

# **Open joint-stock company “Mobile TeleSystems”**

**Auditors' Report**

**Financial Statements for 2008**  
(Unofficial Translation)

**AUDIT FIRM: ZAO “DELOITTE & TOUCHE CIS”**

Legal address: 4/7 Vozdvizhenka str., bld.2, Business Center “Mokhovaya”, Moscow, 125009, Russia.

Actual address: 4/7 Vozdvizhenka str., bld.2, Business Center “Mokhovaya”, Moscow, 125009, Russia.

Tel: +7 (495) 787 0600.

Audit License No. E 002417 issued on November 6, 2002 by the Resolution of the Ministry of Finance of the Russian Federation for five years and renewed under the same number by Order of the Ministry of Finance of the RF No. 676, dated October 31, 2007, for 5 years from November 6, 2007.

Registration Certificate of ZAO “Deloitte & Touche CIS” as a corporate member of the Institute of Professional Accountants of Russia and Territorial Institute of Professional Accountants No. 01483/00, dated November 23, 2005.

Certificate of registration in the Unified State Register of Legal Entities as a legal entity registered before July 1, 2002 No. 1027700425444, issued by Interdistrict Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for the Moscow City on November 13, 2002.

State Registration Certificate of ZAO “Deloitte and Touche CIS” No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992.

Ruble account No. 40702810000000100378 in HSBC Bank (PP) LLC  
2 Paveletskaya str., bld. 2, 18<sup>th</sup> floor, Moscow, 115054  
BIC 044525351, corr. acc. 30101810400000000351.

**AUDITED ENTITY: OPEN JOINT-STOCK COMPANY “MOBILE TELESYSTEMS”**

Legal address: 4 Marksistskaya street, Moscow, 109147, Russia.

Actual address: 4 Marksistskaya street, Moscow, 109147, Russia.

Certificate of registration in the Unified State Register of Legal Entities as a legal entity registered before July 1, 2002 No. 1027700149124, issued by the Moscow District Inspectorate of the Russian Ministry of Taxes and Levies on September 2, 2002.

Certificate of state registration of the Open joint-stock company “Mobile TeleSystems” No. P-7882.16, issued by the State Registration Chamber at the Russian Ministry of Justice on March 1, 2000.

## AUDITORS' REPORT

To the shareholders of Open joint-stock company "Mobile TeleSystems":

We have audited the accompanying financial statements of Open joint-stock company "Mobile TeleSystems" ("the Company") for the period from January 1, 2008 to December 31, 2008 inclusive. The Company's financial statements comprise:

- Balance sheet as of December 31, 2008;
- Statement of profit and loss for 2008;
- Statement of changes in equity for 2008;
- Statement of cash flows for 2008;
- Appendix to the balance sheet for 2008; and
- Explanatory notes for 2008.

The preparation and presentation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on whether these financial statements are presented fairly in all material respects and whether the accounting procedures comply with the legislation of the Russian Federation based on our audit.

We conducted our audit in accordance with Federal Law of the Russian Federation No. 119-FZ dated August 7, 2001 "On Auditing Activity"; Federal Law of the Russian Federation No. 307-FZ dated December 30, 2008 "On Auditing Activity"; federal rules (standards) of auditing and company standards.

The audit was planned and performed to gain reasonable assurance that the financial statements of the Company are free of material misstatement. The audit was performed on a sample basis and included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also included assessing accounting principles and rules of the financial statements preparation; identifying principal accounting estimates made by the Company's management during the preparation of the financial statements; as well as evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion on the fair presentation of the financial statements and the compliance of the accounting procedures with the legislation of the Russian Federation.

In our opinion, the accompanying financial statements of Open joint-stock company "Mobile TeleSystems" present fairly, in all material respects, its financial position as of December 31, 2008 and the results of its operations for the year ended December 31, 2008 in accordance with the requirements of the legislation of the Russian Federation relating to the preparation of financial statements.

**BALANCE SHEET**  
**At December 31, 2008**

		Form No. 1 OKUD	CODES
		Date (day, month, year)	0710001
Company	<b>OJSC "MTS"</b>	OKPO	31.12.2008
Taxpayer identification number		INN	52686811
Type of operations	<b>Telecommunication services</b>	OKVED	7740000076
Legal status/ form of ownership	<b>Open Joint Stock Company / Joint private and foreign ownership</b>	OKOPF/ OKFS	64.20.11
Unit of measurement	<b>Thousands of rubles</b>	OKEI	47/34
Address	<b>4 Marksistskaya street, Moscow, 109147</b>		384

Date of approval 30.03.2009

Date of issue 30.03.2009

ASSETS	Code	Opening balance	Closing balance
1	2	3	4
<b>I. NON-CURRENT ASSETS</b>			
Intangible assets	110	563 630	378 369
Fixed assets	120	60 374 486	83 048 594
Construction in progress	130	38 567 084	34 622 021
Investment property	135	402 549	362 174
Long-term investments	140	52 442 659	69 477 889
Deferred tax assets	145	4 728 312	6 910 643
Other non-current assets	150	15 925 263	16 414 677
<b>Total Section I</b>	<b>190</b>	<b>173 003 983</b>	<b>211 214 367</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	6 165 978	7 675 648
including:			
raw materials and equivalents	211	3 117 430	6 242 325
work in progress	213	454 906	41 223
finished goods and goods for resale	214	2 082 766	1 176 531
prepaid expenses	216	510 876	215 569
Value-added tax reimbursable	220	4 283 270	1 739 602
Accounts receivable (maturing within 12 months )	240	18 384 672	23 376 218
including:			
trade receivables	241	9 612 385	9 400 897
Short-term investments	250	13 398 486	28 828 689
Cash	260	1 705 948	4 359 220
Other current assets	270	2 468 673	3 566 604
<b>Total Section II</b>	<b>290</b>	<b>46 407 027</b>	<b>69 545 981</b>
<b>TOTAL ASSETS</b>	<b>300</b>	<b>219 411 010</b>	<b>280 760 348</b>

## UNOFFICIAL TRANSLATION

EQUITY AND LIABILITIES	Code	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY AND RESERVES</b>			
Share capital	410	199 333	199 333
Treasury shares	411	-	(11 139 866)
Additional paid-in capital	420	17 452 113	17 354 177
Reserve capital	430	29 900	29 900
including:			
reserves created as per legislative requirements	431	29 900	29 900
Retained earnings, current year	470	-	39 778 176
Retained earnings, prior years	471	81 465 976	55 486 807
<b>Total Section III</b>	<b>490</b>	<b>99 147 322</b>	<b>101 708 527</b>
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	69 953 049	93 156 265
Deferred tax liabilities	515	857 386	881 705
<b>Total Section IV</b>	<b>590</b>	<b>70 810 435</b>	<b>94 037 970</b>
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	17 227 493	36 961 466
Payables	620	24 213 481	39 422 615
including:			
trade payable	621	12 847 372	25 420 547
wages and salaries payable	622	1 473 145	1 891 412
social tax payable	623	113 147	167 341
taxes payable	624	591 028	1 904 646
advances received	625	8 883 207	9 975 077
other creditors	626	305 582	63 592
Dividends payable	630	19 654	18 849
Deferred income	640	677 255	449 109
Accrued expenses	650	7 315 370	8 161 812
<b>Total Section V</b>	<b>690</b>	<b>49 453 253</b>	<b>85 013 851</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>700</b>	<b>219 411 010</b>	<b>280 760 348</b>

## OFF-BALANCE SHEET ACCOUNTS

Description	Code	Opening balance	Closing balance
1	2	3	4
Leased property:	910	494 248	1 118 371
including assets received under finance lease	911	363 109	731 473
Assets accepted for storage	920	178 109	161 896
Goods received on consignment	930	15 113	23 265
Bad debts written off	940	456 414	1 276 182
Collateral and guarantees received	950	347 572	474 226
Collateral and guarantees issued	960	31 424 322	25 795 576
Depreciation of dwelling premises	970	384	433
Depreciation of non-productive facilities	980	3 322	2 882

**STATEMENT OF PROFIT AND LOSS  
for the year 2008**

		Form No. 2 OKUD	CODES
		Date (day, month, year)	0710002
Company	<b>OJSC "MTS"</b>	OKPO	31.12.2008
Taxpayer identification number		INN	52686811
Type of operations	<b>Telecommunication services</b>	OKVED	7740000076
Legal status/ form of ownership	<b>Open Joint Stock Company / Joint private and foreign ownership</b>	OKOPF/ OKFS	64.20.11
Unit of measurement	<b>Thousands of rubles</b>	OKEI	47/34
			384

Description	Code	Current year	Prior year
1	2	3	4
<b>REVENUE AND EXPENSES FROM OPERATING ACTIVITIES</b>			
Net revenue from sales of goods and services (net of VAT, excise and equivalent payments)	010	188 580 221	147 302 825
including:			
telecommunication services	11	185 279 944	144 321 600
equipment	12	2 364 993	2 114 169
construction services and other	13	935 284	867 056
Cost of sold goods and services	020	(75 097 646)	(57 235 364)
including:			
cost of communication services	021	(71 917 276)	(54 907 958)
equipment	022	(3 168 809)	(2 271 395)
construction services and other	023	( 11 561)	( 56 011)
<b>Gross profit</b>	<b>029</b>	<b>113 482 575</b>	<b>90 067 461</b>
Selling expenses	030	(21 371 255)	(16 648 241)
Administrative expenses	040	(17 350 059)	(14 157 929)
<b>Operating profit</b>	<b>050</b>	<b>74 761 261</b>	<b>59 261 291</b>
<b>OTHER INCOME AND EXPENSES</b>			
Interest income	060	2 533 876	1 641 624
Interest expense	070	(5 134 513)	(5 574 326)
Investment income	080	594 070	127 346
Other income	090	2 906 235	7 065 667
Other expenses	100	(21 486 349)	(10 524 187)
<b>Profit before income tax</b>	<b>140</b>	<b>54 174 580</b>	<b>51 997 415</b>
Deferred tax benefit	141	2 499 117	1 330 102
Deferred tax expense	142	( 385 597)	( 267 437)
Current income tax	150	(15 828 782)	(15 261 492)
Tax penalties of prior years	151	( 681 142)	( 772 994)
<b>NET INCOME</b>	<b>190</b>	<b>39 778 176</b>	<b>37 025 594</b>
<b>ADDITIONAL INFORMATION</b>			
Permanent tax assets	200	713 364	1 719 447
Basic earnings per share (roubles)	210	20,05	18,57
Diluted earnings per share (roubles)	215	20,05	18,57

