

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

Auditors' Report

Financial Statements for 2007
(Unofficial Translation)

AUDIT FIRM: ZAO “DELOITTE & TOUCHE CIS”

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

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

Tel.: +7 (495) 787 0600.

Audit License No. E 002417 issued on 6 November 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 31 October 2007, for five years from 6 November 2007.

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

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

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

Ruble account No. 40702810000000100378 in HSBC Bank LLC, 2 Paveletskaya pl., bld. 2, 18th floor, Moscow, 115054 BIC 044525351, correspondent account 30101810400000000351.

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

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

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

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

State registration certificate of Open joint-stock company “Mobile TeleSystems” No. R-7882.16, issued by the Moscow Registration Chamber under the Russian Ministry of Justice on 1 March 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 1 January 2007 to 31 December 2007 inclusive. The financial statements of the Company consist of:

- Balance sheet as of 31 December 2007;
- Statement of profit and loss for 2007;
- Statement of changes in shareholders' equity for 2007;
- Statement of cash flows for 2007;
- Appendix to the balance sheet for 2007;
- Explanatory notes.

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 statements are reliable 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 7 August 2001 "On Auditing Activity"; federal rules (standards) of auditing; effective rules (standards) of auditing approved by the Committee for Auditing Activity under the President of the Russian Federation; and company standards.

The audit was planned and performed to gain reasonable assurance that the financial statements of the Company are free of material misstatements. 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 financial statements preparation; identifying principal accounting estimates made by the Company's management during 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 reliability of the financial statements and 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, the financial position of the Company as of 31 December 2007 and the results of its operations for the year 2007 in accordance with the requirements of the legislation of the Russian Federation relating to the preparation of financial statements.

BALANCE SHEET
as of 31 December 2007

Organization OJSC "MTS"
 Taxpayer identification number _____
 Type of operation Telecommunication services
 Legal status/
 form of ownership Open joint-stock company
 Unit of measurement Thousands of rubles
 Address 4 Marksistskaya st., 109147, Moscow

	CODES
Form No. 1 OKUD	11/30/43
Date (day, month, year)	31.12.2007
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/	47/34
OKFS	
OKEI	384/385

Date of approval	31.03.2008
Date of presentation	25.04.2008

ASSETS	Code	Opening balance	Closing balance
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets	110	653,156	563,630
Fixed assets	120	53,897,447	60,374,486
Construction in progress	130	36,315,957	38,567,084
Investment property	135	298,968	402,549
Long-term investments	140	28,887,268	52,447,943
Deferred tax assets	145	3,372,037	4,728,312
Other non-current assets	150	19,619,223	15,925,263
Total Section I	190	143,044,056	173,009,267
II. CURRENT ASSETS			
Inventories	210	11,360,641	6,165,978
including:			
raw materials and equivalents	211	6,640,496	3,117,430
work in progress	213	421,601	454,906
finished goods and goods for resale	214	3,409,805	2,082,766
prepaid expenses	216	888,739	510,876
Value-added tax reimbursable	220	6,060,930	4,283,270
Receivables maturing within 12 months	240	18,786,182	18,384,672
including:			
trade receivables	241	10,114,477	9,612,385
Short-term investments	250	13,999,760	13,398,486
Cash and cash equivalents	260	2,099,244	1,705,948
Other current assets	270	2,857,922	2,468,673
Total Section II	290	55,164,679	46,407,027
TOTAL ASSETS	300	198,208,735	219,416,294

UNOFFICIAL TRANSLATION

EQUITY AND LIABILITIES	Code	Opening balance	Closing balance
1	2	3	4
III. EQUITY AND RESERVES			
Share capital	410	199,333	199,333
Additional paid-in capital	420	17,452,113	17,452,113
Reserve capital	430	29,900	29,900
including:			
reserves created as per legislative requirements	431	29,900	29,900
Retained earnings, current year	470	-	37,025,594
Retained earnings, prior years	471	63,397,946	44,445,666
Total Section III	490	81,079,292	99,152,606
IV. LONG-TERM LIABILITIES			
Loans and borrowings	510	80,053,974	69,953,049
Deferred tax liabilities	515	589,832	857,386
Total Section IV	590	80,643,806	70,810,435
V. CURRENT LIABILITIES			
Loans and borrowings	610	4,180,957	17,227,493
Payables	620	26,890,893	24,213,481
including:			
trade payables	621	15,448,122	12,847,372
wages and salaries payable	622	1,578,783	1,473,145
social tax payable	623	88,855	113,147
taxes payable	624	114,891	591,028
advances received	625	8,809,145	8,883,207
other creditors	626	851,097	305,582
Dividends payable	630	16,792	19,654
Deferred income	640	4,278	677,255
Accrued expenses	650	5,392,717	7,315,370
Total Section V	690	36,485,637	49,453,253
TOTAL EQUITY AND LIABILITIES	700	198,208,735	219,416,294

OFF-BALANCE SHEET ACCOUNTS

Description	Code	Opening balance	Closing balance
1	2	3	4
Leased property:	910	315,355	494,248
including assets received under finance leases	911	170,910	363,109
Inventories accepted for storage	920	662,277	178,109
Consignment goods received	930	2	15,113
Bad debts written off	940	1,271,148	456,414
Collateral and guarantees received	950	464,810	347,572
Collateral and guarantees issued	960	34,196,546	31,424,322
Depreciation of dwelling premises	970	193	384
Depreciation of non-productive facilities	980	3,332	3,322

**STATEMENT OF PROFIT AND LOSS
for the year 2007**

Organization	OJSC "MTS"	Form No. 2 OKUD	710002
Taxpayer identification number		Date (day, month, year)	31.12.2007
Type of activity	Telecommunication services	OKPO	52686811
Legal status/ form of ownership	Open Joint-Stock Company Joint private and foreign ownership	INN	7740000076
Unit of measurement	Thousands of rubles	OKVED	64.20.11
		OKOPF/	47/34
		OKFS	
		OKEI	384/385

Description	Code	Current year	Prior year
1	2	3	4
REVENUE AND EXPENSES FROM OPERATING ACTIVITIES			
Net revenue from sales of goods and services (net of VAT, excise and equivalent payments)	010	147,302,825	115,533,261
including:			
telecommunication services	011	144,321,600	109,170,969
equipment	012	2,114,169	4,750,011
construction services and other	013	867,056	1,612,281
Cost of sales	020	(57,235,364)	(45,448,357)
including:			
cost of communication services	021	(54,907,958)	(40,785,638)
equipment	022	(2,271,395)	(4,486,897)
construction services and other	023	(56,011)	(175,822)
Gross profit	029	90,067,461	70,084,904
Selling expenses	030	(16,648,241)	(14,452,516)
Administrative expenses	040	(14,157,929)	(10,462,820)
Operating profit	050	59,261,291	45,169,568
OTHER INCOME AND EXPENSES			
Interest income	060	1,641,624	534,870
Interest expense	070	(5,574,326)	(5,396,910)
Investment income	080	127,346	92,517
Other income	090	7,065,667	7,047,182
Other expenses	100	(10,524,187)	(4,232,968)
Profit before tax	140	51,997,415	43,214,259
Deferred tax benefit	141	1,330,102	1,857,584
Deferred tax expense	142	(267,437)	(80,032)
Current income tax	150	(15,261,492)	(12,620,131)
Tax penalties of prior years	151	(772,994)	(277,665)
PROFIT FOR THE YEAR	190	37,025,594	32,094,015
ADDITIONAL INFORMATION			
Permanent tax assets	200	1,719,447	471,157
Earnings per share, basic and diluted, rubles	210	19.06	16.10

