 ordinary MTS shares (equal to RUB 7.17 billion based on the MICEX price on December 17, 2009, or RUB 225.4 per share, per the terms of the agreement with MGTS shareholder), representing 1.6% shares outstanding, previously held in treasury and \$7.3 million in cash. The MGTS stake, represented by 2,462,687 ordinary shares and 11,135,428 preferred shares, were held by a wholly owned subsidiary of Comstar-UTS. Simultaneously, MTS received 46,232,000 shares, representing 11.06% of total shares outstanding, of Comstar-UTS from MGTS Finance S.A., a wholly owned subsidiary of MGTS. In addition, MTS paid Comstar-UTS a cash consideration of \$8.3 million. The transaction was accounted for directly in equity.

**Kolorit acquisition** In September 2009, MTS acquired a 100% stake in Kolorit Dizayn Inc ("Kolorit"), a company providing outdoor advertising services in the territory of Uzbekistan, for \$39.7 million in cash.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

The acquisition was accounted for using the purchase method of accounting. The summary of the purchase price allocation for the acquisition was as follows:

|                         |    |         |
|-------------------------|----|---------|
| Current assets          | \$ | 993     |
| Non-current assets      |    | 11,788  |
| Brand                   |    | 2,097   |
| Goodwill                |    | 27,109  |
| Current liabilities     |    | (2,098) |
| Non-current liabilities |    | (235)   |
| Consideration paid      | \$ | 39,654  |

Goodwill is mainly attributable to synergies from advertising cost optimization. Goodwill is not deductible for income tax purposes and was assigned to the "Uzbekistan Mobile" operating segment.

**Dagtelecom acquisition** In January 2009, Glaxen Corp. ("Glaxen"), the minority shareholder of Dagtelecom, exercised its put option over its 25.5% stake in the company. Consideration payable by the Group on the put option agreement comprised \$51.3 million. Payment made by the Group was reduced by \$12.5 million to offset the loan receivable from Glaxen at the date of acquisition. The transaction was accounted for directly in equity.

**Acquisitions of controlling interests in regional fixed line operators** In 2008, as a part of its program of regional expansion, Comstar-UTS has acquired controlling interests in certain alternative fixed-line operators in several regions of Russia. The acquisitions were accounted for using the purchase method of accounting.

The following table summarizes the purchase price allocation of the fixed-line operators acquired as of the acquisition dates:

|                               | Strategia<br>(Urals Telephone<br>Company<br>("UTC")) |         | Total     |           |
|-------------------------------|--|---------|-----------|-----------|
| Month of acquisition          | Interlink Group                                      | June    | July      |           |
| Ownership interest acquired   |  | 100%    | 100%      |           |
| Current assets                | \$   | 994     | \$ 4,194  | \$ 5,188  |
| Property, plant and equipment |  | 7,042   | 15,135    | 22,177    |
| Goodwill                      |  | 4,230   | 27,846    | 32,076    |
| Subscriber base               |  |         | 12,553    | 12,553    |
| Current liabilities           |  | (2,928) | (6,280)   | (9,208)   |
| Non-current liabilities       |  |         | (5,253)   | (5,253)   |
| Deferred tax liabilities      |  | (910)   | (4,710)   | (5,620)   |
| Consideration paid            | \$   | 8,428   | \$ 43,485 | \$ 51,913 |

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

Recognition of goodwill in the amounts of \$4.2 million and \$27.8 million from the acquisition of Interlink Group and UTC, respectively, was due to the economic potential of the markets the acquired companies operate in. Goodwill was recognized in the "Russia Fixed" operating segment.

The Group's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Goodwill is not deductible for tax purposes. Subscriber base components are amortized over the periods ranging from 9 to 17 years, depending on the type of subscribers.

**Acquisition of Stream-TV** In December 2008, as part of its regional expansion, Comstar-UTS entered into an agreement with Sistema Mass Media ("SMM"), a subsidiary of Sistema, to acquire all of SMM's interest in certain of its subsidiaries (collectively referred to as "Stream-TV") for a total cash consideration of RUB 3,544.5 million (\$117.2 million as of December 31, 2009), determined by an independent appraiser and payable in installments between December 2008 and March 2009, including RUB 980.0 million (\$32.4 million as of December 31, 2009) payable to Stream-TV and RUB 2,564.5 million (\$84.8 million as of December 31, 2009) payable to SMM. RUB 2,460.8 million (\$81.4 million as of December 31, 2009) and RUB 103.3 million (\$3.4 million as of December 31, 2009) of the consideration was paid to SMM during the years ended December 31, 2008 and 2009, respectively. In addition, in December 2008 Stream-TV paid \$19.1 million in cash to SMM for the controlling interests in certain regional subsidiaries acquired by Stream-TV from SMM in 2007.

In the first quarter of 2009, legal title to the business and full control of Stream-TV transferred to Comstar-UTS. This acquisition was accounted for by Comstar, and therefore the Group in a like manner, as a common control transaction. These financial statements reflect retrospective application of this acquisition in a manner similar to a pooling of interests. The transaction was accounted for directly in equity.

**MSS acquisition** In February 2008, MTS acquired an additional 9% stake in its Omsk subsidiary, Mobilnye Sistemy Svyazi ("MSS"), from a private investor for \$16.0 million in cash. As a result of this transaction, the Group's ownership in the subsidiary increased to 100%. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded license cost by \$8.8 million and customer base cost by \$3.2 million. License costs are amortized over the remaining contractual terms of the license of approximately 3 years and the customer base is amortized on a straight-line basis over the estimated average subscriber's life of approximately 5 years.

**Acquisitions of controlling interests in regional fixed line operators** In 2007, as a part of its program of regional expansion, Comstar-UTS has acquired controlling interests in a number of alternative fixed-line operators in certain regions of Russia and Ukraine. The acquisitions were accounted for using the purchase method of accounting.

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)

The following table summarizes the purchase price allocation of the fixed-line operators acquired as of the acquisition dates:

| Month of acquisition             | Sochi-<br>telecom<br>service | Digital<br>Telephone<br>Networks<br>South | Regional<br>Technical<br>Centre | Comstar<br>Ukraine* | Total      |
|----------------------------------|------------------------------|---|---------------------------------|---------------------|------------|
|                                  | August                       | November                                  | December                        | May                 |            |
| Ownership interest acquired      | 100%                         | 100%                                      | 88%                             | 25%                 |            |
| Current assets                   | \$ 51                        | \$ 10,977                                 | \$ 13,421                       | \$                  | \$ 24,449  |
| Property, plant and<br>equipment | 114                          | 102,558                                   | 21,402                          |                     | 124,074    |
| Goodwill                         | 451                          |   |                                 | 543                 | 994        |
| Subscriber base                  | 232                          | 91,923                                    | 738                             |                     | 92,893     |
| Trademark                        |                              | 1,683                                     |                                 |                     | 1,683      |
| Current liabilities              | (98)                         | (6,873)                                   | (3,949)                         |                     | (10,920)   |
| Non-current liabilities          |                              | (33,112)                                  | (3,377)                         |                     | (36,489)   |
| Noncontrolling interest          |                              |   | (2,109)                         | 424                 | (1,685)    |
| Consideration paid               | \$ 750                       | \$ 167,156                                | \$ 26,126                       | \$ 967              | \$ 194,999 |

\*

Acquisition of an additional 25% interest in the existing subsidiary, Comstar Ukraine, resulting in 100% ownership as of December 31, 2007.

Goodwill is attributable to the economic potential of the markets the acquired companies operate in. Goodwill is not deductible for income tax purposes and was assigned to "Russia Fixed" operating segment. The Group's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Subscriber base components are amortized over the periods ranging from 13 to 24 years, depending on the type of subscribers.

**Bashcell acquisition** In December 2007, MTS acquired a 100% of Bashcell, the GSM-1800 mobile services provider in the Republic of Bashkortostan situated in Russia's Volga region, for \$6.7 million in cash. In connection to the purchase MTS assumed debt in the amount of \$31.9 million due from Bashcell to its previous shareholder.

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**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

This acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

|                         |    |          |
|-------------------------|----|----------|
| Current assets          | \$ | 5,645    |
| Non-current assets      |    | 13,156   |
| Customer base cost      |    | 2,260    |
| Goodwill                |    | 21,077   |
| Current liabilities     |    | (7,737)  |
| Non-current liabilities |    | (31,918) |
| Deferred taxes          |    | 4,209    |

|                    |    |       |
|--------------------|----|-------|
| Consideration paid | \$ | 6,692 |
|--------------------|----|-------|

Goodwill is mainly attributable to the synergy expected as a result of the acquisition and was assigned to the "Russia Mobile" operating segment. The amount of goodwill is not deductible for income tax purposes. The customer base is amortized on a straight-line basis over the estimated average subscriber's life of 5 years.

**K-Telecom acquisition** In September 2007, MTS acquired an 80% stake in International Cell Holding Ltd, 100% indirect owner of K-Telecom, Armenia's wireless telecommunication operator. Along with acquisition, the Group entered into a call and put option agreement for the remaining 20% stake to be exercised not earlier than July 2010 and not later than July 2012. In accordance with put and call option agreement, the exercise price shall be fair value, as determined by an independent investment bank at the date the option is exercised subject to a cap of €200.0 million (equivalent of \$286.9 million as of December 31, 2009).

K-Telecom operates under the VivaCell brand in the GSM-900/1800 standard covering the entire territory of Armenia. The license is valid until the end of 2019.

In accordance with sale and purchase agreement, MTS paid €260.0 million (\$361.2 million as of the date of acquisition) for 80% of K-Telecom and €50.0 million (\$69.0 million as of the date of acquisition) shall be paid out to the sellers in the course of three years from 2008 to 2010 provided certain agreed financial targets are met by K-Telecom. In conjunction with the acquisition, MTS extended a €140.0 million (\$194.5 million as of date of acquisition) loan to K-Telecom for repayment of payables for equipment and other liabilities due as of the date of acquisition to PMF Telecommunications, an entity affiliated to the sellers. As a result, K-Telecom's liabilities to the seller and its affiliates were settled. The loan is eliminated in consolidation and is not part of the purchase price. Finders and consultants fees paid in connection with the business combination and included in the purchase price were \$26.7 million.



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**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

This acquisition was accounted for using the purchase method of accounting. The purchase price allocation for the acquisition was as follows:

|                          |            |
|--------------------------|------------|
| Current assets           | \$ 31,805  |
| Non-current assets       | 198,984    |
| License costs            | 217,354    |
| Customer base cost       | 76,754     |
| Trade mark               | 2,555      |
| Goodwill                 | 120,579    |
| Current liabilities      | (25,138)   |
| Non-current liabilities  | (149,841)  |
| Deferred tax liabilities | (59,722)   |
| Noncontrolling interest  | (10,772)   |
| <br>                     |            |
| Consideration paid       | \$ 402,558 |

In accordance with the terms of the sale and purchase agreement, based on K-Telekom's financial results for the year ended December 31, 2008, €20.0 million (\$28.2 million as of December 31, 2008) was accounted for as the adjustment to purchase price and recognized as a liability in the accompanying consolidated statement of financial position as of December 31, 2008. And based on K-Telekom's financial results for the year ended December 31, 2009, €5.0 million (\$7.2 million as of December 31, 2009) was accounted for as the adjustment to purchase price and recognized as a liability in the accompanying consolidated statement of financial position as of December 31, 2009.

Goodwill is mainly attributable to the economic potential of Armenia, given the low mobile penetration level of the market. Goodwill is not deductible for income tax purposes and was assigned to the "Armenia Mobile" operating segment.

The customer base is amortized on a straight-line basis over the estimated average subscriber's life of 46 months.

**Uzdunrobota acquisition** In June 2007, MTS purchased an additional 26% stake in Uzdunrobota, a mobile telecom operator in Uzbekistan, from a private investor for \$250.0 million in cash. Previously MTS owned 74% of Uzdunrobota. As a result of this transaction, MTS' ownership increased to 100%. The transaction was accounted for using the purchase method. Allocation of the purchase price increased the recorded license cost by \$155.7 million, customer base cost by \$6.5 million, and property plant and equipment cost by \$5.4 million. Additionally, \$35.0 million was recognized as goodwill. Goodwill is not deductible for income tax purposes and is mainly attributable to the economic potential of the markets where Uzdunrobota operates. Goodwill was assigned to the "Uzbekistan Mobile" operating segment.

License costs are amortized over the remaining contractual terms of the licenses of approximately 9 years and the customer base is amortized over the estimated average subscriber's life of 20 months.

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**3. BUSINESS ACQUISITIONS AND DISPOSALS (Continued)**

**Acquisition of minority interest in Golden Line** In April 2007 Comstar-UTS acquired 100% shares in Golden Line from Comstar-Direct, a 52%-owned subsidiary of Comstar-UTS, thus increasing its effective shareholding in Golden Line to 100%. Golden Line was a provider of dedicated leased access lines in Moscow to corporate clients using its fiber optic network and MGTS' switches.

The acquisition has been accounted for as a common control transaction, at carrying amounts with excess of the book value of the net assets acquired over the purchase price, recorded as an increase in the additional paid-in capital of the Group in the amount of \$2.8 million.

**Disposal of shares in Metrocom** In March 2007, Comstar-UTS sold its 45% stake in Metrocom, an affiliate, to a third party for a total cash consideration of \$20.0 million, resulting in a gain of \$3.2 million recognized as other income in the accompanying consolidated statement of operations for the year ended December 31, 2007.

**Reorganization of Comstar-Direct** Prior to December 2008, Comstar-Direct was owned 52% by Comstar-UTS and 48% by Sistema Mass Media ("SMM"), a subsidiary of Sistema. In December 2008, Comstar-Direct was split into two legal entities: SMM-Finance which became a 100% subsidiary of SMM, and Comstar-Direct which became a 100% subsidiary of Comstar-UTS. The effect of this transaction was the disposal of \$26.8 million of net assets of Comstar-Direct and the acquisition of the remaining 48% minority interest in Comstar-Direct from SMM by Comstar-UTS. The transaction was accounted for at cost as a transaction between entities under common control. The excess of the net assets disposed of and the noncontrolling interest acquired was recorded in additional paid-in capital.

Summary of the assets and liabilities disposed of by Comstar-UTS and the acquisition of the remaining 48% minority interest in Comstar-Direct is as follows:

|  |                  |
|--|------------------|
| Cash and short-term investments and loans                                  | \$ 5,029         |
| Inventory and other current assets   | 6,168            |
| Trade and other accounts receivable  | 22,379           |
| Long-term investments and loans  | 7,508            |
| Trade accounts payable   | (14,264)         |
| <b>Total assets and liabilities disposed, net</b>                          | <b>26,820</b>    |
| Noncontrolling interest acquired   | (15,813)         |
| <b>Excess of the net assets disposed of and minority interest acquired</b> | <b>\$ 11,007</b> |

**Pro forma results of operations (unaudited)** The following unaudited pro forma financial data for the years ended December 31, 2009 and 2008, gives effect to the acquisitions of Eurotel, Teleforum,

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Kolorit, Eldorado and Telefon.ru, as though these business combinations had been completed at the beginning of 2008.

|                      | 2009         | 2008          |
|----------------------|--------------|---------------|
| Pro forma:           |              |               |
| Net revenues         | \$ 9,908,584 | \$ 12,729,516 |
| Net operating income | 2,547,218    | 3,644,378     |
| Net income           | 980,553      | 1,964,364     |

The pro forma information is based on various assumptions and estimates. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2008, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included in the consolidated financial statements of the Group only from the respective dates of acquisition.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2009 and 2008 comprised the following:

|  | December 31,     |                  |
|--|------------------|------------------|
|  | 2009             | 2008             |
| Ruble current accounts                 | 571,424          | 140,045          |
| Ruble deposit accounts                 | 1,059,105        | 142,272          |
| U.S. Dollar current accounts           | 217,586          | 108,935          |
| U.S. Dollar deposit accounts           | 12,000           | 35               |
| Euro current accounts                  | 602,825          | 5,940            |
| Euro deposit accounts                  | 4,161            | 423,150          |
| Hryvna current accounts                | 1,260            | 1,462            |
| Hryvna deposit accounts                | 2,768            | 1,948            |
| Uzbek som current accounts             | 26,922           | 229,904          |
| Uzbek som deposit accounts             | 662              | 57,430           |
| Turkmenian manat current accounts      | 21,020           | 1,496            |
| Armenian dram current accounts         | 2,683            |                  |
| Armenian dram accounts                 |                  | 4,162            |
| Other                                  | 415              | 4,890            |
| <b>Total cash and cash equivalents</b> | <b>2,522,831</b> | <b>1,121,669</b> |

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**5. SHORT-TERM INVESTMENTS**

Short-term investments as of December 31, 2009 comprised the following:

| Type of investment        | Contractor          | Annual interest rate |      | Maturity date |           | Amount            |
|---------------------------|---------------------|----------------------|------|---------------|-----------|-------------------|
| Promissory notes          | Sberbank (Note 17)  | 6.0%                 |      | March         | June 2010 | \$ 143,300        |
| Funds in trust management | Gazprombank         | 9.0%                 |      | October       | 2010      | 20,077            |
| Deposit                   | VTB                 | 8.8%                 |      | March         | 2010      | 16,532            |
| Loan agreement            | TS-Retail (Note 25) | 13.0%                |      | August        | 2010      | 12,421            |
| Deposit                   | VTB                 | 8.5%                 |      | March         | 2010      | 9,919             |
| Deposit                   | UniBank             | 7.0%                 | 9.0% | January       | June 2010 | 7,666             |
| Deposit                   | Converse Bank       | 8.0%                 | 8.5% | January       | July 2010 | 1,600             |
| Deposit                   | AreximBank          | 9.0%                 |      | January       | 2010      | 1,000             |
| Other                     |                     |                      |      |               |           | 4,695             |
| <b>Total</b>              |                     |                      |      |               |           | <b>\$ 217,210</b> |

Short-term investments as of December 31, 2008 comprised the following:

| Type of investment                         | Contractor                          | Annual interest rate |  | Maturity date |      | Amount            |
|--|-------------------------------------|----------------------|--|---------------|------|-------------------|
| Deposit                                    | MBRD (Note 25)                      | 10.3%                |  | July          | 2009 | \$ 30,000         |
| Deposit                                    | MBRD (Note 25)                      | 7.5%                 |  | June          | 2009 | 15,000            |
| Promissory notes                           | Alt (Note 25)                       | 18.0%                |  | January       | 2009 | 85,091            |
| Promissory notes                           | Delfa (Note 25)                     | 18.0%                |  | January       | 2009 | 68,073            |
| Promissory notes                           | Finexcort (Note 25)                 | 16.5%                |  | January       | 2009 | 68,073            |
| Funds in trust management                  | MBRD (Note 25)                      | 16.0%                |  | March         | 2009 | 45,949            |
| Loan agreement                             | Sistema-Hals (Note 25)              | 11.0%                |  | December      | 2009 | 16,688            |
| Funds transferred to the investment broker | IFC Metropol                        | 0.0%                 |  | March         | 2009 | 11,981            |
| Loan agreement                             | Sky Link and subsidiaries (Note 25) | 11.0%                |  | Various       |      | 10,522            |
| Other                                      |                                     |                      |  |               |      | 8,740             |
| <b>Total</b>                               |                                     |                      |  |               |      | <b>\$ 360,117</b> |

**Beta Link** During the year ended December 31, 2008 the Group granted a short-term loan in the amount of \$28.2 million to Beta Link with a maturity date of December 2, 2009 and related interest of 9.0%. The Group had 49.0% of shares of Beta Link assigned as collateral pursuant to the loan agreement. As of December 31, 2008, the Group's management became aware of the deteriorated financial position of Beta Link. Further, in March 2009, Beta Link filed a bankruptcy petition to the Arbitration Court of Moscow. The Group's management believes that a probable risk exists that such loan may not be recovered. Accordingly, an allowance for the entire loan amount was recorded in the provision for doubtful accounts in the accompanying statement of operations for the year ended December 31, 2008.