## BREAKDOWN OF CERTAIN GAINS AND LOSSES

Description	Code	Current year		Prior year	
		gains	losses	gains	losses
1	2	3	4	5	6
Fines and penalties recognized by court or debtor	810	37 496	7 416	23 175	12 939
Gain/ loss of prior years	820	1 415 908	904 829	1 214 943	2 585 400
Reimbursement of losses caused by default or by improper fulfillment of obligations	830	7 464	113	15 019	2 445
Foreign currency exchange gains and losses	840	-	12 681 458	4 522 239	-
Provisions	850	-	2 141 269	-	5 023 557
Bad debts written off	860	107 595	164 209	60 555	25 463

**STATEMENT OF CHANGES IN EQUITY  
for the year 2008**

Company	<b>OJSC "MTS"</b>
Taxpayer identification number	
Type of operations	<b>Telecommunication services</b>
Legal status/ form of ownership	<b>Open Joint Stock Company / Joint private and foreign ownership</b>
Unit	<b>Thousands of rubles</b>

Form No. 3 OKUD	0710003
Date (day, month, year)	31.12.2008
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/	47/34
OKFS	
OKEI	384

**CHANGES IN EQUITY**

Description	Code	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7	8
<b>Balance at December 31, 2006</b>	<b>90</b>	<b>199 333</b>	<b>-</b>	<b>17 452 113</b>	<b>29 900</b>	<b>64 069 369</b>	<b>81 750 715</b>
<b>2007</b>							
Legislation changes (PBU 3/2006)	100	X	X	X	X	( 671 423)	( 671 423)
Balance as of January 1, 2007	120	199 333	-	17 452 113	29 900	63 397 946	81 079 292
Profit for the year	140	X	X	X	X	37 025 594	37 025 594
Dividends	150	X	X	X	X	(19 275 464)	(19 275 464)
Increase in capital: reorganization	160	X	X	X	X	1 083 185	1 083 185
Decrease in capital: reorganization	170	X	X	X	X	( 760 001)	( 760 001)
<b>Balance as of December 31, 2007</b>	<b>190</b>	<b>199 333</b>	<b>-</b>	<b>17 452 113</b>	<b>29 900</b>	<b>81 471 260</b>	<b>99 152 606</b>
<b>2008</b>							
Legislation changes (PBU 3/2006)	200	X	X	X	X	( 5 284)	( 5 284)
Balance as of January 1, 2008	220	199 333	-	17 452 113	29 900	81 465 976	99 147 322
Profit for the year	240	X	X	X	X	39 778 176	39 778 176
Dividends	250	X	X	X	X	(29 580 960)	(29 580 960)
Increase in the value of disposed	253	X	X	( 97 936)	X	97 936	-
Increase in capital: reorganization	260	X	X	X	X	4 150 829	4 150 829
Decrease in capital: reorganization	270	X	X	X	X	( 646 974)	( 646 974)
Acquisition of treasury shares	275	X	(11 139 866)	X	X	X	(11 139 866)
<b>Balance as of December 31, 2008</b>	<b>280</b>	<b>199 333</b>	<b>(11 139 866)</b>	<b>17 354 177</b>	<b>29 900</b>	<b>95 264 983</b>	<b>101 708 527</b>

## RESERVES

Description	Code	Balance	Additions	Disposals	Balance
1	2	3	4	5	6
<b>Reserves created as per legislative requirements</b>					
prior year	141	29 900	-	-	29 900
current year	142	29 900	-	-	29 900
<b>Valuation reserves</b>					
Provision for impairment of investments					
prior year	143	-	4 104 506	-	4 104 506
current year	144	4 104 506	1 303 695	-	5 408 201
Allowance for doubtful debts					
prior year	145	4 056 337	919 051	(238 301)	4 737 087
current year	146	4 737 087	1 952 836	(339 463)	6 350 460
Provision for inventory obsolescence					
prior year	147	822 222	-	(272 631)	549 591
current year	148	549 591	-	(327 306)	222 285
<b>Accrued expenses</b>					
Provision for contingent liabilities					
prior year	149	503 885	810 417	-	1 314 302
current year	150	1 314 302	313 706	(912 148)	715 860
Provision for unused vacation					
prior year	151	403 127	169 929	-	573 056
current year	152	573 056	224 258	-	797 314
Provision for services rendered					
prior year	153	4 485 709	942 303	-	5 428 012
current year	154	5 428 012	1 220 626	-	6 648 638
<b>Provision for annual performance bonuses</b>					
prior year	155	1 297 513	161 997	-	1 459 510
current year	156	1 459 510	2 379 206	(1 963 022)	1 875 694

## SUPPLEMENTARY INFORMATION

Description	Code	Opening balance	Closing balance
1	2	3	4
Net assets	200	99 829 861	102 157 636

**STATEMENT OF CASH FLOWS  
for the year 2008**

		Form No. 4 OKUD	CODES
		Date (day, month, year)	071004
Company	<b>OJSC "MTS"</b>	OKPO	31.12.2008
Taxpayer identification number		INN	52686811
Type of operations	<b>Telecommunication services</b>	OKVED	7740000076
Legal status/ form of ownership	<b>Open Joint Stock Company / Joint private and foreign ownership</b>	OKOPF/ OKFS	64.20.11
Unit	<b>Thousands of rubles</b>	OKEI	47/34
			384

Description	Code	Current year	Prior year
1	2	3	4
<b>Cash and cash equivalents at the beginning of the year</b>	<b>100</b>	<b>1 726 601</b>	<b>2 093 119</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	110	208 562 665	157 062 598
Other cash inflows	120	33 465	1 614 130
Reorganization	125	51 911	46 156
Cash and cash equivalents used for:	130	(160 318 254)	(120 996 701)
payments for acquired goods, services, raw materials and other current assets	150	(65 523 403)	(50 999 940)
payments to employees	160	(10 758 413)	(8 482 609)
payments of dividends and interest	170	(32 089 680)	(22 353 556)
payments of taxes	180	(43 866 787)	(38 086 869)
other payments	190	(8 079 971)	(1 073 728)
<b>Net cash provided by operating activities</b>	<b>200</b>	<b>48 329 787</b>	<b>37 726 183</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of fixed assets and other non-current assets	210	462 667	144 814
Proceeds from disposal of securities and other financial investments	220	-	76 281
Dividends received	230	666 269	127 346
Interest received	240	1 191 801	839 549
Proceeds from redeemed loans granted to other entities	250	3 216 381	3 937 824
Other inflows	260	22 046	-
Acquisition of subsidiaries	280	(1 397 042)	(16 685 590)
Purchase of fixed assets, investment property and intangible assets	290	(35 387 300)	(21 722 253)
Loans granted to other entities	310	(29 241 016)	(13 452 684)
<b>Net cash used in investing activities</b>	<b>340</b>	<b>(60 466 194)</b>	<b>(46 734 713)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans received from other entities	355	51 437 178	11 932 583
Loan principal paid (excluding interest)	360	(25 363 123)	(3 454 302)
Capital lease obligation paid	365	(165 163)	(119 291)
Repurchase of common stock	366	(11 139 866)	-
<b>Net cash provided by financing activities</b>	<b>370</b>	<b>14 769 026</b>	<b>8 358 989</b>
Net increase (decrease) in cash and equivalents	375	2 632 619	(387 171)
<b>Cash and cash equivalents at the end of the year</b>	<b>380</b>	<b>4 359 220</b>	<b>1 705 948</b>
Effect of exchange rate changes	390	(20 653)	6 125

**APPENDIX TO THE BALANCE SHEET  
for the year 2008**

Company  
Taxpayer identification  
number  
Type of operations  
Legal status/  
form of ownership  
Unit

**OJSC "MTS"**

**Telecommunication services**  
**Open Joint Stock Company /**  
**Joint private and foreign ownership**  
**Thousands of rubles**

Form No. 5 OKUD  
Date (day, month, year)

OKPO

INN

OKVED

OKOPF/

OKFS

OKEI

CODES

0710005

31.12.2008

52686811

7740000076

64.20.11

47/34

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**INTANGIBLE ASSETS**

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Items of intellectual property (exclusive rights to use intellectual property)	010	608 523	1 136	( 203 703)	405 956
including:					
patent rights to inventions, industrial prototypes, useful models	011	162 341	-	( 162 341)	-
rights to use software and databases	012	445 971	1 136	( 41 362)	405 745
owner rights to trademark, copyrights, appellations of origin	014	211	-	-	211
Numbering capacity and other	040	1 020 781	130	( 1 270)	1 019 641
<b>Total</b>	<b>41</b>	<b>1 629 304</b>	<b>1 266</b>	<b>( 204 973)</b>	<b>1 425 597</b>

Description	Code	Opening balance	Closing balance
1	2	3	4
<b>Amortization of intangible assets - total</b>	<b>050</b>	<b>1 065 674</b>	<b>1 047 228</b>
including:			
Items of intellectual property (exclusive rights to use intellectual property)	051	451 286	340 498
including:			
patent rights to inventions, industrial prototypes, useful models	052	101 629	-
rights to use software and databases	053	349 657	340 498
Numbering capacity and other	054	614 388	706 730

## FIXED ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Buildings	100	5 407 916	1 253 184	( 150 884)	6 510 216
Equipment and transmission devices	101	6 659 551	11 911 355	( 514 109)	18 056 797
Machinery and equipment	102	83 227 603	32 844 121	(5 097 571)	110 974 153
Vehicles	103	364 710	334 873	( 53 539)	646 044
Productions and support tools	104	605 837	97 707	( 70 305)	633 239
Other fixed assets	108	686 064	231 521	( 56 206)	861 379
Plots of land and natural resources	109	37 460	28 365	( 282)	65 543
<b>Total</b>	<b>120</b>	<b>96 989 141</b>	<b>46 701 126</b>	<b>(5 942 896)</b>	<b>137 747 371</b>

Description	Code	Opening balance	Closing balance
1	2	3	4
<b>Depreciation of fixed assets - total</b>	<b>140</b>	<b>36 614 655</b>	<b>54 698 777</b>
including:			
buildings and constructions	141	4 234 544	2 550 998
machinery, equipment and vehicles	142	31 786 857	51 224 109
other	143	593 254	923 670
<b>Transferred for lease - total</b>	<b>145</b>	<b>523 027</b>	<b>518 096</b>
including:			
buildings and constructions	146	346 402	341 471
machinery, equipment and vehicles	147	174 443	174 443
others	148	2 182	2 182
<b>Transferred for temporary non-use</b>	<b>149</b>	<b>267</b>	<b>56 834</b>
<b>Received for lease - total</b>	<b>150</b>	<b>494 248</b>	<b>1 118 371</b>
including:			
machinery, equipment and vehicles	152	363 109	731 473
others	153	131 139	386 898
<b>Property, placed into operation under state registration</b>	<b>155</b>	<b>14 068 121</b>	<b>28 577 824</b>
ADDITIONAL INFORMATION			
Changes in valuation of fixed assets as a result of modernization, reconstruction or partial liquidation	173	1 214 786	1 586 005