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	23,175	12,939	10,705	13,306
Profit / loss of prior years	820	1,214,943	2,585,400	576,301	593,248
Reimbursement of losses caused by default or by improper fulfillment of obligations	830	15,019	2,445	31,384	813
Foreign currency exchange gains and losses	840	4,522,239	-	6,002,488	-
Provisions	850	X	5,023,557	X	2,512,259
Bad debts written off	860	60,555	25,463	70,270	36,182

**STATEMENT OF CHANGES IN EQUITY
for 2007**

Organization	<u>OJSC "MTS"</u>	Form No. 3 OKUD	710003
Taxpayer identification number		Date (day, month, year)	31.12.2007
Type of activity	<u>Telecommunication services</u>	OKPO	52686811
Legal status/ form of ownership	<u>Open Joint Stock Company</u>	INN	7740000076
Unit of measurement	<u>Joint private and foreign ownership (RUB '000)</u>	OKVED	64.20.11
		OKOPF/	47/34
		OKFS	
		OKEI	384/385

CHANGES IN EQUITY

Description	Code	Share capital	Additional paid-in capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7
Balance as of December 31, 2005	90	199,333	17,452,113	29,900	45,377,564	63,058,910
2006						
Balance as of January 1, 2006	100	199,333	17,452,113	29,900	45,377,564	63,058,910
Net profit	105	X	X	X	32,094,015	32,094,015
Dividends	109	X	X	X	(15,149,278)	(15,149,278)
Increase in capital: reorganization	123	X	X	X	5,818,793	5,818,793
Decrease in capital: reorganization	133	X	X	X	(4,071,725)	(4,071,725)
Balance as of December 31, 2006	140	199,333	17,452,113	29,900	64,069,369	81,750,715
2007						
Legislation changes (PBU 3/2006)	95	X	X	X	(671,423)	(671,423)
Balance as of January 1, 2007	100	199,333	17,452,113	29,900	63,397,946	81,079,292
Net profit	105	X	X	X	37,025,594	37,025,594
Dividends	109	X	X	X	(19,275,464)	(19,275,464)
Increase in capital: reorganization	123	X	X	X	1,083,185	1,083,185
Decrease in capital: reorganization	133	X	X	X	(760,001)	(760,001)
Balance as of December 31, 2007	140	199,333	17,452,113	29,900	81,471,260	99,152,606

RESERVES

Description	Code	Balance	Additions	Disposals	Balance
1	2	3	4	5	6
Reserves created as per legislative requirements					
prior year	141	29,900	-	-	29,900
current year	142	29,900	-	-	29,900
Valuation reserves					
Provision for impairment of investments					
prior year	143	-	-	-	-
current year	144	-	4,104,506	-	4,104,506
Provision for doubtful debts					
prior year	145	2,776,273	2,436,393	(1,156,329)	4,056,337
current year	146	4,056,337	919,051	(238,301)	4,737,087
Provision for the impairment of inventories					
prior year	147	746,356	75,866	-	822,222
current year	148	822,222	-	(272,631)	549,591
Provisions for future expenses					
Provision for contingent liabilities					
prior year	149	49	503,836	-	503,885
current year	150	503,885	810,417	-	1,314,302
Vacation reserve					
prior year	151	319,632	83,495	-	403,127
current year	152	403,127	169,929	-	573,056
Provision for services rendered					
prior year	153	959,297	3,526,412	-	4,485,709
current year	154	4,485,709	942,303	-	5,428,012
Provision for annual performance bonuses					
prior year	155	883,010	414,503	-	1,297,513
current year	156	1,297,513	161,997	-	1,459,510

SUPPLEMENTARY INFORMATION

Description	Code	Opening balance	Closing balance
1	2	3	4
Net assets	200	81,083,570	99,829,861

STATEMENT OF CASH FLOWS
for 2007

Organization	OJSC "MTS"	Form No. 4 OKUD	710004
Taxpayer identification number		Date (day, month, year)	31.12.2007
Type of activity	Telecommunication services	OKPO	52686811
Legal status/ form of ownership	Open Joint Stock Company Joint private and foreign ownership	INN	7740000076
Unit of measurement	(RUB '000)	OKVED	64.20.11
		OKOPF/	47/34
		OKFS	
		OKEI	384/385

Description	Code	Current year	Prior year
1	2	3	4
Cash and cash equivalents at beginning of year	100	2,093,119	757,914
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	110	156,971,099	117,992,544
Other income	120	1,614,130	594,732
Reorganization	125	46,156	265,401
Cash and equivalents used for	130		
payments for acquired goods, services, raw materials and other current assets	150	(50,908,441)	(41,793,006)
payments to employees	160	(8,482,609)	(6,190,189)
payments of dividends, interest	170	(22,353,556)	(18,701,370)
payment of taxes	180	(38,086,869)	(24,832,567)
other payments	190	(811,358)	(1,218,657)
Net cash flow from operating activities	200	37,988,552	26,116,888
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales revenue from fixed assets and other non-current assets	210	144,814	37,243
Sales revenue from securities and other financial investments	220	76,281	12,307
Dividends received	230	127,346	92,517
Interest received	240	839,549	206,338
Receipts from redeemed loans issued to other entities	250	3,937,824	1,478,715
Purchase of subsidiaries	280	(16,685,590)	(897,783)
Purchases of fixed assets, lessor leases and intangible assets	290	(21,722,253)	(27,255,867)
Loans granted to other entities	310	(13,452,684)	(12,755,703)
Net cash used in investing activities	340	(46,734,713)	(39,082,233)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from loans issued by other entities	355	11,932,583	33,723,438
Redemption of loans (excluding interest)	360	(3,454,302)	(19,335,075)
Repayment of obligations under finance leases	365	(119,291)	(81,688)
Net cash from financing activities	370	8,358,990	14,306,675
Net increase (decrease) in cash and equivalents	375	(387,171)	1,341,330
Cash and equivalents at end of year	380	1,705,948	2,099,244
Effect of foreign exchange rate changes	390	6,125	3,944

**APPENDIX TO THE BALANCE SHEET
for 2007**

		Form No. 5 OKUD	CODES
		Date (day, month, year)	710005
Organization	OJSC "MTS"	OKPO	31.12.2007
Taxpayer identification number		INN	52686811
Type of activity	Telecommunication services	OKVED	7740000076
Legal status/ form of ownership	Open Joint Stock Company	OKOPF/ OKFS	64.20.11
	Joint private and foreign ownership	OKEI	47/34
Unit of measurement	(RUB '000)		384/385

INTANGIBLE ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Objects of intellectual property (exclusive rights to use intellectual property)	010	562,904	49,068	(3,449)	608,523
including:					
patent rights to inventions, industrial prototypes, useful models	011	123,342	42,447	(3,448)	162,341
rights to computer programs and databases	012	439,529	6,442	-	445,971
owner rights to trademarks, copyrights, geographical indications	014	33	179	(1)	211
Numbering capacity and other	040	1,002,671	18,111	(1)	1,020,781
Total	41	1,565,575	67,179	(3,450)	1,629,304

Description	Code	Opening balance	Closing balance
1	2	3	4
Amortization of intangible assets - total	050	912,419	1,065,674
Objects of intellectual property (exclusive rights to use intellectual property), including:	51	368,156	451,286
patent rights to inventions, industrial prototypes, useful models	52	41,967	101,629
rights to computer programs and databases	53	326,189	349,657
Numbering capacity and other	54	544,263	614,388