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Trade receivables as of December 31, 2009 and 2008 comprised the following:

|                                 | December 31,   |                |
|---------------------------------|----------------|----------------|
|                                 | 2009           | 2008           |
| Subscribers                     | 323,135        | 239,782        |
| Interconnect                    | 108,376        | 105,430        |
| Dealers                         | 61,827         | 86,821         |
| Roaming                         | 159,119        | 33,958         |
| Other                           | 37,982         | 46,247         |
| Allowance for doubtful accounts | (97,337)       | (69,054)       |
| <b>Trade receivables, net</b>   | <b>593,102</b> | <b>443,184</b> |

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2009, 2008 and 2007:

|                                 | 2009     | 2008     | 2007     |
|---------------------------------|----------|----------|----------|
| Balance, beginning of year      | 69,054   | 69,716   | 67,708   |
| Provision for doubtful accounts | 104,125  | 97,459   | 63,966   |
| Accounts receivable written off | (75,280) | (84,363) | (66,096) |
| Currency translation adjustment | (562)    | (13,758) | 4,138    |
| Balance, end of year            | 97,337   | 69,054   | 69,716   |

**7. INVENTORY AND SPARE PARTS**

Inventory and spare parts as of December 31, 2009 and 2008, comprised the following:

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2009              | 2008              |
| Spare parts for telecommunication equipment | \$ 26,928         | \$ 69,008         |
| SIM cards and prepaid phone cards           | 23,821            | 24,026            |
| Equipment for resale                        | 164,974           | 36,694            |
| Advertising materials                       | 2,195             | 2,966             |
| Other materials                             | 20,775            | 8,419             |
| <b>Total inventory and spare parts</b>      | <b>\$ 238,693</b> | <b>\$ 141,113</b> |

Obsolescence expense for the years ended December 31, 2009, 2008 and 2007, amounted to \$4.1 million, \$3.9 million and \$4.9 million, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations.

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The net book value of property, plant and equipment as of December 31, 2009 and 2008, was as follows:

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2009                | 2008                |
| Network, base station equipment and related leasehold improvements | \$ 9,391,656        | \$ 8,080,872        |
| Office equipment, computers and other                              | 1,047,753           | 881,580             |
| Buildings and related leasehold improvements                       | 890,913             | 802,655             |
| Vehicles   | 54,105              | 54,855              |
| Property, plant and equipment, at cost                             | 11,384,427          | 9,819,962           |
| Accumulated depreciation   | (5,095,168)         | (4,038,053)         |
| Construction in progress and equipment for installation            | 1,456,072           | 1,976,311           |
| <b>Property, plant and equipment, net</b>                          | <b>\$ 7,745,331</b> | <b>\$ 7,758,220</b> |

Depreciation expenses during the years ended December 31, 2009, 2008 and 2007, amounted to \$1,387.0 million, \$1,537.1 million and \$1,145.7 million, respectively.

**9. CAPITAL LEASE OBLIGATIONS**

MGTS entered into several agreements for the lease of telecommunication equipment with InvestSvyazHolding, a subsidiary of Sistema. The agreements expire on various dates in 2008-2010 and provide for transfer of ownership of the equipment to the Group after the last lease payment is made. The interest rate implicit in the leases varies from 10% to 14%. Respective obligations are denominated in Euro. In addition to the agreements with InvestSvyazHolding, the Group has certain other leasing agreements with third parties; assets capitalized under these agreements and respective liabilities are not material.

The following is a summary of leased assets and respective depreciation as of December 31, 2009 and 2008:

|                             | 2009      | 2008      |
|-----------------------------|-----------|-----------|
| Telecommunication equipment | \$ 68,547 | \$ 70,563 |
| Vehicles                    | 9,995     | 12,114    |
| Buildings                   | 171       | 171       |
| Improvement                 | 1,096     |           |
| Leased assets, at cost      | \$ 79,809 | \$ 82,848 |
| Accumulated depreciation    | (36,380)  | (28,377)  |
| Leased assets, net          | \$ 43,429 | \$ 54,471 |

Depreciation of the assets recorded under capital leases is included in depreciation and amortization in the accompanying consolidated statements of operations. Interest expense accrued on



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capital lease obligations for the years ended December 31, 2009, 2008 and 2007 amounted to \$1.5 million, \$ 2.0 and \$ 3.3 million, respectively.

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

| <b>Payments due in the period ended December 31,</b> |               |
|--|---------------|
| 2010   | \$ 3,598      |
| 2011   | 1,066         |
| 2012   | 173           |
| 2013   | 172           |
| 2014   | 172           |
| After 2014   | 241           |
| <b>Total minimum lease payments (undiscounted)</b>   | <b>5,422</b>  |
| Less amount representing interest                    | (1,328)       |
| <b>Present value of net minimum lease payments</b>   | <b>4,094</b>  |
| Less current portion of lease obligations            | (3,173)       |
| <b>Non-current portion of lease obligations</b>      | <b>\$ 921</b> |

**10. LICENSES**

In connection with providing telecommunication services, the Group has been issued various GSM operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group has been granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local communication authorities.

As of December 31, 2009 and 2008, the recorded values of the Group's telecommunication licenses were as follows:

|                                 | <b>December 31,</b> |                   |
|---------------------------------|---------------------|-------------------|
|                                 | <b>2009</b>         | <b>2008</b>       |
| Russia                          | \$ 264,387          | \$ 275,883        |
| Uzbekistan                      | 196,517             | 196,517           |
| Armenia                         | 196,193             | 241,710           |
| Ukraine                         | 49,046              | 50,642            |
| Turkmenistan                    |                     | 18,685            |
| <b>Licenses, at cost</b>        | <b>706,143</b>      | <b>783,437</b>    |
| <b>Accumulated amortization</b> | <b>(341,421)</b>    | <b>(295,056)</b>  |
| <b>Licenses, net</b>            | <b>\$ 364,722</b>   | <b>\$ 488,381</b> |





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Amortization expense for the years ended December 31, 2009, 2008 and 2007, amounted to \$78.7 million, \$154.7 million and \$200.5 million, respectively.

As of December 31, 2009, operating license related to Turkmenistan was fully amortized and its respective cost and accumulated amortization was written off from the consolidated statement of financial position.

Based on the cost of amortizable operating licenses existing at December 31, 2009, the estimated future amortization expenses are \$70.2 million during 2010, \$51.3 million during 2011, \$35.2 million during 2012, \$30.6 million during 2013, \$29.8 million during 2014 and \$147.6 million thereafter. The actual amortization expense reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

Operating licenses contain a number of requirements and conditions specified by legislation. The requirements generally include the targets for start date of service, territorial coverage and expiration date. Management believes that the Group is in compliance with all material terms of its licenses.

Licenses that expired during the year ended December 31, 2009 and 2008 were renewed, however their carrying value in accompanying consolidated statements of financial position is immaterial due to low cost of renewal. Management does not presently assume renewals in its determination of the useful lives of its licenses as the Group has limited experience with renewal of licenses.

**11. GOODWILL**

The change in the net carrying amount of goodwill for 2009 and 2008 by reportable segments was as follows:

|                                     | Russia Mobile | Ukraine Mobile | Russia Fixed | Other      | Total      |
|-------------------------------------|---------------|----------------|--------------|------------|------------|
| Balance at January 1, 2008          | \$ 134,818    | \$ 8,000       | \$ 163,099   | \$ 216,632 | \$ 522,549 |
| Acquisitions (Note 3)               | 16,366        |                | 3,550        | 29,222     | 49,138     |
| Impairment                          |               |                | (49,891)     |            | (49,891)   |
| Currency translation adjustment     | (23,873)      | (2,492)        | (25,269)     | (691)      | (52,325)   |
| Balance at December 31, 2008        | 127,311       | 5,508          | 91,489       | 245,163    | 469,471    |
| Acquisitions (Note 3)               | 189,842       |                | 104,439      | 34,283     | 328,564    |
| Finalization of purchase accounting |               |                | 41,835       |            | 41,835     |
| Currency translation adjustment     | (3,636)       | (197)          | (1,397)      | (30,867)   | (36,097)   |
| Balance at December 31, 2009        | \$ 313,517    | \$ 5,311       | \$ 236,366   | \$ 248,579 | \$ 803,773 |

Based on goodwill impairment testing, as of December 31, 2008 the Group recorded an impairment loss of \$49.9 million included in other operating expenses in the accompanying statement of operations for the year ended December 31, 2008 and related to the acquisition of United Cable Networks by Sistema Mass Media in 2006. United Cable Networks were acquired by the Group in 2009 as part of acquisition of Stream-TV (see Note 3). The impairment loss was primarily caused by changes in management forecasts with respect to regional markets and increase in weighted average cost of



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**11. GOODWILL (Continued)**

capital due to the economic crisis. The fair value of the reporting units was measured using a combination of present value techniques, the Gordon model and earnings multiples.

As of December 31, 2009 no impairment of goodwill allocated to "Russia Fixed" reportable segment was recognized based on the goodwill impairment test. The fair value of the reporting unit was measured using a combination of present value techniques, the Gordon model and earnings multiples involving the assumptions that are based upon what management believes a hypothetical marketplace participant would use in estimating fair value on the measurement date. The most significant of these assumptions are as follows:

- (i) cost of capital was estimated at 14% based on internally calculated weighted average cost of capital and cost of capital estimated for Comstar-UTS by major market analysts;
- (ii) growth rate into perpetuity reflects the level of economic growth from the last forecasted period into perpetuity and reflects the long-term expectations for inflation. Management estimates these rates based on observable market data;
- (iii) operating expenses are forecasted with reference to the historic absolute and relative levels of expenses the Group has incurred in generating revenue in each reporting unit, operating strategies, specific forecasted operating expenses to be incurred and expectations on what these expenses would be like for an average market participant. Estimates of the forecasted operating expenses are developed from a number of internal and external sources, in combination with a process of on-going consultation with operational management; and
- (iv) forecasted capital expenditures, both recurring expenditure to replace retired assets and investments in new projects, are forecasted based on current strategies and specific forecast expenditures to be incurred, as well as expectations on what these costs would be like for an average market participant. Estimates of the forecasted capital expenditures are developed from a number of internal and external sources, in combination with a process of on-going consultation with operational management.

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## 12. OTHER INTANGIBLE ASSETS

Intangible assets as of December 31, 2009 and 2008 comprised the following:

|   | Useful<br>lives,<br>months | December 31, 2009          |                             |                          | December 31, 2008          |                             |                          |
|---|----------------------------|----------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|--------------------------|
|   |                            | Gross<br>carrying<br>value | Accumulated<br>amortization | Net<br>carrying<br>value | Gross<br>carrying<br>value | Accumulated<br>amortization | Net<br>carrying<br>value |
| <b>Amortized intangible assets</b>                  |                            |                            |                             |                          |                            |                             |                          |
| Billing and telecommunication software              | 13 to<br>240               | \$ 1,461,834               | \$ (896,243)                | \$ 565,591               | \$ 1,293,005               | \$ (710,988)                | \$ 582,017               |
| Acquired customer base                              | 20 to<br>240               | 221,536                    | (74,320)                    | 147,216                  | 381,054                    | (63,823)                    | 317,231                  |
| Rights to use radio frequencies                     | 24 to<br>180               | 239,475                    | (75,762)                    | 163,713                  | 205,923                    | (48,622)                    | 157,301                  |
| Accounting software                                 | 13 to<br>60                | 134,292                    | (79,480)                    | 54,812                   | 94,026                     | (41,140)                    | 52,886                   |
| Numbering capacity with finite contractual life     | 24 to<br>120               | 90,266                     | (80,822)                    | 9,444                    | 89,273                     | (76,727)                    | 12,546                   |
| Office software                                     | 13 to<br>60                | 71,997                     | (41,110)                    | 30,887                   | 57,833                     | (20,366)                    | 37,467                   |
| Other software                                      | 36 to<br>600               | 77,616                     | (29,680)                    | 47,936                   | 40,648                     | (9,440)                     | 31,208                   |
|   |                            | 2,297,016                  | (1,277,417)                 | 1,019,599                | 2,161,762                  | (971,106)                   | 1,190,656                |
| Numbering capacity with indefinite contractual life |                            | 47,737                     |                             | 47,737                   | 39,987                     |                             | 39,987                   |
| <b>Total other intangible assets</b>                |                            | <b>\$ 2,344,753</b>        | <b>\$ (1,277,417)</b>       | <b>\$ 1,067,336</b>      | <b>\$ 2,201,749</b>        | <b>\$ (971,106)</b>         | <b>\$ 1,230,643</b>      |

As a result of the limited availability of local telephone numbering capacity in Moscow and the Moscow region, MTS has been required to enter into agreements for the use of telephone numbering capacity with several telecommunication operators in Moscow. The costs of acquired numbering capacity with a finite contractual life are amortized over a period of two to ten years in accordance with the terms of the contracts to acquire such capacity. Numbering capacity with an indefinite contractual life is not amortized.

Amortization expense for the years ended December 31, 2009, 2008 and 2007 amounted to \$373.9 million, \$459.3 million and \$328.7 million, respectively. Based on the amortizable intangible assets existing at December 31, 2009, the estimated amortization expense is \$370.0 million for 2010, \$248.5 million for 2011, \$149.4 million for 2012, \$85.0 million for 2013, \$36.4 million for 2014 and \$130.3 million thereafter. The actual amortization expense reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives and other relevant factors.

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## 13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

As of December 31, 2009 and 2008, the Group's investments in and advances to associates comprised the following:

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2009              | 2008              |
| MTS Belarus equity investment                          | \$ 220,350        | \$ 237,427        |
| MTS Belarus loan receivable                            | 100               | 2,050             |
| Coral/Sistema Strategic Fund equity investment         |                   | 10,041            |
| Receivables from other investee companies              |                   | 369               |
| <b>Total investments in and advances to associates</b> | <b>\$ 220,450</b> | <b>\$ 249,887</b> |

**MTS Belarus** In April 2008 the Group entered into a credit facility agreement with MTS Belarus valid till March 15, 2009. The facility allowed MTS Belarus borrowing up to \$33.0 million and bears an interest of 10.0%. In 2009 the maturity date was extended to March 15, 2010 and the total allowable amount was increased to \$46.0 million. As of December 31, 2009, the balance outstanding under the facility was \$0.1 million. After the statement of financial position date the agreement with MTS Belarus was prolonged till March 15, 2011.

The financial position and results of operations of MTS Belarus as of and for the year ended December 31, 2009 were as follows:

|                   | (unaudited) |
|-------------------|-------------|
| Total assets      | \$ 498,278  |
| Total liabilities | 56,736      |
| Net income        | 143,061     |

**Coral/Sistema Strategic Fund** In the years ended December 31, 2007 and 2008, the Group purchased an equity interests in a limited partnership organized by Sistema. The purpose of the strategic fund was to invest in various projects in the telecommunications and high-technology area. The Group exercised significant influence over Coral and therefore the investment was accounted for using equity method.

As of December 31, 2009 the management of the Group determined that the investment was fully impaired, consequently the carrying value of the investment was written off in the amount of \$7.4 million and recorded in equity in net income/loss of associates in the accompanying consolidated statement of operations for the year then ended. As of December 31, 2009 the Group did not have any further commitment to invest in Coral according to the restructuring agreement which was signed by the partners of the fund in September 2009.

**TS-Retail** As discussed in Note 25, in the year ended December 31, 2007 the Group invested in TS-Retail, an equity investee, \$5.6 million. As of December 31, 2007 the investment was written off to \$nil.

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**13. INVESTMENTS IN AND ADVANCES TO ASSOCIATES (Continued)**

The Group's share in the earnings or losses of associates was included in other income in the accompanying consolidated statements of operations. For the years ended December 31, 2009, 2008 and 2007, this share amounted to \$60.3 million, \$75.7 million and \$71.1 million, respectively.