## INVESTMENT PROPERTY

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Lessor lease	300	523 027	21 185	(26 322)	517 890

Description	Code	Opening balance	Closing balance
1	2	3	4
Depreciation of investment property	306	120 478	155 716

## FINANCIAL INVESTMENTS

Description	Code	Long-term investments		Short-term investments	
		Opening balance	Closing balance	Opening balance	Closing balance
1	2	3	4	5	6
Investments in equity capitals of other entities - total	510	37 735 916	37 135 580	-	-
including:					
subsidiaries and associates	511	37 735 916	37 135 580	-	-
Securities of other entities	520	14 344	17 168	-	-
including:					
debt securities (bonds and promissory notes)	521	14 344	17 168	-	-
Loans issued	525	14 621 861	32 325 141	5 106 485	11 364 241
Deposits	530	-	-	8 133 782	17 464 448
Others	535	70 538	-	158 219	-
<b>Total</b>	<b>540</b>	<b>52 442 659</b>	<b>69 477 889</b>	<b>13 398 486</b>	<b>28 828 689</b>

## ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Description	Code	Opening balance	Closing balance
1	2	3	4
<b>Accounts receivable:</b>	<b>600</b>		
<b>short-term - total</b>	<b>605</b>	<b>18 384 672</b>	<b>23 376 218</b>
including:			
trade receivable	606	9 612 385	9 400 897
advances paid	607	6 419 841	4 456 540
other	608	2 352 446	9 518 781
<b>Total</b>	<b>615</b>	<b>18 384 672</b>	<b>23 376 218</b>
<b>Accounts payable:</b>	<b>620</b>		
<b>short-term - total</b>	<b>625</b>	<b>41 440 974</b>	<b>76 384 081</b>
including:			
trade payable	626	12 847 372	25 420 547
advances received	627	8 883 207	9 975 077
taxes payable	628	591 028	1 904 646
loans	629	7 299 013	30 794 763
borrowings	630	9 928 480	6 166 703
other	631	1 891 874	2 122 345
<b>long-term - total</b>	<b>635</b>	<b>69 953 049</b>	<b>93 156 265</b>
including:			
loans	636	48 513 457	42 957 616
borrowings	637	21 439 592	50 198 649
<b>Total</b>	<b>640</b>	<b>111 394 023</b>	<b>169 540 346</b>

## EXPENSES RELATED TO OPERATING ACTIVITIES BY COST ELEMENTS

Description	Code	Current year	Prior year
1	2	3	4
Materials	710	4 393 486	4 232 695
Payroll	720	12 467 019	9 965 179
Social contributions	730	1 738 476	1 386 905
Depreciation and amortisation	740	17 011 243	12 100 133
Other costs	750	78 208 736	60 356 622
<b>Total for cost elements</b>	<b>760</b>	<b>113 818 960</b>	<b>88 041 534</b>
Changes (increase [+], decrease [-]) in:			
work in progress	765	( 413 683)	33 305
prepaid expenses	766	( 295 307)	( 377 863)
accrued expenses	767	846 442	1 922 653

## COLLATERAL

Description	Code	Opening balance	Closing balance
1	2	3	4
Received - total	800	347 572	474 226
including: promissory notes	805	347 572	474 226
Given - total	830	31 424 322	25 795 576
including: guarantees issued	835	31 424 322	25 795 576

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS  
OF OPEN JOINT STOCK COMPANY  
MOBILE TELESYSTEMS FOR 2008**

**1. SHORT DESCRIPTION OF THE COMPANY'S ACTIVITIES**

Open joint-stock company "Mobile TeleSystems" ("the Company" or "OJSC MTS") provides telecommunication services on the territory of the Russian Federation ("the RF"). The Company is one of the leading mobile operators in the Russian Federation.

Date of state registration is March 1, 2000.

OJSC MTS has registered branches and structural divisions in the following regions and cities of Russia:

Moscow region, Moscow; Leningrad region, St. Petersburg, Pskov; Komi Republic, Syktyvkar; Arkhangelsk region, Arkhangelsk; Oryol region, Oryol; Belgorod region, Belgorod; Lipetsk region, Lipetsk; Kursk region, Kursk; Voronezh region, Voronezh; Bryansk region, Bryansk; Tula; Smolensk; Ryazan; Vladimir; Kaluga; Yaroslavl; Tver; Kostroma; Ivanovo; Tambov; Samara; Saratov; Orenburg; Ulyanovsk region, Ulyanovsk; Republic of Bashkortostan, Ufa; Primorsky Krai, Vladivostok; Khabarovsk Territory, Khabarovsk; Amur region, Blagoveshchensk; Chita; Republic of Sakha (Yakutia), Yakutsk; Irkutsk region, Irkutsk; Kamchatka region, Petropavlovsk-Kamchatsky; Magadan region, Magadan; Republic of Buryatia, Ulan-Ude; Sakhalin region, Yuzhno-Sakhalinsk; Krasnodar region, Krasnodar; Astrakhan region, Astrakhan; Volgograd region, Volgograd; Stavropol region, Stavropol; Rostov region, Rostov-on-Don; Novorossiysk; Sochi; Republic of Adygeya, Maikop; Kalmykia Republic, Elista; Kabardino-Balkar Republic, Nalchik; Karachaevo-Cherkess Republic, Cherkessk; Ingushetia Republic, Magas; Severnaya Osetia-Alania Republic, Vladikavkaz; Dagestan Republic, Makhachkala; Chechen Republic, Grozny; Sverdlovsk region, Ekaterinburg; Perm region, Perm; Chelyabinsk region, Chelyabinsk; Kurgan region, Kurgan; Tyumen region, Tyumen; Khanty-Mansiysk autonomous district, Surgut; Yamalo-Nenetsk autonomous district, Noyabrsk; Novosibirsk region, Novosibirsk; Omsk region, Omsk; Kemerovo region, Kemerovo; Altai region, Barnaul; Krasnoyarsk Territory, Krasnoyarsk; Tomsk region, Tomsk; Khakasia Republic, Abakan; Altai Republic, Gorno-Altai; Tyva Republic, Kyzyl; Nizhny Novgorod region, Nizhny Novgorod; Kirov region, Kirov; Tatarstan Republic, Kazan; Udmurt Republic, Izhevsk; Chuvash Republic, Cheboksary; Mordovia Republic, Saransk; Republic of Mariy-El, Ioshkar Ola.

OJSC MTS has representative offices in the Republic of Belarus and the Ukraine.

In 2008, the following subsidiaries were merged into OJSC MTS as branches as a result of reorganization:

- CJSC Astrakhan Mobile on April 30, 2008
- CJSC Mar Mobile GSM on April 30, 2008
- CJSC Volgograd Mobile on July 1, 2008
- CJSC Primtelefon on July 1, 2008
- CJSC Bashcell on October 1, 2008
- OJSC Mobile Communication Systems on October 1, 2008

The reorganization was registered in the Unified State Register of Legal Entities. The financial result from the merger of these companies and the effect of reorganization on OJSC MTS' financial statements is disclosed in Note 15 "Reorganization".

The number of the Company's employees including employees of the branches, as of December 31, 2008 and 2007 was 22 467 and 18 265, respectively.

The Company generates revenue primarily from the following sources:

- Mobile radiotelephone communications;
- Lease of communication channels;
- Local and international telephone services;
- Telematic services;
- Sale of handsets and accessories;
- Sale of equipment; and
- Works under the construction license.

The Company sells mobile communication services mainly to Russian and foreign individuals and legal entities.

In the reporting period sales to each customer did not exceed individually 1% of total sales, which allows the Company's management to expect that in the event of loss of a particular customer any negative consequences will be insignificant.

OJSC MTS mainly sells equipment and construction services to its subsidiaries in connection with the expansion of the wireless network in Russia.

The Company's principal economic activities are in the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to frequent changes and the Company's assets and operations could be at risk due to negative changes in the political and business environment.

Recently, the capital and credit markets of the world's largest economies have been characterized by considerable volatility. A number of major global financial institutions have declared bankruptcy, been sold to other financial institutions and/or received financial assistance from the government. Due to the instability of the global and Russian capital and credit markets, at the date when these financial statements are authorized for issuance there is economic uncertainty as to the availability and cost of loans both for the Company and its counterparties despite any measures which may be taken by the Russian government to stabilize the situation. This economic uncertainty may persist into the near future.

The entity recording for title to securities is Open joint-stock company Registrator NIKoil.

Mailing address: 8 Pravdy Street, bldg. 45, Moscow, 125124 Russia.

License: № 10-000-1-000290, issued on June, 17 2003 with no date of expiration

Issuing authority: Federal Service for Financial Markets

Information about the Company is published in the Attachment to the Newsletter of the Federal Service for Financial Markets.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### ***2.1. Basis of financial statements preparation***

The Company's financial statements are prepared on the basis of the accounting and reporting legislation requirements of the Russian Federation.

### ***2.2. Going concern assumption***

In preparation of the accounting policy for the reporting year, the Company's management assumed that the Company will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce its operations, therefore its obligations will be discharged appropriately.

### 2.3. *Fixed assets*

The actual costs of acquisition, construction and manufacturing of fixed assets which comprise the historical cost are determined in accordance with Clause 8 of PBU 6/01, "Accounting for fixed assets". The historical cost includes the cost, including interest, related to loans incurred to finance the acquisition and/or construction of investment assets. The inclusion of the costs of loans received in the historical cost of an investment asset ceases from the first day of the month following the month when such asset is recognized as a fixed asset.

Investment assets include fixed assets, property complexes and other similar assets that require a long time (more than two years) and costs (more than 1 billion rubles) for acquisition and/or construction.

Depreciation of fixed assets is calculated using the straight-line method.

Depreciation rates for fixed assets acquired before January 1, 2002 are determined in accordance with the rates approved by the Council of Ministers of the USSR Resolution No. 1072 dated October 22, 1990 on "Unified depreciation rates for the full replacement of fixed assets in the national economy of the USSR"; depreciation rates for fixed assets acquired after January 1, 2002 are calculated based on the asset useful life in accordance with the Fixed Assets Depreciation Groups Classification, approved by Russian Federation Government Decree No. 1 dated January 1, 2002. The useful life of fixed assets that are not included in the applicable depreciation groups is determined in accordance with recommendations of manufacturers. The useful life of fixed assets that are not included in applicable depreciation groups and are not covered by the recommendations of manufacturers is determined based on expert evaluation.