FIXED ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Buildings	100	4,929,966	506,477	(28,527)	5,407,916
Constructions and Transfer Facilities	101	3,867,600	2,813,911	(21,960)	6,659,551
Machines and equipment	102	67,250,866	18,740,483	(2,763,746)	83,227,603
Motor vehicles	103	339,508	73,635	(48,433)	364,710
Production and support implements	104	569,567	96,877	(60,607)	605,837
Other fixed assets	108	368,115	330,443	(12,494)	686,064
Plots of land and objects of nature management	109	20,432	17,028	-	37,460
Total	120	77,346,054	22,578,854	(2,935,767)	96,989,141

Description	Code	Opening balance	Closing balance
1	2	3	4
Depreciation of fixed assets - total	140	23,448,607	36,614,655
including:			
buildings and structures	141	1,748,168	4,234,544
machinery, equipment and transport vehicles	142	21,189,160	31,786,857
other	143	511,279	593,254
Transferred for lease - total	145	376,092	523,027
including:			
buildings and structures	146	247,448	346,402
machinery, equipment and transport vehicles	147	108,794	174,443
other	148	19,850	2,182
Transferred for temporary non-use	149	144	267
Received for lease - total	150	315,355	494,248
including:			
machinery, equipment and transport vehicles	152	170,910	363,109
Immovable property available for use and under state registration	155	6,619,161	14,068,121
BY REFERENCE			
Valuation changes of fixed assets as a result of completions, additions, reconstruction or partial liquidation	173	1,603,482	1,214,786

INCOME-BEARING INVESTMENTS IN TANGIBLE ITEMS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Property for lease	300	376,091	148,797	(1,861)	523,027

Description	Code	Opening balance	Closing balance
1	2	3	4
Amortization of investment property	306	77,123	120,478

FINANCIAL INVESTMENTS

Description	Code	Long-term		Short-term	
		Opening balance	Closing balance	Opening balance	Closing balance
1	2	3	4	5	6
entities - total	510	25,333,193	37,735,916	-	-
including:					
subsidiaries and associates	511	25,333,193	37,735,916	-	-
Securities of other entities	520	19,628	19,628	72,602	-
including:					
Debt securities (bonds and promissory notes)	521	19,628	19,628	72,602	-
Loans issued	525	3,003,173	14,621,861	11,594,426	5,106,485
Deposits	530	455,528	-	2,332,732	8,133,782
Other	535	75,746	70,538	-	158,219
Total	540	28,887,268	52,447,943	13,999,760	13,398,486

RECEIVABLES AND PAYABLES

Description	Code	Opening balance	Closing balance
1	2	3	4
Accounts receivable:	600		
short-term - total	605	18,786,182	18,384,672
including:			
trade receivables	606	10,114,477	9,612,385
advances paid	607	6,332,498	6,419,841
other	608	2,339,207	2,352,446
Total	615	18,786,182	18,384,672
Accounts payable:	620		
short-term - total	625	31,071,850	41,440,974
including:			
trade payables	626	15,448,122	12,847,372
advances received	627	8,809,145	8,883,207
taxes payable	628	114,891	591,028
credits	629	3,458,295	7,299,013
loans	630	722,662	9,928,480
other	631	2,518,735	1,891,874
long-term - total	635	80,053,974	69,953,049
including:			
credits	636	45,322,451	48,513,457
loans	637	34,731,523	21,439,592
Total	640	111,125,824	111,394,023

EXPENSES FROM OPERATING ACTIVITIES BY COST ELEMENTS

Description	Code	Current year	Prior year
1	2	3	4
Materials	710	4,232,695	10,087,405
Payroll	720	9,965,179	6,836,367
Deductions to meet social needs	730	1,386,905	1,461,485
Depreciation and amortisation	740	12,100,133	9,205,856
Other costs	750	60,356,622	42,772,580
Total for cost elements	760	88,041,534	70,363,693
Changes in balances (increase [+], decrease [-]) of (for reference):			
incomplete production	765	33,305	(148,357)
prepaid expenses	766	(377,863)	113,945
provisions for future expenses	767	1,922,653	4,113,739

COLLATERAL

Description	Code	Opening balance	Closing balance
1	2	3	4
Received - total	800	464,810	347,572
including: promissory notes	805	464,810	347,572
Given - total	830	34,196,546	31,424,322
including: guarantees	835	34,196,546	31,424,322

**EXPLANATORY NOTES TO FINANCIAL STATEMENTS
OF OPEN JOINT-STOCK COMPANY
MOBILE TELESYSTEMS FOR 2007**

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 1 March 2000.

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

Leningrad Region, St.-Petersburg, Pskov; Komi Republic, Syktyvkar; Arkhangelsk Region, Arkhangelsk; Vologda Region, Vologda; Kaliningrad Region, Kaliningrad; Murmansk Region, Murmansk; Novgorod Region, Veliky Novgorod; Karelia Republic, Petrozavodsk; Oryol Region, Oryol; Belgorod Region, Belgorod; Lipetsk Region, Lipetsk; Kursk Region, Kursk; Bryansk Region, Bryansk; Tula; Smolensk; Ryazan; Vladimir; Kaluga; Yaroslavl; Tver; Kostroma; Ivanovo; Tambov; 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; Nizhny Novgorod Region, Nizhny Novgorod; Kirov; Tatarstan Republic, Kazan; Udmurt Republic, Izhevsk; Chuvash Republic, Cheboksary; Mordovia Republic, Saransk; Republic of Mariy-El, Ioshkar Ola; Samara; Saratov; Orenburg; Ulyanovsk Region, Ulyanovsk; Republic of Bashkortostan, Ufa; Sverdlovsk Region, Ekaterinburg; Perm Region, Perm; Chelyabinsk Region; Kurgan Region; Tyumen Region; Khanty-Mansiysk Autonomous District; Yamalo-Nenetsk Autonomous District; Novosibirsk Region, Novosibirsk; Omsk Region, Omsk; Kemerovo Region; Altai Region; Krasnoyarsk Territory; Tomsk Region; Khakasia Republic, Abakan; Altai Republic, Gorno-Altai; Tyva Republic, Kyzyl; Primorsky Krai, Vladivostok; Khabarovsk Territory, Khabarovsk; Amur Region, Blagoveshchensk; Chukotka Autonomous District, Anadyr; Chita Region, 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.

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

On 1 April 2007, the following subsidiaries were merged into OJSC MTS as branches as a result of reorganization:

- CJSC Telesot-Alania;
- OJSC ReCom.

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 14 "Reorganization".

The number of the Company's employees including employees of the branches as at December 31, 2006 and 2007 was 18,025 and 18,265, respectively.

The Company generates revenue primarily from the following services:

- Mobile radiotelephone communications;
- Lease of communication channels;
- Local and international telephone services;
- Telematic services;
- Sale of handsets and accessories;
- Sale of equipment;
- Works under 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 the total sales, which allows the Company's management to expect that in the event of the 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 entity recording for title to securities is Open joint-stock company "Registrator NIKoi".

Mailing Address: bl. 45, 8 Pravdy str., Moscow, 125124 Russia.

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

Issuing authority: Federal Commission for the Securities Market.

The mass media that publishes information on the Company is 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. 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 2 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 1 January 2002 are determined in accordance with the rates approved by the Council of Ministers of the USSR Resolution No. 1072 dated 22 October 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 1 January 2002 are calculated based on the asset useful life in accordance with the Fixed Assets Depreciation Groups Classification, approved with Russian Federation Government Decree No. 1 dated 1 January 2002. The useful life of fixed assets that are not included in 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 recommendations of manufacturers is determined based on expert evaluation.
- Assets qualifying as fixed assets in accordance with Clause 4 of PBU 6/01 which value does not exceed 10,000 rubles per unit are recorded as inventories. Effective 1 January 2008 the Company increased the cost limit up to 20,000 rubles per unit in accordance with Order of the RF Ministry of Finance No. 147n dated 12 December 2005 “On amendments to the Regulation on accounting “Accounting for fixed assets” PBU 6/01”.
- Fixed assets were not revalued as at the beginning of the reporting period.

