

MTS

Annual Report 2007

From the start MTS has seen its mission as building a stable world of mobile communications that brings people together, enriches their lives, and unlocks their potential at work and at home. Today MTS is the largest mobile operator in Russia and Eastern and Central Europe. We help people stay in touch and access information in most regions of Russia, Ukraine, the Republic of Belarus, Uzbekistan, Turkmenistan, and Armenia.



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Safe harbor

Some of the information in this Annual Report may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically, the Company’s most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned “Risk Factors,” that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures; rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management, and future growth subject to risks.

Company history



Company history

MTS was established as a closed joint-stock company by Moscow City Telephone Network (MGTS), Deutsche Telekom AG, Siemens AG (Siemens) and several other shareholders in October 1993. Four Russian companies collectively held 53% of the original share capital, while the German shareholders retained the balance of 47%. In late 1996, Sistema JSFC bought out the Russian shareholders stake and T-Mobile bought the remaining stake from Siemens.

In 2000, MTS CJSC and RTC CJSC merged to form Open Joint-stock Company (OJSC) Mobile TeleSystems. That same year MTS became the second Russian company to trade on the New York Stock Exchange by listing its shares through Level III American depositary shares. MTS trades under the ticker symbol MBT.

In the past several years MTS has grown from the leader of a single regional market, Moscow, into a major multinational operator serving 85.77 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in Belarus). A mobile phone has ceased to be a luxury item and has become an integral part of social and business life for many people.

MTS is not only building its own networks, but also acquiring local mobile operators, developing their business, and incorporating them into its integrated federal mobile communications network. Today MTS' services are available in most Russian regions and cities, including Moscow, St. Petersburg, Nizhny Novgorod, Krasnodar, Perm, Novosibirsk, Khabarovsk and many other.

We are proud of our significant contribution to the development of telecommunications in Russia and neighbor countries.

- * In this Annual Report the terms "MTS", "the Company", and "the Group" mean the aggregate of companies consisting of MTS OJSC and its subsidiaries, and "MTS OJSC" means Mobile TeleSystems Open Joint-stock Company. The statistics and data in this Annual Report are as of December 31, 2007, except where other periods or dates are expressly indicated.

President's letter to the shareholders



To the Shareholders:

The year 2007 was in many ways a critical one for us. During the whole reporting period the Company followed its new “3+1” strategy adopted in mid 2006. We worked hard, and the results exceeded our expectations and projections. Substantial growth and high business profitability have shown that our chosen corporate strategy is a successful one and is bearing fruit.

This new strategy was subsequently updated in 2007 backed up by changes on the market and active development of technologies by the addition of a new element – the development of mobile broadband in the CIS.

By implementing a “3+2” corporate strategy, the Company continued to strengthen its financial position and leadership in the regions, laying a solid foundation for further growth.

Fulfilling the tasks assigned to management, we assumed that if subscribers liked us and chose us as their provider, if the Company’s employees worked together for the common cause, and if shareholders understood our strategy and the means of implementing it, our revenues and profitability would grow, and, along with it, the Company’s capitalization.

Last year we expanded our range of voice-based and value-added services, demonstrating interest in the real needs of our subscribers and improving service quality. The creation of a unique customer experience has been a key factor in the Company’s development over the last two years, and we can now state with certainty that MTS, the MTS brand, and MTS products and services appeal to our customers. Looking ahead, our main objective will remain making the best use of the relationship with our customers to satisfy their communications needs and, of course, foster the further development of that relationship.

In particular, by removing all barriers for new users of mobile Internet services – namely, the complexity of connecting and setting up equipment – we managed to increase our presence in the market for mobile Internet access. Approximately 14.4% of MTS subscribers already make use of mobile Internet access.

We also expanded aggressively in the mobile music and video market, offering subscribers more and more exclusive opportunities to use these. As a

result, in 2007 we not only increased our revenue from mobile content, we doubled it.

Our efforts to expand the geography of our business and develop networks in the markets where we operate also contributed to the effective growth of the Company. For example, we entered Armenia's dynamically expanding market by acquiring its leading operator, K-Telecom, and consolidated our business in the Russian market with the purchase of Bashcell. Even so, the entry into any new market entails certain substantial risks, and we use strict criteria – financial, operational, and strategic – to decide when such a move should be made.

As a result, in 2007 we maintained our lead in all markets where we have a presence. In the reporting year we became the leader by number of connected subscribers not only in Russia, but also in other areas where we operate, expanding our subscriber base by 6.2 million and 3.5 million, respectively.

Our stable financial condition allows us to invest funds in developing new technologies. In particular, in the run-up to the development of mobile broadband access in most areas where MTS operates we acquired licenses to use 3G networks. By developing 3G services we intend to occupy a share of the mobile Internet market at least as great as our share of the market for second-generation mobile communications services. We are now studying all opportunities for synergy of mobile and fixed broadband Internet access to provide customers with the bundle of services they need.

This approach to new technologies creates additional value for our shareholders, who can be confident that the Company is rapidly evolving and will in the future, too, be able to respond to market conditions, reacting quickly and flexibly to all its changes.

One indicator impacting the achievement of good results for the reporting period is the maintenance of profitability in highly competitive markets, thanks to our efforts to control costs and effective investments in these markets. We also managed, despite cost inflation, to achieve over 50% OIBDA margin for the Group.

Clearly, achieving these impressive results in 2007 would have been impossible without the effective cooperation of our management team and entire workforce. We are firmly convinced that professionalism, a sense of purpose, a responsible approach to one's work, respect for and attention to

customers and their problems and concerns are most essential and will bring us success in the future.

We have managed to recruit the best people. The Company has devoted considerable effort to establishing an employee incentive system, paying particular attention to non-financial motivation of our staff. In particular, we believe that the Company's social responsibility should be raised for these reasons.

We are pleased to report that, according to surveys, our employees are proud of the Company's achievements and share its core values.

During the reporting year we were able to improve the Company's system of governance by finishing up changes to its organizational structure, separating functions between the Corporate Center, which pursues strategic objectives, and our Business Units, which provide the Company's operational component.

We thank our shareholders, investors, partners, subscribers, and employees for their trust and fruitful cooperation in 2007. As a result of our joint efforts, MTS' market capitalization increased nearly threefold, or by 96.5%, between January 1, 2007, and December 31, 2007*.

So long as we continue to operate in the same way, we can be confident of our ability to meet any challenge posed by the market, our competitors, and new technologies.

**President of MTS OJSC
Leonid A. Melamed**

* The method to calculate the capitalization is based on the average closing price for the last month of the year at the close of ADR trading on the New York Stock Exchange.

Our position in the mobile market



Our position in the mobile market

As of December 31, 2007, MTS held licenses for 84 regions of the Russian Federation, providing mobile services in 82 of them. Subsidiaries of MTS OJSC in the CIS operate in Ukraine (UMC CJSC), the Republic of Uzbekistan (Uzdunrobita Ltd.), Turkmenistan (Branch of BCTI Corporation), and the Republic of Armenia (K-Telecom CJSC). MTS has a licensed area that encompasses a total population of roughly 236.9 million.

In Russia mobile services are provided by three federal operators – MTS OJSC, VimpelCom OJSC, and MegaFon OJSC – as well as several dozen smaller regional telecoms companies, using different cellular communications standards: GSM, TDMA, NMT 450, and CDMA-1x. According to ACM Consulting, as of December 31, 2007, wireless penetration in Russia reached 119.1%, and the total number of subscribers reached 172.9 million. By number of subscribers MTS holds the lead in Russia with a 33.2% market share, followed by VimpelCom and MegaFon with 29.9% and 20.5%, respectively. MTS OJSC and its subsidiaries and dependent companies in Russia collectively had 57.4 million subscribers as of December 31, 2007.

By the end of Q4 2007, MTS' licenses covered 84 of the 85 regions in Russia (99%). Thus, MTS OJSC directly or through its subsidiaries holds licenses for practically all of Russia, with the exception of the Penza region. MegaFon holds licenses for all 85 regions of the Russian Federation (100%), while VimpelCom, according to the operator's latest official data, holds licenses for 75 (88%).

Russia's largest markets for mobile services (by number of subscribers) are Moscow and the Moscow region and St. Petersburg and the Leningrad region. According to ACM Consulting, wireless penetration in Moscow and the Moscow region was 176.3% at December 31, 2007. The total number of subscribers of all operators in Moscow and the Moscow region is estimated at 29.9 million, with the share of MTS OJSC reaching 44.9%.

Wireless penetration in St. Petersburg and the Leningrad region, according to ACM Consulting, was 153.1% at December 31, 2007, with total subscribers numbering 9.7 million. MTS' market share was at 29.1%.

The most important regional market (apart from Moscow and St. Petersburg) is the Krasnodar territory (including the Republic of Adygea), where

the number of subscribers at December 31, 2007, as estimated by ACM Consulting, surpassed 6.5 million and penetration was 127.7%. In addition, there are 11 regions of the Russian Federation where the number of subscribers exceeds 3 million: the Nizhny Novgorod region, the Republic of Tatarstan, the Republic of Bashkortostan, the Samara region, the Rostov region, the Chelyabinsk region, the Perm territory, the Novosibirsk region, the Krasnoyarsk territory, the Kemerovo region, and the Irkutsk region, while in the Sverdlovsk region the number of subscribers has reached 5.1 million.

According to results for Q4 2007, subsidiaries and dependent companies of MTS OJSC in other CIS countries had the following numbers of subscribers: 20.0 million in Ukraine (UMC CJSC), 2.8 million in Uzbekistan (Uzdunrobita), 356 thousand in Turkmenistan (Branch of BCTI Corporation), 1.4 million in Armenia (K-Telekom CJSC), and 3.8 million in the Republic of Belarus (MTS JLLC, which is not consolidated in the Company's US GAAP financial statements)..

Company outlook



Company outlook

Wireless networks long ago become an integral part of information technology infrastructure, but interest in them remains high, as it was many years ago. This is because each successive step in the development of broadband wireless access systems opens up new possibilities for both market players and users.