**14. INVESTMENT IN SHARES OF SVYAZINVEST**

In December 2006, as a part of its program of regional expansion, Comstar-UTS acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company ("Svyazinvest") from Mustcom Limited for a total consideration of approximately \$1,390.0 million, including cash of \$1,300.0 million and the fair value of the call and put option of \$90.0 million. Comstar-UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar-UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest. Svyazinvest is a holding company that holds controlling stakes in seven publicly traded fixed-line operators ("MRKs") based in seven federal districts of Russia.

Based on the analysis of all relevant factors, the management determined that the acquisition of 25% plus one share of Svyazinvest does not allow the Group to exercise significant influence over this entity due to its legal structure and certain limitations imposed by Svyazinvest charter documents. Accordingly, the Group accounts for its investment in Svyazinvest under the cost method.

In November 2009, the Group, Sistema and Svyazinvest ("the Parties") signed a non-binding memorandum of understanding ("MOU"), under which the Parties agreed to enter in the series of transactions which would ultimately result in (i) disposal of the Group's investment in Svyazinvest to a state-controlled enterprise; (ii) noncash extinguishment of the Group's indebtedness to Sberbank (see Note 17); (iii) increase in Sistema's ownership in Sky Link Group (currently a 50% affiliate of Sistema, see also Note 25) to 100% and disposal of this investment to a state-controlled enterprise; and (iv) disposal of 28% of MGTS' common stock owned by Svyazinvest to Sistema. In addition, certain cash consideration, the amount of which is yet to be negotiated between the parties, is to be paid to Svyazinvest under the MOU. The 28% stake in MGTS is then intended to be transferred to the Group.

Based on the estimated fair values of the elements of the assets to be exchanged and liabilities to be extinguished under the MOU and other relevant factors, management believes that as of December 31, 2009 there were indicators of potential impairment of the Group's investment in Svyazinvest.

Svyazinvest is a non-public entity and the Group has no access to consolidated financial information of Svyazinvest at a level of detail necessary to perform a complete fair value assessment of the Svyazinvest business directly, based on estimated future cash flows or otherwise. As a result, management has determined that the best estimate of the fair value of the Group's investment in Svyazinvest is the amount determined based on the MOU. Based on the MOU, the estimated fair value of the investment, which included significant unobservable inputs (Level 3 measurement), is approximately RUB 26.0 billion (\$859.7 million as of December 31, 2009).

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The following table represents carrying value of investment in Svyazinvest as of December 31, 2009 and 2008:

|                                 |                |
|---------------------------------|----------------|
| Balance at December 31,2008     | \$ 1,240,977   |
| Impairment loss                 | (349,370)      |
| Currency translation adjustment | (31,938)       |
| <br>Balance at December 31,2009 | <br>\$ 859,669 |

At the date of these consolidated financial statements, the Group did not have a legally binding commitment to enter into the transaction contemplated by the MOU and there is an uncertainty as to the ability of the Group to complete the transaction in a near future. Further, due to material uncertainties inherent in the valuation of Svyazinvest, the result could be materially different from the valuation performed by another party or using information which management of the Group does not have the ability to access, or from the amount the Group would be able to realize in an exchange transaction involving the investment in Svyazinvest.

**15. OTHER INVESTMENTS**

As of December 31, 2009 and 2008, the Group's other investments comprised of the following:

|  | Annual<br>interest rate | Maturity<br>date   | December 31,<br>2009 | December 31,<br>2008 |
|--|-------------------------|--------------------|----------------------|----------------------|
| Loans receivable from TS-Retail (Note 25)        | 11.0 - 15.0%            | August 2011        | 30,192               | 11,156               |
| Investment in Tammaron Ltd                       |                         | on demand          |                      | 21,230               |
| Promissory notes of Sistema Telecom (Note 25)    | 3.0 - 4.4%              | various in 2009    |                      | 51,966               |
| Investments in ordinary shares (Note 25)         |                         |                    | 11,724               | 12,091               |
| Loan receivable from Intellect Telecom (Note 25) | 7.0 - 11.0%             | July - August 2012 | 12,808               | 11,717               |
| Promissory notes of Sistema (Note 25)            | 0.0%                    | 2017               | 20,449               |                      |
| Other  |                         |                    | 3,720                | 3,399                |
| <br><b>Total other investments</b>               |                         |                    | <br><b>78,893</b>    | <br><b>111,559</b>   |

During the year ended December 31, 2008, the Group deposited in Tammaron Ltd., a company incorporated under the laws of the British Virgin Islands, an amount of \$21.2 million for the a potential business acquisition. During 2009 based on the analysis of the current Russian and global financial markets situation management believes that a significant uncertainty exists with regard to the completion of such transaction and accordingly a reserve for the entire amount has been provided by the Group as an impairment of investments in the Group's consolidated statement of operations for the year ended December 31, 2009.



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Restricted cash of \$6.4 million and \$23.6 million, as of December 31, 2009 and 2008, respectively, consists of cash deposited by Uzdurobita in a special bank account which was created to be in compliance with the government regulation for local currency conversion into foreign currencies.

The cash deposited will be converted from Uzbek Som into U.S. Dollars and used for settlements with suppliers of equipment and software.

**17. BORROWINGS**

*Notes* As of December 31, 2009 and 2008, the Group's notes consisted of the following:

|                               | Currency | Interest rate | 2009                | 2008                |
|-------------------------------|----------|---------------|---------------------|---------------------|
| MTS OJSC Notes due 2016       | RUB      | 14.25%        | \$ 495,963          | \$                  |
| MTS OJSC Notes due 2014       | RUB      | 16.75%        | 495,963             |                     |
| MTS Finance Notes due 2012    | USD      | 8.00%         | 400,000             | 400,000             |
| MTS Finance Notes due 2010    | USD      | 8.38%         | 400,000             | 400,000             |
| MTS OJSC Notes due 2018       | RUB      | 8.70%         | 323,698             | 268,544             |
| MTS OJSC Notes due 2015       | RUB      | 14.01%        | 248,213             | 255,272             |
| MTS OJSC Notes due 2013       | RUB      | 14.01%        | 247,981             | 255,272             |
| MGTS Notes due 2010           | RUB      | 16.00%        | 402                 | 5,202               |
| MGTS Notes due 2009           | RUB      | 7.10%         |                     | 5,233               |
| Less: unamortized discount    |          |               | (2,587)             | (548)               |
| <b>Total notes</b>            |          |               | <b>\$ 2,609,633</b> | <b>\$ 1,588,975</b> |
| Less: current portion         |          |               | (1,218,084)         | (10,435)            |
| <b>Total notes, long-term</b> |          |               | <b>\$ 1,391,549</b> | <b>\$ 1,578,540</b> |

The Group has an unconditional obligation to repurchase MTS OJSC Notes at par value if claimed by the noteholders subsequent to the announcement of the sequential coupon. The dates of the announcement for each particular note issue are as follows:

|                         |            |
|-------------------------|------------|
| MTS OJSC Notes due 2013 | April 2010 |
| MTS OJSC Notes due 2014 | May 2011   |
| MTS OJSC Notes due 2015 | April 2010 |
| MTS OJSC Notes due 2016 | June 2012  |
| MTS OJSC Notes due 2018 | June 2010  |

The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses the notes as maturing in 2010 (MTS OJSC Notes due 2013, 2015, 2018), in 2011 (MTS OJSC Notes due 2015) and in 2012 (MTS OJSC Notes due 2016) in the aggregated maturities schedule

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as these are the reporting periods when the noteholders will first have the unilateral right to demand repurchase.

The fair values of notes based on the market quotes as of December 31, 2009 at the stock exchanges where they are traded were as follows:

|                            | Stock exchange            | % of par | Fair value          |
|----------------------------|---------------------------|----------|---------------------|
| MTS OJSC Notes due 2016    | MICEX                     | 110.1    | \$ 546,055          |
| MTS OJSC Notes due 2014    | MICEX                     | 108.3    | 537,127             |
| MTS Finance Notes due 2012 | Luxembourg stock exchange | 104.6    | 418,400             |
| MTS Finance Notes due 2010 | Luxembourg stock exchange | 103.3    | 413,200             |
| MTS OJSC Notes due 2018    | MICEX                     | 99.9     | 323,375             |
| MTS OJSC Notes due 2015    | MICEX                     | 101.7    | 252,432             |
| MTS OJSC Notes due 2013    | MICEX                     | 102.0    | 252,941             |
| MGTS Notes due 2010        | MICEX                     | 98.4     | 396                 |
| <b>Total notes</b>         |                           |          | <b>\$ 2,743,926</b> |

Subject to certain exceptions and qualifications, the indentures governing MTS Finance Notes contain covenants limiting the Group's ability to incur debt, create liens, sell or transfer lease properties, enter into loan transactions with affiliates, merge or consolidate with another person or convey its properties and assets to another person, and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if the Group experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest. The notes also have cross default provisions with publicly traded debt issued by Sistema, the shareholder of the Group. The Group is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

The indenture governing MTS OJSC Notes contains certain covenants which limit the Group's ability to delist the notes from the quotation lists and delay the coupon payments.

Management believes that the Group is in compliance with all restrictive note covenants as of December 31, 2009.

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**Bank loans** As of December 31, 2009 and 2008, the Group's loans from banks and financial institutions consisted of the following:

|  | Maturity |      | Interest rate (actual at<br>December 31, 2009) | December 31,        |                     |
|--|----------|------|--|---------------------|---------------------|
|  |          |      |  | 2009                | 2008                |
| <b>USD-denominated:</b>                                    |          |      |  |                     |                     |
| Syndicated Loan Facility granted to MTS OJSC in 2006       | 2010     | 2011 | LIBOR+1.15% (1.58%)                            | \$ 323,077          | \$ 1,168,462        |
| Syndicated Loan Facility granted to MTS OJSC in 2009       | 2011     | 2012 | LIBOR+6.5% (6.93%)                             | 360,000             |                     |
|  |          |      | LIBOR+0.23% 1.8%                               |                     |                     |
| Skandinaviska Enskilda Banken AB                           | 2010     | 2017 | (0.66% 2.23%)                                  | 279,519             | 159,047             |
|  |          |      | LIBOR+1.51% 3.1%                               |                     |                     |
| EBRD   | 2010     | 2014 | (1.94% 3.53%)                                  | 150,000             | 183,333             |
| HSBC Bank plc and ING BHF Bank AG                          | 2010     | 2014 | LIBOR+0.3% (0.73%)                             | 90,985              | 110,727             |
| Citibank International plc and ING Bank N.V.               | 2010     | 2013 | LIBOR+0.43% (0.86%)                            | 84,560              | 106,358             |
| HSBC Bank plc, ING Bank and Bayerische Landesbank          | 2010     | 2015 | LIBOR+0.3% (0.73%)                             | 76,180              | 92,789              |
| Commerzbank AG, ING Bank AG and HSBC Bank plc              | 2010     | 2014 | LIBOR+0.3% (0.73%)                             | 66,557              | 81,348              |
|  |          |      | LIBOR+0.13% 0.15%                              |                     |                     |
| Barclays   | 2010     | 2014 | (0.56% 0.58%)                                  | 59,203              | 72,360              |
| ABN AMRO Bank N.V.   | 2010     | 2013 | LIBOR+0.35% (0.78%)                            | 25,149              | 31,436              |
| Promissory note Access Telecommunications Cooperatief U.A. |          | 2009 |  |                     | 263,552             |
| Other  | 2010     | 2013 | various  | 21,694              | 17,938              |
|  |          |      |  | <b>\$ 1,536,924</b> | <b>\$ 2,287,350</b> |

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## 17. BORROWINGS (Continued)

|   | Maturity |      | Interest rate (actual at<br>December 31, 2009)                     | December 31,        |                     |
|---|----------|------|--|---------------------|---------------------|
|   |          |      |  | 2009                | 2008                |
| <b>EUR-denominated:</b>                                 |          |      |  |                     |                     |
| Syndicated Loan Facility granted to MTS OJSC<br>in 2009 | 2011     | 2012 | EURIBOR+6.5%<br>(7.49%)  | 341,580             |                     |
| EBRD  | 2010     | 2016 | EURIBOR+6.5% 6.9%<br>(7.49% 7.89%)                                 | 312,743             |                     |
| European Investment Bank                                | 2010     | 2016 | EURIBOR+6.4%<br>(7.39%)  | 164,979             |                     |
| Gasprombank   | 2011     |      | 8.0%   | 143,460             | 423,150             |
| Nordic Investment Bank                                  | 2010     | 2016 | EURIBOR+6.5% 6.9%<br>(7.49% 7.89%)                                 | 114,768             |                     |
| ABN AMRO Bank N.V.                                      | 2010     | 2013 | EURIBOR+0.35%<br>(1.34%)   | 19,859              | 24,406              |
| Other   | 2010     | 2012 | various  | 5,972               | 16,425              |
|   |          |      |  | <b>\$ 1,103,361</b> | <b>\$ 463,981</b>   |
| <b>RUB-denominated:</b>                                 |          |      |  |                     |                     |
| Sberbank  | 2010     | 2012 | 13.35%   | 859,669             | 884,944             |
| Sberbank  | 2012     | 2013 | 11.75%   | 1,554,017           |                     |
| Sberbank  | 2011     |      | Refinancing rate of<br>the Central Bank of<br>Russia+2.25% (11.0%) | 396,770             |                     |
| Gazprombank   | 2012     |      | 13.0%  | 213,600             |                     |
| Other   | 2010     | 2012 | various  | 25,241              | 35,966              |
|   |          |      |  | <b>\$ 3,049,297</b> | <b>\$ 920,910</b>   |
| Debt-related parties                                    | 2010     | 2056 | various  | 26,207              | 94,776              |
|   |          |      |  | \$ 26,207           | \$ 94,776           |
| <b>Total bank loans</b>                                 |          |      |  | <b>\$ 5,715,789</b> | <b>\$ 3,767,017</b> |
| Less: current portion                                   |          |      |  | (780,514)           | (1,677,529)         |
| <b>Total bank loans, long-term</b>                      |          |      |  | <b>\$ 4,935,275</b> | <b>\$ 2,089,488</b> |

Interest rate of Sberbank loan maturing in 2012-2013 is set as 11.75% till March 27, 2010. For the subsequent periods (quarters) the rate is determined as a total of base rate (11.75%), rate A and rate B. Rate A and B depend on the average daily bank account balance for the period maintained by MTS OJSC and RTC with Sberbank. In case the balance maintained by MTS OJSC and RTC is below RUB 1.0 billion and RUB 0.5 billion, respectively, rates A and B are set at 0.5% each. No extra interest is charged if the average daily bank account balance maintained is equal or above RUB 1.0 billion for MTS OJSC and RUB 0.5 billion for RTC.

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**17. BORROWINGS (Continued)**

The loans of the Group are subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates, requirements to maintain ownership in certain subsidiaries.

Management believes that as of December 31, 2009 the Group is in compliance with all existing bank loan covenants.

**Pledges** The loan facility of RUB 26 billion (equivalent of \$859.7 million as of December 31, 2009) from Sberbank granted to Comstar-UTS is secured by pledge of a 25.0% plus one share stake in Svyazinvest and two RUB-denominated promissory notes of Sberbank purchased by Comstar-UTS in the total amount of RUB 4,334 million (\$143.3 million as of December 31, 2009).

The loan facility of RUB 25 billion (equivalent of \$826.6 million as of December 31, 2009) from Sberbank granted to MTS OJSC is secured by the pledge of 50.18% stake in Comstar-UTS as well as equipment with a net book value of RUB 30 billion as of December 31, 2009 (equivalent of \$991.9 million as of reporting date), with assigned pledge value of RUB 21 billion (equivalent of \$694.3 million as of reporting date).

The equipment with the fair value of approximately RUB 421.8 million (\$13.9 million as of December 31, 2009) acquired by Comstar-UTS under the vendor financing agreement with Cisco Capital is pledged as collateral against the outstanding liability of RUB 408.8 million (\$13.5 million as of December 31, 2009).

The vendor financing agreement between K-Telecom and Intracom, a related party, with total outstanding amount as of December 31, 2009 of \$23.2 million is secured by the telecommunication equipment and other assets supplied under the agreement with carrying value of \$17.1 million.

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

## 17. BORROWINGS (Continued)

*Available credit facilities* As of December 31, 2009, the Group's total available credit facilities amounted to \$1,666 million and related to the following credit lines:

|  | Maturity  | Interest rate | Commitment fees | Available till                | Available amount (USD equivalent) |
|--|-----------|---------------|-----------------|-------------------------------|-----------------------------------|
| Calyon, ING Bank N.V. and Nordea Bank AB | 2019/2020 | LIBOR +1.15%  | 0.40%           | August 2011/<br>December 2012 | \$ 1,073,371                      |
| Bank of China (BNP Paribas)              | 2016      | EURIBOR+1.95% | 0.60%           | December 2011                 | 212,500                           |
| Export Development Canada (EDC)          | 2012      | LIBOR +4.5%   | 1.50%           | December 2010                 | 165,000                           |
| Gazprombank                              | 2012      | 8.0%          | 0.75%           | January 2012                  | 143,460                           |
| Landesbank Baden-Wuerttemberg            | 2016      | EURIBOR+0.75% | 0.45%           | March 2010                    | 53,590                            |
| Gazprombank                              | 2012      | 13.0%         | 0.00%           | March 2010                    | 17,849                            |
| <b>Total available credit facilities</b> |           |               |                 |                               | <b>\$ 1,665,770</b>               |

The following table presents the aggregated scheduled maturities of the notes and bank loans principal outstanding as of December 31, 2009:

|   | Notes               | Bank loans          |
|---|---------------------|---------------------|
| Payments due in the year ended December 31, |                     |                     |
| 2010  | \$ 1,218,084        | \$ 780,514          |
| 2011  | 495,963             | 1,872,512           |
| 2012  | 895,586             | 1,834,103           |
| 2013  |                     | 893,030             |
| 2014  |                     | 149,222             |
| Thereafter                                  |                     | 186,408             |
| <b>Total</b>                                | <b>\$ 2,609,633</b> | <b>\$ 5,715,789</b> |

On February 24, 2010, subsequent to the statement of financial position date, the Group repaid the full amount due under the Syndicated Loan Facility granted to MTS OJSC in 2009 with an original maturity in 2011-2012. In the maturity schedule presented above, the principal outstanding as of December 31, 2009 under this facility and totaling \$701.6 million is included in payments due in the years ended December 31, 2011 and 2012 in the amounts of \$467.7 million and \$233.9 million, respectively, in accordance with their original maturity.