Assets qualifying as fixed assets in accordance with Clause 4 of PBU 6/01 whose value does not exceed 20 000 rubles per unit are recorded as inventories.

Fixed assets were not revalued as of the beginning of the reporting period.

### 2.4. *Intangible assets*

Intangible assets are amortized using the straight-line basis. Useful lives of intangible assets are determined at the initial recognition of assets. Useful lives of intangible assets are determined based on the following:

- The validity of the Company's rights for the results of intellectual activity and the period of control over the asset (validity of the patent, license agreement, certificate and other limitations on the useful lives of intellectual assets in accordance with the legislation of the Russian Federation); and
- The estimated period during which the asset will be used and is expected to generate economic benefits for the Company, determined in accordance with the agreement or internal supporting document.

Useful lives of intangible assets are reviewed on an annual basis to determine if they need to be amended. Reviews are performed by working committees in charge of putting intangible assets into operation in the end of the reporting year. The estimated useful life of an asset is checked, and either the useful life determined previously is confirmed or a new useful life is determined. A new useful life is applied if it significantly differs from previous useful lives (by more than 5% compared to the useful life determined earlier).

The intangible assets amortization charge is reflected in the accounting records by the accumulation of the corresponding amounts in the separate account 05 "Amortization of intangible assets".

## **2.5. Inventory**

The cost of purchased inventories is recorded using accounts 15 “Acquisition of inventories” and 16 “Variance in cost of inventories”. The cost of inventories is recognized in accounts 10 “Materials” and 41 “Goods” and is based on the purchase price.

Goods are recorded at their purchase cost based on actual expenses incurred for the purchase. At the end of each month transportation and acquisition expenses (“TAE”) are charged to the cost of sales in accordance with the TAE allocation methodology.

Finished goods are recorded in the balance sheet at their actual production cost without using account 40 “Production of goods and services”.

Work-in-process is carried on the balance sheet at the average actual direct production cost that relates to separate inventory items.

Since January 1, 2006, the cost of inventories sold, issued to production or otherwise disposed of has been calculated using the weighted average method.

## **2.6. Investments**

The Company’s investments comprise securities of other entities, investments in other entities’ shares, loans issued and bank deposits.

Investments are recorded at historical cost, including any costs related to their acquisition. The Company has no investments for which a readily determinable market value exists; calculation of the discounted value for debt securities and loans given is not performed.

The value of investments disposed of is determined based on the historical cost of each investment.

The Company makes a provision for the impairment of financial investments in accordance with PBU 19/02 “Accounting for Financial Investments”. The provision is made if, after review, there is some evidence of sustained significant impairment of financial investments.

## **2.7. Revenue recognition**

Revenues for accounting purposes are recognized on an accrual basis.

Income from the sale of telecommunication services is determined on the basis of data from the billing system on the volume and types of services provided for the reporting period and approved tariffs for telecommunication services, taking into account discounts as provided by OJSC MTS marketing policy. Revenues from the sale of telecommunication services are recognized when invoices are issued to subscribers in the billing system. Revenues from connection fees are recognized at the time of subscriber connection to the network and are not deferred.

Revenue from the sales of goods is recognized when legal title passes to the buyer.

For construction and installation works performed by the Company the percentage of completion is determined on the basis of interim acceptance acts (“KS-2”) and reports on the cost of works performed (“KS-3”).

## **2.8. Expenses**

General and selling expenses are recognized in the period in which they are incurred.

In accordance with the accounting policy adopted by the Company starting January 1, 2004, the following provisions are accrued for:

- Valuation reserves:
  - (i) Provision for doubtful debts (monthly);
  - (ii) Provision for impairment of investment (quarterly);
  - (iii) Provision for inventory obsolescence (monthly);
- Provision for accrued operating expenses:
  - (i) Provision for unused vacation (monthly);
  - (ii) Provision for annual / quarterly performance bonuses (monthly);
- Provision for contingencies (quarterly);
- Provision for work performed, services rendered (monthly).

Prepaid expenses are recognized in account 97 "Prepaid expenses" on the basis of the actual costs. Prepaid expenses are amortized on a monthly basis to the debit of expense accounts during the period specified in the respective documents (licenses, contracts, etc.). If it is impossible to conclude on the period from the relevant documents, it is determined by the commission whose composition is appointed by the Company's management.

## **2.9. Long-term and short-term liabilities**

Borrowings and liabilities that mature in more than 12 months are recognized as part of long-term liabilities. Long-term liabilities are reclassified to current liabilities when their maturity is equal to or less than 365 days from the reporting date.

Principal and additional debt issuance costs are expensed when incurred and included in other expenses.

### 3. INVESTMENTS

#### 3.1. Long-term investments

As of December 31, 2008 and 2007, long-term investments consisted of the following:

Description of investments	(Thousands of rubles)	
	2008	2007
<b>Total debt securities,</b>	<b>17 168</b>	<b>14 344</b>
<b>including:</b>		
OJSC Vekselya i Financy promissory note	15 117	15 547
OJSC Moskovskaya Sotovaya Svyaz promissory note	2 051	2 081
AFK Sistema promissory note	-	2 000
Amendments to the legislation (PBU 3/2006)	-	(5 284)
<b>Total loans given,</b>	<b>32 325 141</b>	<b>14 621 861</b>
<b>including:</b>		
Mobile TeleSystems Bermuda Limited	22 462 917	9 073 968
International Cell Holding Ltd.	6 170 749	5 119 625
LLC Bastion	3 079 374	-
OJSC TS-Retail	327 779	-
OJSC Intellect Telecom	158 720	-
Mobile TeleSystems Finance S. A.	118 298	78 306
Mobile TeleSystems B.V.	7 304	1 800
LLC Uzdunrobita	-	348 162
<b>Total investments in shares of affiliated companies and subsidiaries,</b>	<b>37 195 886</b>	<b>37 735 916</b>
<b>including:</b>		
CJSC Ukrainian Mobile Communications	11 625 862	11 625 862
LLC Uzdunrobita	9 995 499	9 995 233
International Cell Holding Ltd.	9 778 454	9 778 454
Barash Communications Technologies, Inc.	1 317 569	1 316 359
CJSC Sibintertelecom	1 156 613	1 156 092
Vostok Mobile South B.V.	1 063 988	183 545
CJSC K-Telecom	412 934	18 460
LLC Dagtelecom	402 883	402 875
LLC Bastion <sup>1</sup>	308 300	-
LLC Mobile TeleSystems	282 160	282 160
Coral/Sistema Strategic Fund	274 694	182 530
LLC PPT Telecom Kiev	106 403	106 403
LLC TS-Retail	86 100	86 100
OJSC Firma Novitel	83 831	83 831
LLC SweetCom	80 389	80 389
JLLC Mobile TeleSystems	77 827	77 827
LLC Bitel	55 043	40 187
LLC Mobile TeleSystems in the Komi Republic	30 371	32 993
NPF Sistema	14 085	5 400
LLC TS-Service	13 400	13 400
CJSC Center – Telco	11 222	11 222
LLC Mobile TeleSystems – Kostroma	9 540	9 541
Mobile TeleSystems Finance S. A.	3 744	3 744
Telefon.ru <sup>1</sup>	3 600	-
Mobile TeleSystems Bermuda Limited	1 207	679
OJSC Mobile Telematic Positioning Systems	168	168
CJSC Primtelefon <sup>2</sup>	-	899 864
Vostok Mobile B.V. <sup>3</sup>	-	879 483
CJSC Bashcell <sup>2</sup>	-	228 634
CJSC Volgograd Mobile <sup>2</sup>	-	84 774

<sup>1</sup> Financial investments occurred in 2008

<sup>2</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15, "Reorganization")

<sup>3</sup> Entities reorganized or liquidated in 2008

**UNOFFICIAL TRANSLATION**

	(Thousands of rubles)	
<b>Description of investments</b>	<b>2008</b>	<b>2007</b>
OJSC Mobile Communication Systems <sup>4</sup>	-	72 436
OOO "Mobile TeleSystems – T" <sup>5</sup>	-	41 695
CJSC Astrakhan Mobile <sup>4</sup>	-	32 194
CJSC Mar Mobile GSM <sup>4</sup>	-	3 382
<b>Other</b>	<b>39 125</b>	<b>70 538</b>
<b>Provision for impairment of investments</b>	<b>(99 431)</b>	<b>-</b>
<b>Total</b>	<b>69 477 889</b>	<b>52 442 659</b>

**3.2. Short-term investments**

	(Thousands of rubles)	
<b>Description of investments</b>	<b>2008</b>	<b>2007</b>
Deposits	17 464 448	8 133 782
Loans issued	16 673 011	9 210 991
Other	-	158 219
Provision for impairment of investments	(5 308 770)	(4 104 506)
<b>Total</b>	<b>28 828 689</b>	<b>13 398 486</b>

As of December 31, 2008 OJSC MTS recorded a provision for impairment of investments in accordance with PBU 19/02 "Accounting for investments":

1. Allowance of 4 481 903 thousand rubles for impairment of a loan issued in March 2006 to the subsidiary Mobile TeleSystems Finance S.A. was accrued in the amount of 156 000 thousand US Dollars. The loan was used to acquire 51% of the shares in Tarino Limited, which owned 100% of LLC Bitel through its subsidiaries at the time of acquisition. Currently, the rights of Mobile TeleSystems Finance S.A. to the acquired assets are disputed in courts of various jurisdictions. In accordance with the loan agreement Mobile TeleSystems Finance S.A. should have repaid the principal amount and accrued interest on December 31, 2007. As of now, there is an uncertainty as to the recoverability of this loan as Mobile TeleSystems Finance S.A. does not conduct operating activities and has no available assets.
2. Allowance for the impairment of a loan issued in October 2008 to CJSC Beta-Link, in the amount of 826 867 thousand rubles. See Note 20 "Subsequent events".
3. Allowance for impairment of other investments in the amount of 99 431 thousand rubles.

**4. INVENTORIES**

As of December 31, 2008 and 2007, the Company had no inventory in transit or pledged as collateral.

As of December 31, 2008 and 2007 the provision for inventory obsolescence (handsets, accessories and advertising materials) amounted to 222 285 thousand rubles and 549 591 thousand rubles, respectively. The provision was reduced due to the write-off of obsolete inventories against the provisions made earlier in the result of stock count.