Mobile operators have now entered a phase of market saturation with entirely new business priorities. While prior to 2006 the main competitive indicators for MTS were coverage area and number of subscribers, last year average revenue per user (“ARPU”), the share of value-added services (“VAS”) in that figure, and quality of service to users came to the forefront. In the modern world, providing quality services in the mobile communications market depends on companies’ ability to meet the requirements of the constantly evolving information technology market. Today one such requirement is a company’s readiness to provide 3G services. The acquisition of frequencies to provide 3G services in Russia, Uzbekistan, and Armenia has been the most important factor contributing to further strengthening of leading positions and the dynamic development of operations of MTS OJSC.

The segment we find most attractive in the telecommunications sector is broadband access to the Internet. In Russia we project that this segment will grow almost three times as much from \$3.1 billion in 2007 to \$4.5 billion by 2015. By developing 3G services, we intend to occupy a share of the mobile Internet market at least as great as our share of the market for second-generation mobile communications services. We are now studying all opportunities for synergy of mobile and fixed broadband Internet access to provide customers with the bundle of services they need.

In the future we expect the emergence of entire categories of new services, including positioning services, mobile payments, and others. A good example is the mobile micropayments market. These technologies are useful in a huge number of businesses: transport, pay parking, and utility services and payments. The State is now confronting the problem of underground cash circulation, and the widespread use of mobile payments would significantly help to address this problem.

In Russia we see further continuation of observed trends. Key growth factors include: improvement in attracting customers, higher volume of voice-

services use in the mass market segment, and the commencement of the use of data transmission services in all segments in 2008.

In Ukraine we expect increases in use of services and number of subscribers due to the expansion of segmented offerings for voice and data services and realization of the effects of rebranding.

In other markets where we have lower penetration, growth will consist mainly of an increase of subscribers.

We aspire to increase our area of influence and range of services. Russia is our priority, because we see opportunities for consolidation in that market. The CIS is our second most important home market, and we intend to increase our presence. We are also looking at markets beyond the CIS. The prospects we see in developing markets, although of lower priority, cannot be ignored, considering the results we have achieved and the availability of financial resources. Even so, the entry into any new market entails certain substantial risks, and we use strict criteria — financial, operational, and strategic — to decide when such a move should be made.

Our development strategy



Our development strategy

MTS' primary goal is to maintain its position as a leading wireless operator in all markets in which it operates. Additionally, the Company seeks to take advantage of the most promising opportunities to expand its network coverage in the Russian Federation and other countries, particularly within the Commonwealth of Independent States ("CIS").

The markets changing, during the reporting year there was a natural evolution in our strategy. In June 2006 the Board of Directors of MTS approved the "3+1" Strategy, the key elements of which:

- 1) strengthening leadership in Russia;
- 2) using synergies and opportunities for growth in CIS countries; and
- 3) creating value in emerging markets.

The additional "+1" element included review and analysis of all opportunities for implementing innovations and developing vertical integration and convergence.

In 2007 the Board of Directors of MTS adopted a resolution to enhance the "3+1" Strategy in 2008–2010 in the following areas:

"3+1" Strategy		"3+2" Strategy
Lack of a pronounced focus on the brand's preeminent role	➔	Brand messages at all points of contact with the customer and within the Company
Differentiation of approach to quality according to functional and geographic criteria	➔	A priority of achieving leadership in quality in all areas: throughout the entire network, in billing, and in sales and service
A monetarist approach to investments	➔	The financial feasibility of acquisitions is taken into account alongside their strategic feasibility
A traditional strategy of developing data transmission services based on 2.5G ("narrowband")	➔	A focus on achieving leadership in 3G / mobile broadband access in the CIS
An ill-defined approach to convergence	➔	Leading role of mobile communications in convergence projects
Lack of a pronounced emphasis on developing corporate culture and personnel	➔	A focus on developing a professional team and an appealing corporate culture

Following the evolution of the existing strategy into the “3+2” Strategy, its key elements have become:

Always delivering more for our customers	Growth	
	1	<p>Capture growth potential in core markets</p> <ul style="list-style-type: none"> • Drive revenue stimulation • Provide unique customer experience • Deliver superior quality
	2	<p>Value creation in developing markets</p> <ul style="list-style-type: none"> • Drive market growth in CIS • Enlarge CIS footprint • Investigate other selective opportunities
Leading communication brand in the CIS	3	<p>Development of mobile broadband in CIS</p> <ul style="list-style-type: none"> • Roll-out 3G in Russia and Uzbekistan • Acquire licenses in CIS countries • Offer attractive data services portfolio
	+	
Creating exceptional shareholder value	Synergy	
	+1	<p>Cost efficiency</p> <ul style="list-style-type: none"> • Focus on cost and process efficiency • Leverage synergies throughout CIS • Exploit optimal technology solutions
	+2	<p>MTS Group development</p> <ul style="list-style-type: none"> • Build-up Group organization • Attract and retain best-in-class employees • Nurture distinctive corporate culture and play an active role in corporate social responsibility

To achieve these goals MTS will continue to work in the following areas:

- further business development in all regions where the Company is already represented, and stimulation of revenue growth both by attracting new subscribers and by improving quality and introducing additional services in each market where MTS operates;
- offering new and varied tariff plans and value-added services, taking into account the needs of subscribers and addressing different groups of users. Maintaining the loyalty of subscribers and their perception of MTS as a company always one step ahead of its nearest competitor;

- business expansion and further development of commercial services in CIS markets by acquiring existing local operators or obtaining new licenses;
- adopting and implementing the most promising innovations and new technologies in all markets where MTS operates;
- taking advantage of economies of scale and all available synergies in the CIS;
- ensuring cost-effectiveness in all countries where the Company operates and in all functional areas;
- aspiring to be the leading company in such areas as management quality, staff development, and corporate culture, and constantly improving its processes and the quality of implementation of ideas and projects;
- further developing competencies and building MTS Group as an international group;
- using M&A to realize opportunities for rapid growth in selected emerging markets on the basis of thoroughly developed criteria for market entry;
- developing its activity in the area of corporate and social responsibility as part of the MTS Group's development.

Over the last several years the Company was able to expand its presence significantly in Russia regions and in CIS countries, by commencing services in areas for which licenses had been obtained and by acquiring other operators. The expansion of our presence in CIS countries is fully consistent with MTS' strategy of realizing the potential of rapidly growing CIS markets. In 2007 MTS successfully launched its brand in Ukraine, entered the Armenian market by buying leading mobile operator, and increased its stake in the leading mobile operator in Uzbekistan to 100%. A result of the expansion of MTS OJSC's presence in Russia's regions was the acquisition of a 100% stake in BashCell CJSC, the leading mobile operator in the Republic of Bashkortostan, during the reporting year.

One of the primary strategic goals of MTS OJSC in 2007 was to maintain key financial indicators, and OIBDA profitability in particular, at a level consistent

with investors' expectations. To achieve this goal we focused on reducing costs, optimizing investments, and steps to increase ARPU, reflecting the revenue per subscriber. To generate higher ARPU we developed a number of segment-oriented marketing offers. As a result our subscribers are able to enjoy a bundle of services designed to satisfy the specific requirements of a particular consumer segment.

In addition, the Company used marketing initiatives aimed at increasing the share of value-added services in the current revenue. It should be noted that MTS' current tariff policy is adjusted to account for regional differences, which allows us to market offerings tailored to the situation in a given region.

Since 2003, MTS' management has concentrated on integrating its entire business into a single company with a unified marketing approach and centralized operational administration.

Our marketing strategy is focused on:

- simplifying marketing communications;
- establishing simple tariff plans with obvious benefits to subscribers and a clear segmentation of offers and services; and
- simplifying the communication interface with customers.

As a result of the Company's efforts in these areas, on July 10, 2007, MTS OJSC announced the commencement of a new phase. An advertising campaign to support the launch of the new brand in Ukraine was initiated on July 9, 2007. The MTS brand symbolizes leadership and a dynamic and innovative approach to business. The outward changes — a new logo, corporate style, and decor of sales offices — are a reflection of the new strategy, in which the primary emphasis is on a customer-oriented approach to serving subscribers, as well as on retaining and developing the Company's subscriber base. The new MTS brand is a reflection of internal changes taking place in the Company, the foundation of which is a shift from a technological model of business development to a customer-oriented model.

In 2006, a reorganization of MTS' corporate structure was carried out, as a result of which the Company's administrative section was split into a Group Corporate Center and three Business Units responsible for activities in Russia, Ukraine, and other foreign subsidiaries. The main reasons for changing

the Company's organizational structure were to establish clear responsibility of each Business Unit for financial results and strengthen their focus on the market and business operations, while concentrating all basic strategic functions at the Corporate Center level.

The validity of the Company's choice of a vector aimed at clearly dividing responsibility between each Business Unit and the Corporate Center was borne out in 2007. Last year's results showed substantial growth in all areas of activity of each Business Unit, as well as those of the Corporate Center. MTS was able not only to maintain the good results of management deriving from its earlier corporate structure, but also to improve them by recruiting new, high-quality specialists.

Board of Directors progress report on the Company's business priorities



Board of Directors progress report on the Company's business priorities

In 2007 MTS continued to implement its corporate strategy, fulfilling its undertakings relating to:

- growth in the Company's key markets;
- creating value in emerging markets;
- developing mobile broadband access in the markets where it operates;
- maintaining economic efficiency and further developing the Group.

The Company's revenue for the year increased by 29% to \$8.3 billion thanks to stable and effective growth in all markets where the Company operates. In 2007, revenue increased in every quarter, both through organic growth of the Company and through consolidation of the subsidiary acquired in Armenia.

Positive developments were seen in operations in the Company's key markets in Russia. The Group's Russian companies had revenue for the year of \$6.1 billion. Key factors of development were uninterrupted growth in the use of voice services combined with a 78% increase in annual network traffic. Because the level of development of mobile communications is an indicator of the general health of the economy, it is encouraging to note that the Russian economy is in good shape.