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As of December 31, 2009 and 2008, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Balance, beginning of the year             | \$ 62,053   | \$ 59,527   |
| Liabilities incurred in the current period | 3,923       | 3,840       |
| Accretion expense                          | 6,518       | 6,026       |
| Revisions in estimated cash flows          | 17,693      | 3,383       |
| Currency translation adjustment            | (1,504)     | (10,723)    |
| Balance, end of the year                   | \$ 88,683   | \$ 62,053   |

Revisions in estimated cash flows are attributable to the change in the estimated future useful life of the assets.

**19. DEFERRED CONNECTION FEES**

Deferred connection fees for the years ended December 31, 2009 and 2008, were as follows:

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
| Balance, beginning of the year                              | \$ 174,225  | \$ 216,511  |
| Payments received and deferred during the year              | 60,590      | 89,195      |
| Amounts amortized and recognized as revenue during the year | (67,057)    | (95,080)    |
| Currency translation adjustment                             | (4,660)     | (36,401)    |
| Balance, end of the year                                    | 163,098     | 174,225     |
| Less: current portion                                       | (46,930)    | (55,012)    |
| Non-current portion   | \$ 116,168  | \$ 119,213  |

MTS defers initial connection fees paid by subscribers for the activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (Note 2).

**20. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS**

MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the Moscow city wire line network from the real estate constructors free of charge as provided by

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the regulations of the city government. Property, plant and equipment contributions received by MGTS during the years ended December 31, 2009 and 2008 were as follows:

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Unamortized property, plant and equipment contributions, beginning of the year | \$ 93,197   | \$ 112,779  |
| Contributions received during the year   | 3,213       | 3,194       |
| Amortization for the year  | (3,408)     | (4,381)     |
| Currency translation effect  | (2,653)     | (18,395)    |
| Unamortized property, plant and equipment contributions, end of the year       | \$ 90,349   | \$ 93,197   |

**21. DERIVATIVE FINANCIAL INSTRUMENTS*****Cash flow hedging***

In 2009, 2008 and 2007 the Group entered into variable-to-fixed interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each interest rate swap matches the exact maturity dates of the underlying debt allowing for highly-effective hedges. Interest rate swap contracts outstanding as of December 31, 2009 mature in 2012-2015.

Further, in 2009 the Group entered into several cross-currency interest rate swap agreements. These contracts hedge the risk of both interest rate and currency fluctuations and assume periodical exchanges of both principal and interest payments from RUB-denominated amounts to USD- and Euro-denominated amounts to be exchanged at a specified rate. The rate was determined by the market spot rate upon issuance. These contracts also include an interest rate swap of a fixed USD- and Euro-denominated interest rate to a fixed RUB-denominated interest rate. The instruments are qualified for cash flow hedge accounting under the U.S. GAAP requirements. Each cross-currency interest rate swap matches the interest and principal payments of the underlying debt allowing for highly-effective hedges. Cross-currency interest rate swap contracts outstanding as of December 31, 2009 mature in 2010-2011.



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**21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

The following table presents the fair value of Group's derivative instruments designated as hedges in the consolidated statements of financial position as of December 31, 2009 and 2008.

|                                    | Statement of financial<br>position location | December 31,       |                    |
|------------------------------------|---|--------------------|--------------------|
|                                    |   | 2009               | 2008               |
| <b>Asset derivatives</b>           |   |                    |                    |
| Interest rate swaps                | Other non-current assets                    | \$ 3,391           |                    |
| <b>Total</b>                       |   | <b>\$ 3,391</b>    |                    |
| <b>Liability derivatives</b>       |   |                    |                    |
| Interest rate swaps                | Other long-term liabilities                 | \$ (32,636)        | \$ (20,892)        |
| Cross-currency interest rate swaps | Other payables                              | (9,211)            |                    |
| Cross-currency interest rate swaps | Other long-term liabilities                 | (17,348)           |                    |
| <b>Total</b>                       |   | <b>\$ (59,195)</b> | <b>\$ (20,892)</b> |

The following table presents the effect of Group's derivative instruments designated as hedges on the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007.

|                                    | Location of loss recognised               | Year ended December 31, |                   |      |
|------------------------------------|---|-------------------------|-------------------|------|
|                                    |   | 2009                    | 2008              | 2007 |
| Interest rate swaps                | Interest expense                          | \$ (8,392)              | \$ (2,002)        |      |
| Cross-currency interest rate swaps | Currency exchange and<br>transaction loss | (24,299)                |                   |      |
| <b>Total</b>                       |   | <b>\$ (32,691)</b>      | <b>\$ (2,002)</b> |      |

The ineffective portion of interest rate swap arrangements in amount of \$0.9 million was included in interest expense in consolidated statement of operations for the year ended December 31, 2009. The ineffective portion of cross-currency interest rate swap arrangements in amount of \$4.5 million was included in currency exchange and transaction loss in consolidated statement of operations for the year ended December 31, 2009.

The following table presents the effect of Group's derivative instruments designated as hedges on accumulated other comprehensive income for the years ended December 31, 2009, 2008 and 2007.

|  | 2009        | 2008        | 2007     |
|--|-------------|-------------|----------|
| Accumulated derivatives (loss)/gain, beginning of the year       | \$ (16,714) | \$ (355)    | \$ 759   |
| Fair value adjustments on hedging derivatives, net of tax        | (28,764)    | (18,361)    | (1,114)  |
| Amounts reclassified into earnings during the period, net of tax | 5,185       | 2,002       |          |
| Accumulated derivatives loss, end of the year                    | \$ (40,293) | \$ (16,714) | \$ (355) |

As of December 31, 2009, the outstanding hedge instruments were highly effective. Approximately \$48.6 million of net loss is expected to be reclassified into net income during the next twelve months.

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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

Cash inflows and outflows related to hedge instruments were included in the cash flows from operating activities in the consolidated statement of cash flows for the years ended December 31, 2009, 2008 and 2007.

*Non-designated derivative instruments*

**Foreign currency options** In 2009 the Group entered into foreign currency option agreements to manage the exposure to changes in currency exchange rates related to USD-denominated debt obligations. According to the agreements the Group has a combination of put and call option rights to acquire \$80.0 million of USD at rates within a range specified in contracts. These contracts were not designated for hedge accounting purposes. These currency option agreements will mature in 2010-2011.

**Purchased call option** In the third quarter of 2008 in order to mitigate the exposure resulting from the employee phantom option program introduced in April 2008 (see Note 24), Comstar-UTS acquired a phantom call option on its GDRs for \$19.4 million from an investment bank. The amount of cash paid was included in the cash flows from investing activities in the consolidated statement of cash flows for the year ended December 31, 2008. The agreement entitles Comstar-UTS to receive in the second quarter of 2010 a payment equal to the difference between the average of daily volume-weighted average trading prices of GDRs on the London Stock Exchange for the period between February 1 and March 31, 2010 and the phantom option exercise price of USD 10.2368, if positive, multiplied by 9,000,000. Subsequent to the acquisition of the instrument, the Group estimates the fair value of the respective asset using an option pricing model and re-measures it as of each reporting date. In April 2010 the purchased call option expired unexercised as it was out-of-money.

**Written call and put option** In 2006, simultaneously with the acquisition of the 25% stake plus one share in Svyazinvest (see Note 14), MGTS Finance S.A. and "2711 Centerville Cooperatief U.A." ("2711 UA"), an affiliate of Mustcom Limited, signed a call and put option agreement, which gives 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 had a right to 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 option.

Fair value of the call and put option as of December 11, 2006, the grant date, was estimated at \$90.0 million and included in cost of investment in Svyazinvest. The Group was estimating the fair value of the respective liability using an option pricing model and was re-measuring it as of each reporting date.

On December 7, 2007, Access Telecommunications Cooperatief U.A. ("Access", 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.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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(Amounts in thousands of U.S. Dollars, unless otherwise stated)

**21. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

On August 25, 2008, Access has initiated the process of exercising the put option, and on November 26, 2008 has sold MGTS Finance S.A. 46,232,000 shares of Comstar-UTS for the total of \$463.6 million, \$100.0 million of which had been paid on November 26, 2008 in cash, and the remaining portion had been restructured in the form of an interest-bearing promissory note repayable in four monthly installments. Cash payment in the amount of \$100.0 million was included in financing activities' section in the Group' consolidated statement of cash flows for the year ended December 31, 2008.

**Currency forward** In December 2008, to mitigate foreign currency risks under the USD-denominated notes payable to Access (see Note 25) Comstar-UTS entered into forward contracts with MBRD to acquire \$32.0 and \$68.0 million of U.S. Dollars in January and February 2009, respectively, at a rate of RUB 27.85 per one USD. In the year ended December 31, 2009 the instrument was redeemed. Net cash proceeds from the redemption of the instrument in the amount of \$20.2 million were included in the cash flows from operating activities in the consolidated statement of cash flows.

The following table presents the fair value of Group's derivative instruments not designated as hedges in the consolidated statements of financial position as of December 31, 2009 and 2008.

|                               | Statement of financial<br>position location | December 31,      |                  |
|-------------------------------|---|-------------------|------------------|
|                               |   | 2009              | 2008             |
| <b>Asset derivatives:</b>     |   |                   |                  |
| Purchased call option         | Other non-current assets                    |                   | \$ 5,830         |
| Currency forward              | Other current assets                        |                   | 9,734            |
| <b>Total</b>                  |   |                   | <b>\$ 15,564</b> |
| <b>Liability derivatives:</b> |   |                   |                  |
| Foreign currency options      | Other payables                              | \$ (2,654)        |                  |
| Foreign currency options      | Other long-term liabilities                 | (1,627)           |                  |
| <b>Total</b>                  |   | <b>\$ (4,281)</b> |                  |

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The following table presents the effect of Group's derivative instruments not designated as hedges on the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007.

|                             | Location of gain/(loss)<br>recognised  | Year ended December 31, |                    |                     |
|-----------------------------|--|-------------------------|--------------------|---------------------|
|                             |  | 2009                    | 2008               | 2007                |
| Foreign currency options    | Currency exchange and transaction loss | \$ (4,280)              | \$                 | \$                  |
| Purchased call option       | Change in fair value of derivatives    | (5,420)                 | (13,614)           |                     |
| Currency forward            | Currency exchange and transaction gain | 12,788                  | 10,165             |                     |
| Written call and put option | Change in fair value of derivatives    |                         | (27,940)           | (145,860)           |
| <b>Total</b>                |  | <b>\$ 3,088</b>         | <b>\$ (31,389)</b> | <b>\$ (145,860)</b> |

*Fair value of derivative instruments*

The following fair value hierarchy table presents information regarding Group's assets and liabilities associated with derivative agreements measured at fair value on a recurring basis as of December 31, 2009:

|  | Quoted prices in<br>active markets<br>for identical<br>assets or<br>liabilities<br>(Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Balance as of<br>December 31,<br>2009 |
|--|--|--|--|---------------------------------------|
| <i>Assets:</i>                               |  |  |  |                                       |
| Interest rate swap agreements                |  | \$ 3,391   |  | \$ 3,391                              |
| <i>Liabilities:</i>                          |  |  |  |                                       |
| Interest rate swap agreements                |  | \$ (32,636)  |  | \$ (32,636)                           |
| Cross-currency interest rate swap agreements |  | (26,559)   |  | (26,559)                              |
| Currency option agreements                   |  | (4,281)  |  | (4,281)                               |

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**22. ACCRUED LIABILITIES**

|                                       | December 31,      |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | 2009              | 2008              |
| Accruals for services                 | \$ 232,897        | \$ 224,803        |
| Accrued payroll and vacation          | 210,329           | 146,698           |
| Accruals for taxes                    | 241,838           | 131,971           |
| Accruals for payments to social funds | 12,396            | 10,134            |
| Interest payable on debt              | 127,953           | 49,711            |
| <b>Total accrued liabilities</b>      | <b>\$ 825,413</b> | <b>\$ 563,317</b> |

**23. INCOME TAX**

Provision for income taxes for the years ended December 31, 2009, 2008 and 2007 was as follows:

|   | December 31,      |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | 2009              | 2008              | 2007              |
| Current provision for income taxes      | \$ 402,511        | \$ 948,983        | \$ 937,036        |
| Deferred income tax benefit             | 101,444           | (206,102)         | (85,021)          |
| <b>Total provision for income taxes</b> | <b>\$ 503,955</b> | <b>\$ 742,881</b> | <b>\$ 852,015</b> |

The statutory income tax rates in jurisdictions in which the Group operates for 2009 were as follows: Russia 20.0%, Ukraine 25.0%, Uzbekistan 3.4%, Turkmenistan 20.0%, and Armenia 20.0%.

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The statutory income tax rate reconciled to the Group's effective income tax rate for the years ended December 31, 2009, 2008 and 2007 was as follows:

|   | 2009  | 2008  | 2007  |
|---|-------|-------|-------|
| Statutory income tax rate for the year                                    | 20.0% | 24.0% | 24.0% |
| Adjustments:  |       |       |       |
| Expenses not deductible for tax purposes                                  | 4.9   | 2.1   | 2.1   |
| Currency exchange and transaction loss                                    | 0.5   | 1.0   | 0.2   |
| Income tax provision  | (0.2) | 0.3   | 0.6   |
| Settlements with tax authorities on prior period income tax (2005 - 2008) | (2.9) |       |       |
| Revaluation of UMC tax base   |       | (1.8) |       |
| Different tax rate of foreign subsidiaries                                | (2.0) | (1.2) | 0.1   |
| Earnings distribution from subsidiaries                                   | 6.8   |       |       |
| Disposal of treasury stock  | (4.1) |       |       |
| Impairment of goodwill  |       | 0.4   |       |
| Change in fair value of derivative financial instruments                  | (0.1) | 0.3   | 1.1   |
| Change in valuation allowance   | 10.3  | (0.2) | (0.2) |
| Comstar corporate reorganization  | 0.4   |       |       |
| Increase in deferred tax liability subject to registration                |       |       | (0.3) |
| Other   | 0.1   | 0.5   | 0.1   |
| Effective income tax rate   | 33.7% | 25.4% | 27.7% |

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Temporary differences between the tax and accounting bases of assets and liabilities gave rise to the following deferred tax assets and liabilities as of December 31, 2009 and 2008:

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2009             | 2008             |
| Assets/(liabilities) arising from tax effect of:                |                  |                  |
| <b>Deferred tax assets</b>                                      |                  |                  |
| Depreciation of property, plant and equipment                   | \$ 212,606       | \$ 197,879       |
| Other intangible assets   | 12,770           | 8,967            |
| Deferred connection fees  | 33,610           | 35,873           |
| Subscriber prepayments  | 16,663           | 17,057           |
| Accrued expenses  | 130,603          | 155,508          |
| Provision for doubtful accounts                                 | 3,603            | 13,827           |
| Inventory obsolescence  | 3,046            | 2,004            |
| Loss carryforward   | 111,784          | 24,130           |
| Impairment of property, plant and equipment                     | 19,906           |                  |
| Valuation of investment in Svyazinvest                          | 78,761           |                  |
| Other   | 23,147           | 13,365           |
| Valuation allowance   | (182,308)        | (26,744)         |
| <b>Total deferred tax assets</b>                                | <b>464,191</b>   | <b>441,866</b>   |
| <b>Deferred tax liabilities</b>                                 |                  |                  |
| Licenses acquired   | \$ (59,746)      | \$ (104,443)     |
| Depreciation of property, plant and equipment                   | (188,611)        | (127,616)        |
| Customer base   | (2,695)          | (1,773)          |
| Other intangible assets   | (59,227)         | (75,040)         |
| Debt issuance cost  | (22,690)         | (7,446)          |
| Potential distributions from/to Group's subsidiaries/associates | (118,608)        |                  |
| Other   | (1,025)          | (39,662)         |
| <b>Total deferred tax liabilities</b>                           | <b>(452,602)</b> | <b>(355,980)</b> |
| <b>Net deferred tax asset</b>                                   | <b>11,589</b>    | <b>85,886</b>    |
| Net deferred tax asset, current                                 | \$ 212,687       | \$ 213,091       |
| Net deferred tax asset, non-current                             | \$ 97,355        | \$ 63,507        |
| Net deferred tax liability, long-term                           | \$ (298,453)     | \$ (190,712)     |

In 2009, to streamline the ownership structure within Comstar group and to enable legal merger of certain its subsidiaries, certain of Comstar's subsidiaries were sold to Comstar-UTS. As a result, deferred tax assets on tax losses carried forward of \$6.8 million were written down.



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The Group has the following significant balances for income tax losses carried forward as of December 31, 2009 and 2008:

| <b>Jurisdiction</b>                 | <b>Period for carry-forward</b> | <b>2009</b>       | <b>2008</b>      |
|-------------------------------------|---------------------------------|-------------------|------------------|
| Luxembourg (MGTS Finance S.A.)      | not limited                     | \$ 94,163         | \$ 12,773        |
| Russia (Comstar-UTS, RTC and other) | 2011 - 2019                     | 17,048            | 4,392            |
| USA                                 | not limited                     | 573               | 6,965            |
| <b>Total</b>                        |                                 | <b>\$ 111,784</b> | <b>\$ 24,130</b> |

Management established a valuation allowance against tax loss carry-forwards of MGTS Finance S.A. and \$30.9 million of deferred tax asset on valuation of investment in Svyazinvest which is allocable to MGTS Finance S.A. because there will be no sufficient future taxable income to realize those deferred tax assets. Management also established a valuation allowance for the remaining \$47.9 million of deferred tax asset on valuation of investment in Svyazinvest relating to Comstar-UTS, because such impairment loss, if realized, could be offset only against gains from disposal of Comstar-UTS' shares in subsidiaries and other investments, which, management believes, are not likely to arise in the foreseeable future.