2.4. Intangible assets

- Intangible assets are amortized using the straight-line method, based on the historical cost of intangible assets and rates calculated based on the relevant asset useful life, determined by patents, certificates, etc., or, alternatively, determined as the estimated period during which such asset will be used and is expected to generate economic benefits to the Company. Intangible assets whose useful life is impossible to determine are amortized over 20 years.
- Intangible assets amortization charge is reflected in the accounting records by accumulation of corresponding amounts in a 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 on accounts 10 “Materials” and 41 “Goods” and is calculated 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 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 average actual direct production cost that relates to separate inventory items.
- Since 1 January 2006, the cost of inventories sold, issued to production or otherwise disposed of have 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.

2.7. Revenue recognition

- Revenues for accounting purposes are determined 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 (tax) 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 is not deferred.
- Revenues from the sales of goods are 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 1 January 2004, the following provisions are accrued for:
 - Valuation reserves:
 - provision for doubtful debts (monthly);
 - provision for investment impairment (quarterly);
 - provision for inventory obsolescence (monthly);
 - Provisions for accrued operating expenses:
 - provision for unused vacation (monthly);
 - provision for annual/quarterly performance bonuses (monthly);
 - Provisions for contingencies (quarterly);
 - Provisions 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 from the relevant documents on the period, it is determined by the commission whose composition is approved 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 or less than 365 days from the reporting date.
- Principal and additional debt issuance costs are expensed as incurred and included in other expenses.

3. INVESTMENTS

3.1. Long-term investments

As of 31 December 2006 and 2007 long-term investments consisted of the following:

	(Thousands of rubles)	
Description of investments	2006	2007
Total long-term deposits,	455,528	-
<i>including:</i>		
Deposits with MBRD	455,528	-
Total debt securities,	19,628	19,628
<i>including:</i>		
OJSC Vekselya i Financy promissory note	15,547	15,547
OJSC Moskovskaya Sotovaya Svyaz promissory note	2,081	2,081
AFK Sistema promissory note	2,000	2,000
Total loans given,	3,003,173	14,621,861
<i>including:</i>		
International Cell Holding Ltd.	-	5,119,625
Mobile TeleSystems B.V.	-	1,800
LLC Uzdurobita	-	348,162
Mobile TeleSystems Bermuda Limited (Bermuda) ¹	2,896,440	9,073,968
MOBILE TELESYSTEMS FINANCE S.A.	83,657	78,306
CJSC Sotovaya Svyaz Primorya	23,076	-
Total investments in shares of affiliated companies and subsidiaries,	25,333,193	37,735,916
<i>including:</i>		
CJSC Ukrainian Mobile Communications	11,625,862	11,625,862
LLC Uzdurobita	3,527,342	9,995,233
International Cell Holding Ltd. ¹	-	9,778,454
Barash Communications Technologies, Inc., Turkmenia	1,312,352	1,316,359
CJSC Sibintelecom	1,156,660	1,156,092
CJSC Primatelefon	899,834	899,864
Vostok Mobile B.V.	879,483	879,483
LLC Dagtelecom	402,588	402,875
LLC Mobile TeleSystems	282,160	282,160
CJSC Bashsel ¹	-	228,634
Vostok Mobile South B.V., Amsterdam	186,927	183,545
The 2006 Coral/Sistema Strategic Fund ¹	-	182,530
LLC PPT Telecom Kiev	106,403	106,403
LLC TS-Retail	26,800	86,100
CJSC Volgograd Mobile	84,767	84,774
OJSC Firma Novitel	83,617	83,831
LLC SweetCom	80,397	80,389
LLC Mobile TeleSystems (Republic of Belarus)	77,827	77,827
OJSC Mobile Communication Systems	72,421	72,436
LLC Mobile TeleSystems – T	41,695	41,695
LLC Bitel	12,909	40,187
LLC Mobile TeleSystems in the Komi Republic	32,630	32,993
CJSC Astrakhan Mobile	32,153	32,194
CJSC K-Telecom	9,916	18,460
LLC TS-Service	26,800	13,400
CJSC Center – Telco	11,222	11,222
LLC Mobile TeleSystems – Kostroma	4,494	9,541
NPF Sistema	5,400	5,400
MOBILE TELESYSTEMS FINANCE S.A.	3,744	3,744
CJSC Mar Mobile GSM, Ioshkar Ola	3,382	3,382
Mobile TeleSystems Bermuda Limited (Bermuda)	321	679
OJSC Mobile Telematic Positioning Systems	168	168
OJSC ReCom ²	3,192,651	-
CJSC Telesot-Alania ²	1,109,064	-
Sistema Telekommunikasyon Anonim Sirketi ³	41,204	-
Other	75,746	70,538
Total	28,887,268	52,447,943

¹ Companies acquired in 2007

² Companies merged with OJSC MTS as a result of reorganization (see Note 14 “Reorganization”)

³ Companies sold in 2007

3.2. Short-term investments

(Thousands of rubles)

Description of investments	2006	2007
Loans issued	11,594,426	5,106,485
Deposits	2,332,732	8,133,782
Securities	72,602	-
Other	-	158,219
Total	13,999,760	13,398,486

As of 31 December 2007 OJSC MTS recorded a provision for impairment of investments in accordance with PBU 19/02 "Accounting for investments":

- Allowance of 4,000,938 thousand rubles for impairment of a loan issued in March 2006 to the subsidiary Mobile TeleSystems Finance S.A. in the amount of 156,000 thousand US Dollars. The loan was used to acquire 51% of 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 and accrued interest on 31 December 31 2007. Currently, 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.
- Allowances for impairment of other investments in the amount of 103,568 thousand rubles.

4. INVENTORIES

As of 31 December 2006 and 2007 the Company had no inventory in transit or pledged as collateral.

As of 31 December 2006 and 2007 the provision for inventory obsolescence (handsets, accessories and advertising materials) amounted to RUB 822,222 thousand and 549,591 thousand rubles, respectively.

5. LOANS AND BORROWINGS

Maturities of the main types of debt outstanding as of 31 December 2007 are presented in the table 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	-	31,368,072
Loans	161,465	545,813	6,591,735	45,092,496	1,418,574	53,810,083
Promissory notes	-	-	-	-	2,002,387	2,002,387
Total	9,979,945	545,813	6,701,735	66,532,088	3,420,961	87,180,541

The accrued expenses on loans and borrowings (interest and additional expenses) for 2006 amounted to 5,942,611 thousand rubles (5,396,910 thousand rubles recognized as interest expense).

The accrued interest on borrowings for 2007 totalled 5,574,326 thousand rubles.