Our achievement of these remarkable results was also assisted by a growing subscriber base, which in Russia expanded by 12% to over 57 million. Key factors here are the stronger emphasis on brand promotion and attractive products offerings. In addition, investments in CRM and brand development enabled us to retain our lead in the corporate segment and the high-value customer ("HVC") segment, because the number of customers who have been long-time subscribers with us (over three years) is growing in line with the overall subscriber base. Other growth factors were messaging and data services; during the year revenue from data transmission increased by 40%, which indicates that our subscribers have a growing interest in the devices they use. This is a good sign for the 3G launch planned for 2008.

In Ukraine revenue for the year exceeded \$1.6 billion, growing by 8%. As was mentioned earlier, 2007 was a year of significant changes for us. Throughout the year we invested in developing our network and customer service, laying the foundation to create a unique customer experience by improving overall business quality and promoting the MTS brand in the market. At the same time, we saw an improvement in perceptions of the quality of our network, products, and services. By the end of the year the Company had begun to market targeted products and services. For subscribers in the mass market sector we offered tariff plans designed for such segments as families, students, women, and so on; for corporate customers we kept waiting lists for BlackBerry connections, and the popularity among subscribers of the MTS Connect service, which allows high-speed data transfer using CDMA, exceeded our expectations. Since December, we have been noticing favorable changes in the market situation, and we are optimistic about the prospects for 2008.

The Company continued to deploy networks and strengthen leadership in Uzbekistan's rapidly growing market. Revenue for the year in Uzbekistan grew by 82% relative to the preceding year, while the subscriber base grew by 93% to 2.8 million subscribers. With a penetration level at 22%, Uzbekistan is on the verge of a phase of mass market growth. In 2008 we expect further growth in the subscriber base and the volume of services consumed in that market.

In Turkmenistan the Company's efforts were focused on network deployment and increasing the number of subscribers. With a penetration level of only 7.4%, Turkmenistan could become a very important market for the Company, considering the potential liberalization of the economy. The existing situation is encouraging, and we are now reaping the benefits of growth in the subscriber base and the marketing of new products and services.

The year 2007 also marked MTS' entry into Armenia. The acquisition of K-Telcom, with a 74% market share, allowed us to join a dynamically developing market. As more products are brought to market and synergies are found among the Group's companies, we anticipate continued growth and expect to retain our lead.

**Chairman of the Board of Directors of MTS OJSC
Vitaly G. Savelev**

Major events



Major events

<p>1. Launch of the MTS brand and CDMA network in Ukraine</p>	<p>Introduction of a unified MTS brand in all countries where the Company operates, as one part of the MTS “3+2” Strategy: “Growth and Synergy in the CIS”.</p> <p>The CDMA network provides MTS Ukraine subscribers with unique capabilities and access to a number of high-tech services such as broadband data transmission, mobile Internet access, and others. The network operates in the 450-MHz band. The use of CDMA 1xEV-DO Rev.A technology, which is completely new to Ukraine, allows us to offer the fastest data transmission in the Ukrainian market.</p>
<p>2. Entry into Armenia’s market through the purchase of K-Telecom (VivaCell brand), the country’s leading operator</p>	<p>A positive aspect of entering the Armenian market is that it expands the list of countries in which MTS has a presence. These results were achieved as part of work in one area of MTS’ strategy: “Growth and Synergy in the CIS”.</p>
<p>3. Increase in MTS’ stake in Uzdurobita to 100%</p>	<p>IP Uzdurobita LLC is the leading mobile operator in Uzbekistan. According to results for 2007, the company has 2.8 million subscribers. These results were achieved as part of work in one area of MTS’ strategy: “Growth and Synergy in the CIS”.</p>
<p>4. MTS acquired a 100% equity interest in Bashcell, the leading mobile operator in the Republic of Bashkortostan</p>	<p>Consolidation of the Russian mobile communications market and strengthening of the Company’s position in Bashkortostan. These results were achieved as part of work in one area of MTS’ strategy: “Strengthening Leadership in Russia”.</p>
<p>5. First CIS launch of the BlackBerry service in Ukraine and acquisition of a permit to launch the service in Russia</p>	<p>The launch of the BlackBerry from MTS enables the Company’s corporate subscribers to work effectively with corporate e-mail through communications channels protected by state-of-the-art encryption protocols, which guarantees the confidentiality of valuable business information.</p> <p>New value-added services have been offered as part of the Company’s earlier strategy and are contributing to increased revenue both from existing subscribers and from the enrollment of new subscribers from other operators unable to offer services of this kind.</p>

6. Acquisition of frequencies to provide 3G services in Russia, Uzbekistan, and Armenia	<p>3G does not simply mean faster access to the Internet, it is a radically new approach to communicating, accessing information, and so on. The user is able not only to talk with the person on the other end, but can also see him or her by means of a video telephone, visit Internet sites, conduct business, and be educated and entertained, all using a small device resembling the cellphone of today. New value-added services are being offered as part of the Company's earlier strategy and are contributing to increased revenue both from existing subscribers and the attraction of new ones.</p>
7. Total dividends approved by shareholders reached a record of US\$747 million	<p>The 2006 dividends were 99.99% paid out. Dividends were not fully paid out because of inaccurate, incomplete, or outdated bank account information provided by some shareholders on the information forms for registered persons kept by the registrar.</p>
8. Implementation of an incentive program for MTS managers	<p>MTS' Board of Directors approved an incentive program for the Company's managers for the period to 2011 consisting of two parts: a performance-based cash bonus and a phantom stock compensation plan in the form of American depository shares (ADSs). It is planned that up to 420 senior and middle managers of MTS will participate annually in the incentive program. The introduction of a new incentive program for MTS managers is based on the Company's earlier strategy, in particular, the declared ambition to be the leading company in such areas as management quality, development of staff and corporate culture, and a move to the "next level" of improving processes and quality of implementation of ideas and projects.</p>
9. MTS receives the status of General Partner of the Russian Olympic Committee and becomes the official mobile operator of the country's Olympic Team in preparation for and during the 2008 Olympic Games.	<p>MTS will be involved in a number of programs to prepare Russian athletes for the Games, and will also provide members of the Russian Olympic Team with a full range of mobile services. One of the Company's initiatives to support the Olympians will be the development of special tariffs allowing preferential roaming in China. Being named a General Partner of the Russian Olympic Committee was the result of achieving the Company's primary goal: maintaining and strengthening its position as the leading mobile operator in all markets where it operates.</p>

10. MTS becomes the first Russian brand to rank among the world's 100 most valuable brands, as determined by Millward Brown Optimor (MBO) for the Financial Times

Rating of the world's most valuable brands based on MTS' reports for 2007. In two years MTS has achieved great success in brand development, by improving marketing communications and replacing its logo: in May 2006 it acquired an egg-shaped cutout on a red background. Consumers were not indifferent to the new brand. According to the preparers of the rating, MTS subscribers feel more attached to the brand than subscribers of other Russian operators. The Company's capitalization since the rebranding has increased by 2.5 times, while overall consumer satisfaction with MTS services climbed to 90% in 2007 from 88% in 2006.

The inclusion of the MTS brand among the world's 100 most valuable brands was the result of achieving the Company's primary goal: maintaining and strengthening its position as the leading mobile operator in all markets where it operates.

11. Expansion of voice roaming area from 193 to 197 countries/destinations. Expansion of the GPRS roaming zone from 116 to 130 countries/destinations.

In 2007 MTS opened voice roaming with 25 operators in 28 countries/destinations, of which 4 are new (Samoa, Honduras, Papua New Guinea, and Rodrigues). It also opened GPRS roaming with 40 operators in 35 countries/destinations, of which 14 are new (South Korea, Gibraltar, Trinidad and Tobago, Peru, Congo, Rodrigues, Jersey, Greenland, the UAE, the Isle of Man, Uganda, Qatar, Andorra, and Côte d'Ivoire).

The roaming area is being expanded as part of achieving the Company's primary goal: maintaining and strengthening its position as the leading mobile operator in all markets where it operates.

Company results for 2007



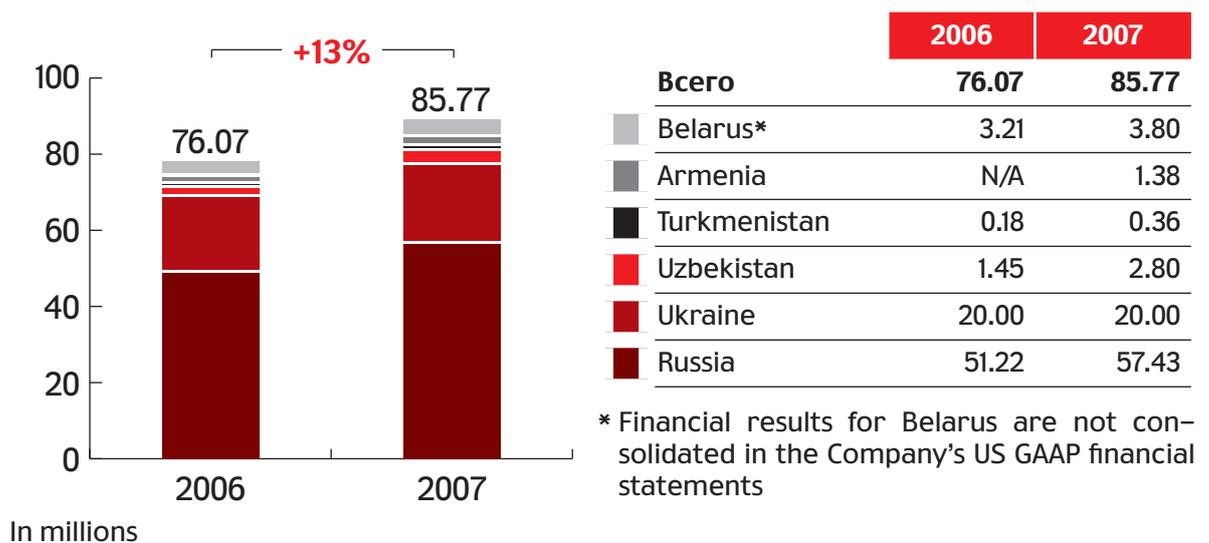
MTS

Company results for 2007

MTS's main competitive advantages are its wide-reaching network and in-tra-network roaming, traditionally high quality of communications services, profitable tariffs that consider the needs of different segments of the market, and a broad range of value-added services.