In 2009 the Group recognized deferred income tax liabilities of \$70.5 million for income taxes on future dividend distributions from foreign subsidiaries (UMC and K-Telecom) which are based on \$1,431.9 million cumulative undistributed earnings of those foreign subsidiaries in accordance with local statutory accounting regulations (unaudited) because such earnings are intended to be repatriated. The Group did not record any deferred tax liabilities related to undistributed earnings of these subsidiaries in prior periods as there was no intention to repatriate the earnings.

No deferred tax liability was recognized on undistributed earnings of Uzdurobita as of December 31, 2009 as the Group plans to indefinitely reinvest those. As of December 31, 2009 and 2008 the amount of undistributed earnings of Uzdurobita in accordance with local statutory accounting regulations amounted to \$530.7 million and \$401.6 million, respectively (unaudited). Potential earnings distributions from BCTI are tax free, so that no deferred tax liability arises in this regard.

As of December 31, 2009, 2008 and 2007, the Group included accruals for uncertain tax positions in the amount of \$10.6 million, \$12.4 million and \$35.8 million, respectively, as a component of income tax payable.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|   | 2009      | 2008      | 2007    |
|---|-----------|-----------|---------|
| Balance, beginning of the year                              | \$ 12,360 | \$ 35,752 | 12,183  |
| Additions based on tax position related to the current year | 2,094     | 20,006    | 23,828  |
| Additions based on tax positions related to prior years     |           |           | 5,933   |
| Additions based on tax of acquired entities                 | 1,521     |           |         |
| Reduction in tax positions related to prior years           | (1,778)   | (11,692)  | (2,963) |
| Settlements with tax authorities                            | (3,305)   | (31,456)  | (3,628) |
| Currency translation adjustment                             | (258)     | (250)     | 399     |
| Balance, end of the year                                    | \$ 10,634 | \$ 12,360 | 35,752  |

Accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense for the years ended December 31, 2009, 2008 and 2007 amounted to (\$0.6) million, (\$1.0) million and (\$2.0) million, respectively, and are included in income tax expense in the accompanying consolidated statements of operations. Accrued interest and penalties were included in income tax payable in the accompanying consolidated statements of financial position and totalled to \$4.3 million and \$4.6 million as of December 31, 2009 and 2008, respectively. The Group does not expect the unrecognized tax benefits to change significantly over the next twelve months.

**24. SHARE BASED COMPENSATION****MTS***The Stock Option Plan*

In 2000, MTS established a stock bonus plan and stock option plan ("the 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. Since 2002, MTS has made several grants pursuant to its stock option plan to employees and directors of the Group. These options generally vest over a two year period from the date of the grant, contingent on continued employment of the grantee with MTS. The options are exercisable within two weeks after the vesting date, and, if not exercised, are forfeited. The exercise price of the options equaled the average market share price during the one hundred day period preceding the grant date.

In April 2008, the Board of Directors allotted an additional 651,035 ADSs (or 3,255,175 shares) to fund a Stock Option award to MTS' chief executive officer. The award vesting period is up to two years contingent upon employment with MTS. The award will vest only if at the end of the vesting period MTS is among the top 20 mobile operators in the world and top mobile operator in Russia and the 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%.

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**24. SHARE BASED COMPENSATION (Continued)**

A summary of the status of the Group's Stock Option Plan is presented below:

|  | Number of<br>shares | Weighted<br>average<br>exercise price<br>(per share),<br>U.S. Dollars | Weighted<br>average grant<br>date fair value<br>of options<br>(per share),<br>U.S. Dollars | Aggregate<br>intrinsic value |
|--|---------------------|---|--|------------------------------|
| Outstanding at<br>December 31,<br>2006 | 1,435,001           | \$ 6.89   | \$ 1.74  | \$ 743                       |
| Granted                                | 1,778,694           | 6.31  | 5.95   |                              |
| Exercised                              | (848,126)           | 6.89  | 1.74   |                              |
| Forfeited                              | (968,313)           | 6.66  | 2.65   |                              |
| Outstanding at<br>December 31,<br>2007 | 1,397,256           | \$ 6.31   | \$ 4.05  | \$ 5,236                     |
| Granted                                | 1,302,070           | 15.93   | 2.44   |                              |
| Exercised                              | (1,397,256)         | 6.31  | 4.05   |                              |
| Forfeited                              |                     |   |  |                              |
| Outstanding at<br>December 31,<br>2008 | 1,302,070           | \$ 15.93  | \$ 2.44  | \$                           |
| Granted                                |                     |   |  |                              |
| Exercised                              |                     |   |  |                              |
| Forfeited                              |                     |   |  |                              |
| Outstanding at<br>December 31,<br>2009 | 1,302,070           | \$ 15.93  | \$ 2.44  | \$                           |

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$nil, \$7.4 million and \$0.4 million, respectively.

Stock options outstanding as of December 31, 2009 will vest during the period ended July 1, 2010. None of the stock options outstanding as of December 31, 2009, 2008 were exercisable and therefore had a negative intrinsic value. None of the stock options outstanding as of December 31, 2007 were exercisable.

Compensation cost under Stock Option Plan of \$1.2 million, \$3.5 million and \$2.8 million was recognized in consolidated statements of operations during the years ended December 31, 2009, 2008 and 2007 respectively. Related deferred tax benefit amounted to \$0.2 million, \$0.7 million and \$0.6 million for the years ended December 2009, 2008 and 2007, respectively.



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The fair value of options granted during the year ended December 31, 2007 was estimated using the lattice model based on the following assumptions:

|  | <b>2007</b> |
|--|-------------|
| Risk free rate                                 | 3.1%        |
| Expected dividend yield                        | 0.3%        |
| Expected volatility                            | 40.3%       |
| Expected life, years                           | 2           |
| Fair value of options (per share), U.S. Dollar | \$ 5.95     |

The fair value of options granted during the year ended December 31, 2008 was estimated using the Monte-Carlo simulation model based on the following assumptions:

|   | <b>2008</b> |
|---|-------------|
| Risk free rate                                    | 2.3%        |
| Present value of expected dividends, U.S. Dollars | \$ 4.17     |
| Expected volatility                               | 40.0%       |
| Expected life, years                              | 2           |
| Fair value of options (per share), U.S. Dollar    | \$ 2.44     |

Expected volatilities were based on historical volatility of the MTS' ADSs.

The Group is required to estimate expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of the Stock Option Plan awards will be achieved and only recognize expense for those awards expected to vest. The effect of the estimated forfeitures on Group's operations was \$nil, \$2.3 million and \$1.7 million in 2009, 2008 and 2007, respectively.

As of December 31, 2009, there was \$0.6 million of total unrecognized compensation cost related to non-vested stock-based compensation awards under the Stock Option Plan. This amount will be recognized over the period through July 1, 2010.

***The Phantom Stock Plan***

In June 2007, MTS' Board of Directors approved the Phantom Stock Plan to provide deferred compensation to certain key employees (the "Participants") of the Group during 2007-2011. The plan is based on units equivalent to MTS ADSs (the "Phantom ADSs"). Each Phantom ADS is the equivalent of five MTS common shares. Under the Phantom Stock Plan, the Participants are entitled to a cash payment equal to the difference between the initial grant price and the price of Phantom ADSs determined based on average market share price during the one hundred day period preceding the vesting date, multiplied by the number of Phantom ADSs granted, upon vesting of the award. The average vesting period is two years from the grant date, contingent upon the continuing employment of the Participants by the Group. 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 for the same period.

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**24. SHARE BASED COMPENSATION (Continued)**

In April 2008, the Phantom Stock Plan was amended to increase the number of Phantom ADSs available under the plan from the initial 3,600,000 to 9,556,716 ADSs and to increase the number of Participants potentially eligible for the Plan to up to 420 top- and mid-level managers of the Group. Further, under the amended Plan, the Phantom ADSs 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 top mobile operator in Russia and the CIS, in each case in terms of revenue, and the 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 are entitled to a cash payment equal to the difference between the initial grant price and the price of Phantom ADSs determined based on average market share price during the one hundred day period preceding the vesting date, multiplied by the number of Phantom ADSs granted and adjusted by the ratio that reflects actual market capitalization growth rate. During the year ended December 31, 2008, 6,676,716 ADSs were granted to the participants, 4,562,830 of which were granted on May 1, 2008 (Phantom Grant 2008 (I)) and 2,113,886 ADSs were granted on July 1, 2008 (Phantom Grant 2008 (II)). The Phantom Grant 2008 (I) was expired on July 1, 2009 and non of the Phantom Shares under the Phantom Grant 2008 (I) were exercisable as of the expiration date. Phantom Grant 2008 (II) will vest in 24 months after the grant date, contingent upon the continuing employment of the Participants.

A summary of the status of the Group's Phantom Stock Plan is presented below:

|                                  | Number of ADSs | Weighted average exercise price (per ADS), U.S. Dollar | Weighted average fair value of options (per ADS), U.S. Dollar | Aggregate intrinsic value |
|----------------------------------|----------------|--|---|---------------------------|
| Outstanding at December 31, 2006 |                |  |   |                           |
| Granted                          | 720,000        | 56.79  | 44.00   |                           |
| Exercised                        |                |  |   |                           |
| Forfeited                        | (36,664)       | 56.79  | 44.00   |                           |
| Outstanding at December 31, 2007 | 683,336        | \$ 56.79   | \$ 44.00  | \$ 30,750                 |
| Granted                          | 6,676,716      | 76.64  | 0.68  |                           |
| Exercised                        |                |  |   |                           |
| Forfeited                        | (1,346,442)    | 72.02  | 0.88  |                           |
| Outstanding at December 31, 2008 | 6,013,610      | \$ 75.41   | \$ 0.78   | \$                        |
| Granted                          |                |  |   |                           |
| Exercised                        |                |  |   |                           |
| Expired                          | (3,883,144)    | 73.51  |   |                           |
| Forfeited                        | (531,833)      | 76.62  | 0.03  |                           |
| Outstanding at December 31, 2009 | 1,598,633      | 79.63  | 0.06  |                           |

None of the Phantom ADSs expired during the year ended December 31, 2009 were exercisable as of the expiration date which is July 1, 2009 for the Phantom Stock Grant 2007 and 2008 (I).

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All Phantom ADSs outstanding as of December 31, 2009 are non-vested and will vest during the period ended July 1, 2010. None of the Phantom Shares were exercisable as of December 31, 2009 and therefore had a negative intrinsic value.

The fair value of the liability under the Phantom Stock Plan as of December 31, 2009 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

|  | <b>Phantom<br/>Grant 2008 (II)</b> |
|--|------------------------------------|
| Risk free rate   | Ranged from<br>0.05% to 0.2%       |
| Present value of expected dividends, U.S. Dollars                  | 1.62                               |
| Expected volatility  | 50%                                |
| Remaining vesting period, years                                    | 0.5                                |
| Fair value of phantom share award (per phantom share), U.S. Dollar | 0.06                               |

The fair value of the liability under the Phantom Stock Plan as of December 31, 2008 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

|  | <b>Phantom<br/>Grant 2007</b> | <b>Phantom<br/>Grant 2008 (I)</b> | <b>Phantom<br/>Grant 2008 (II)</b> |
|--|-------------------------------|-----------------------------------|------------------------------------|
| Risk free rate   | 0.2%                          | 0.4%                              | 0.4%                               |
| Present value of expected dividends, U.S. Dollars                  | 2.7                           | 2.7                               | 4.1                                |
| Expected volatility  | 135%                          | 90%                               | 90%                                |
| Remaining vesting period, years                                    | 0.5                           | 0.5                               | 1.5                                |
| Fair value of phantom share award (per phantom share), U.S. Dollar | 2.00                          | 0.07                              | 1.99                               |

The fair value of the liability under the Phantom Stock Plan as of December 31, 2007 was estimated using the Monte-Carlo simulation technique based on the following assumptions:

|  | <b>Phantom<br/>Grant 2007</b> |
|--|-------------------------------|
| Risk free rate   | 3.1%                          |
| Present value of expected dividends, U.S. Dollars          | \$ 5.3                        |
| Expected volatility  | 40.3%                         |
| Remaining vesting period, years                            | 1.5                           |
| Fair value of phantom share award (per share), U.S. Dollar | \$ 8.8                        |

Expected volatilities were based on historical and implied volatility of the MTS' ADSs.

For the year ended December 31, 2009 a reversal of previously recorded expense under the Phantom Stock Grant 2007, 2008 (I) and 2008 (II) in the amount of \$0.5 million, \$0.1 million and



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**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES**

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**24. SHARE BASED COMPENSATION (Continued)**

\$0.8 million, respectively, was recognized in the consolidated statements of operations as a result of underlying stock price decrease. Related deferred tax expense amounted to \$0.3 million.

For the year ended December 31, 2008 a reversal of previously recorded expense in the amount of \$8.9 million under the Phantom Stock Grant 2007 was recognized in the consolidated statements of operations as a result of underlying stock price decrease. Related deferred tax expense amounted to \$1.8 million. The compensation cost under the Phantom Stock Grant 2008 (I) and (II) recognized in the consolidated statement of operations for the year ended December 31, 2008 amounted to \$1.3 million and the related deferred tax benefit amounted to \$0.3 million.

The compensation cost under the Phantom Stock Plan recognized in consolidated statement of operations for the year ended December 31, 2007 amounted to \$7.6 million and the related deferred tax benefit amounted to \$1.8 million.

As of December 31, 2009, there was \$0.02 million of total unrecognized compensation cost related to non-vested Phantom ADSs. This amount is expected to be recognized over a weighted-average period of 0.5 years. The Group is required to estimate expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of the Phantom ADSs awards will be achieved and only recognize expense for those awards expected to vest. The Group's estimated forfeiture rate was 5.1%. The effect of forfeitures amounted to \$nil, \$1.5 and \$2.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

**Comstar-UTS**

***The 2006 Program***

On September 15, 2006, the Extraordinary General Meeting of shareholders approved the stock option and stock bonus program ("the 2006 Program") for the Board of Directors and senior management of Comstar-UTS. The 2006 Program was being implemented based on separate decisions of the Board of Directors. In November 2006, the Board of Directors of Comstar-UTS approved the grant of stock options to certain members of the Board of Directors and senior management of Comstar-UTS. The exercise price for these options is RUB 122.3 per one GDR (approximately USD 4.6 as of the grant date). These stock options were to cliff-vest in two years from the date of the grant and were exercisable over a period of 1 month after vesting. The 2006 Program provided for the ability of Comstar-UTS to repurchase the GDRs issued under the 2006 Program from the participants, subject to separate decision of the Board of Directors. Management believed that possibility of such repurchase was remote; accordingly, the 2006 Program originally was classified as equity. In March 2008, the Board of Directors of Comstar-UTS has approved the repurchase of the GDRs purchased by the participants at the exercise of the options back to Comstar-UTS at a price equal to an average price of one GDR for the 60 calendar days preceding the date of exercise weighted by trading volumes of Comstar-UTS GDRs on the London Stock Exchange. Accordingly, as of December 31, 2007 Comstar-UTS changed its estimate and re-classified the option program as liability.

During the year ended December 31, 2008 certain options have been forfeited, as employment of certain members of management and the Board of Directors has been terminated.

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In June 2008, General shareholder meeting of Comstar-UTS has taken the decision to denominate the exercise price in USD at USD 4.60 per share. The change did not have a significant impact on compensation expense recognized by Comstar-UTS.

In November 2008, the participants of the 2006 Program fully exercised their vested options, acquired 2,403,159 GDRs from Comstar-UTS for USD 4.60 per one GDR. The GDRs were then repurchased by Comstar-UTS at USD 5.34 per one GDR, and the 2006 Program was closed. Total intrinsic value of the exercised options, taking into account the repurchase feature, amounted to \$1.8 million. The costs recognized in accordance with the 2006 Program for the years ended December 31, 2008 approximated (\$9.2) million (a reversal).

The following table summarizes information about non-vested common stock options during the year ended December 31, 2008:

|   | Quantity    | Exercise price,<br>U.S. Dollar | Weighted<br>average grant-<br>date fair value,<br>U.S. Dollar |
|---|-------------|--------------------------------|---|
| Non-vested options at January 1, 2008   | 2,403,159   | n/a                            | 3.16  |
| Options granted                         |             |                                |   |
| Options vested                          | (2,403,159) | 4.60                           | 3.16  |
| Options forfeited                       |             |                                |   |
| Non-vested options at December 31, 2008 |             |                                |   |

***Phantom Option Program***

In March 2008, the Board of Directors of Comstar-UTS approved the employee phantom option program. Each phantom option is subject to the successful attainment of multiple market and performance conditions, such as shareholder return, market position and revenue growth. The compensation expense for these awards may be adjusted for subsequent changes in the estimated or actual outcome of the performance conditions of Comstar-UTS. The phantom options granted during 2008 vest on March 31, 2010. Upon vesting, the participants will be entitled to a 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, if positive, timed by the number of phantom options granted.