6. INCOME TAX

Current income tax expense for 2007 and 2006 is comprised of:

(Thousands of rubles)

	2007	2006
Theoretical income tax expense	12,479,380	10,371,422
Permanent tax asset:		
non-deductible expenses	1,300,759	628,212
provision for impairment of investments	960,225	-
expenses in excess of allowable limits	18,578	3,496
other	22,494	39,269
Total	2,302,056	670,977
Permanent tax liability:		
non-taxable income	(557,640)	(197,492)
other	(24,969)	(2,328)
Total	(582,609)	(199,820)
Increase/(decrease) in deferred tax asset:		
fixed assets, including due to: different depreciation periods and methods for accounting and tax purposes	408,044	203,585
prepaid expenses (software):	2,261	145,801
inventories, including due to: difference in valuation for accounting and tax purposes	759	16,650
doubtful debt provision	(364,810)	277,122
provision for services rendered	1,295,037	900,977
difference in the methods of revenue recognition	27,767	74,114
other provisions	(38,956)	239,335
Total	1,330,102	1,857,584
Increase in deferred tax liability:		
fixed assets, including due to: different depreciation periods and methods for accounting and tax purposes	(143,094)	(580)
other	(124,343)	(79,452)
Total	(267,437)	(80,032)
Total current income tax	15,261,492	12,620,131

7. SHARE CAPITAL

Share capital of the Company as of 31 December 2007, consisted of:

Type 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)
1	2	3	4	5
Ordinary shares	0.1	1,993,326,138	1,993,326,138	32,476,838
Total	X	1,993,326,138	1,993,326,138	32,476,838

The share capital is equal to RUB 199,333 thousand; no changes took place in 2006 and 2007.

8. ADDITIONAL DISCLOSURES ABOUT ASSETS AND LIABILITIES

(Thousands of rubles)

Description	Line code	Account	31 December	
			2006	2007
Construction in progress, including:	130		36,315,957	38,567,084
Equipment for installation		07	7,994,794	8,464,179
Construction in progress of telecommunication equipment		08	26,034,499	28,004,316
Other investments in non-current assets		10,15,16	2,286,664	2,098,589
Other non-current assets, including:	150		19,619,223	15,925,263
numbering capacity, non-exclusive rights to use software products with useful lives over 12 months		97	11,889,523	11,503,757
Advances given for acquisition of fixed assets and construction services		60	7,729,700	3,414,563

8.1. Other current and non-current assets

As of 31 December 2007 line 270 "Other current assets" and line 150 "Other non-current assets" include telecommunication equipment and spare parts purchased earlier from Lucent Technologies. The Company intends to sell these assets in 2008-2009. As of 31 December 2007 the net book value of these assets was 2,013,885 thousand rubles.

8.2. Translation of assets and liabilities denominated in conventional units

In accordance with Clause 3 of Order of the RF Ministry of Finance No. 154n dated 27 November 2006 "On the approval of the Regulation on Accounting "Accounting for assets and liabilities denominated in foreign currency" (PBU 3/2006) as of 1 January 2007 changes were made to the opening balance sheet as follows:

(Thousands of rubles)

Description	Line code	Balance as of 31 December 2006	Change upon adoption of PBU 3/2006	Balance as of 1 January 2007
Other non-current assets	150	20,027,147	(407,924)	19,619,223
Receivables maturing within 12 months	240	19,041,628	(255,446)	18,786,182
including:				
trade receivables	241	10,280,714	(166,237)	10,114,477
Short-term investments	250	14,066,460	(66,700)	13,999,760
Retained earnings	470,471	64,069,369	(671,423)	63,397,946
Accounts payable	620	26,949,540	(58,647)	26,890,893
including:				
trade payables	621	15,506,769	(58,647)	15,448,122

9. ADDITIONAL DISCLOSURES ABOUT INCOME AND EXPENSES

(Thousands of rubles)

Description	Line code	2007	2006
Other income, including:	090	7,065,667	7,047,182
Foreign exchange gains and losses, net		4,522,239	6,002,488
Income from sale and disposal of other property		601,626	33,886
Prior year profits identified in the current period		1,214,943	576,301
Positive sum differences		-	119,753
Income from sale and disposal of fixed assets		345,868	59,555
Income from sale of securities		76,528	19,331
Penalties and fines		23,175	10,705
Other		281,288	225,163
Other expenses, including:	100	10,524,187	4,232,968
Provision for impairment of investments		4,104,506	-
Prior year losses identified in current period		2,585,400	593,248
Expenses on sale and disposal of other property		1,357,807	134,041
Doubtful debt provision		919,051	1,948,206
Expenses on sale and disposal of fixed assets		466,361	141,044
Expenses on provision for VAT reimbursable		401,203	-
Bank charges		134,449	644,876
Penalties and fines		12,939	13,306
Taxes and duties		38,264	137,944
Expenses on the sale of securities		122,081	17,067
Provision for inventory obsolescence		(272,631)	75,866
Negative sum differences		-	66,021
Other		654,757	461,349

10. BOARD OF DIRECTORS

As of 31 December 2007, the Board of Directors comprised the following members:

Full name	Position
Alexey Nikolaevich Buyanov	Chairman of the Board of Directors
Serguey Alexeevich Drozdov	Vice-Chairman of the Board
Tatyana Vladimirovna Evtushenkova	Member of the Board of Directors
Anton Vladimirovich Abugov	Member of the Board of Directors
Singh Mohanbir Gyani	Member of the Board of Directors
Leonid Adolfovich Melamed	Member of the Board of Directors
Ostling Paul James	Member of the Board of Directors

The total amount of compensation paid to the Board of Directors in 2006 and 2007 totaled 37,621 thousand rubles and 47,175 thousand rubles, respectively.

See also Note 19 "Subsequent events".

11. MANAGEMENT BOARD

The resolution of the extraordinary meeting of shareholders dated 30 October 2006 (Minutes No. 18) created a Management Board in the Company and approved Regulations on OJSC MTS' Management Board.

As of 31 December 2007 the Management Board comprised the following members:

Leonid Adolfovich Melamed
 Mikhail Valerievich Shamolin
 Vsevolod Valerievich Rozanov
 Cynthia Alison Gordon
 Andrey Borisovich Terebenin
 Pavel Dmitrievich Belik
 Sergey Borisovich Nikonov
 Pavel Evgenyevich Pavlovsky
 Ruslan Sultanovich Ibragimov
 Michael Hecker

See also Note 19 "Subsequent events".

12. RELATED PARTIES***12.1. List of the parties related to the Company for the year 2007 and type of relations***

1. Alexey Nikolaevich Buyanov, member of the Board of Directors;
2. Serguey Alexeevich Drozdov, member of the Board of Directors;
3. Anton Vladimirovich Abugov, member of the Board of Directors;
4. Tatiana Vladimirovna Evtushenkova, member of the Board of Directors;
5. Singh Mohanbir Gyani, member of the Board of Directors;
6. Leonid Adolfovich Melamed, member of the Board of Directors, member of the Management Board;
7. Ostling Paul James, member of the Board of Directors;
8. Mikhail Valerievich Shamolin, member of the Management Board;
9. Vsevolod Valerievich Rozanov, member of the Management Board;
10. Cynthia Alison Gordon, member of the Management Board;
11. Andrey Borisovich Terebenin, member of the Management Board;
12. Pavel Dmitrievich Belik, member of the Management Board;
13. Sergey Borisovich Nikonov, member of the Management Board;
14. Pavel Evgenyevich Pavlovsky, member of the Management Board;
15. Ruslan Sultanovich Ibragimov, member of the Management Board;
16. Michael Hecker, member of the Management Board;
17. Bekhzod Bakhodirovich Akhmedov, General Director of LLC IP Uzdurobita;
18. Dmitry Vyacheslavovich Bobikov, Head of OJSC MTS branch in the Mary-El Republic;
19. Maxim Alexandrovich Kalinin, General Director of OJSC MTS;
20. Vladimir Mikhailovich Kliger, General Director of OJSC MTS P;
21. Boris Gennadievich Podolsky, General Director of MST Sibi Corp.;
22. Vladimir Alexandrovich Morozov, General Director of CJSC Volgograd Mobile;
23. Alexander Grigorievich Novitsky, General Director of OJSC Firma Novitel;
24. Arkady Valentinovich Ryazanov, General Director of OJSC Mobile Communication Systems;
25. Karema Abusalimovna Izieva, General Director of LLC Dagtelecom;
26. Igor Vladislavovich Mariasov, Director of LLC MTS-T;
27. Dmitry Vitalievich Novik, General Director of LLC Sweet-Com;