These features have enabled the Company to steadily increase income both through growth in the subscriber base and through higher-intensity consumption services.

Group subscriber base dynamic



In millions

- Russia added more than 6.2 million subscribers in 2007 with the market demonstrating room for additional growth despite seemingly high penetration levels
- Ukraine subscriber count maintained at the 20 million mark
- CIS markets showing exceptional growth with Uzbekistan contributing largest growth
- Addition of Armenia added over 1 million subscribers to the total number

Russia

The Russian telecommunications market is characterized by rapid growth in the subscriber base and revenue. At the end of 2007 penetration (in SIM cards) was 119.1% or 172.9 million subscribers. The highest penetration levels were seen in Moscow and St. Petersburg, where they exceed 176% and 153%, respectively.

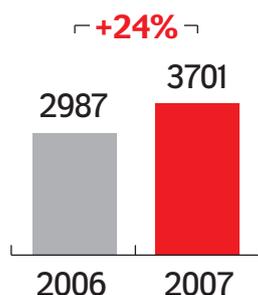
MTS' share of subscribers in Moscow is 44.9%, in St. Petersburg 29.1%, and in Russia as a whole 33.2%.

One favorable result from 2007 is the Company's continued lead not only in revenue terms, but also by number of subscribers and growth in the subscriber base.

To retain its lead in the market the Company is continuing work aimed at providing subscribers not only with high-quality services, but also the cheapest tariff plans, and at increasing growth in service quality, network coverage, and level of customer service.

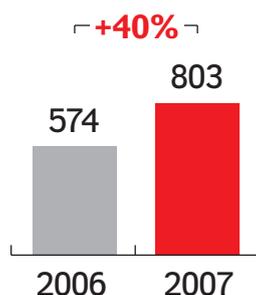
Russia: Drivers of revenue

Service revenue (USD mln)



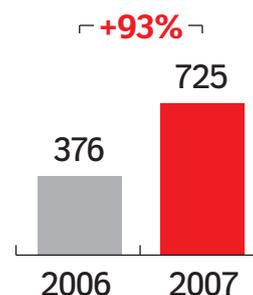
- Increase in voice revenue due to usage and subscriber growth on the back of successful marketing campaigns and healthy economic growth in Russia

VAS revenue (USD mln)



- Rising contribution from VAS/data services (including content services)
- Contribution of VAS to MTS Russia revenue increasing to 13% in 2007 from 12.3% a year earlier

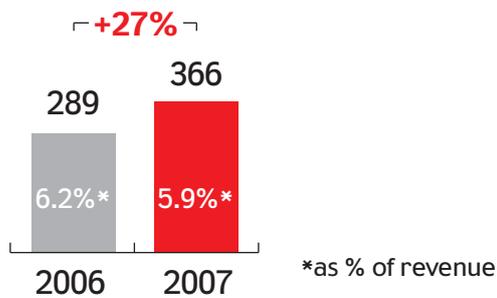
Interconnect revenue (USD mln)



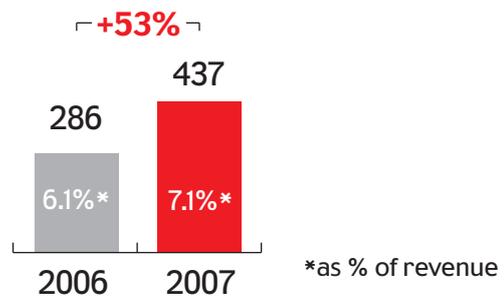
- Increase in interconnect revenues with growth in traffic and subscriber base during the course of the year

Russia: Increasing use of value-added services

Messaging revenue (USD mln)



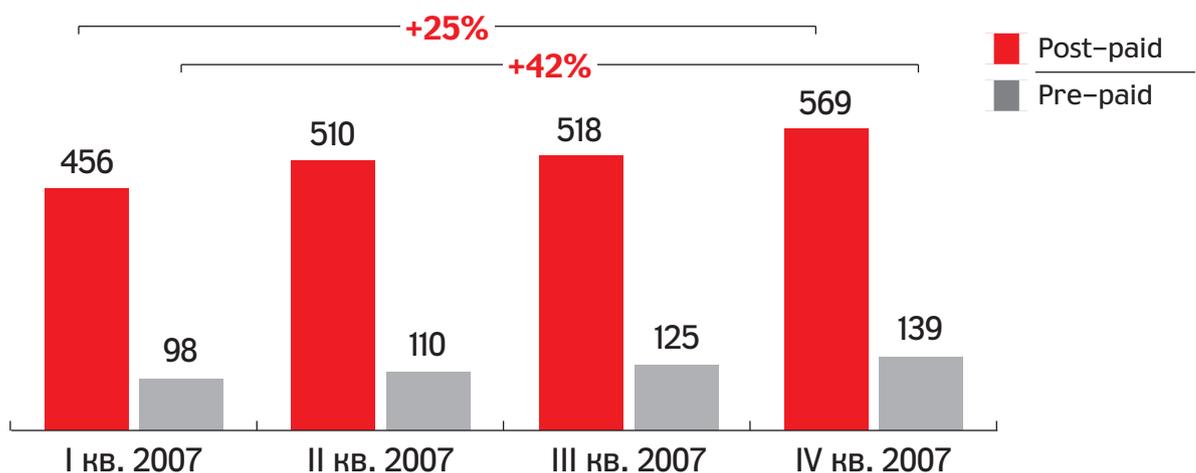
Data revenue (USD mln)



- Messaging services continues to be the main component of the Company's VAS revenues
- The Company's revenues from data services surpasses that of messaging in 2007 as EDGE deployment and a larger portfolio of content services stimulates higher GPRS usage

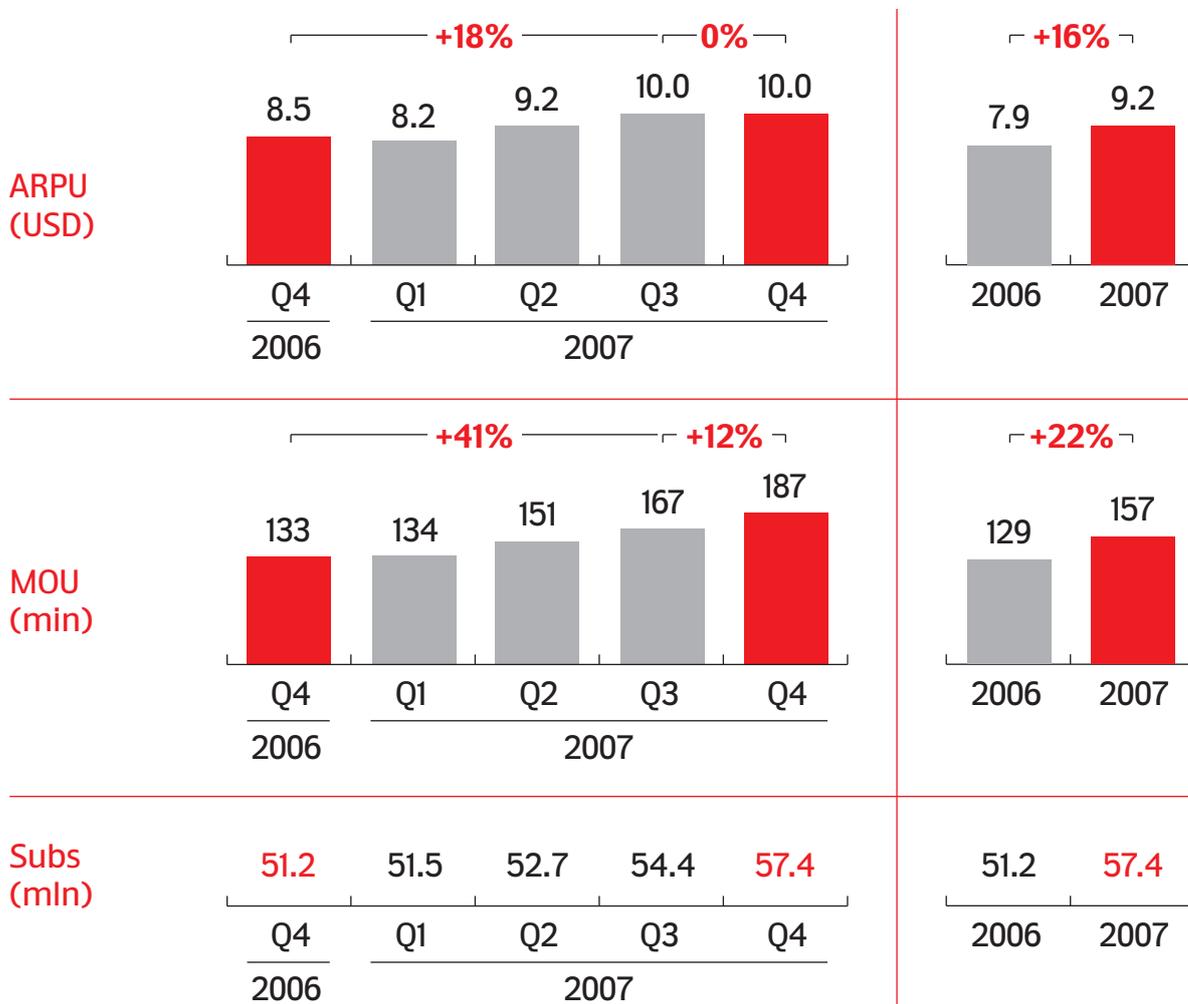
Russia: Increasing traffic

MOU by segment 2007 (in minutes)



- Effective branding and compelling products lead to a dramatic rise in traffic
- Substantially longer calls as a result of MTS' efforts to stimulate voice usage under rate plans in the high-profit segment (MAXI) and mass-market segment (Super Pervyi, Svobodnyi and Stimul)

Russia: Operating indicators



- Higher ARPU in 2007 resulting from efforts to stimulate usage and from higher penetration and marketing campaigns
- Robust usage growth driven by success of marketing campaigns and tariff offers
- 12% subscriber growth

Ukraine

The mobile communications market in Ukraine has been growing strongly since 2003.