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The following table summarizes information about phantom options during the years ended December 31, 2009 and 2008:

|   | Quantity    | Exercise price,<br>U.S. Dollar | Weighted<br>average grant-<br>date fair value,<br>U.S. Dollar |
|---|-------------|--------------------------------|---|
| Outstanding at January 1, 2008                    |             |                                |   |
| Granted   | 13,065,882  | 10.2368                        | 2.36  |
| Forfeited   | (940,000)   | 10.2368                        | 2.37  |
| Outstanding at December 31, 2008 (all non-vested) | 12,125,882  | 10.2368                        | 2.36  |
| Granted   |             |                                |   |
| Forfeited   | (1,580,000) | 10.2368                        | 2.37  |
| Outstanding at December 31, 2009 (all non-vested) | 10,545,882  | 10.2368                        | 2.35  |

Comstar-UTS estimates the fair value of the phantom options using stock option pricing model based on Monte-Carlo simulation technique. The following assumptions were used in the option-pricing model as of December 31, 2009 and 2008:

|   | 2009     | 2008     |
|---|----------|----------|
| Risk-free interest rate                             | 0.1%     | 2.4%     |
| Expected residual option life (months)              | 3        | 15       |
| Expected dividends                                  | Nil      | Notional |
| Expected volatility                                 | 97%      | 82%      |
| Fair value of options (per share) as of December 31 | USD 0.03 | USD 0.36 |

Expected volatility as of December 31, 2009 was based on historical volatility of the GDRs of Comstar-UTS in the fourth quarter of 2009. The costs recognized in accordance with phantom option plan for the years ended December 31, 2009 and 2008 amounted to negative \$2.0 million and \$2.3 million, respectively. Total expected future compensation cost related to non-vested awards not yet recognized as of December 31, 2009 which will be recognized on a straight-line basis over the three months ending March 31, 2010 was immaterial.

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Related parties include entities under common ownership and control with the Group, affiliated companies and Svyazinvest, in which the Group owns 25% plus one share stake (see Note 14) and which owns approximately 28% voting shares in MGTS, a subsidiary of Comstar-UTS.

As of December 31, 2009 and 2008, accounts receivable from and accounts payable to related parties were as follows:

|   | <b>December 31,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2009</b>         | <b>2008</b>       |
| <b>Accounts receivable:</b>                                 |                     |                   |
| Sky Link and subsidiaries, an affiliate of Sistema          | \$ 7,467            | \$ 4,319          |
| Svyazinvest and subsidiaries                                | 4,446               | 9,334             |
| TS-Retail, a subsidiary of Sistema                          | 3,278               | 16,271            |
| Sitronics, a subsidiary of Sistema                          | 1,933               |                   |
| Intellect Telecom, a subsidiary of Sistema                  | 622                 | 1,073             |
| Sistema Mass Media, a subsidiary of Sistema                 | 204                 | 14,416            |
| Glaxen, a minority shareholder of a subsidiary of the Group |                     | 12,215            |
| Mezhregion Tranzit Telecom, an affiliate of Sistema         |                     | 8,323             |
| Other related parties                                       | 2,023               | 4,669             |
| <b>Total accounts receivable, related parties</b>           | <b>\$ 19,973</b>    | <b>\$ 70,620</b>  |
| <b>Accounts payable:</b>                                    |                     |                   |
| Sitronics, a subsidiary of Sistema                          | \$ 68,296           | \$ 162,906        |
| Maxima, a subsidiary of Sistema                             | 6,511               | 15,168            |
| TS-Retail, a subsidiary of Sistema                          | 5,739               |                   |
| Svyazinvest and subsidiaries                                | 2,299               | 6,387             |
| Mezhregion Tranzit Telecom, an affiliate of Sistema         |                     | 18,257            |
| Mediaplanning, a subsidiary of Sistema                      |                     | 6,118             |
| Sistema Telecom, a subsidiary of Sistema                    | 861                 | 2,697             |
| Sistema Mass Media, a subsidiary of Sistema                 |                     | 7,675             |
| Sky Link and subsidiaries, an affiliate of Sistema          | 488                 |                   |
| Other related parties                                       | 3,209               | 7,274             |
| <b>Total accounts payable, related parties</b>              | <b>\$ 87,403</b>    | <b>\$ 226,482</b> |

The Group does not have the intent and ability to offset the outstanding accounts payable and accounts receivable with related parties under the terms of existing agreements with them.

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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## 25. RELATED PARTIES (Continued)

*Operating Transactions*

For the years ended December 31, 2009, 2008 and 2007, operating transactions with related parties are as follows:

|  | 2009              | 2008              | 2007              |
|--|-------------------|-------------------|-------------------|
| <b>Revenues from related parties:</b>  |                   |                   |                   |
| Svyazinvest and subsidiaries (interconnection, commission for provision of DLD/ILD services to the Group's subscribers and other)                                      | \$ 43,174         | \$ 63,147         | \$ 69,094         |
| TS-Retail, a subsidiary of Sistema (Sales of handsets and accessories)   | 20,689            | 1,500             |                   |
| Mezhregion Tranzit Telecom, an affiliate of Sistema (interconnection, line rental, commission for provision of DLD/ILD services to the Group's subscribers, and other) | 11,465            | 128,560           | 93,224            |
| Sky Link and subsidiaries, an affiliate of Sistema (interconnection and other)   | 9,857             | 7,977             | 9,857             |
| Other related parties  | 7,653             | 10,306            | 6,137             |
| <b>Total revenues to related parties</b>   | <b>\$ 92,838</b>  | <b>\$ 211,490</b> | <b>\$ 178,312</b> |
| <b>Operating expenses incurred on transactions with related parties:</b>   |                   |                   |                   |
| RA Maxima, a subsidiary of Sistema (advertising)   | \$ 102,005        | \$ 138,756        | \$ 134,878        |
| Sitronics, a subsidiary of Sistema (IT consulting)   | 52,211            | 39,646            | 35,889            |
| Svyazinvest and subsidiaries (interconnection and other)   | 28,997            | 41,533            | 36,633            |
| Mediaplanning, a subsidiary of Sistema (advertising)   | 23,782            | 82,036            | 48,756            |
| Mezhregion Tranzit Telecom, an affiliate of Sistema (interconnection, line rental and other)   | 18,115            | 191,155           | 121,355           |
| TS-Retail, a subsidiary of Sistema (dealer commission)   | 17,889            | 4,448             | 133               |
| Sistema Telecom, a subsidiary of Sistema (use of the brand name)   | 11,738            | 14,676            | 14,556            |
| City Hals, a subsidiary of Sistema (rent, repair, maintenance and cleaning services)   | 9,988             | 13,835            | 9,466             |
| AB Safety, an affiliate of Sistema (security services)   | 5,576             |                   |                   |
| Other related parties  | 17,931            | 14,296            | 12,199            |
| <b>Total operating expenses incurred on transactions with related parties</b>  | <b>\$ 288,232</b> | <b>\$ 540,381</b> | <b>\$ 413,865</b> |

In addition to above, for the years ended December 31, 2009, 2008 and 2007 the Group received dividends from Svyazinvest totaling \$nil, \$2.4 million and \$1.9 million, respectively.

In the year ended December 31, 2007 Comstar-Direct, a subsidiary of Comstar-UTS, sold substantially all TV content and certain property, plant and equipment to Sistema Mass Media for \$14.8 million (exclusive of VAT). Respective gains totalling \$2.7 million were included in other income in the accompanying consolidated statement of operations. In the year ended December 31, 2008,

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**25. RELATED PARTIES (Continued)**

respective receivables were transferred to SMM in the course of reorganization of Comstar-Direct (see Note 3).

*Investing and financing transactions*

During the years ended December 31, 2009 and 2008 the Group made certain investments in and loans to related parties. Respective balances are summarized as follows:

|   | December 31,     |                   |
|---|------------------|-------------------|
|   | 2009             | 2008              |
| <b>Loans to, promissory notes and investments in shares of related parties:</b> |                  |                   |
| <b>Short-term investments (Note 5)</b>  |                  |                   |
| TS-Retail, a subsidiary of Sistema  | \$ 12,421        |                   |
| MBRD, a subsidiary of Sistema   | 992              | \$ 90,949         |
| Alt, a related party of Sistema   |                  | 85,091            |
| Delfa, a related party of Sistema   |                  | 68,073            |
| Finexcort, a subsidiary of Sistema  |                  | 68,073            |
| Sistema-Hals, an affiliate of Sistema   |                  | 16,688            |
| Sky Link and subsidiaries, an affiliate of Sistema                              |                  | 10,522            |
| <b>Total short-term investments to related parties</b>                          | <b>\$ 13,413</b> | <b>\$ 339,396</b> |
| <b>Other investments (Note 15)</b>  |                  |                   |
| TS-Retail, a subsidiary of Sistema  | 30,192           | 11,156            |
| Sistema   | 20,449           |                   |
| Intellect Telecom, a subsidiary of Sistema                                      | 12,808           | 11,717            |
| Sistema Telecom, a subsidiary of Sistema  |                  | 51,966            |
| <b>Total other investments to related parties</b>                               | <b>\$ 63,449</b> | <b>\$ 74,839</b>  |
| <b>Investments in shares (Note 15)</b>  |                  |                   |
| MBRD, a subsidiary of Sistema   | 5,248            | 5,401             |
| Sistema Mass Media, a subsidiary of Sistema                                     | 3,856            | 3,970             |
| Other   | 1,434            | 1,510             |
| <b>Total investments in shares of related parties</b>                           | <b>\$ 10,538</b> | <b>\$ 10,881</b>  |

*Moscow Bank of Reconstruction and Development ("MBRD")* The Group has a number of loan agreements and also maintains certain bank and deposit accounts with MBRD, whose major shareholder is Sistema. As of December 31, 2009 and 2008, the Group cash position at MBRD amounted to \$963.6 million and \$242.4 million in current accounts, respectively. Deposit accounts at MBRD amounted to \$1.0 million and \$195.7 million as of December 31, 2009 and 2008, respectively. Deposit accounts in MBRD included deposit accounts with original maturities in excess of three months but less than twelve months totaling \$1.0 million and \$90.9 million as of December 31, 2009 and 2008, respectively, which are classified as short-term investments in the accompanying consolidated



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**25. RELATED PARTIES (Continued)**

statements of financial position. The interest accrued on the deposits for the years ended December 31, 2009, 2008 and 2007, amounted to \$25.1 million, \$43.2 million and \$22.8 million, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

Loans payable to MBRD amounted to \$1.2 million and \$8.6 million as of December 31, 2009 and 2008, respectively. Interest expense on these loans for the years ended December 31, 2009 and 2008, 2007 amounted to \$0.8 million, \$1.3 million and \$1.0 million, respectively.

**Sistema** In November 2009, the Group accepted a promissory note from Sistema as repayment of a loan principle and interest accrued to date under the agreement with Sistema-Hals (see Note 5). The note has zero interest rate and is repayable in 2017. As of December 31, 2009 the amount receivable of \$20.4 million was included in other investments in the accompanying consolidated statement of financial position.

In the year ended December 31, 2000 following the indemnification obtained from Sistema to repay debt from Ericsson Project Finance, the Group entered into a long-term, RUB-denominated promissory notes with zero interest rate and maturities from 2049 to 2056 to reimburse payments made by Sistema. As of December 31, 2009 and 2008 the carrying values of these notes amounted to \$1.8 million and \$nil, respectively.

**Sistema Mass Media ("SMM")** In 2008 and 2009, the Group had various loans and promissory notes payable to SMM, a subsidiary of Sistema. As of December 31, 2009 these loans and notes were fully repaid. Interest expense on these loans and notes for the years ended December 31, 2009 and 2008, 2007 amounted to \$1.4 million, \$8.1 million and \$1.5 million, respectively.

**Intellect Telecom** During the years ended December 31, 2009 MGTS, a subsidiary of Comstar-UTS, and MTS itself granted loans to Intellect Telecom, a subsidiary of Sistema. Loans bear interest of 7.0% and 11.0%, respectively, and mature in 2012.

**Sistema Telecom** In June 2009, the Group transferred RUB-denominated promissory notes of Sistema Telecom, a subsidiary of Sistema, for the total amount of \$8.7 million to SMM for partial extinguishment of the Group's debt payable to SMM. In December 2009 the remaining portions of the notes were partly offset against the Group's payables to Sistema Telecom and partly repaid in cash by Sistema Telecom.

**Investments in ordinary shares** As of December 31, 2009 and 2008 the Group had several investments in share capitals of subsidiaries and affiliates of Sistema for \$10.5 million and \$10.9 million, respectively, which were individually immaterial. The main investments related to two subsidiaries of Sistema: MBRD of 4.56% and Sistema Mass Media of 3.14%.

**Promissory notes of Alt, Delfa and Finexcort** In December 2008, the Group purchased promissory notes of Alt, Delfa, related parties of Sistema, and Finexcort, a subsidiary of Sistema. As of December 31, 2008 the total amount of \$221.2 was included in short-term investments in the accompanying consolidated statements of financial position. The notes, together with interest accrued, were redeemed in the first quarter of 2009.



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**25. RELATED PARTIES (Continued)**

***Sky Link and subsidiaries*** In 2009 and 2008, Sky Link, an affiliate of Sistema, repaid the Group \$14.3 million and \$3.4 million, respectively, of outstanding indebtedness, which resulted in partial reversal of a provision for uncollectible loans recorded by the Group in 2007 and recognition of a gain of \$4.3 million in the accompanying consolidated statement of operations for the year ended December 31, 2009.

***Sitronics*** During the years ended December 31, 2009, 2008 and 2007, the Group acquired from Sitronics Group, a subsidiary of Sistema, telecommunications equipment, software and billing systems (FORIS) for approximately \$190.1 million, \$357.6 million and \$222.1 million, respectively. In addition during the years ended December 31, 2009, 2008 and 2007, the Group purchased SIM cards and prepaid phone cards from Sitronics Smart Technologies, a subsidiary of Sitronics, for approximately \$32.4 million, \$39.6 million and \$19.2 million, respectively. As of December 31, 2009 and 2008 the advances given to Sitronics and its subsidiaries amounted to \$23.7 million and \$1.7 million, respectively. These amounts were included into property, plant and equipment in the accompanying consolidated statements of financial position.

***Sistema-Hals*** In October 2008, the Group entered into an agreement for the construction of an aerial system in Moscow metro with Sistema-Hals, an affiliate of Sistema. As of December 31, 2009 and 2008 the advances given to Sistema-Hals under this agreement amounted to \$6.7 million and \$11.7 million, respectively. These amounts were included into property, plant and equipment in the accompanying consolidated statements of financial position.

MGTS, a subsidiary of Comstar-UTS, entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, on project development and reconstruction of buildings which house MGTS' automatic telephone exchanges. As of December 31, 2009 and 2008, as a result of the work performed by Sistema-Hals under these contracts, MGTS recorded a liability of \$38.3 million and \$36.8 million, respectively, payable to Sistema-Hals that was recorded in the accompanying consolidated statements of financial position.

***TS-Retail*** In November 2006, MTS established a wholly-owned subsidiary, TS-Retail, with a registered capital of \$1.1 million for further expansion of Group's retail operations. In December 2007, MTS' stake in this company decreased from 100% to 25% following an increase of share capital by TS-Retail by \$14.0 million, which was paid by the Group and certain subsidiaries of Sistema. MTS deconsolidated TS-Retail in December 2007 and subsequently accounted for this investment under the equity method. During the years ended December 31, 2009 and 2008, the Group granted loans in total amount of \$42.6 million at 11.0%-15.0% annual interest rates maturing in 2010-2011.

***InvestSvyazHolding*** MTS itself and MGTS, a subsidiary of Comstar-UTS, entered into agreements with InvestSvyazHolding, a subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases in compliance with the authoritative guidance on leases and disclosed in Note 9.

***Svyazinvest*** In 2008, the Group paid \$3.6 million dividends to Svyazinvest.

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**26. STOCKHOLDERS' EQUITY**

**Share capital** MTS' share capital comprises 1,916,869,262 and 1,885,052,800 of outstanding common shares, net of treasury shares, as of December 31, 2009 and 2008. The total shares in treasury stock of the Group comprised 76,456,876 and 108,273,338 as of December 31, 2009 and 2008, respectively.

Each ADS initially represented 20 shares of common stock of the Company. Effective January 2005, the ratio was changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares. The Company initially issued a total of 17,262,204 ADSs (69,048,816 ADSs recalculated using new ratio), representing 345,244,080 common shares. As of December 31, 2009 MTS repurchased 13,599,067 ADSs.

**Noncontrolling interest** MTS' equity was affected by changes in subsidiaries' ownership interests as follows:

|   | December 31,        |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | 2009                | 2008                | 2007                |
| <b>Net income attributable to the Group</b>   | <b>\$ 1,004,479</b> | <b>\$ 2,000,119</b> | <b>\$ 2,087,415</b> |
| <b>Transfers from the noncontrolling interest</b>   |                     |                     |                     |
| Increase in MTS equity due to acquisition of noncontrolling interest in Comstar-UTS                 | 45,284              |                     |                     |
| Decrease in MTS paid-in capital due to exercise of the put option on Comstar-UTS shares             |                     | (9,358)             |                     |
| Increase in MTS equity due to exercise of the call option on Comstar-UTS shares                     |                     |                     | 71,060              |
| Increase in MTS equity due to acquisition of noncontrolling interest in MGTS                        | 269,281             |                     |                     |
| Decrease in MTS paid-in capital due to acquisition of noncontrolling interest in Dagtelecom         | (7,679)             |                     |                     |
| Decrease in MTS paid-in capital due to reorganisation of Comstar-Direct                             |                     | (6,539)             |                     |
| Increase in MTS paid-in capital due to acquisition of noncontrolling interest in Golden Line        |                     |                     | 1,467               |
| Decrease in MTS paid-in capital due to acquisition of noncontrolling interest in other subsidiaries | (487)               |                     |                     |
| <b>Net transfers from the noncontrolling interest</b>   | <b>306,399</b>      | <b>(15,897)</b>     | <b>72,527</b>       |
| <b>Net income attributable to the Group and transfers from the noncontrolling interest:</b>         | <b>\$ 1,310,878</b> | <b>\$ 1,984,222</b> | <b>\$ 2,159,942</b> |

**Dividends** In 2007, the Board of Directors approved a dividend policy, whereby the Group shall aim to make dividend payments to shareholders in the amount of at least 50% of annual net income under U.S. GAAP. The dividend can vary depending on a number of factors, including the outlook for

Table of Contents**OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007****(Amounts in thousands of U.S. Dollars, unless otherwise stated)****26. STOCKHOLDERS' EQUITY (Continued)**

earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, as well as the Group's debt position.