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28. Andrey Evgenievich Sazonov, General Director of PTT Telecom Kiev;
29. Andrey Nikolaevich Kholodov, General Director of CJSC Astrakhan Mobile;
30. Sergey Mikhailovich Fomenkov;
31. Marina Samuilovna Melamed;
32. Alla Grigorievna Melamed;
33. Adolf Abramovich Melamed;
34. Sofia Leonidovna Melamed;
35. Iliia Leonidovich Melamed;
36. Open joint-stock company Joint-Stock Financial Corporation Sistema and its subsidiaries;
37. Barash Communications Technologies, Inc., subsidiary;
38. MOBILE TELESYSTEMS FINANCE S.A., subsidiary;
39. MCT Sibi Corp., subsidiary;
40. Vostok Mobile B.V., subsidiary;
41. Vostok Mobile South B.V., subsidiary;
42. Closed joint-stock company "Mar Mobile GSM", subsidiary;
43. Closed joint-stock company Sibintertelecom, subsidiary;
44. Closed joint-stock company Astrakhan Mobile, subsidiary;
45. Closed joint-stock company Volgograd Mobile, subsidiary;
46. Closed joint-stock company PRIMTELEFON, subsidiary;
47. Closed joint-stock company Russian Telephone Company, subsidiary;
48. Closed joint-stock company Ukrainian Mobile Communications, subsidiary;
49. Limited liability company Mobile TeleSystems – T, subsidiary;
50. Limited liability company Foreign Production Entity Uzdunrobita, subsidiary;
51. Limited liability company Mobile TeleSystems – Capital, subsidiary;
52. Limited liability company Mobile TeleSystems – Kostroma, subsidiary;
53. Limited liability company Mobile TeleSystems in the Komi Republic, subsidiary;
54. Limited liability company Mobile TeleSystems, subsidiary;
55. Limited liability company PTT Telecom Kiev, subsidiary;
56. Limited liability company Sweet-Com, subsidiary;
57. Open joint-stock company Mobile Communication Systems, subsidiary;
58. Open joint-stock company Mobile Telematic Positioning Systems, subsidiary;
59. Open joint-stock company Firm NOVITEL, subsidiary;
60. Joint venture limited liability company Mobile TeleSystems, associate;
61. Closed joint-stock company Uraltel-plus, subsidiary;
62. Limited liability company Dagtelecom, subsidiary;
63. Mobile TeleSystems Bermuda Limited, subsidiary;
64. Mobile TeleSystems B.V., subsidiary;
65. LLC TS-Service, subsidiary;
66. LLC TS-Retail, associate;
67. International Cell Holding Ltd, subsidiary;
68. Closed joint-stock company K-Telecom, subsidiary;
69. KT-Holding SAL, subsidiary;
70. Closed joint-stock company Bashsel, subsidiary;
71. Vladimir Petrovich Evtushenkov;
72. Closed joint-stock company INVEST-SVYAZ, related company;
73. Limited liability company VAST, related company;
74. Open joint-stock company Sistema-Invest, related company;
75. Closed joint-stock company Sotovaya Svyaz Primorya, subsidiary.

12.2. In 2006 and 2007, transactions with related entities included:**Purchase of equipment, goods, works and services**

(Thousands of rubles)

Description	2007	2006
OJSC Mezhregionalny Transit Telecom	2,258,582	1,204,504
OJSC RA Maxima	1,879,087	1,606,971
CJSC Sitronics Telecom Solutions	1,771,935	1,148,737
CJSC Mediaplanning	1,560,650	706,564
LLC Kvazar Micro	1,448,860	1,066,374
OJSC Comstar-United TeleSystems	712,243	149,561
OJSC MGTS	426,582	357,660
CJSC Sistema Telecom	372,351	-
CJSC City-Gals	326,667	-
CJSC Printtelefon	314,437	323,369
CJSC Company MTU-Inform ¹	203,285	669,255
CJSC Metro-telecom	105,723	115,920
ZAO AMT	64,220	-
CJSC Sibintertelecom	59,302	65,681
OJSC Mobile Communication Systems	57,304	59,417
OJSC ReCom ²	45,952	277,826
CJSC Volgograd Mobile	45,687	59,439
CJSC InvestSvyazHolding	32,411	-
Open Joint-Stock Company "Firma "NOVITEL"	21,714	-
CJSC Mar Mobile GSM	16,898	23,045
CJSC Ukrainian Mobile Communications	15,655	296,014
CJSC Telmos ¹	11,553	36,090
OJSC Mosdachtrest	9,615	-
CJSC Golden Line	8,928	-
CJSC Telesot-Alania ²	6,578	28,638
OJSC Intellect Telecom	4,408	-
SOOO MTS, Minsk	2,934	-
CJSC Astrakhan Mobile	1,561	17,027
AKB Moscow Bank for Reconstruction and Development	1,466	-
LLC Uzdunrobita	1,137	17,886
LLC TC-Retail	833	-
OJSC External Economic Joint-Stock Company on Tourism and Investments "Intourist"	812	-
Cosmos Hotel	515	-
OJSC Kvant	325	-
Barash Communications Tehnologies	132	2,061
OJSC Reestr	5	-
Strom Telecom S. R. O.	-	2,639,298
LLC Company Smart Cards	-	468,543
OJSC Rosno	-	190,244
SOOO MTS	-	70,615
CJSC UralTel ³	-	50,019
CJSC SCS-900 ¹	-	35,806
CJSC FECS-900 ¹	-	27,626
OJSC TAIF-Telcom ¹	-	26,826
CJSC BM Telecom ¹	-	20,193
CJSC SibChallenge ¹	-	12,514
CJSC Tomsk Cellular Communications ¹	-	8,579
OJSC Gorizont-RT ¹	-	4,907
LLC Sweet-Com	-	93
Other	-	85,330
Total	11,790,347	11,872,632

¹ Transactions with these companies are presented before the merger with OJSC Comstar - United TeleSystems in 2007

² In 2007 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization")

³ Transactions with these companies in 2006 are presented for the first quarter, as on 31 March 2006 they were merged with OJSC MTS as branches as part of the corporate reorganization.

Interest expense

(Thousands of rubles)

Description	2007	2006
Mobile Telesystems Finance S.A.	2,685,664	2,854,346
CJSC Sibintertelecom	28,700	24,547
LLC MTS	7,073	1,054
OJSC Mobile Communication Systems	5,422	5,500
LLC MTS in the Komi Republic	885	586
CJSC SCS-900 ¹	-	14,962
CJSC BM Telecom ¹	-	3,082
OJSC TAIF-Telcom ¹	-	1,889
OJSC Gorizont-RT ¹	-	1,356
CJSC FECS-900 ¹	-	1,294
Total	2,727,744	2,908,616

Sales of equipment, goods, services, construction and installation works

(Thousands of rubles)