<sup>4</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 "Reorganization")

<sup>5</sup> Entities reorganized or liquidated in 2008

## 5. LOANS AND BORROWINGS

Maturities of the main types of debt outstanding as of December 31, 2008 and 2007 are presented below.

In 2008, the Company issued three ruble-denominated notes in the amount of 10 billion rubles each maturing in 2013, 2015 and 2018, respectively. The ruble-denominated notes are all subject to put option in 2010 as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of coupons. The notes in the accompanying financial statements are disclosed as maturing in the period, when the demand for repurchase could be submitted, disregarding the expectations of the Company about the intentions of the notes holders. Therefore, the Company disclosed the notes as maturing in 2010 in the aggregated maturities schedule presented below.

Maturities of the main types of debt outstanding as of December 31, 2008 are presented below:

(Thousands of rubles)

Description	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings	412 220	-	2 339 503	52 668 741	-	<b>55 420 464</b>
Loans	2 127 938	600 705	31 481 100	35 638 647	2 846 490	<b>72 694 880</b>
Promissory notes	-	-	-	-	2 002 387	<b>2 002 387</b>
<b>Total</b>	<b>2 540 158</b>	<b>600 705</b>	<b>33 820 603</b>	<b>88 307 388</b>	<b>4 848 877</b>	<b>130 117 731</b>

The accrued expenses on loans and borrowings (interest and additional expenses) for 2008 amounted to 5 335 054 thousand rubles, including:

- 5 134 513 thousand rubles recognized as interest expense;
- 200 541 thousand rubles recognized as other expenses (debt issuance costs).

Maturities of the main types of debt outstanding as of December 31, 2007 are presented below:

(Thousands of rubles)

Description	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings	9 818 480	-	110 000	21 439 592	-	<b>31 368 072</b>
Loans	161 465	545 813	6 591 735	45 092 496	1 418 574	<b>53 810 083</b>
Promissory notes	-	-	-	-	2 002 387	<b>2 002 387</b>
<b>Total</b>	<b>9 979 945</b>	<b>545 813</b>	<b>6 701 735</b>	<b>66 532 088</b>	<b>3 420 961</b>	<b>87 180 542</b>

The accrued expenses on loans and borrowings included into interest payable in 2007 amounted to 5 574 326 thousand rubles.

**6. INCOME TAX**

Current income tax expense for 2008 and 2007 comprised the following:

	(Thousands of rubles)	
	<u>2008</u>	<u>2007</u>
<b>Theoretical income tax expense</b>	<b>13 001 898</b>	<b>12 479 380</b>
<b>Permanent tax asset:</b>		
non-deductible expenses	1 016 364	1 300 759
provision for impairment of investments	198 448	960 225
expenses in excess of allowable limits	-	18 578
Other	2 778	22 494
<b>Total</b>	<b>1 217 590</b>	<b>2 302 056</b>
<b>Permanent tax liability:</b>		
non-taxable income	(486 780)	(557 640)
Other	(17 446)	(24 969)
<b>Total</b>	<b>(504 226)</b>	<b>(582 609)</b>
<b>Increase/(decrease) in deferred tax asset:</b>		
inventories, including due to:		
provision for services rendered	1 370 567	1 295 037
allowance for doubtful debt	285 272	(364 810)
difference in the methods of revenue recognition	75 324	27 767
other provisions	53 079	(38 956)
difference in valuation for accounting and tax purposes	(78 075)	759
fixed assets, including due to:		
different periods and methods of depreciation for accounting and tax purposes	792 214	408 044
other operations with fixed assets	736	-
prepaid expenses (software)	-	2 261
<b>Total</b>	<b>2 499 117</b>	<b>1 330 102</b>
<b>Increase in deferred tax liability:</b>		
fixed assets, including due to:		
different periods and methods of depreciation for accounting and tax purposes	(253 022)	(143 094)
prepaid expenses	(182 267)	(124 343)
other operations with fixed assets	49 692	-
<b>Total</b>	<b>(385 597)</b>	<b>(267 437)</b>
<b>Total current income tax</b>	<b>15 828 782</b>	<b>15 261 492</b>

## 7. SHARE CAPITAL

Share capital of the Company as of December 31, 2008 and 2007 comprised the following:

Types of shares	Par value, rubles	Number of shares,		Of these, number of shares fully paid,		Of these, number of treasury shares (acquired by the Company, its subsidiaries and associates)	
		2008	2007	2008	2007	2008	2007
		Ordinary shares	0.1	1 993 326 138	1 993 326 138	1 993 326 138	1 993 326 138
<b>Total</b>		<b>1 993 326 138</b>	<b>1 993 326 138</b>	<b>1 993 326 138</b>	<b>1 993 326 138</b>	<b>108 273 338</b>	<b>32 476 838</b>

The share capital is equal to 199 333 thousand rubles; no changes took place in 2008 and 2007. In 2008, OJSC MTS purchased 37 762 257 of its own shares for the sum of 11 139 866 thousand rubles. In 2008 its subsidiary Mobile TeleSystems Bermuda Limited purchased 38 034 243 shares of OJSC MTS.

## 8. ADDITIONAL DISCLOSURES ABOUT ASSETS AND LIABILITIES

Description	Line code	Account	(Thousands of rubles)	
			31 December	
			2008	2007
<b>Construction in progress, including:</b>	<b>130</b>		<b>34 622 021</b>	<b>38 567 084</b>
Construction in progress of telecommunication equipment		08	25 361 415	28 004 316
Equipment for installation		07, 14	9 095 507	8 464 179
Other investments in non-current assets		10,15,16	165 099	2 098 589
<b>Other non-current assets, including:</b>	<b>150</b>		<b>16 414 677</b>	<b>15 925 263</b>
Numbering capacity, non-exclusive rights to use software products with useful lives over 12 months		97	12 884 793	11 503 758
Advances given for acquisition of fixed assets and construction services		60	3 529 884	3 414 563

### 8.1. Other current assets

As of December 31, 2008 line 270 "Other current assets" includes telecommunication equipment and spare parts purchased earlier from Lucent Technologies. The Company intends to sell these assets in 2009. As of December 31, 2008 the net book value of these assets was 1 928 330 thousand rubles.

As of December 31, 2007 the net book value of these assets amounted to 2 013 885 thousand rubles and was recorded in the line 270 "Other current assets" and line 150 "Other non-current assets".

**8.2. Translation of assets and liabilities denominated in conventional units**

In accordance with Order of the Russian Ministry of Finance No. 147n dated December 25, 2007 “On amendments to the Regulation on Accounting “Accounting for assets and liabilities denominated in foreign currency” (PBU 3/2006), amendments to PBU 3/2006 were approved. In compliance with these amendments, long-term securities (except for shares) were recalculated.

Therefore, as of January 1, 2008 changes were made to the opening balance:

Description	Line code	(Thousands of rubles)		
		Balance as of December 31, 2007	Change upon adoption of PBU 3/2006	Balance as of January 1, 2008
Long-term investments	140	52 447 943	(5 284)	52 442 659
Retained earnings	471	81 471 260	(5 284)	81 465 976

**9. ADDITIONAL DISCLOSURES TO OTHER INCOME AND EXPENSES**

Description	Line code	(Thousands of rubles)	
		2008	2007
<b>Other income, including:</b>	<b>090</b>	<b>2 906 235</b>	<b>7 065 667</b>
Prior year profits identified in the current period		1 415 908	1 214 943
Income on sale and disposal of other property		398 349	601 626
Income on sale and disposal of fixed assets		357 453	345 868
Income on swaps		220 252	-
Trademark income		209 968	112 121
Accounts receivable and accounts payable written off as unrecoverable		107 595	60 555
Penalties and fines		37 496	23 175
Gain in the result of inventory count		33 916	38 463
Foreign exchange gains and losses, net		-	4 522 239
Income from sale of securities		-	76 528
Other		125 298	70 149
<b>Other expenses, including:</b>	<b>100</b>	<b>21 486 349</b>	<b>10 524 187</b>
Foreign exchange gains and losses, net		12 681 458	-
Loss on sale and disposal of fixed assets		2 034 094	466 361
Allowance for doubtful debt including:		1 952 836	919 051
allowance for doubtful debt – subscribers		1 631 835	574 723
Prior years loss identified in current period		904 829	2 585 400
Provision for VAT reimbursable		707 441	401 203
Loss on sale and disposal of other property		613 102	1 357 807
Loss in the result of inventory count		584 244	154 439
Provision for impairment of investments		515 739	4 104 506
Reimbursement of value-added tax		369 886	213 188
Loss on swaps		297 736	-
Debt issuance cost		200 541	-
Bank charges		122 880	134 449
Penalties and fines		7 416	12 939
Loss on the sale of securities		-	122 081
Provision for inventory obsolescence		(327 306)	(272 631)
Other		821 453	325 394

**10. BASIC AND DILUTED EARNINGS**

Basic and diluted earning for 2008 and 2007 were as follow:

	(Thousands of rubles)	
	<u>2008</u>	<u>2007</u>
Basic earnings, thousand rubles	39 778 176	37 025 594
Weighted average number of outstanding ordinary shares	<u>1 984 393 188</u>	<u>1 993 326 138</u>
<b>Basic earning per share, rubles</b>	<b>20,05</b>	<b>18,57</b>
Diluted earnings, thousand rubles	39 778 176	37 025 594
Weighted average number of outstanding ordinary shares	<u>1 984 393 188</u>	<u>1 993 326 138</u>
<b>Diluted earnings per share, rubles</b>	<b>20,05</b>	<b>18,57</b>

**11. BOARD OF DIRECTORS**

As of December 31, 2008, the Board of Directors was comprised of the following members:

Full name	Position
Vitaly Gennadyevich Savelyev	Chairman of the Board of Directors
Serguey Alexeevich Drozdov	Vice-Chairman of the Board
Ostling Paul James	Member of the Board of Directors
Mikhail Valerievich Shamolin	Member of the Board of Directors
Anton Vladimirovich Abugov	Member of the Board of Directors
Alexey Nikolaevich Buyanov	Member of the Board of Directors
Singh Mohanbir Gyani	Member of the Board of Directors
Tatyana Vladimirovna Evtushenkova	Member of the Board of Directors
Daniel Eldon Crawford	Member of the Board of Directors

The total amount of compensation paid to the Board of Directors in 2008 and 2007 totaled 298 723 thousand rubles and 47 175 thousand rubles, respectively.

**12. MANAGEMENT BOARD**

The resolution of the general meeting of shareholders dated October 3, 2008 in OJSC MTS created a Management Board in the Company and approved Regulations on OJSC MTS' Management Board.