Annual dividend payments, if any, must be recommended by the Board of Directors and approved by the shareholders.

In accordance with the Russian laws, earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations, denominated in rubles, after certain deductions. The net income of MTS OJSC for the years ended December 31, 2009, 2008 and 2007 that is distributable under Russian legislation totaled RUB 33,480 million (\$1,055.4 million), RUB 40,554 million (\$1,631.6 million) and RUB 37,696 million (\$1,473.8 million), respectively.

The following table summarizes the Group's declared cash dividends in the years ended December 31, 2009, 2008 and 2007:

|   | 2009         | 2008         | 2007       |
|---|--------------|--------------|------------|
| Dividends declared (including dividends on treasury shares of \$45,631, \$36,529 and \$5,967, respectively) | \$ 1,265,544 | \$ 1,257,453 | \$ 747,213 |
| Dividends, U.S. Dollars per ADS   | 3.2          | 3.2          | 1.9        |
| Dividends, U.S. Dollars per share   | 0.647        | 0.631        | 0.375      |

As of December 31, 2009 and 2008, dividends payable were \$1.1 million and \$0.6 million, respectively.

**MGTS' preferred stock** MGTS, a subsidiary of Comstar-UTS, had 15,965,850 preferred shares outstanding at December 31, 2009. MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In June 2009, the general shareholders' meeting of MGTS approved zero dividend payment for 2008. Accordingly, the preferred shares obtained voting rights which will lapse after the first payment of the dividend in full.

In December 2009, the Group has acquired 11,135,428 preferred shares of MGTS (see Note 3).

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MGTS has historically provided certain benefits to employees upon their retirement and afterwards, which include monthly regular pension, death-in-service payments, lump-sum upon retirement payments, death-while-pensioner payments and 50% monthly telephone subsidy for the pensioners who served more than 30 years at MGTS. As of December 31, 2009, there were 10,010 active employees eligible to the program. The pension plan is terminally funded, i.e., upon retirement MGTS transfers all its obligations to a national pension fund "Sistema" (NPF "Sistema"), a subsidiary of Sistema, and from that moment onwards has no more obligations towards the pensioner regarding the pension plan. All other program benefits are financed on a pay-as-you-go basis.

MGTS' pension obligations are measured as of December 31. The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

|   |            |
|---|------------|
| Discount rate   | 9.00% p.a. |
| Expected return on plan assets                          | 9.22% p.a. |
| Projected salary growth                                 | 9.72% p.a. |
| Discount rate used for annuity contracts calculation    | 7.00% p.a. |
| Rate at which pension payment are assumed to be indexed | 0.00% p.a. |
| Long-term inflation                                     | 5.50% p.a. |
| Staff turnover (for ages below 50)                      | 5.00% p.a. |

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## OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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## 27. RETIREMENT AND POST RETIREMENT OBLIGATIONS (Continued)

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2009 and 2008 are presented in the following table:

|  | Old age<br>pension | 2009<br>Other<br>benefits | Total              | Old age<br>pension | 2008<br>Other<br>benefits | Total              |
|--|--------------------|---------------------------|--------------------|--------------------|---------------------------|--------------------|
| <b>Change in projected benefit obligation</b>            |                    |                           |                    |                    |                           |                    |
| Projected benefit obligation, beginning of the year      | \$ 11,924          | \$ 17,797                 | \$ 29,721          | \$ 17,381          | \$ 20,909                 | \$ 38,290          |
| Service cost   | 491                | 737                       | 1,228              | 807                | 794                       | 1,601              |
| Interest cost  | 914                | 1,371                     | 2,285              | 1,102              | 1,083                     | 2,185              |
| Plan amendments losses                                   |                    |                           |                    | 66                 | 1,844                     | 1,910              |
| Actuarial (gains)/losses                                 | 17                 | (1,686)                   | (1,669)            | (2,355)            | 265                       | (2,090)            |
| Benefit payment  |                    | (3,043)                   | (3,043)            |                    | (5,701)                   | (5,701)            |
| Settlement and curtailment gain                          | (1,245)            |                           | (1,245)            | (2,689)            |                           | (2,689)            |
| Termination benefits                                     |                    |                           |                    |                    | 2,102                     | 2,102              |
| Foreign currency translation effect                      | (332)              | (636)                     | (968)              | (2,388)            | (3,499)                   | (5,887)            |
| <b>Projected benefit obligation, end of the year</b>     | <b>\$ 11,769</b>   | <b>\$ 14,540</b>          | <b>\$ 26,309</b>   | <b>\$ 11,924</b>   | <b>\$ 17,797</b>          | <b>\$ 29,721</b>   |
| <b>Change in fair value of plan asset</b>                |                    |                           |                    |                    |                           |                    |
| Fair value of plan assets, beginning of the year         | \$ 471             | \$                        | \$ 471             | \$ 2,473           | \$                        | \$ 2,473           |
| Correction of asset value, beginning of year             | (188)              |                           | (188)              |                    |                           |                    |
| Actual return on plan assets                             |                    |                           |                    | 187                |                           | 187                |
| Employer contributions                                   | 1,733              | 3,044                     | 4,777              | 604                | 5,701                     | 6,305              |
| Benefits paid  |                    | (3,044)                   | (3,044)            |                    | (5,701)                   | (5,701)            |
| Settlement   | (1,245)            |                           | (1,245)            | (2,689)            |                           | (2,689)            |
| Foreign currency translation effect                      | 1                  |                           | 1                  | (104)              |                           | (104)              |
| <b>Fair value of plan assets, end of the year</b>        | <b>\$ 772</b>      | <b>\$</b>                 | <b>\$ 772</b>      | <b>\$ 471</b>      | <b>\$</b>                 | <b>\$ 471</b>      |
| <b>Unfunded status of the plan, end of the year, net</b> | <b>\$ (10,997)</b> | <b>\$ (14,540)</b>        | <b>\$ (25,537)</b> | <b>\$ (11,453)</b> | <b>\$ (17,797)</b>        | <b>\$ (29,250)</b> |

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Reconciliations of the unfunded status of the plan for the years ended December 31, 2009 and 2008 are as follows:

|   | Old age<br>pension | 2009<br>Other<br>benefits | Total     | Old age<br>pension | 2008<br>Other<br>benefits | Total     |
|---|--------------------|---------------------------|-----------|--------------------|---------------------------|-----------|
| Unfunded status of the plan, beginning of the year        | \$ 11,453          | \$ 17,797                 | \$ 29,250 | \$ 14,908          | \$ 20,909                 | \$ 35,817 |
| Net periodic benefit cost                                 | 2,115              | 2,726                     | 4,841     | 2,570              | 4,576                     | 7,146     |
| Contributions made  | (1,733)            | (3,044)                   | (4,777)   | (604)              | (5,701)                   | (6,305)   |
| (Credit)/charge to other comprehensive income/(loss), net | (505)              | (2,303)                   | (2,808)   | (3,137)            | 1,512                     | (1,625)   |
| Foreign currency translation effect                       | (333)              | (636)                     | (969)     | (2,284)            | (3,499)                   | (5,783)   |
| Unfunded status of the plan, end of the year              | \$ 10,997          | \$ 14,540                 | \$ 25,537 | \$ 11,453          | \$ 17,797                 | \$ 29,250 |

The components of the net periodic pension expense for the years ended December 31, 2009 and 2008 are as follows:

|   | Old age<br>pension | 2009<br>Other<br>benefits | Total    | Old age<br>pension | 2008<br>Other<br>benefits | Total    |
|---|--------------------|---------------------------|----------|--------------------|---------------------------|----------|
| Service cost  | \$ 491             | \$ 737                    | \$ 1,228 | \$ 807             | \$ 794                    | \$ 1,601 |
| Interest cost   | 914                | 1,371                     | 2,285    | 1,102              | 1,083                     | 2,185    |
| Return on assets  |                    |                           |          | (187)              |                           | (187)    |
| Termination benefits in connection with established staff reduction program |                    |                           |          |                    | 2,102                     | 2,102    |
| Net actuarial loss recognized in a year                                     | 582                | 438                       | 1,020    | 933                | 597                       | 1,530    |
| Amortization of prior service cost  | (60)               | 180                       | 120      | (85)               |                           | (85)     |
| Correction of asset value, beginning of year                                | 188                |                           | 188      |                    |                           |          |
| Net periodic pension expense  | \$ 2,115           | \$ 2,726                  | \$ 4,841 | \$ 2,570           | \$ 4,576                  | \$ 7,146 |

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Amounts recognized in other comprehensive income for the years ended December 31, 2009 and 2008 are as follows:

|   | 2009               |                   |                   | 2008               |                   |                   |
|---|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
|   | Old age<br>pension | Other<br>benefits | Total             | Old age<br>pension | Other<br>benefits | Total             |
| Unrecognized gains  | \$ (565)           | \$ (2,123)        | \$ (2,688)        | \$ (3,289)         | \$ (331)          | \$ (3,620)        |
| Unrecognized prior service cost/(credit)                  | 60                 | (180)             | (120)             | 152                | 1,843             | 1,995             |
| <b>Total recognized in other comprehensive<br/>income</b> | <b>\$ (505)</b>    | <b>\$ (2,303)</b> | <b>\$ (2,808)</b> | <b>\$ (3,137)</b>  | <b>\$ 1,512</b>   | <b>\$ (1,625)</b> |

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the year ending December 31, 2010 are \$0.5 million and \$0.1 million, respectively.

The Group's management expects contributions to the plan during the year ended December 31, 2010 to amount to \$3.0 million.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2010 \$1.8 million; 2011 \$2.0 million, 2012 \$2.3 million, 2013 \$3.2 million, 2014 \$3.5 million and an aggregate of \$20.6 million in 2015 to 2019.

NPF "Sistema" does not allocate any separately identifiable assets to its clients such as MGTS. Instead, it operates a pool of investments where it invests the funds from the pension solidarity and individual accounts. The pool of investments includes primarily investments in Russian corporate bonds, Russian governmental bonds and shares of Russian issuers.

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General and administrative expenses for the years ended December 31, 2009, 2008 and 2007, comprised the following:

|                                     | 2009             | 2008             | 2007             |
|-------------------------------------|------------------|------------------|------------------|
| Salaries and social contributions   | 991,568          | 1,094,148        | 922,652          |
| Rent                                | 278,536          | 243,837          | 190,690          |
| General and administrative          | 213,255          | 256,731          | 239,250          |
| Taxes other than income             | 180,775          | 215,570          | 172,684          |
| Repair and maintenance              | 157,932          | 221,192          | 218,824          |
| Billing and data processing         | 64,169           | 62,203           | 45,097           |
| Consulting expenses                 | 58,931           | 50,774           | 40,157           |
| Business acquisitions related costs | 11,353           |                  |                  |
| Insurance                           | 7,561            | 11,452           | 19,339           |
| Provision for obsolescence          | 4,113            | 3,870            | 4,931            |
| <b>Total</b>                        | <b>1,968,193</b> | <b>2,159,777</b> | <b>1,853,624</b> |

**29. SEGMENT INFORMATION**

Historically, the Group has reflected its reportable segments on a geographical basis. Management has taken this approach as this was effectively how the business was managed.

In 2009, since the acquisition of Comstar-UTS the Group's management determined a new operating segment and identified three reportable segments: Russia Mobile, Russia Fixed and Ukraine Mobile. These segments have been determined based on different geographical areas of business activities and the nature of their operations: mobile includes activities for the providing of wireless telecommunication services to the Group's subscribers and distribution of mobile handsets and accessories; fixed line includes all activities for providing wireline telecommunication services, broadband and consumer Internet. Information about other business activities and operating segments that are not reportable due to non materiality of business activity was combined and disclosed in the "Other" category separately from other reconciling items.

Also, historically, the Group included corporate headquarters expenses to "Russia" reportable segment as the chief operating decision maker assessed the performance of the segments on such basis. In 2009, since the acquisition of Comstar-UTS, the chief operating decision maker has changed the approach to the allocation of corporate headquarters expenses and such changes have been reflected in the financial information the chief operating decision maker now reviews. According to the new approach corporate headquarters expenses which are not directly attributable to the reportable segments are included into "Other" category. The accompanying consolidated financial statements reflect these changes for all periods presented.

Intercompany eliminations presented below consist primarily of sales transactions between segments conducted under the normal course of operations.



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Financial information by reportable segment is presented below:

|   | December 31,        |                      |                     |
|---|---------------------|----------------------|---------------------|
|   | 2009                | 2008                 | 2007                |
| <b>Revenue:</b>   |                     |                      |                     |
| Russia Mobile   | \$ 6,636,568        | \$ 7,840,225         | \$ 6,181,023        |
| Russia Fixed  | 1,485,590           | 1,765,226            | 1,562,291           |
| Ukraine Mobile  | 1,048,751           | 1,661,951            | 1,608,021           |
| Other   | 787,543             | 779,520              | 483,499             |
| Intercompany eliminations   | (134,910)           | (145,988)            | (110,928)           |
| <b>Total revenue</b>  | <b>\$ 9,823,542</b> | <b>\$ 11,900,934</b> | <b>\$ 9,723,906</b> |
| <b>Depreciation and amortization:</b>                                 |                     |                      |                     |
| Russia Mobile   | \$ 1,107,593        | \$ 1,312,406         | \$ 1,076,586        |
| Russia Fixed  | 193,357             | 214,288              | 185,337             |
| Ukraine Mobile  | 352,037             | 437,988              | 324,976             |
| Other   | 186,581             | 186,443              | 87,986              |
| <b>Total depreciation and amortization</b>                            | <b>\$ 1,839,568</b> | <b>\$ 2,151,125</b>  | <b>\$ 1,674,885</b> |
| <b>Operating income:</b>  |                     |                      |                     |
| Russia Mobile   | \$ 1,941,174        | \$ 2,836,660         | \$ 2,251,259        |
| Russia Fixed  | 406,995             | 440,441              | 450,907             |
| Ukraine Mobile  | 120,248             | 321,328              | 456,778             |
| Other   | 82,257              | 45,503               | 25,808              |
| Intercompany eliminations   | (3,107)             | 3,404                | 176                 |
| <b>Net operating income</b>   | <b>\$ 2,547,567</b> | <b>\$ 3,647,336</b>  | <b>\$ 3,184,928</b> |
| <b>Net operating income</b>   | <b>\$ 2,547,567</b> | <b>\$ 3,647,336</b>  | <b>\$ 3,184,928</b> |
| Currency exchange and transaction loss (gain)                         | 252,945             | 565,663              | (161,856)           |
| Interest income   | (108,543)           | (70,860)             | (53,507)            |
| Interest expense  | 571,719             | 233,863              | 192,237             |
| Change in fair value of derivatives                                   | 5,420               | 41,554               | 145,860             |
| Impairment of investments   | 368,355             |                      | 22,691              |
| Equity in net income of associates                                    | (60,313)            | (75,688)             | (71,116)            |
| Other expense, net  | 23,254              | 22,745               | 38,781              |
| <b>Income before provision for income taxes and minority interest</b> | <b>\$ 1,494,730</b> | <b>\$ 2,930,059</b>  | <b>\$ 3,071,838</b> |



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## 29. SEGMENT INFORMATION (Continued)

|                                      | 2009          | 2008          |
|--------------------------------------|---------------|---------------|
| Additions to long-lived assets:      |               |               |
| Russia Mobile                        | \$ 1,247,307  | \$ 1,595,643  |
| Russia Fixed                         | 120,036       | 353,975       |
| Ukraine Mobile                       | 259,388       | 405,127       |
| Other                                | 463,624       | 313,002       |
| Total additions to long-lived assets | \$ 2,090,355  | \$ 2,667,747  |
| Long-lived assets:                   |               |               |
| Russia Mobile                        | \$ 4,821,658  | \$ 4,840,847  |
| Russia Fixed                         | 2,268,116     | 2,276,474     |
| Ukraine mobile                       | 1,365,686     | 1,484,317     |
| Other                                | 1,525,702     | 1,345,077     |
| Total long-lived assets              | \$ 9,981,162  | \$ 9,946,715  |
| Total assets:                        |               |               |
| Russia Mobile                        | \$ 8,662,850  | \$ 6,971,541  |
| Russia Fixed                         | 3,881,353     | 4,282,381     |
| Ukraine Mobile                       | 1,567,563     | 1,669,996     |
| Other                                | 1,668,979     | 1,793,261     |
| Total assets                         | \$ 15,780,745 | \$ 14,717,179 |

## 30. COMMITMENTS AND CONTINGENCIES

**Recent volatility in global and Russian financial markets** During 2009, a number of major economies around the world continued to experience volatile capital and credit markets. 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 at the date these consolidated financial statements are authorized for issue as a consequence of the market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilization measures that may be put into place by the Russian Government, there exists economic uncertainties surrounding the continual availability, and cost, of credit facilities, the potential for economic uncertainties to continue in the foreseeable future. The crisis may also damage purchasing power of the Group's customers mainly in business sector and thus lead to decline in revenue streams and cash generation.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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**30. COMMITMENTS AND CONTINGENCIES (Continued)**

**Operating environment** The economies in Russia and the CIS countries, while deemed to be market economies, 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 further development of the Russian and CIS countries' economies will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

**Capital commitments** As of December 31, 2009, the Group had executed purchase agreements of approximately \$200.2 million to acquire property, plant and equipment, and intangible assets and costs related thereto.

**Agreement with Apple** In August 2008, the Group entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at list prices at the dates of respective purchases over the three year period. Pursuant to the agreement the Group shall also incur certain iPhone promotion costs. In 2009 and 2008, the Group made 0.4% and 7.2% of its total purchase installment contemplated by the agreement, respectively.

Total amount paid for handsets purchased under the agreement for the years ended December 31, 2009 and 2008 amounted to \$3.4 million and \$65.4 million, respectively.

**MGTS long-term investment program** 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 is being 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.