Description	2007	2006
OJSC Mezhtselecom	1,662,347	-
CJSC Primatelefon	840,766	1,162,571
OJSC ReCom ¹	230,372	887,590
OJSC Mobile Communication Systems	227,668	391,324
CJSC Sibintertelecom	227,160	213,297
CJSC Volgograd Mobile	146,521	224,110
CJSC Mar Mobile GSM	80,704	76,412
OJSC Comstar-United TeleSystems	66,926	-
OJSC MTS P	39,847	14
CJSC Astrakhan Mobile	30,519	55,390
CJSC Telesot-Alania ¹	22,631	93,939
SOOO MTS	21,328	41,022
LLC Dagtelecom	20,768	13,445
OJSC MGTS	13,486	-
CJSC Ukrainian Mobile Communications	7,216	88,740
AMT-Group	6,301	-
Open Joint-Stock Company Firma "NOVITEL"	1,280	-
OJSC City Gals	1,024	-
AKB Moscow Bank for Reconstruction and Development	915	-
LLC Sweet-Com	616	268
LLC TC-Retail	561	-
LLC MTS-Capital	493	437
LLC Uzdurobita	92	1,326
Barash Communications Tehnologies Inc.	21	152
CJSC UralTel ²	-	275,184
CJSC SCS-900 ²	-	230,150
OJSC TAIF-Telcom ²	-	229,020
CJSC BM Telecom ²	-	151,218
CJSC FECS-900 ²	-	110,896
CJSC SibChallenge ²	-	105,386
CJSC Tomsk Cellular Communications ²	-	29,805
OJSC Gorizont-RT ²	-	11,103
CJSC MTS-RTK ²	-	1,965
LLC MTS in the Komi Republic	-	31
LLC MTS-T	-	14
Total	3,649,562	4,394,809

¹ In 2007 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization")

² Transactions with these companies in 2006 are presented for the first quarter, as on 31 March 2006 they were merged with OJSC MTS as branches as part of the corporate reorganization.

UNOFFICIAL TRANSLATION

Interest income

(Thousands of rubles)

Description	2007	2006
AKB Moscow Bank for Reconstruction and Development	503,040	151,514
CJSC Ukrainian Mobile Communications	383,131	117,854
MOBILE TELESYSTEMS BERMUDA LIMITED	210,035	7,073
International Cell Holding Ltd.	54,409	-
JV LLC MTS, Minsk	47,846	97,005
LLC Dagtelecom	35,460	9,719
CJSC Volgograd Mobile	29,149	35,141
LLC Sweet-Com	23,918	14,865
MOBILE TELESYSTEMS FINANCE S. A.	20,461	14,383
OJSC MTS P	19,365	498
CJSC Astrakhan Mobile	12,607	11,268
LLC TS-Retail	10,474	-
CJSC Mar Mobile GSM	7,195	9,025
LLC Uzdunrobita	5,765	-
CJSC Amur Cellular Communications	1,045	581
Vostok Mobile B.V.	799	798
OJSC ReCom ¹	735	13,445
CJSC Telesot-Alania ¹	496	1,249
Mobile TeleSystems B.V.	4	-
CJSC SibChallenge ²	-	3,171
Other	-	1,659
Total	1,365,934	489,248

¹In 2007 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization")

²Transactions with these companies in 2006 are presented for the first quarter, as on 31 March 2006 they were merged with OJSC MTS as branches as part of the corporate reorganization.

Receivables, payables, loans issued and loans received

(Thousands of rubles)

Description	Accounts receivable		Accounts payable		Loans issued		Loans received	
	31 December		31 December		31 December		31 December	
	2006	2007	2006	2007	2006	2007	2006	2007
OJSC ReCom	805,656	-	258,794	-	113,249	-	-	-
CJSC Volgograd Mobile	639,987	578,602	137,939	4,323	848,010	372,113	-	-
CJSC Astrakhan Mobile	320,691	302,029	5,633	205	276,058	272,305	-	-
OJSC Mobile Communication Systems	147,459	98,659	31,657	2,879	-	-	115,560	80,000
CJSC Primatelefon	791,063	1,260,727	44,816	233,551	-	-	-	-
CJSC Mar Mobile GSM	270,085	307,808	3,188	-	230,098	89,000	-	-
JV LLC MTS	2,964	1,047	3,344	-	570,264	-	-	-
LLC MTS-T	394	46,128	-	-	-	-	-	-
LLC MTS	18	15	-	-	-	-	131,487	260,413
Vostok Mobile B.V.	-	-	-	-	163,867	158,568	-	-
Mobile Telesystems Finance S. A.	-	-	-	-	4,192,468	4,070,349	32,579,383	29,455,440
CJSC Sibintertelecom	6,534	157,918	16,424	33,804	-	-	598,872	574,000
AKB Moscow Bank for Reconstruction and Development	-	154	-	33	-	-	-	-
OJSC RA Maxima	55,294	399,052	92,717	45,397	-	-	-	-
CJSC Company MTU-Inform	-	-	1,626	-	-	-	-	-
AFK Sistema	-	-	-	-	-	-	2,002,387	2,002,387
Strom Telecom S. R. O.	-	-	718,922	-	-	-	-	-
OJSC ROSNO	-	-	2,625	-	-	-	-	-
OJSC Interregional Transit Telecom	-	288,524	15,247	34,857	-	-	-	-
CJSC Mosdachtrest	-	330	-	2	-	-	-	-
LLC Mobile TeleSystems in the Komi Republic	-	-	15,254	28	-	-	18,266	-
JV Ukrainian Mobile Communications	16,189	3,684	-	744	4,724,665	1,963,696	-	-
OJSC MTS P	763	94,389	-	-	153,585	153,087	-	-
CJSC Sotovaya Svyaz Primorya	-	-	-	-	23,076	20,119	-	-
LLC Sweet-Com	10	10	110	1	214,266	200,855	-	-
CJSC Telesot-Alania	42,550	-	4,689	-	42,257	-	-	-
LLC Dagtelecom	15,898	33,362	-	-	173,341	305,710	-	-
MST SibiCorp.	-	-	-	-	139	245	-	-
MOBILE TELESYSTEMS BERMUDA LIMITED	-	-	-	-	2,896,440	8,863,878	-	-
LLC MTS-Capital	1,772	2,106	-	-	-	-	8,230	8,145
Barash Communications Tehnologies Inc.	18	7	-	-	-	-	-	-
LLC Uzdurobita	550	35	2,896	162	-	342,431	-	-
CJSC Bashsel	-	2	-	2	-	783,486	-	-
Open joint-stock company Firma NOVITEL	-	4,585	-	528	-	-	-	-
CJSC Mediaplanning	95,059	64,518	-	18,569	-	-	-	-
CJSC Sitronics Telecom Solutions	-	299,371	738,816	1,346,714	-	-	-	-
LLC Kvazar Micro	-	429,279	168,484	159,478	-	-	-	-
OJSC MGTS	-	8,955	20,159	5,392	-	-	-	-
CJSC Metro-telecom	-	2,652	24,497	14,824	-	-	-	-
OJSC Comstar-United TeleSystems	-	77,957	40,389	215	-	-	-	-
CJSC Ciry Gals	-	22,172	-	1,520	-	-	-	-
LLC TC-Retail	-	-	-	-	-	200,100	-	-
International Cell Holding Ltd.	-	-	-	-	-	5,065,014	-	-
Mobile TeleSystems B.V.	-	-	-	-	-	1,797	-	-
LLC Smart Cards	-	-	45,409	-	-	-	-	-
CJSC AMT	-	1,473	-	-	-	-	-	-
CJSC Golden Line	-	842	-	-	-	-	-	-
CJSC INVEST-SVYAZ	-	41	-	-	-	-	-	-
OJSC Intellect Telecom	-	35,346	-	-	-	-	-	-
Other	12,398	16	994	99	516	-	-	-
Total	3,225,352	4,608,008	2,394,629	1,913,075	14,622,299	22,903,465	35,454,185	32,380,385

Dividends received and paid

(Thousands of rubles)

Description	Dividends received		Dividends paid	
	2007	2006	2007	2006
LLC MTS	-	-	41,958	-
SOOO MTS	127,262	92,446	-	-
OJSC AFK Sistema	-	-	5,606,800	4,409,992
Non-resident shareholders	-	-	8,945,670	6,848,781
Other, including shareholders – private individuals	83	71	2,454,592	2,151,774
Total	127,345	92,517	17,049,020	13,410,547

13. DISTRIBUTION OF RETAINED EARNINGS

The annual shareholder meeting which took place on 29 June 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.