As of December 31, 2008, the Management Board was comprised of the following members:

Mikhail Valerievich Shamolin  
Pavel Dmitrievich Belik  
Alexander Genrikhovich Bogatyrev  
Cynthia Elison Gordon  
Andrey Anatolievich Dubovskov  
Ruslan Sultanovich Ibragimov  
Alexey Valeryevich Kornya  
Sergey Borisovich Nikonov  
Alexander Valeryevich Popovsky  
Oleg Yurievich Raspopov  
Andrey Borisovich Terebenin  
Michael Hecker

The total amount of compensation paid to the Management Board in 2008 and 2007 totaled 881 828 thousand rubles and 751 504 thousand rubles, respectively.

**13. RELATED PARTIES*****13.1. List of the parties related to the Company for the year 2008 and type of relation***

	<b>Legal entity/individual</b>	<b>Nature of relationship</b>
1	Vitaly Gennadyevich Savelyev	Senior Management of the Company
2	Anton Vladimirovich Abugov	Senior Management of the Company
3	Alexey Nikolaevich Buyanov	Senior Management of the Company
4	Tatyana Vladimirovna Evtushenkova	Senior Management of the Company
5	Singh Mohanbir Gyani	Senior Management of the Company
6	Leonid Adolfovich Melamed	Senior Management of the Company
7	Ostling Paul James	Senior Management of the Company
8	Mikhail Valerievich Shamolin	Senior Management of the Company
9	Serguey Alexeevich Drozdov	Senior Management of the Company
10	Daniel Eldon Crawford	Senior Management of the Company
11	Alexey Valeryevich Kornya	Senior Management of the Company
12	Cynthia Elison Gordon	Senior Management of the Company
13	Andrey Borisovich Terebenin	Senior Management of the Company
14	Pavel Dmitrievich Belik	Senior Management of the Company
15	Sergey Borisovich Nikonov	Senior Management of the Company
16	Ruslan Sultanovich Ibragimov	Senior Management of the Company
17	Michael Hecker	Senior Management of the Company
18	Oleg Yurievich Raspopov	Senior Management of the Company
19	Alexander Genrikhovich Bogatyrev	Senior Management of the Company
20	Andrey Anatolievich Dubovskov	Senior Management of the Company
21	Oleg Nikolaevich Alexeev	Other related party
22	Alexander Valeryevich Popovsky	Senior Management of the Company
23	Elena Olegovna Pavlova	Senior Management of the Company
24	Bekhzod Bakhodirovich Akhmedov	Senior Management of the Company
25	Maxim Alexandrovich Kalinin	Senior Management of the Company
26	Vladimir Mikhailovich Kliger	Other related party
27	Alexander Grigorievich Novitsky	Other related party
28	Karema Abusalimovna Izieva	Senior Management of the Company
29	Andrey Evgenievich Sazonov	Senior Management of the Company
30	Sergey Mikhailovich Fomenkov	Other related party
31	Vsevolod Valerievich Rozanov	Senior Management of the Company
32	Pavel Evgenyevich Pavlovsky	Senior Management of the Company
33	Vladimir Alexandrovich Morozov	Senior Management of the Company
34	Arkady Valentinovich Ryazanov	Senior Management of the Company
35	Dmitry Vyacheslavovich Bobikov	Senior Management of the Company
36	Boris Gennadyevich Podolsky	Senior Management of the Company
37	Igor Vladislavovich Mariasov	Senior Management of the Company
38	Dmitry Vitalievich Novik	Senior Management of the Company
39	Andrey Nikolaevich Kholodov	Senior Management of the Company
40	Marina Samuilovna Melamed	Other related party
41	Alla Grigorievna Melamed	Other related party
41	Adolf Abramovich Melamed	Other related party
42	Sofia Leonidovna Melamed	Other related party
43	Ilia Leonidovich Melamed	Other related party
44	Open joint-stock company Joint-Stock Financial Corporation Sistema and its subsidiaries	Parent company and other related parties
45	Barash Communications Tehnologies Inc.	Subsidiary
46	Mobile TeleSystems Finance S.A.	Subsidiary
47	MCT Sibi Corp.	Subsidiary
48	Vostok Mobile B.V., Vostok Mobile South B.V	Subsidiary
49	Cezann B.V.	Subsidiary
50	Closed joint stock company "Sibintertelecom"	Subsidiary
51	Closed joint stock company Russian Telephone Company	Subsidiary
52	Closed joint stock company Ukrainian Mobile Communications	Subsidiary
53	Tarino Limited	Associate

	<b>Legal entity/individual</b>	<b>Nature of relationship</b>
54	Limited liability company “Foreign production enterprise “Uzdunrobita”	Subsidiary
55	Limited liability company Mobile TeleSystems – Capital	Subsidiary
56	Limited liability company Mobile TeleSystems – Kostroma	Subsidiary
57	Limited liability company Mobile TeleSystems in the Komi Republic	Subsidiary
58	Limited liability company Mobile TeleSystems	Subsidiary
59	Limited liability company PTT Telecom Kiev	Subsidiary
60	Vladimir Petrovich Evtushenkov	Other related party
61	Limited liability company Sweet-Com	Subsidiary
62	Open joint stock company Mobile Telematic Positioning Systems	Subsidiary
63	Open joint-stock company Firm NOVITEL	Associate
64	Joint venture limited liability company Mobile TeleSystems	Associate
65	Closed joint stock company Uraltel-plus	Subsidiary
66	Limited liability company Dagtelecom	Subsidiary
67	Mobile TeleSystems Bermuda Limited	Subsidiary
68	Mobile TeleSystems B.V.	Subsidiary
69	Limited liability company TS–Service	Subsidiary
70	Open joint-stock company TS-Retail	Associate
71	International Cell Holding LTD	Subsidiary
72	Closed joint-stock company K-Telecom	Subsidiary
73	KT-Holding SAL	Subsidiary
74	Limited liability company Bastion	Subsidiary
75	Dega Retail Holding Ltd	Subsidiary
76	MTS New Horizons Ltd	Associate
77	Closed joint stock company Volgograd Mobile <sup>6</sup>	Subsidiary
78	Closed joint stock company Astrakhan Mobile <sup>6</sup>	Subsidiary
79	Closed joint stock company Primtelefon <sup>6</sup>	Subsidiary
80	Closed joint stock company Mar Mobile GSM <sup>6</sup>	Subsidiary
81	Closed joint-stock company Bashcell <sup>6</sup>	Subsidiary
82	Open joint stock company Mobile Communication Systems <sup>6</sup>	Subsidiary
83	Limited liability company Mobile TeleSystems – T	Subsidiary
84	Closed joint stock company INVEST-SVYAZ	Other related party
85	Limited liability company VAST	Other related party
86	Open joint stock company Sistema-Invest	Other related party
87	Closed joint stock company Sotovaya Svyaz Primorya	Other related party

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<sup>6</sup> Entities merged with OJSC MTS in 2008 in the result of reorganization (see Note 15 “Reorganization”)

**13.2. Related party transactions in 2008****Loans received (including interest payable)**

<b>Related party</b>	(Thousands of rubles)	
	<b>2008</b>	<b>2007</b>
LLC Bastion	6 002 045	-
Mobile TeleSystems Finance S.A.	5 620 971	2 685 664
CJSC K-Telecom	953 432	-
Vostok Mobile B.V. (together with Vostok Mobile South)	104 067	-
CJSC Sibintertelecom	28 700	28 700
LLC Mobile TeleSystems	13 021	137 053
Other	164	5 422
<b>Total</b>	<b>12 722 400</b>	<b>2 856 839</b>

**Loans issued (including interest payable)**

<b>Related party</b>	(Thousands of rubles)	
	<b>2008</b>	<b>2007</b>
Mobile TeleSystems Bermuda Limited	17 932 514	6 605 199
LLC Bastion	5 142 521	-
LLC Uzdunrobota	1 472 329	342 431
International Cell Holding LTD	1 095 301	5 119 623
Mobile TeleSystems Finance S. A.	1 045 412	206 053
OJSC TS-Retail	595 172	280 574
CJSC Ukrainian Mobile Communications	494 332	383 313
JLLC Mobile TeleSystems	462 709	-
CJSC Volgograd Mobile <sup>7</sup>	386 480	29 149
CJSC Astrakhan Mobile <sup>7</sup>	338 583	308 256
OJSC Intellect Telecom	158 720	-
LLC Dagtelecom	154 143	177 652
CJSC Mar Mobile GSM <sup>7</sup>	93 641	96 195
LLC SweetCom	87 209	51 648
Vostok Mobile B.V. (together with Vostok Mobile South)	34 038	7 495
OJSC Mobile Telematic Positioning Systems	19 365	19 365
CJSC Bashcell <sup>7</sup>	-	783 486
Other	5 552	1 915
<b>Total</b>	<b>29 518 021</b>	<b>14 412 354</b>

<sup>7</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 "Reorganization")

*Purchase of equipment, goods, works and services*

<b>Related party</b>	(Thousands of rubles)	
	<b>2008</b>	<b>2007</b>
OJSC Mezhregionalny Transit Telecom	5 059 638	2 258 582
OJSC RA Maxima	2 499 603	1 879 087
CJSC Mediaplanning	2 285 709	1 560 650
CJSC Sitronics Telecom Solutions	2 083 677	1 771 935
LLC Kvazar Micro.RU	2 027 251	1 448 860
OJSC Comstar-United TeleSystems	1 000 110	712 243
LLC Sitronics Smart Technologies	774 188	-
OJSC MGTS	549 453	426 582
CJSC Ukrainian Mobile Communications	446 123	15 655
CJSC Primtelefon <sup>8</sup>	439 390	314 437
CJSC City Gals	347 074	326 667
CJSC Volgograd Mobile <sup>8</sup>	276 362	45 687
LLC Dagtelecom	268 159	-
CJSC Sibintelecom	255 051	59 302
OJSC TS-Retail	137 384	833
OJSC Mobile Communication Systems <sup>8</sup>	114 480	57 304
CJSC AMT	109 450	64 220
CJSC Metro-Telecom	108 911	105 723
JLLC Mobile TeleSystems	98 439	2 934
CJSC City Gals Siber	47 852	-
OJSC Moscow Bank for Reconstruction and Development	43 236	1 466
LLC Uzdunrobota	39 168	1 137
CJSC Bashcell <sup>8</sup>	26 636	-
OJSC External Economic Joint-Stock Company on Tourism and Investments "Intourist"	19 456	812
CJSC Mar Mobile GSM <sup>8</sup>	18 333	16 898
CJSC K-Telecom	15 851	-
CJSC Mosdachtrest	11 412	9 615
OJSC ReCom <sup>9</sup>	-	45 952
CJSC Telesot-Alania <sup>9</sup>	-	6 578
CJSC Sistema Telecom	-	372 351
CJSC Company MTU-Inform	-	203 285
CJSC InvestSvyazHolding	-	32 411
Other	90 557	49 141
<b>Total</b>	<b>19 192 953</b>	<b>11 790 347</b>