According to data from ACM Consulting, in 2007 service penetration in the country grew by 16.6% to 119.7% or 55.6 million subscribers. MTS (UMC) had 20 million subscribers in Ukraine, or 36% of the market, at the end of the year. The Company provides GSM 900/1800 and CDMA 450 services throughout the entire country.

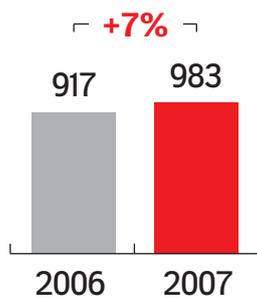
Last year the Company substantially strengthened its positions in the market, above all thanks to the launch of the MTS brand in Ukraine, the marketing of new products (the CDMA 450 network, the BlackBerry), and development of the network to enhance quality of coverage and improve service quality.

Ukraine: Key initiatives in 2007

- MTS brand is now clearly established in Ukraine as a result of corporate strategy aimed at harmonizing operations in the CIS
- New products brought to the market in 2007, include:
 - Data services using the CDMA network
 - Blackberry (first in CIS)
- Continued network construction to enhance coverage and improve quality
- Focus on improving quality of customer service and expanding the customer experience
- Stimulating interest among distributors and users
- Operational efficiency is a top priority with mounting inflationary pressures

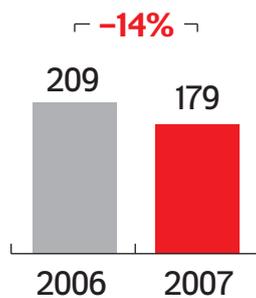
Ukraine: Drivers of revenue

Service revenue
(USD mln)



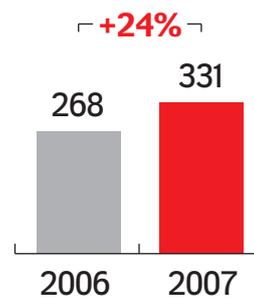
- Revenue growth contained by aggressive voice pricing of competitors

VAS revenue
(USD mln)



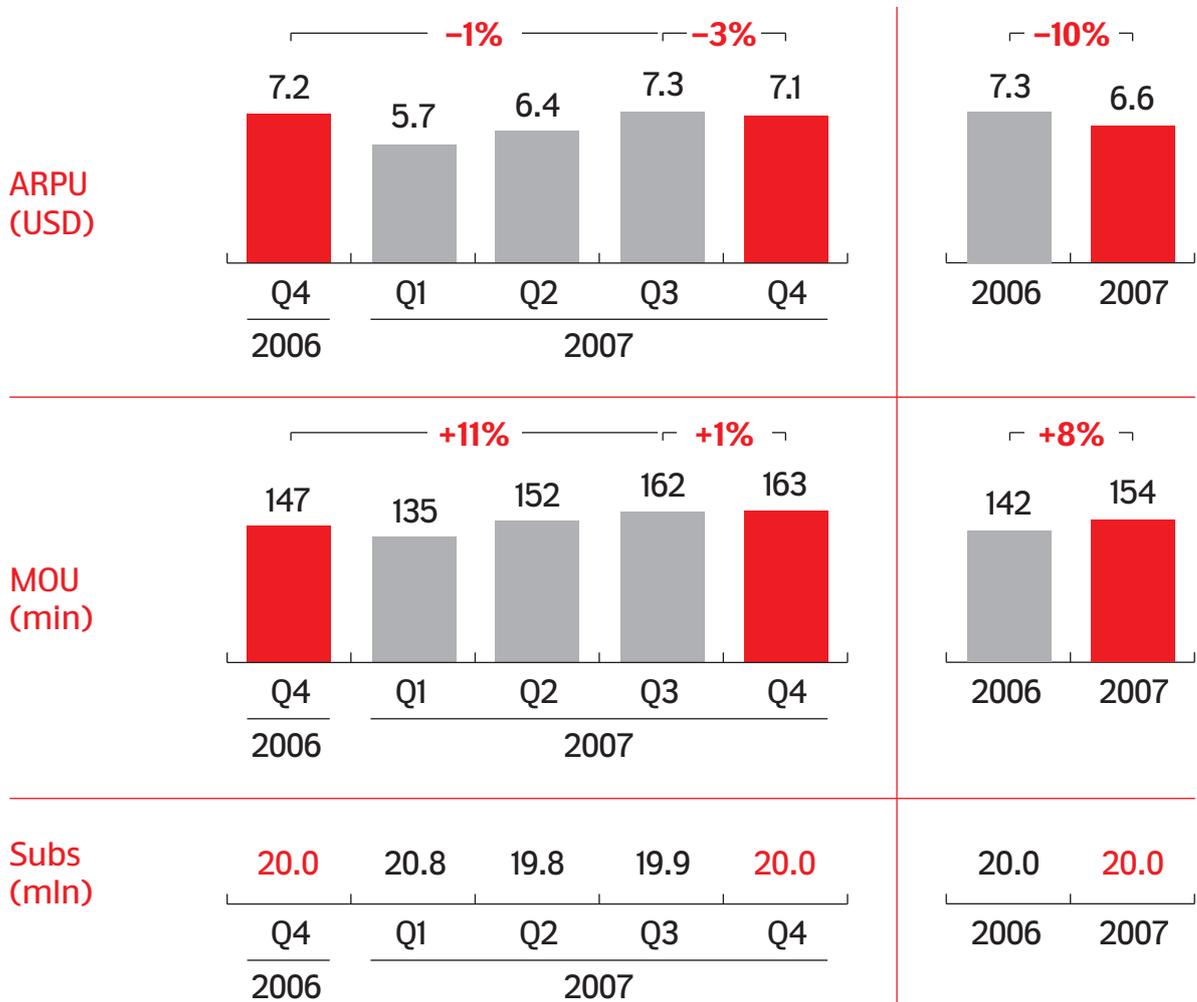
- Growth in data usage and content services overshadowed by drop in messaging usage due to voice substitution

Interconnect revenue
(USD mln)



- Interconnect revenues rising as overall market is increasing

Ukraine: Operating indicators



- ARPU levels affected by competitive pressure. Robust usage growth driven by success of marketing campaigns and tariff offers
- Successful in increasing traffic following our rebranding and introduction of usage-stimulating products
- Maintaining subscriber base in a highly competitive market

Uzbekistan

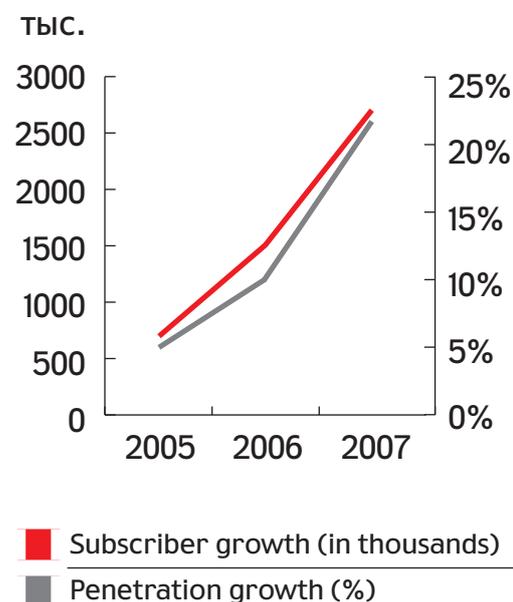
According to data from ACM Consulting, in 2007 service penetration in the country grew by 11% to 21%, or approximately 5.7 million subscribers.

MTS offers services in Uzbekistan using TDMA, GSM 900, and GSM 1800 technologies.

Subscribers numbered 2.8 million (49% of the market) at the end of the year.

Thanks to the acquisition of a license to provide Internet services and use 3G networks throughout Uzbekistan, and by making use of WiMAX technology, the Company plans not only to retain its leading positions in the market in 2008, but also to gain higher market share by concurrently offering innovative services, including wideband Internet access services.