In November 2006, MGTS signed an agreement with the Moscow City Government, under which MGTS' investment program was approved. Under the agreement, the Moscow City Government is entitled to receive not less than 30% of the market value of additional floor space constructed during the course of the investment program. The obligation arises at the time the reconstruction of specified properties is completed. In December 2005, MGTS made a prepayment to the Moscow City Government under this program which will be offset against the future liability arising as a result of the investment program.

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema-Hals, a subsidiary of Sistema, related to project development and reconstruction of buildings housing the telephone stations. The main part of the work under these

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contracts was to be performed between 2006 and 2012. Under the agreements, Sistema-Hals was to prepare the project documentation and perform construction works on behalf of MGTS, and MGTS was to reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and to pay a fixed fee of \$0.04 million per one building. During 2009 and 2008, project development and site preparation works were performed by Sistema-Hals on 96 sites, which resulted in \$2.8 million and \$11.0 million addition to construction in-progress in 2009 and 2008, respectively, and recognition of payable to Sistema-Hals (see Note 25). No construction or other works were performed in relation to the other sites in 2009, as the business plans are still under development.

In February 2009, the Board of Directors of MGTS approved the cancellation of agreements with Sistema-Hals with respect to 26 sites, which also extinguishes the respective portion of MGTS' liability to Sistema-Hals, and signing of 26 new agreements with investor companies. Under the new agreements, the investor companies would perform all necessary reconstruction work and obtain the property rights for the reconstructed buildings except for the premises locating the digitalized nodes which would remain MGTS property. In addition, within 12 months after transfer of the building into the investment project, MGTS is to receive cash payment equal to MGTS' share in the value of the building before reconstruction as appraised by an independent valuation firm in 2008, plus interest at 20% per annum accrued for the period from transfer of the building into the project and the date of payment. As of December 31, 2009, cancellation of 2 out of aforementioned 26 agreements was signed by Sistema-Hals.

**Operating leases** The Group has entered into non-cancellable agreements to lease the space for telecommunication equipment, offices and transmission channels, which expire in various years up to 2058. Rental expenses under the operating leases of \$278.5 million, \$243.8 million and \$190.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, are included in operating expenses in the accompanying consolidated statements of operations. Rental expenses under the operating leases of \$168.7 million, \$175.8 million and \$129.1 million for the years ended December 31, 2009, 2008 and 2007, respectively, are included in cost of services in the accompanying consolidated statements of operations. Future minimum lease payments due under these leases at December 31, 2009 are as follows:

| <b>Payments due in the years ended December 31,</b> |                   |
|---|-------------------|
| 2010  | \$ 196,858        |
| 2011  | 33,741            |
| 2012  | 25,768            |
| 2013  | 11,707            |
| 2014  | 8,313             |
| Thereafter  | 93,609            |
| <b>Total</b>  | <b>\$ 369,996</b> |

**Taxation** Russia and the CIS countries 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 (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws

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**30. COMMITMENTS AND CONTINGENCIES (Continued)**

related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than typically found in countries with more developed tax systems.

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2009, tax declarations of MTS OJSC and other subsidiaries in Russia for the preceding three fiscal years were open for further review.

In October 2009, the Russian tax authorities completed the tax audit of Sibintertelecom for the years ended December 31, 2006, 2007 and 2008. Based on the results of this audit, the Russian tax authorities assessed that RUB 174.5 million (\$5.8 million as of December 31, 2009) of additional taxes, penalties and fines were payable by the Group. The resolution has not come into force yet as the Group has prepared and filed an appeal with the Federal Tax Service to recognize the tax authorities' resolution to be invalid. As of December 31, 2009, no provision was recorded in the consolidated financial statements in respect of this matter, as the management believes the decision to be favorable.

The Group purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that custom duties are calculated in compliance with the applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional custom duties. As of December 31, 2009 and 2008, no provision was recorded in the consolidated financial statements in respect of such additional duties.

Pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to Group's subscribers in the course of performing its marketing activities might be a subject to transfer pricing rules. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of December 31, 2009 and 2008, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2009 and 2008, the provision accrued amounted to \$68.2 million and \$27.6 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled \$4.2 million and \$8.0 million as of December 31, 2009 and 2008, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

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**30. COMMITMENTS AND CONTINGENCIES (Continued)**

**3G license** In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the Russian Federation. The 3G license was granted subject to certain capital and other commitments. The major conditions are that MTS will have to build a certain number of base stations that support 3G standards and will have to start providing services in the Russian Federation by certain date, and also will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 2009 MTS is in compliance with these conditions.

**Issued guarantees** In 2006, MGTS became a guarantor under a credit facility provided to InvestSvyazHolding, a subsidiary of Sistema, by Komerční banka, a.s., Prague. The credit line for the total amount of €10.4 million matures in April 2011. MGTS' guarantee amounted to \$6.7 million as of December 31, 2009.

In 2006, MGTS became a guarantor under a credit facility provided to MBRD, a subsidiary of Sistema, by Bankgesellschaft Berlin AG, Berlin. The credit line for the total amount of €2.1 million matures in June 2011. MGTS' guarantee amounted to \$0.9 million as of December 31, 2009.

Under these guarantees the Group could be potentially liable for a maximum amount of \$7.6 million in case of borrowers' default under the obligations. As of December 31, 2009, no event of default has occurred under any of the guarantees issued by the Group. The Group does not recognize a liability at inception for the fair value of the guarantor's obligation, as provisions of the authoritative guidance on guarantees do not apply to the guarantees issued between corporations under common control.

**Bitel** In December 2005, MTS Finance 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 ("Bitel"), 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.

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. As the Group did not regain operational control over Bitel's operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities.

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**30. COMMITMENTS AND CONTINGENCIES (Continued)**

In January 2007, the Prosecutor General informed the Group that there were no grounds for involvement by the Prosecutor General's office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group decided to write off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its audited annual consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of \$170.0 million was recorded with an associated charge to non-operating expenses.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for \$170.0 million to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase the Option Shares. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs. The matter is currently pending. MTS Finance is vigorously contesting this action and has asked the arbitration tribunal to dismiss Nomihold's claim.

In connection with the above mentioned put option exercise and the uncertainty as to the resolution of the dispute with Nomihold, the Group recognized a liability in the amount of \$170.0 million in its audited annual consolidated financial statements with a corresponding charge to other non-operating expenses as of December 31, 2006 and for the year then ended.

In addition, three Isle of Man companies affiliated with the Group (the "KFG Companies"), have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately \$25.2 million plus compensatory damages, and to recover approximately \$3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, the Group may be liable to Bitel for such claims. The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo LLC ("Altimo"), and Altimo Holdings & Investments Limited ("Altimo Holding"), for the wrongful appropriation and control of Bitel.

On November 30, 2007 the High Court of Justice of the Isle of Man set aside orders it had previously issued granting leave to serve the non-Manx defendants out of the jurisdiction as to the KFG Companies' counterclaims on the basis of a lack of jurisdiction. The KFG Companies appealed that ruling to the Isle of Man Staff of Government and the appeal hearing took place in July 2008. On November 28, 2008, the Staff of Government reversed the High Court and ruled that the case should proceed in the Isle of Man. The defendants have sought leave to appeal from the Judicial Committee of the Privy Council of the House of Lords of the United Kingdom. It is not possible at this time to predict the ultimate outcome or resolution of these claims.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC"), under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003 (the "Transfer Agreement"), concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited ("IPOC"), although IPOC subsequently assigned its interest to KMIC, and KMIC was the



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30. COMMITMENTS AND CONTINGENCIES (Continued)

claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. At the request of the parties, the tribunal agreed to stay the damages phase of the proceedings pending the resolution of the appeals process now before the second instance court in the Isle of Man, as described above. The Group is not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

**Beta Link** On August 12, 2009, Beta Link CJSC ("Beta Link") filed a claim against MTS, seeking (i) payment of RUB 238.5 million (\$7.9 million as of December 31, 2009) in dealer commission, (ii) payment of \$10.0 million in penalties for breach of dealers' agreement and (iii) payment of \$2.7 million of unrealized potential benefits. On December 11, 2009, Moscow Arbitration Court ruled against MTS enacting to pay an amount of RUB 118.6 million (\$3.9 million as of December 31, 2009) and \$10 million in penalties. MTS prepared and filed an appeal in response of Moscow Arbitration Court ruling, which resulted in a judgment in favor of the Group on March 23, 2010. Beta Link, in return, prepared the further appeal against MTS. Group's management is unable to predict the outcome of this claim at this time. As of December 31, 2009, the provision for the entire amount totaled to \$13.9 million was recorded in the consolidated financial statements in respect of this claim.

**Other litigations** In the ordinary course of business, the Group may be party to various legal, tax and customs proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which MTS operates. Management believes that the Group's liability, if any, in all such pending litigation, other legal proceeding or other matters will not have a material effect upon its financial condition, results of operations or liquidity of the Group.

31. SUBSEQUENT EVENTS

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through April 29, 2010, which is the date these financial statements were available to be issued.

**Increase in MGTS Tariffs** In January 2010, the Federal Tariff Service approved new tariffs for MGTS residential and corporate subscribers effective February 1, 2010. The tariffs for subscribers increased at an average rate of 10.3% in RUB.

**Non-controlling interest in EuroTel** In February 2010, the Group completed the cash acquisitions of the outstanding 20% minority stake in Yekaterinburg-based cable-TV and communications operator EuroTel LLC and a 25% minority stake in Management and Leasing LLC, which owns communication infrastructure in Yekaterinburg. The Group now owns 100% of the issued share capital in both companies. The total cash consideration for the two related acquisitions is RUB 100 million (\$3.3 million at the date of acquisition).

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**31. SUBSEQUENT EVENTS (Continued)**

**Acquisition of Tenzor Telecom** In February 2010, the Group acquired 100% in Tenzor Telecom, an alternative telecommunications operator based in Yaroslavl in Central Russia, for RUB 220 million (\$7.3 million as of the date of acquisition). The acquisition was made in frame of regional expansion program of the Group.

**Decrease in interest rates Gazprombank** In February 2010 MTS reached an agreement with Gazprombank to reduce the interest rates on the outstanding loans. The interest rate on the EURO 100.0 million credit facility with original maturity in September 2012 was reduced from an annual rate of 8% to 7%. The interest rate on the facility of RUB 6.46 billion with maturity in September 2012 was reduced from an annual rate of 13% to 10.95%. MTS also reduced the interest rate on the revolving credit line in the amount of €100.0 million with maturity in September 2012 from 8% to 7%.

**Raising of financing from Credit Agricole Corporate and Investment Bank and BNP Paribas** On February 18, 2010 the Group entered into a credit facility agreement in amount of up to \$97.0 million with Credit Agricole Corporate and Investment Bank and BNP Paribas backed by Hermes. \$55.1 million of the facility is available till April 15, 2010, the rest \$41.9 million - till March 30, 2011. The funds are to be used for purchase of telecommunication software and equipment from Alcatel Lucent Deutschland. The facility matures in 2017 and bears an interest of EURIBOR + 1.65%. The related commitment fee is set at 0.825% on undrawn balance of the facility.

**Legal proceedings by anti-monopoly authorities** In March 2010, the Federal Anti-Monopoly Service of Russia ("FAS") started legal proceedings against MTS, VimpelCom OJSC and Megafon OJSC about their alleged violation of antimonopoly legislation by charging artificially high prices for roaming services. The Group does not possess information related to the date that this case will be considered by the FAS. In case roaming tariffs of the Group are found to be in violation of applicable legislation, the Group may face certain fines of up to 15% of the revenue from the services provided in violation of the legislation. Management believes that there was no violation of the anti-monopoly legislation and no amounts have been accrued in the accompanying consolidated financial statements in relation to this claim.

**Amendment to Sberbank Credit Line Facility** In March 2010, Comstar-UTS agreed to amend the repayment schedule of Sberbank credit line facility (see Note 17). Under the new schedule, the loan principal is repayable in eight quarterly installments of RUB 3,250.0 million (\$107.5 million as of December 31, 2009) each starting from September 2010. In addition, nominal interest rate was decreased to 10.5% per annum for the period from March 1, 2010 till September 27, 2010 and to 11.75% per annum thereafter.

**Approval of new credit facility from Sberbank** In March 2010 Sberbank approved a new RUB 5.8 billion (\$191.8 million as of December 31, 2009) credit facility for Comstar. This facility can be utilized by the end of 2010, has an interest rate of 10.5% and the repayments of the amounts borrowed under the facility start in 2012.

**MGTS dividend** In March 2010, the extraordinary general shareholders' meeting of MGTS approved dividend on preferred shares of MGTS for the total amount of RUB 321.9 million

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**31. SUBSEQUENT EVENTS (Continued)**

(approximately \$10.7 million). The dividends are due to be paid until the end of May 2010. Upon dividend payment, preferred shares of MGTS will become non-voting.

**Voluntary partial repayment of RUB 12 billion Sberbank facility** On April 5, 2010 the Group voluntarily repaid RUB 6 billion (equivalent of \$205.3 million as of the date of repayment) of its 12 billion Sberbank facility.

**Raising of financing from the Bank of Moscow** On April 6, 2010 the Group signed a credit agreement with the Bank of Moscow in amount of RUB 22 billion. The terms of the agreement stipulate a three-year maturity with one-year extension option and an annual interest of up to 10.25%. The credit line can be drawn down until October 1, 2010. The facility carries no commitment fees or any other upfront fees payable at signing. However, the Group is to pay fee of 0.2% from each amount drawn under the agreement.

**Decrease in interest rates Sberbank** On April 13, 2010, the Group lowered interest rates on MTS' Sberbank facilities. The interest rate for RUB 47 billion facility closed in September 2009 was set at 10.65%, the interest rate for RUB 12 billion facility closed in August 2009 (partially repaid in April 2010) was set at 9.75%.

**Repurchase of MTS OJSC Notes due 2013** In April 2010 the Group set a new 7.0% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2013 until maturity. On April 26, 2010, upon demand of certain noteholders, the Group repurchased 7.1 million of MTS OJSC Notes due 2013 at nominal value of RUB 7.1 billion (\$242.5 million as of the date of the transaction).

**Repurchase of MTS OJSC Notes due 2015** In April 2010 the Group set a new 7.75% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2015 until maturity. On April 29, 2010, upon demand of certain noteholders, the Group repurchased 6.3 million of MTS OJSC Notes due 2015 at nominal value of RUB 6.3 billion (\$214.5 million as of the date of the transaction).

**Change of ADS ratio** Effective May 3, 2010, the ratio of Company's ADSs changed from 1 ADS per 5 common shares to 1 ADS per 2 common shares.

**Agreement to sell Svyazinvest stake to Rostelecom** On May 20, 2010, Comstar-UTS, MGTS Finance S.A., a company controlled by Comstar-UTS, and Rostelecom entered into agreements involving the sale of a 25% + 1 share of Svyazinvest to Rostelecom for RUB 26 billion.

The closing of the transactions is subject to a number of conditions including, inter alia, obtaining the necessary corporate approvals by the parties involved, regulatory clearances, including those from the FAS, and the entry by Sistema and Svyazinvest into an exchange transaction, upon completion of which, Svyazinvest will control 100% of the share capital in Sky Link and Sistema will acquire the 23.33% stake in MGTS controlled by Svyazinvest. The precise terms and consummation of this and certain additional related transactions remain subject to the negotiation and execution of definitive binding documentation by these and other parties.

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**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in thousands of U.S. Dollars, unless otherwise stated)**

**31. SUBSEQUENT EVENTS (Continued)**

The agreements signed on May 20, 2010 are in line with the previously announced non-binding memorandum of understanding ("MOU") concluded by Comstar-UTS with Sistema and Svyazinvest in November 2009 (see Note 14).

**Repayment of EBRD, Nordic Investment Bank and European Investment Bank loans** On May 26, 2010 the Group repaid loans from EBRD, Nordic Investment Bank and European Investment Bank totalling EUR 413.0 million and accrued interest totalling EUR 13.9 million.

**Notes issue** On June 22, 2010, the Group issued U.S. Dollar-denominated loan participation notes in the amount of \$750.0 million with an annual interest rate of 8.625% and a maturity in June 2020. The notes were issued by MTS International Funding Limited, a private company organized and existing as a private limited company under the laws of Ireland, and are listed on the Irish Stock Exchange.

**Dividends** On June 24, 2010, the annual general meeting of the Company's shareholders approved dividends of RUB 15.40 per ordinary share for the fiscal year ended December 31, 2009 amounting to a total of RUB 30.70 billion (\$991.3 million at the exchange rate as of June 24, 2010).

**Repurchase of MTS OJSC Notes due 2018** In June 2010 the Group set a new 8.0% coupon rate for the coupon payments to be made on MTS OJSC Notes due 2018 until maturity. On June 24, 2010, upon demand of certain noteholders, the Group repurchased the Notes in the amount of 179.5 million rubles (\$5.8 million as of the date of the transaction).

**Proposed merger of MTS and Comstar-UTS** On June 25, 2010, MTS announced that the MTS and Comstar-UTS Boards of Directors approved the merger ("prisoedinenie" under Russian law) of MTS and Comstar-UTS. The merger is conditional on the approval of 75% of the shareholders present at each company's Extraordinary Shareholders Meeting (EGM), the receipt of regulatory clearance and other closing conditions. MTS and Comstar-UTS expect to convene EGMs on December 23, 2010, at which MTS' and Comstar-UTS's respective shareholders will vote on the merger. If approved, the companies expect to complete the merger transaction in the second quarter of 2011. MTS and Comstar-UTS shareholders who vote against or do not vote on the merger will have the right to sell their shares back to MTS or Comstar-UTS, respectively, for cash at a price set by the respective companies' Boards of Directors, subject to the statutory limit of 10% of each company's Net Asset Value under Russian Accounting Standards.

MTS also announced contemporaneously with the merger its intent to launch a voluntary tender offer for up to 9.0% of Comstar-UTS's issued share capital at RUR 220.0 per Comstar-UTS ordinary share. The tender offer has been submitted to the Federal Commission on the Securities Market for review and will be delivered to Comstar-UTS shareholders following this review.