<sup>8</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 "Reorganization")

<sup>9</sup> Entities merged with OJSC MTS in 2007 as a result of reorganization (see Note 15 "Reorganization")

*Sale of equipment, goods and services, construction and installation works*

<b>Related party</b>	(Thousands of rubles)	
	<b>2008</b>	<b>2007</b>
OJSC Mezhregionalny Transit Telecom	2 082 313	1 662 347
OJSC MGTS	835 778	13 486
CJSC Primtelefon <sup>10</sup>	817 329	840 766
OJSC Comstar-United TeleSystems	575 374	66 926
OJSC Mobile Communication Systems <sup>10</sup>	546 989	227 668
CJSC Sibintertelecom	304 610	227 160
CJSC Volgograd Mobile <sup>10</sup>	238 725	146 521
CJSC Comstar-Direct	178 885	-
CJSC Ukrainian Mobile Communications	124 748	7 216
OJSC TS-Retail	78 942	561
JLLC Mobile TeleSystems	50 253	21 328
CJSC Mar Mobile GSM <sup>10</sup>	46 789	80 704
CJSC AMT	40 040	6 301
CJSC Astrakhan Mobile <sup>10</sup>	33 174	30 519
CJSC Bashcell <sup>10</sup>	22 733	-
OJSC Mobile Telematic Positioning Systems	21 833	39 847
LLC Kvazar Micro.RU	13 389	-
CJSC Telesot-Alania <sup>11</sup>	-	22 631
OJSC ReCom <sup>11</sup>	-	230 372
Other	25 818	4 441
<b>Total</b>	<b>6 397 843</b>	<b>3 649 562</b>

*Acquisition of subsidiaries*

<b>Related party</b>	(Thousands of rubles)	
	<b>2008</b>	<b>2007</b>
Vostok Mobile B.V.	2 572 109	-
<b>Total</b>	<b>2 572 109</b>	<b>-</b>

*Loans received*

<b>Related party</b>	(Thousands of rubles)		
	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>Period of settlement of operations 2008</b>
Mobile TeleSystems Finance S.A.	24 118 273	30 370 932	2012
LLC Bastion	6 002 045	-	2018
AFK Sistema	2 002 387	2 002 387	2049-2056
CJSC K-Telecom	953 432	-	2009
CJSC Sibintertelecom	656 272	574 000	2009
LLC Mobile TeleSystems	281 561	268 540	2012
Vostok Mobile B.V.			
(together with Vostok Mobile South)	104 067	-	2009
LLC Mobile TeleSystems – Capital	8 145	8 145	2010
OJSC Mobile Communication Systems <sup>10</sup>	-	90 982	
<b>Total</b>	<b>34 126 182</b>	<b>33 314 986</b>	

<sup>10</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 “Reorganization”)

<sup>11</sup> Entities merged with OJSC MTS in 2007 as a result of reorganization (see Note 15 “Reorganization”)

*Loans issued*

<b>Related party</b>	(Thousands of rubles)		
	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>Period of settlement of operations 2008</b>
Mobile TeleSystems Bermuda Limited	27 006 482	9 073 968	2009-2010
International Cell Holding LTD	6 214 926	5 119 623	2009-2011
Mobile TeleSystems Finance S.A.	5 154 668	4 109 256	2010
LLC Bastion	5 137 752	-	2009-2010
LLC Uzdunrobota	1 575 646	348 162	2008-2009
OJSC TS-Retail	805 746	210 574	2009-2010
CJSC Ukrainian Mobile Communications	470 945	2 439 212	2009
LLC Dagtelecom	459 853	305 710	2009
LLC SweetCom	325 691	238 482	2009-2010
Vostok Mobile B.V. (together with Vostok Mobile South)	194 099	160 062	2009
OJSC Mobile Telematic Positioning Systems	192 316	172 951	2009
OJSC Intellect Telecom	158 720	-	2012
JLLC Mobile TeleSystems	60 230	-	2009
CJSC Astrakhan Mobile <sup>12</sup>	-	273 872	-
CJSC Bashcell <sup>12</sup>	-	783 486	-
CJSC Mar Mobile GSM <sup>12</sup>	-	89 061	-
CJSC Volgograd Mobile <sup>12</sup>	-	437 726	-
Other	7 598	2 047	2009-2010
<b>Total</b>	<b>47 764 672</b>	<b>23 764 192</b>	

<sup>12</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 "Reorganization")

**Receivables**

Related party	Type of transaction	(Thousands of rubles)	
		31 December	
		2008	2007
CJSC Sibintertelecom	Sale of goods and services	436 676	157 918
LLC Dagtelecom	Sale of goods and services	283 486	33 362
OJSC MGTS	Sale of goods and services	277 249	8 955
OJSC Advertising Agency Maxima	Purchase of goods, works, services	245 207	399 052
OJSC Mobile Telematic Positioning Systems	Sale of goods and services	104 439	94 389
OJSC Comstar-United TeleSystems	Sale of goods and services	75 270	77 957
CJSC K-Telecom	Sale of goods and services	48 780	-
CJSC Mosdachtrest	Sale of goods and services	35 459	330
CJSC Ukrainian Mobile Communications	Sale of goods and services	31 919	3 684
OJSC Firma Novitel	Sale of goods and services	21 740	4 585
OJSC Intellect Telecom	Purchase of goods, services	18 587	35 346
LLC Kvazar Micro.RU	Sale of goods and services	13 389	429 279
OJSC Mezhhregionalny Transit Telecom	Sale of goods and services	406	288 524
CJSC Mediaplanning	Purchase of goods, services	-	64 518
CJSC City Gals	Purchase of goods, services	-	22 172
CJSC Volgograd Mobile <sup>13</sup>	Sale of goods and services	-	578 602
CJSC Astrakhan Mobile <sup>13</sup>	Sale of goods and services	-	302 029
LLC Mobile TeleSystems – T	Sale of goods and services	-	46 128
CJSC Primtelefon <sup>13</sup>	Sale of goods and services	-	1 260 727
CJSC Mar Mobile GSM <sup>13</sup>	Sale of goods and services	-	307 808
OJSC Mobile Communication Systems <sup>13</sup>	Sale of goods and services	-	98 659
CJSC Sitronics Telecom Solutions	Sale of goods and services	-	299 371
Other	Sale of goods and services	16 578	9 540
<b>Total</b>		<b>1 609 185</b>	<b>4 522 935</b>

**Payables**

Related party	Type of transaction	(Thousands of rubles)	
		31 December	
		2008	2007
Vostok Mobile B.V. (together with Vostok Mobile South)	Acquisition of subsidiaries	2 572 109	-
CJSC Sitronics Telecom Solutions	Purchase of goods and services	1 474 825	1 346 714
LLC Kvazar Micro.RU	Purchase of goods and services	1 105 466	159 478
OJSC Advertising Agency Maxima	Purchase of goods and services	346 609	45 397
OJSC Mezhhregionalny Transit Telecom	Purchase of goods and services	145 145	34 857
CJSC Mediaplanning	Purchase of goods and services	125 228	18 569
CJSC Sibintertelecom	Purchase of goods and services	90 194	33 804
OJSC Comstar-United TeleSystems	Purchase of goods and services	76 370	215
LLC Dagtelecom	Purchase of goods and services	49 435	-
LLC Sitronics Smart Technologies	Purchase of goods and services	47 512	-
OJSC MGTS	Purchase of goods and services	45 715	5 392
CJSC AMT	Purchase of goods and services	19 431	-
OJSC TS-Retail	Purchase of goods and services	10 248	-
CJSC Primtelefon <sup>13</sup>	Purchase of goods and services	-	233 551
Other	Purchase of goods and services	19 730	24 722
Other	Sale of goods and services	3 017	853
<b>Total</b>		<b>6 131 034</b>	<b>1 903 552</b>

<sup>13</sup> Entities merged with OJSC MTS in 2008 as a result of reorganization (see Note 15 “Reorganization”)

As of December 31, 2008 and 2007 the allowance for doubtful debt from related parties and the provision for impairment of investments to related parties amounted to 4 482 333 thousand rubles and 4 001 315 thousand rubles, respectively, including a provision for impairment of investments amounting to 4 481 903 thousand rubles and 4 000 938 thousand rubles as of December 31, 2008 and 2007, respectively, in relation to the loan issued to Mobile TeleSystems Finance S. A.

### 13.3. Dividends received and paid

	(Thousands of rubles)			
	Dividends received		Dividends paid	
	2008	2007	2008	2007
LLC MTS	-	-	52 936	41 958
JLLC MTS, Belarus	593 967	127 262	-	-
AFK Sistema	-	-	8 607 040	5 606 800
Non-resident shareholders	-	-	13 592 862	8 945 670
Other	103	83	3 928 796	2 454 592
<b>Total</b>	<b>594 070</b>	<b>127 345</b>	<b>26 181 634</b>	<b>17 049 020</b>

In 2008 cash in the amount of 26 181 634 thousand rubles (excluding dividend tax) was used for the payment of dividends.

## 14. DISTRIBUTION OF RETAINED EARNINGS

The annual shareholder meeting which took place on June 27, 2008 decided to use part of the profit retained by the Company in 2007 to pay dividends to shareholders in the amount of 29 580 960 thousand rubles.

The annual shareholder meeting which took place on June 29, 2007 decided to use part of the profit retained by the Company in 2006 to pay dividends to shareholders in the amount of 19 275 464 thousand rubles.

## 15. REORGANIZATION

In 2008, the following subsidiaries were merged with the Company as branches as a result of the reorganization:

- CJSC Astrakhan Mobile on April 30, 2008;
- CJSC Mar Mobile GSM on April 30, 2008;
- CJSC Volgograd Mobile on July 1, 2008;
- CJSC Primtelefon on July 1, 2008;
- CJSC Bashcell on October 1, 2008;
- OJSC Mobile Communication Systems on October 1, 2008.

On merger of branches, the share capital of OJSC MTS, number and par value of shares, remained unchanged.