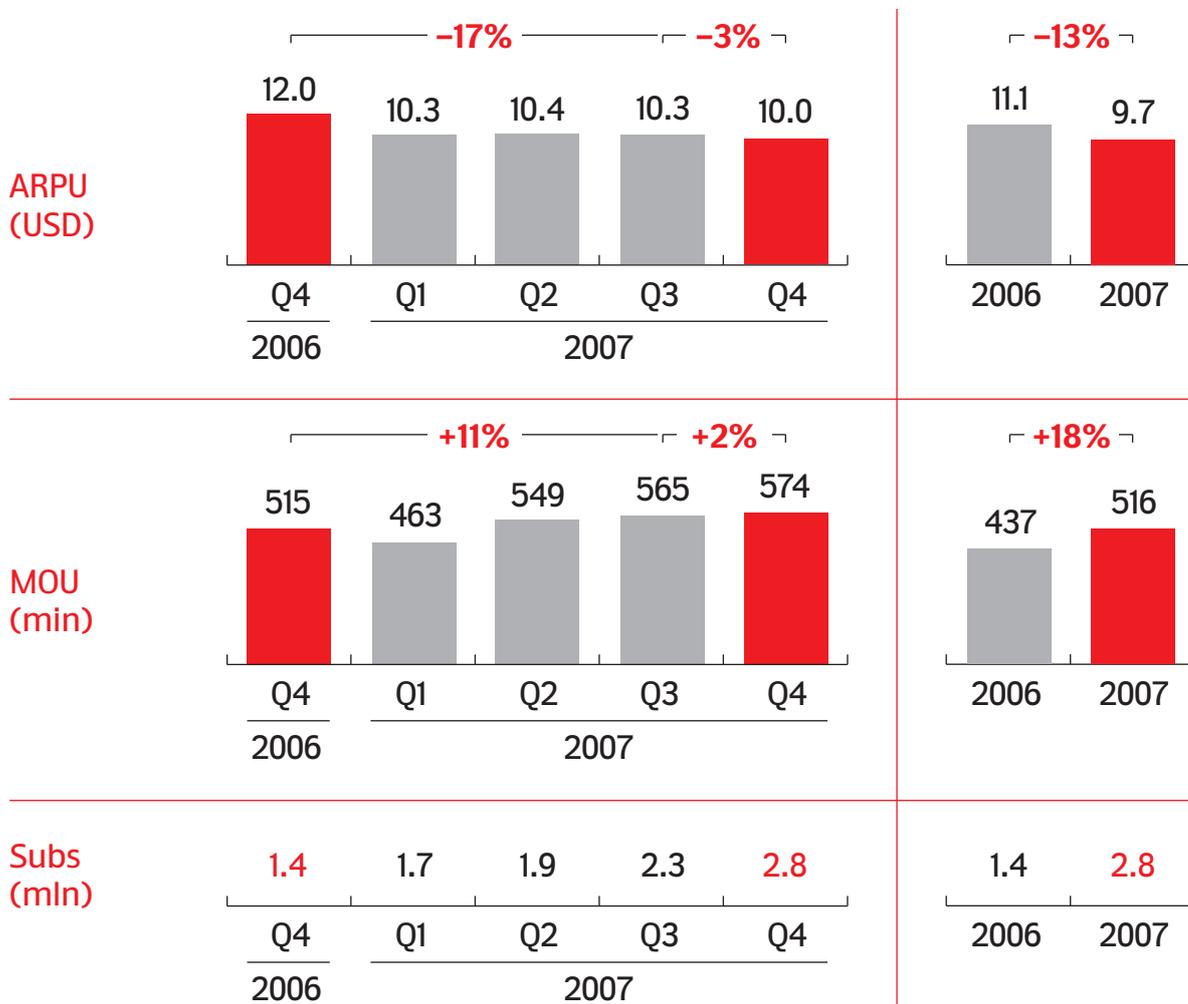
Uzbekistan: Penetration and subscriber growth



- Strong position in the mass market, leader in the high-value segment
- Low fixed-line penetration (12%) with its poor service quality make wireless a more attractive calling option (including local, long-distance, and international)

- Potential for future growth:
 - Low wireless penetration
 - Limited fixed-line and Internet penetration
 - Strong economic growth
 - Rise in personal income levels
 - Accessibility of modern mobile services and devices

Uzbekistan: Operating indicators



- ARPU levels diluted by addition of 1.4 mln subscribers as market penetration reached 22%
- Rise in usage and higher proportion of on-net calls as MTS' subscriber base grows
- Doubling of the subscriber base

Turkmenistan

Along with Uzbekistan's telecommunications market, the market in Turkmenistan can also be characterized as one with a low level of penetration.

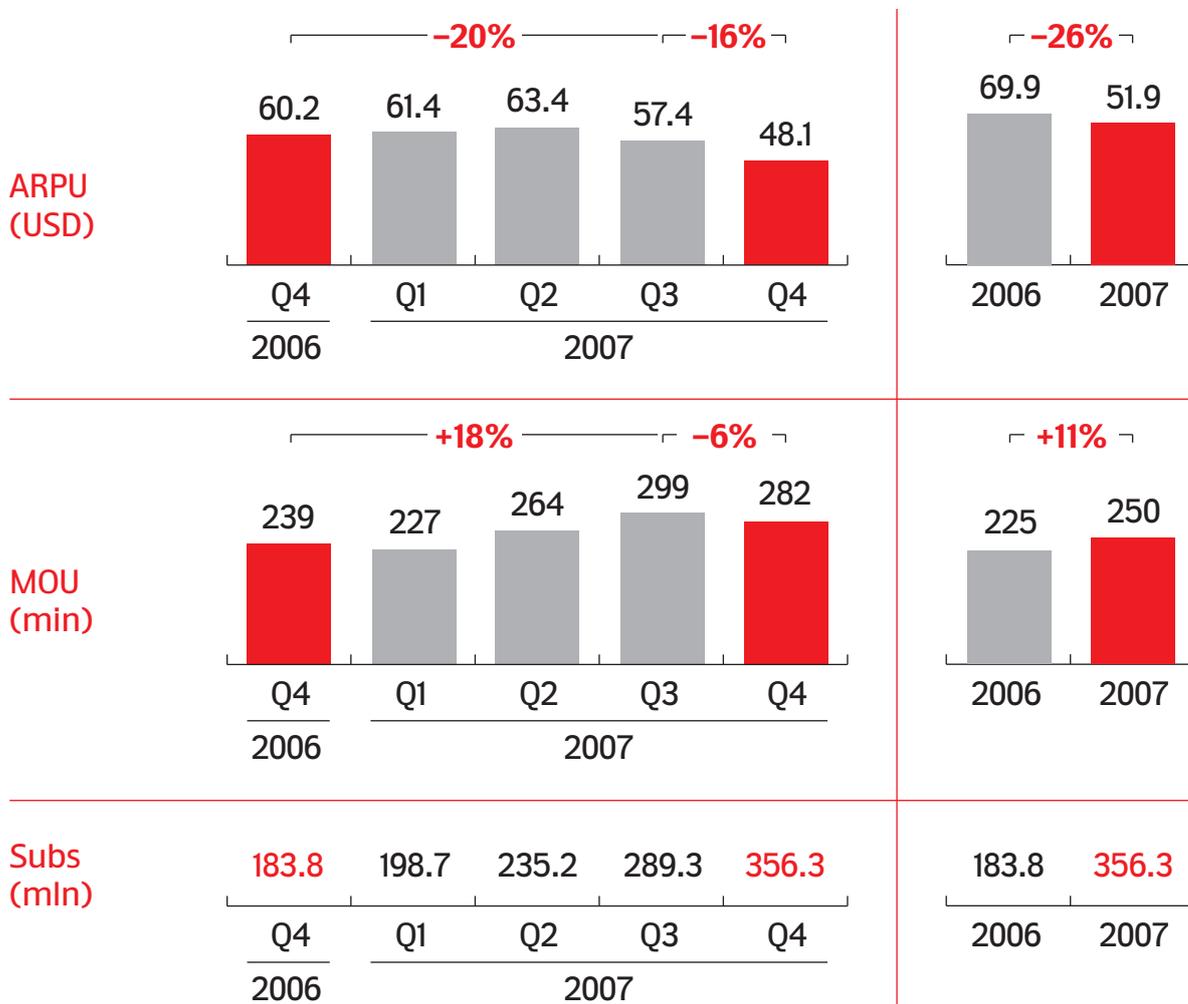
In 2007 penetration increased by 4.2% to 7.4% or approximately 404.000 subscribers.

MTS offers GSM 900/1800 services in Turkmenistan. Subscribers numbered 356.000 (an 88% market share) at the end of the year.

In Turkmenistan the Company has traditionally been the leader in the market and it continues to increase its market share not only thanks to impeccable quality of services, but also by constantly marketing new rate offerings aimed at different, targeted segments of the market.

In 2007 the Company was able to offer its subscribers a number of completely new, even more convenient and inexpensive, rates (Red, Profi, and Bezlimitnyi).

Turkmenistan: Operating indicators



- ARPU affected by seasonal factors and diluted by the high level of new additions to the subscriber base
- Higher usage as MTS offers new tariff plans: Red, Profi, and Bezlimitnyi
- Doubling of the subscriber base