The annual shareholder meeting which took place on 23 June 2006, decided to use part of the profit retained by the Company in 2005 to pay dividends to shareholders in the amount of 15,149,278 thousand rubles.

14. REORGANIZATION

On 31 March 2007 the following subsidiaries were merged with the Company as branches as a result of reorganization:

- OJSC ReCom;
- CJSC Telesot-Alania.

Upon the 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 dated 31 March 2007. Profit and loss accounts of the merged companies were included in the financial statements of OJSC MTS from the date of merger. The result from merger is presented in lines 123 and 133 of the statement of changes in shareholders' equity..

The result of merger of the above companies and the effect of reorganization on certain financial statements is presented in tables 14.1 to 14.3.

14.1. Balances of merged companies as of the date of merger

(Thousands of rubles)

Company name	Fixed assets	Other non-current assets	Current assets	Payables	Other liabilities
OJSC ReCom	2,342,419	900,731	2,265,878	1,063,512	169,617
CJSC Telesot-Alania	218,301	136,664	89,691	67,806	46,458
Total	2,560,720	1,037,395	2,355,569	1,131,318	216,075

14.2. Investments into merged companies as of the date of merger

(Thousands of rubles)

Name of the company	Investments
OJSC ReCom	3,192,714
CJSC Telesot-Alania	1,111,663
Total	4,304,377

14.3. Pro forma results of operations (unaudited)

The pro forma financial results for the years ended 31 December 2007 and 2006 presented below reflect the merger of OJSC Gorizont-RT; CJSC Uraltel; CJSC Far Eastern Cellular Systems-900; CJSC Siberian Cellular Systems-900; OJSC TAIF Telecom; CJSC Tomsk Cellular Communications; CJSC SibChallenge; CJSC BM Telecom; CJSC MTS-RTK on 31 March 2006 and OJSC ReCom, CJSC Telesot-Alania on 31 March 2007 as if they occurred at the beginning of the respective reporting periods:

(Thousands of rubles)

	2007	2006
Pro forma results		
Revenue	148,406,433	121,281,509
Operating income	59,729,926	48,299,764
Net income	38,210,653	34,038,104
Basic and fully diluted earnings per share (rubles)	19.17	17.08

15. FOREIGN EXCHANGE DIFFERENCES

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

As of 31 December 2006:

1 US Dollar = RUB 26.33;

1 EURO = RUB 34.70.

As of December 31, 2007:

1 US Dollar = RUB 24.55;

1 EURO = RUB 35.93.

16. REPORTING SEGMENTS

The Company provides telecommunication services in the Russian Federation in a number of Russian regions that share similar economic and political risks. Therefore, the Company's management believes that in 2006 and 2007 the Company operated within one reportable segment. Hence, there are no grounds for disclosing information by reporting segments.

17. GUARANTEES ISSUED AT 31 DECEMBER 2007

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) ¹
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	30/01/2003	30/01/2008	USD	400,000	9,818,480
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	14/10/2003	14/10/2010	USD	400,000	9,818,480
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	31/01/2005	28/01/2012	USD	400,000	9,818,480
CJSC Ukrainian Mobile Communications	ING BHF-BANK; Commerzbank (Frankfurt)	30/12/2003	31/01/2009	EUR	51,670	1,856,664
MOBILE TELESYSTEMS FINANCE S.A.	HSBC Bank	30/10/2006	29/10/2013	EUR	2,628	94,422
Other						17,796
Total						31,424,322

18. CONTINGENCIES

On 28 September 2006 Interregional Tax Inspectorate of the Russian Federal Tax Service for largest taxpayers No. 7 issued decision No. 11 following the field tax audit for the period from 1 March 2003 to 31 December 2004 on imposing tax penalties on OJSC MTS for tax violations committed.

The additional tax assessment, including penalties and interest, amounted to 975,723 thousand rubles and included:

- Corporate income tax 726,548 thousand rubles
- Value added tax 248,811 thousand rubles
- Other taxes and levies 364 thousand rubles

A court hearing took place on 19 February 2007. As a result the court partially satisfied the claim of OJSC MTS to recognize the tax authorities' resolution to be invalid. The court ruled to impose tax penalties on OJSC MTS in the total amount of 1,690 thousand rubles. The tax authority appealed against this decision of the court of first instance. On 29 May 2007 the court of appeal left the ruling unchanged and the appeal was dismissed. These resolutions have been appealed by the tax authority. The first hearing was held on September 11, 2007. Where the court indefinitely suspended the investigation of the case. As at the date of approval of the financial statements the Company management believed that the likelihood of adverse outcome of the litigation for OJSC MTS is remote, no provision in relation to the above contingency were accrued as of 31 December 2007.

¹ Translated using the rate as of 31 December 2007

In January 2008 the tax authorities started a field tax audit of OJSC MTS for 2005 and 2006. As of the date of approval of these financial statements no decision has been taken by tax authorities and it is not practicable to predict the outcome of this audit.

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 is 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 management. As a result, transactions could be challenged by the tax and customs authorities and the Company could be assessed additional taxes, penalties and interest, 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 31 December 2007 in connection with planned control activities in respect of the Company and on the basis of prudence principle management recorded a provision for contingencies in the amount of 1,314,302 thousand rubles.

In the ordinary course of business the Company also acquired equipment and respective software from foreign suppliers. Management believes that the Company has calculated and accrued respective customs duties and taxes in accordance with the effective legislation. However, here is a risk that relevant regulatory authorities take a different view. As of 31 December 2007 no provisions for respective contingent liabilities were created in the financial statements.

19. SUBSEQUENT EVENTS

Repayment of the loan received from Mobile TeleSystems Finance S.A.

In January 2008 OJSC MTS redeemed the loan received from Mobile TeleSystems Finance S.A., a subsidiary, in the amount of 400,000 thousand US Dollars. The funds were used by Mobile TeleSystems Finance S.A. to repay eurobonds. Therefore, the Company was relieved from its obligations under the guarantee earlier issued to Mobile TeleSystems Finance S.A. in connection with issuance of eurobonds.

Ownership interest in subsidiaries

In February 2008 OJSC MTS acquired an additional 9% stake in OJSC Mobile Communication Systems, a subsidiary, from a private investor for 16 mln US Dollars. As a result of the transaction, the Company's ownership in the subsidiary increased to 100%.

Changes in the Management Board of OJSC MTS

On 27 February 2008 the Board of Directors of OJSC MTS terminated the authorities of Pavel Evgenievich Pavlovsky as a member of the Management Board of the Company, and elected the following persons as members of the Management Board of OJSC MTS: Alexander Genrikhovich Bogatyrev, Andrey Anatolievich Dubovskov and Oleg Yurievich Raspopov.

Changes in the Board of Directors of OJSC MTS

On 27 February 2008 an extraordinary shareholders' meeting of OJSC MTS approved the following persons as members of the Board of Directors of the Company:

- Alexey Nikolaevich Buyanov
- Singh Mohanbir Gyani
- Serguey Alexeevich Drozdov
- Tatyana Vladimirovna Evtushenkova
- Leonid Adolfovich Melamed
- Ostling Paul J.
- Vitaliy Gennadievich Saveliev