Fixed and intangible assets of the merged companies were transferred to OJSC MTS balance sheet at net book value; other assets and liabilities - at carrying value at the date of merger according to the acts of transfer of that date. The profit and loss accounts of the merged companies were included in the financial statements of OJSC MTS from the date of the merger. The result from merger is presented in lines 260 and 270 of the statement of changes in shareholders' equity. The result of the merger of the above companies and the effect of reorganization on certain financial reporting items is presented in tables 15.1 to 15.3.

**15.1. Balances of merged companies as of the date of merger (unaudited):**

(Thousands of rubles)

Company name	Fixed assets	Other non-	Current assets	Accounts Payable	Other liabilities
		current assets			
CJSC Primtelefon	2 548 350	1 649 461	4 506 930	2 825 254	183 359
OJSC Mobile Communication Systems	834 533	235 273	1 970 160	829 649	120 294
CJSC Volgograd Mobile	524 098	435 702	739 989	628 187	837 173
CJSC Bashcell	515 211	91 123	162 239	98 030	808 875
CJSC Mar Mobile GSM	283 865	39 558	104 145	359 099	144 901
CJSC Astrakhan Mobile	283 192	242 845	96 651	23 205	603 240
<b>Total</b>	<b>4 989 249</b>	<b>2 693 962</b>	<b>7 580 114</b>	<b>4 763 424</b>	<b>2 697 842</b>

**15.2. Investments into merged companies as of the date of merger**

As a result of the reorganization through merger, the following investments of OJSC MTS were discontinued:

(Thousands of rubles)

Name of the company	Investments
CJSC Primtelefon	3 164 418
OJSC Mobile Communication Systems	467 932
CJSC Bashcell	228 635
CJSC Volgograd Mobile	228 228
CJSC Mar Mobile GSM	124 080
CJSC Astrakhan Mobile	75 617
<b>Total</b>	<b>4 228 910</b>

**15.3. Pro forma results of operations (unaudited)**

The pro forma financial results for the years ended December 31, 2008 and 2007 presented below reflect the merger of CJSC Astrakhan Mobile, CJSC Mar Mobile GSM, CJSC Volgograd Mobile, CJSC Primtelefon, CJSC Bashcell, OJSC Mobile Communication Systems in 2008 and OJSC ReCom, CJSC Telesot-Alania in 2007 as if they occurred at the beginning of the respective reporting periods.

(Thousands of rubles)

Pro forma results	2008	2007
Sales revenue	192 386 797	155 581 352
Operating income	76 690 297	63 044 949
Net income	40 606 481	40 502 998
Basic and fully diluted earnings per share (rubles)	20,46	20,32

The above pro forma results are presented based on various assumptions and estimates. It is unlikely that pro forma results reflect operating performance which would be achieved if acquisition transactions were completed as of January 1, 2007 and are not necessarily indicators of future financial performance. These indicators do not reflect any increase in revenues or cost reduction due to synergy effects or other enhancement of operating efficiency which could result from acquisitions. Actual financial performance of these companies is included in the Company's financial statements from the date of acquisition.

**16. FOREIGN EXCHANGE DIFFERENCES**

The rates of the Central Bank of the Russian Federation effective at the reporting date were as follows:

As of December 31, 2007:

1 US Dollar = RUB 24.55;  
1 EUR = RUB 35.93.

As of December 31, 2008:

1 US Dollar = RUB 29.38;  
1 EUR = RUB 41.44.

Foreign exchange differences	(Thousands of rubles)	
	<u>2008</u>	<u>2007</u>
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in foreign currency	11 867 188	(4 586 451)
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in rubles	814 270	64 212
Foreign exchange differences recognized in accounts other than the profit and loss account	<u>5 284</u>	<u>671 423</u>
<b>Total</b>	<b><u>12 686 742</u></b>	<b><u>(3 850 816)</u></b>

**17. REPORTING SEGMENTS**

The Company provides telecommunication services in the Russian Federation in a number of regions that share similar economic and political risks. Therefore, the Company's management believes that in 2008 and 2007 the Company operated within one reportable segment. Hence, there are no grounds for disclosing information by reporting segments.

**18. GUARANTEES ISSUED AT DECEMBER 31, 2008**

Debtor's name	Creditor's name	Origination date of off-balance sheet liability	Termination date of off-balance sheet liability	Contractual currency	Contractual amount (thousand)	Contractual amount (thousand rubles)
Mobile TeleSystems Finance S.A.	Bondholders of Mobile TeleSystems Finance S.A.	14.10.2003	14.10.2010	USD	400 000	11 752 160
Mobile TeleSystems Finance S.A.	Bondholders of Mobile TeleSystems Finance S.A.	31.01.2005	28.01.2012	USD	400 000	11 752 160
CJSC Ukrainian Mobile Communications	ING BHF-BANK; Commerzbank (Frankfurt)	30.12.2003	31.01.2009	EUR	51 670	2 141 256
OJSC TS-Retail	OJSC Promsvyazbank	01.12.2008	01.06.2009	RUB	150 000	<u>150 000</u>
<b>Total</b>						<b><u>25 795 576</u></b>

## 19. CONTINGENCIES

In 2008, the Interregional Tax Inspectorate of the Russian Federal Tax Service for largest taxpayers No. 7 conducted the field tax audit of OJSC MTS for 2005 and 2006.

On July 17, 2008, the Inspectorate issued decision No. 10 on imposing tax penalties on OJSC MTS for committed tax violations.

The additional tax assessment, including penalties and interest, amounted to 1 127 284 thousand rubles and included:

- Tax – 983 316 thousand rubles;
- Penalty interest – 73 719 thousand rubles;
- Fine – 70 249 thousand rubles.

During the third quarter of 2008 the Company set off the overpaid amount of taxes against additional tax assessments resulting from the tax audit.

The Company appealed against the resolution of the tax authorities and filed two claims to the Arbitration Court of Moscow: the tax amounts were 860 729 thousand rubles and 21 466 thousand rubles, respectively, in both claims (including penalty interests and fines). The court of first instance satisfied the Company's first claim in full. Based on the decision of January 19, 2009 the examination of the second claim has been suspended by the court until the court's ruling on the first claim goes into effect.

Russia currently has a significant number of laws related to various taxes. Applicable taxes include value added tax, corporate income tax (income tax), and payroll (social) taxes, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

Although OJSC MTS management believes that the accompanying financial statements reflect fairly the Company's tax liabilities, there is a risk that the interpretation of the tax legislation by the tax authorities, as applied to the transactions and activity of the Company, may not coincide with that of the management. As a result, transactions could be challenged by the tax and customs authorities and the Company could be assessed additional taxes, penalty interests and fines, which could be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

As of December 31, 2008 in connection with planned control activities in respect of the Company and based on prudence concept the Company's management recorded a provision for contingencies in the amount of 715 860 thousand rubles.

Further, MTS 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, 2008 and 2007, no provision was recorded in the consolidated financial statement with respect to such additional duties.

Pricing of revenue and expenses between each of the Company's subsidiaries and various discounts and bonuses to Company's subscribers in the course of performing its marketing activities might be a subject to transfer pricing rules. The Company'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 customs authorities may take a different view and impose additional tax liabilities. As of December 31, 2008 and 2007, no provision was recorded in the consolidated financial statement, with respect to such additional claims.

## 20. SUBSEQUENT EVENTS

### *20.1. Changes in the Management Board of OJSC MTS*

On February 5, 2009, the Board of Directors of OJSC MTS terminated the authorities of Cynthia Elison Gordon, member of the Management Board, and elected Mikhail Yuryevich Gerchuk as a member of the Management Board of OJSC MTS.

### *20.2. Changes in the issuer's share in the share capital of another company*

On February 10, 2009, OJSC MTS acquired 100% shares of Telefon.ru. The Company paid cash consideration of \$60.0 million (2 167 million rubles at the exchange rate of the Central Bank of the Russian Federation as of February 10, 2009). The retail chain Telefon.ru sells mobile phones and other digital devices and provides services and contracts of communication service providers. In accordance with sale and purchase agreement, an additional \$25.0 million (903 million rubles at the exchange rate of the Central Bank of the Russian Federation as of February 10, 2009) is payable to the sellers during the period from 12 to 18 months, should Telefon.Ru satisfy certain performance criteria over this period.

On February 27, 2009, OJSC MTS acquired 25.01% in shares of LLC Dagtelecom. As a result, the share of OJSC MTS in LLC Dagtelecom increased from 74.99% to 100% based on the put and call option agreement with respect to the share in LLC Dagtelecom. The Company paid cash consideration of \$41.6 million (1 486 million rubles at the exchange rate of the Central Bank of the Russian Federation as of February 27, 2009). The purchase price shall be reduced to offset the loan granted by MTS to Glaxen during the year ended December 31, 2008 in the amount of \$11.0 million (392 million rubles at the exchange rate of the Central Bank of the Russian Federation as of February 27, 2009). In addition, following the review and assessment of the subsidiary's performance during the period of the joint shareholding of MTS and Glaxen in Dagtelecom, MTS may potentially pay an additional consideration not exceeding \$10.0 million (357 million rubles at the exchange rate of the Central Bank of the Russian Federation as of February 27, 2009).

### *20.3. Information on the issue of securities*

On January 20, 2009 the Company registered the issue of securities – documentary inconvertible interest-bearing bonds series 05 and 04 with mandatory centralized storage and a possibility of early redemption on bearer's demand and at the discretion of OJSC MTS.

The number and date of the state registration of the issue of bonds series 04: 4-04-04715-A dated January 20, 2009. The number of bonds and par value: 15 000 000 bonds with par value of 1 thousand rubles each.

The number and date of the state registration of the issue of bonds series 05: 4-05-04715-A dated January 20, 2009. The number of bonds and par value: 15 000 000 bonds with par value of 1 thousand rubles each.

**20.4. Legal issues**

On February 25, 2009, OJSC MTS made a claim against CJSC Beta-Link for recovery of outstanding debt under the loan agreement № D0818917 dated October 31, 2008. On March 6, 2009, CJSC Beta-Link filed a claim of insolvency (bankruptcy) to the Arbitration Court. Therefore, OJSC MTS created a provision for impairment of the above loan.

**20.5. Changes to legislation**

Effective from January 1, 2009, the income tax rate is reduced to 20% from 24%. As a consequence, OJSC MTS has recalculated deferred tax assets and liabilities as of January 1, 2009. Pursuant to clauses 14, 15 of PBU 18/02 "Accounting for corporate income tax payments" as amended by the Order of the Russian Ministry of Finance No. 23n dated February 11, 2008, the opening balance for retained earnings of 2009 will be decreased by 276 812 thousand rubles from the recalculation of deferred tax assets and increased by 160 858 thousand rubles from the recalculation of deferred tax liabilities.