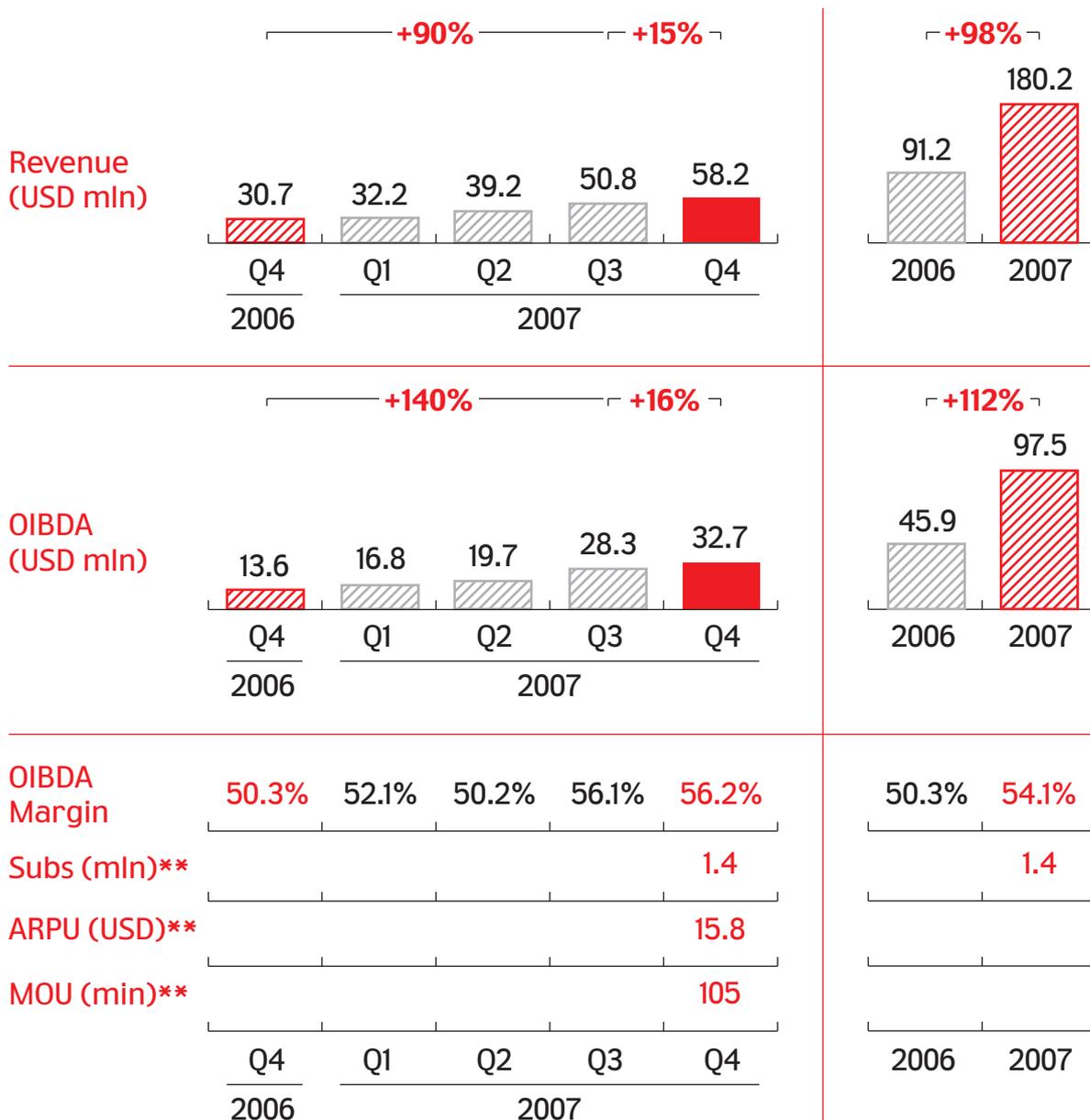
Armenia

In September 2007 the Company acquired the leading operator in the Armenian market, offering mobile communications services under the VivaCell brand using GSM 900/1800.

At the end of the year MTS had 1.4 million subscribers in Armenia, or 74% of the market.

Today MTS holds leading positions in the promising and rapidly growing Armenian market, which allows us to speak confidently about the great prospects of developing the Company's business in this area.

Armenia: Financial and operating indicators*



  – Unaudited data

* Consolidated as of September 14th, 2007

** Operating indicators (ARPU, MOU and growth in subscriber base) are not included until Q4 2007, when the asset is consolidated by MTS

- Continued revenue growth as market share increased

- High OIBDA level maintained throughout the year

Share capital and securities



Share capital and securities

Share capital and equity offerings

The share capital of MTS OJSC as of December 31, 2007, was 199.332.613.80 rubles.

Outstanding and authorized shares of MTS OJSC as of December 31, 2007:

Categories/classes of shares	Outstanding shares		Authorized shares	
	Number of shares	Nominal value per share (rubles)	Number of shares	Nominal value per share (rubles)
Common shares	1,993,326,138	0.1	103,649,654	0.1
Preferred shares	0	0	0	0

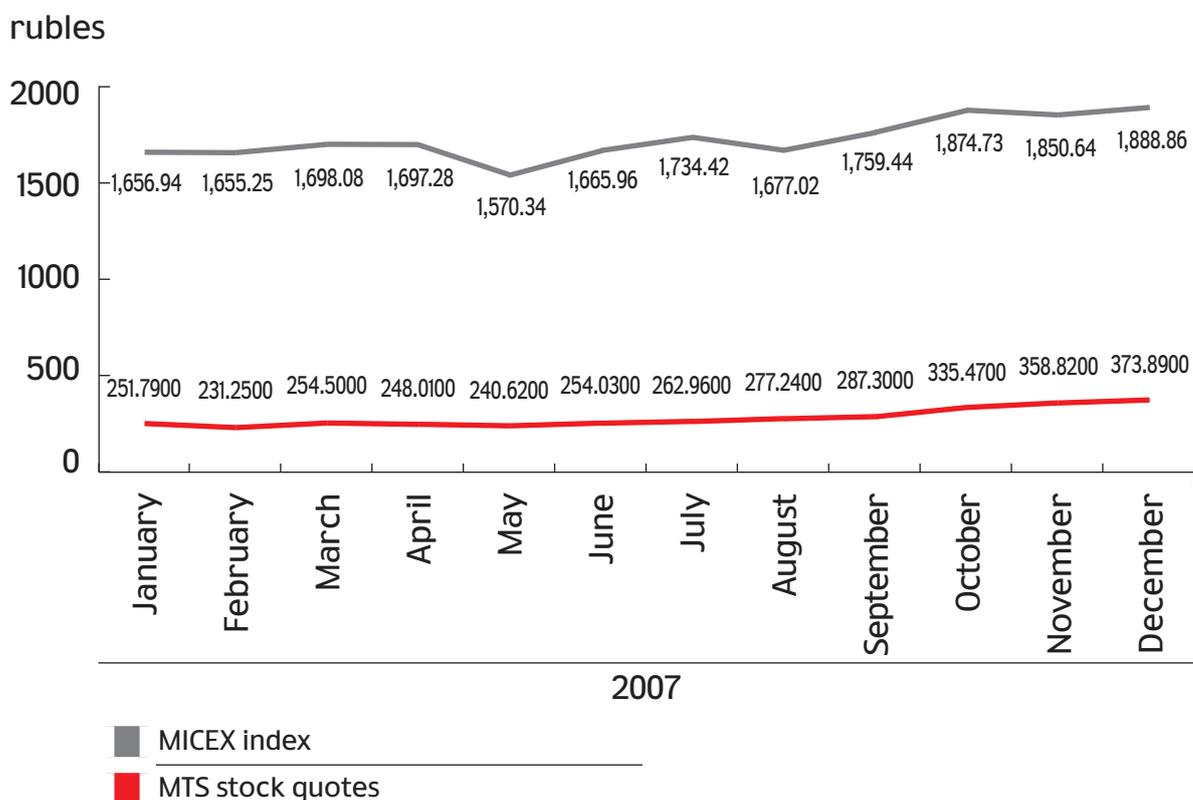
As at December 31, 2007, the registered shareholders of MTS OJSC were represented as follows*:

Sistema Joint-stock Financial Corporation	32.4%
Invest-Svyaz CJSC**	8.2%
Sistema Holding Limited**	9.9%
VAST, Limited Liability Company**	3.1%
ADS Holders	39.6%
Free float, GDR holders and others	6.8%

* Our wholly-owned subsidiary, Mobile TeleSystems LLC, owns our shares in connection with our Management Stock Bonus and Stock Option Plan. During the years ended December 31, 2006 and December 31, 2007, our wholly-owned subsidiary MTS-Bermuda Ltd. repurchased our shares in the form of ADSs, respectively, which resulted in a reduction of shareholders' equity in the annual consolidated financial statements. These shares are excluded from the total number of our.

** VAST LLC, Invest-Svyaz CJSC and Sistema Holding Ltd are affiliated with Sistema OJSC.

Prices of common shares of MTS OJSC relative in comparison with the MICEX index, January 2007 – December 2007*



* Quotes are as of the last trading day of the month, using the closing price for the MICEX Index and the average weighted price for MTS shares

American depository shares

On June 30, 2000, MTS successfully placed a Level-III ADS issue on the New York Stock Exchange (NYSE: MBT), becoming the second company in Russia to implement a program of the highest-level ADSs.

The Company's ADSs are now traded on the Frankfurt Stock Exchange, the Berlin Stock Exchange, and the Munich Stock Exchange. The New York Stock Exchange accounts for the highest volume of trades.

Since October 3, 2003, MTS shares have been traded as a non-listed security on the Moscow Interbank Currency Exchange (MICEX). In December 2003 MTS shares were included in MICEX Quotation List B.

On December 15, 2004, MTS announced a change in the ratio of American depository shares (ADSs) on the New York Stock Exchange to common shares of the Company. The changes took effect on January 3, 2005, the first trading day of the year. As a result of the changes, one MTS ADS became equal to 5 common shares of the Company. Earlier 1 ADS had been equal to 20 common shares, i.e., the ratio was decreased by a factor of 4. To effect the change all ADS holders received 3 additional shares for each ADS held at December 27, 2004.

As of December 31, 2007, a total of 155,479,301 ADSs for registered common shares had been issued (equal to 777,396,505 registered common shares).

Information on stock exchange listings of MTS OJSC shares

Trading floor	Stock ticker	quotation list level
MICEX CJSC	MTS-ao	B
New York Stock Exchange	MBT	Level III ADSs

Information on current listings and transaction prices is available in Russian and English at:

<http://www.micex.ru>

<http://finance.yahoo.com/q/hp?s=MBT>

Bond issues

MTS is one of the largest issuers of corporate bonds in Russia. Our first issue of Eurobonds, for \$250 million, was held in December 2001; an additional \$50-million tranche of the same issue was offered in 2002. In 2003 MTS placed debt securities worth a total of \$1.1 billion. In January 2005 MTS placed 7-year Eurobonds in the amount of \$400 million. Proceeds of the bond issue are used by the Company to finance the acquisition of local mobile communications operators, development in the regions, and other corporate purposes.

Credit ratings of MTS debt:

Moody's	Ba3, outlook positive
S&P	BB-, outlook positive

Basic details of bond issues:

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	9.75% fixed, payable semiannually
Issue price	100%
Currency of issue	US\$
Amount of issue	400,000,000
Maturity date	January 30, 2008

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	8.375% fixed, payable semiannually
Issue price	100%
Currency of issue	US\$
Amount	400,000,000
Maturity date	October 14, 2010

Issuer	Mobile TeleSystems Finance SA (Luxembourg)
Type of security	Eurobonds (144A/Reg S), guaranteed by MTS OJSC
Coupon	8.00% fixed, payable semiannually
Issue price	99.736%
Currency of issue	US\$
Amount	400,000,000
Maturity date	January 28, 2012

Dividend policy

As a leading telecommunications group, with companies in rapidly developing markets, MTS' first aim is to maintain sufficient resources and flexibility to meet its financial and operational requirements. At the same time, the Company continually seeks ways to create shareholder value both through its commercial and financial strategies – including both organic and inorganic development – and through management of the Company's capital.

In keeping with its traditional practices, MTS will continue to use annual dividend payments as part of its policy of enhancing shareholder value. When determining the Company's dividend payout the Board of Directors considers a variety of factors, including the outlook for earnings growth, capital expenditure requirements, cash flow from operations, potential acquisition opportunities, and the Company's debt position. Decisions on dividends are proposed by the Board of Directors and later voted upon at an annual general meeting of shareholders of MTS in the first half of the year.

MTS aims to maintain its practice of returning a minimum of 50% of net annual profit (according to US GAAP) to its shareholders through dividend payments, but this can vary depending on any of the circumstances listed above.

Dividend history of MTS OJSC, 2002–2006

	2002	2003	2004	2005	2006
Total dividends (US\$ million)	111	220	403	562	747
As % of net profit	40%	43%	41%	50%	69%
Per ADS	\$0.3	\$0.6	\$1.0	\$1.4	\$1.9

Corporate governance



Corporate governance

Thanks to the Company's existing highly effective system of corporate governance, MTS is able not only to balance the interests of shareholders and management, but also to effect cooperation between them based on trust and a high culture of business relationships and ethical norms, which clearly illustrates the Company's impeccable business reputation in business circles.

The principal features of corporate governance for MTS are:

- full protection of the rights and interests of shareholders;
- transparency (disclosure) of relevant financial information and information on the Company's activities;
- ability to monitor the activities of the Company's Executive Management;
- independence of the Board of Directors in defining the Company's strategy and approving business plans and important business decisions;
- centralization of decision-making on key issues relating to the Company's activities.

The Company aspires to meet international standards of corporate governance. We comply with a Code of Ethics and Code of Corporate Governance, which set out a number of important principles aimed at both directors and managers of the Company (detailed information on compliance with the Code of Corporate Governance is set out in Annex 1). MTS complies with statutory requirements regarding prescribed procedures for major transactions and related party transactions (detailed information on compliance with transaction approval procedures is set out in Annex 2).

We constantly strive to improve our corporate governance, drawing on the experience of other companies, following recent legislative changes and progressive standards in this area, and adjusting our corporate governance system accordingly. To improve our corporate governance system, during the reporting year we approved a new version of the Charter of MTS OJSC, as well as a number of internal regulations, including a Statute of

Remunerations and Compensations Payable to the Members of the Board of Directors and a Statute on Dividend Policy.

The approved documents provide greater protection for the Company's shareholders, investors, and partners by strengthening the loyalty of the members of the Board of Directors and the Company's managers and fostering team spirit and a desire to work and achieve substantial results. In particular, thanks to a finely regulated process for the performance of duties by members of the Board of Directors and a clear system of determining their remuneration (depending on their participation in the Company's activities and the overall outcomes of that participation), members of the Board of Directors have a clearer understanding of the level of responsibility and trust placed in them by the Company's shareholders.

In 2007 the Board of Directors of MTS OJSC held 16 meetings. When preparing and making decisions the Board of Directors strove to consider the interests of the Company's shareholders, workforce, partners, creditors, local communities, and other public stakeholders.

To enhance the effectiveness of the Board of Directors, its previously established committees continued to operate alongside the newly formed Strategy Committee and Tender and Procurement Committee.

The Executive Management and the President of the Company are governed by internal statutes and monitored by the Company's Revision Commission and the Audit Committee of the Board of Directors.

Information on the Board of Directors

The Board of Directors was elected at the annual General Meeting of Shareholders of MTS OJSC held on June 29, 2007, with a term commencing upon election and continuing throughout 2007.



Chairman of the Board of Directors **Alexei N. Buyanov**

Born in 1968, elected to the Board of Directors of MTS OJSC in June 2003.

Mr. Buyanov graduated from the Moscow Physical-Technical Institute (MFTI).

From 1992 to 1994 he was an intern investigator with the Institute for Problems in Mechanics (IPM) of the Russian Academy of Sciences. He started work at Sistema JSFC in 1994, and from 1994-1995 held various positions in Sistema's Property Complex. In 1995 he was appointed head of department at Sistema-Invest CJSC and later Vice President of Sistema-Invest. In 1997 he was appointed First Vice President of Sistema-Invest. He served as Vice President of MTS OJSC from 1998 to 2002. In July 2002 he was appointed Vice President of Sistema heading to run the department for financial restructuring. He is now Senior Vice President of Sistema, heading the company's financial and investment group.

He held no shares of MTS OJSC during the reporting year.



Deputy Chairman of the Board of Directors **Sergei A. Drozdov**

Born on November 29, 1970, in Arkhangelsk.

He graduated in 1993 from the S. Ordzhonikidze State Academy of Management in Economics.

Mr. Drozdov was head of the financial innovations and marketing department at the City of Moscow's Property Fund from 1994 to 1995. He has worked at Sistema since 1995. He was the executive director of the department of development and investments from 1995 to 1998, and from 1998 to 2002 served as Vice President, Acting President, and First Vice President of Sistema-Invest OJSC. Mr. Drozdov became head of the Corporation's department of corporate property in April 2002. He was appointed Acting First Vice President of Sistema on May 15, 2002, and First Vice President of Sistema in September 2002. In April 2005 he became Senior Vice President and Chief of the Property Complex.

He held no shares of MTS OJSC during the reporting year.



Member of the Board of Directors

Anton V. Abugov

Born on September 9, 1976.

He graduated from the Academy of National Economy under the Government of the Russian Federation. In 1995 Mr. Abugov was involved in developing infrastructure and a regulatory framework for the stock market in Russia. Between 1995 and 2002 Mr. Abugov was director of the corporate finance at United Financial Group, seeing through a number of major fundraising, strategic consultancy, and merger and acquisition projects in various industries in Russia and Eastern Europe.

In 1999 he was an advisor to RAO UES. From 2003 to 2006 he was in charge of the Corporate Finance Department at AKB Rosbank. He currently serves as Sistema's First Vice President and Head of Strategy and Development.

In 2007 he was on the Boards of Svyazinvest, Sitronics, and Sistema-Invest and served as Chairman of the Board of Directors of Sky Link, Detsky Mir-Center, and Comstar-United TeleSystems.

He held no shares of MTS OJSC during the reporting year.



Member of the Board of Directors

Mohanbir Gyani

Non-executive Independent Director of MTS OJSC

Mohanbir Gyani graduated from San Francisco State University with a B.A. in business administration and holds an MBA in finance. He has 30 years of experience in telecommunications.

Mr. Gyani is the current Vice Chairman (and formerly CEO and Chairman) of Roamware.

From 2000 to 2003 Mr. Gyani was the President of AT&T Wireless Mobility Services. From 2003 to 2005 he was Senior Advisor to the President at AT&T Wireless Group with responsibility for strategy, development, and operations. In 1999, following the Vodafone and AirTouch merger, Mr. Gyani served as Head of Strategy and Corporate Development and member of the Board of Vodafone AirTouch. Mr. Gyani was Executive Vice President and Chief Financial Officer of AirTouch Communications from 1994 to 1999. Mr. Gyani began his career in 1978 with Pacific Telesis Group where he held various financial and management positions.

Currently Mr. Gyani is a member of the Boards of Keynote Systems, Safeway, Sirf Technology, and Union Banc of California, and a number of private firms and non-profit organizations. He is a former Board member of the Cellular Telecommunications and Internet Association (CTIA) and the GSM Association.

He held no shares of MTS OJSC during the reporting year.



Member of the Board of Directors
Tatyana V. Evtushenkova

Tatiana Evtushenkova has been Advisor to the President of MTS since August 2007 and a member of the Board of Directors since June 2007.

Ms. Evtushenkova joined MTS in October 2002. Prior to that, from December 1999 she was the Director of the Investments Department at Sistema Telecom.

Ms. Evtushenkova was born in 1976. She graduated from the Finance Academy under the Government of the Russian Federation.

She held 63,142 registered common shares of MTS OJSC during the reporting year.



Member of the Board of Directors
Leonid A. Melamed

Born in July 1967 in Moscow. He graduated from the Sechenov Moscow Medical Academy and holds a doctorate in medicine. Mr. Melamed has been a board member of the global GSM Association (GSMA) since 2008.

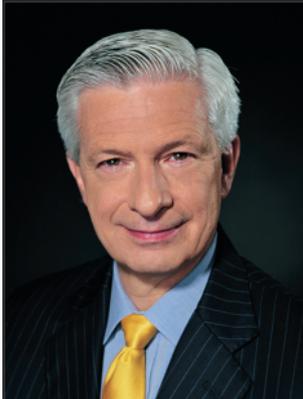
Mr. Melamed has been the President of MTS OJSC since June 14, 2006, and a member of its Board since June 23, 2006.

From 1991 to 2006 he worked at ROSNO insurance company, where he was appointed General Director and Management Board Chairman in 2003.

From 2004 to 2006 Mr. Melamed headed the Expert Council on Insurance Legislation, part of the State Duma Committee on Lending Institutions and Financial Markets.

In 2004 he was named Person of the Year in the annual People of the Year project run by the Internet holding company Rambler and received a Russian Golden Salamander Public Award in insurance in the category of Insurance Company Leader. In 2005 he received a national award as Person of the Year in the category of Insurance Company Leader and was named 2005 Manager of the Year for rapid enhancement of strategic potential under the Century Actors project carried out by the International League for Strategic Management, Assessment, and Accounting, the Institute of Economic Strategies, and the journal Economic Strategies. He was also named one of the 250 "Young Global Leaders" by the World Economic Forum in 2007.

He held no shares of MTS OJSC during the reporting year.



Member of the Board of Directors

Paul J. Ostling

Non-executive Independent Director of MTS OJSC

Paul Ostling holds a law degree from the Fordham University School of Law and a B.S. in Mathematics and Philosophy from Fordham University. He has 30 years of managerial experience.

He became the Chief Operating Officer of Ernst & Young in 2003. Prior to that he held a number of other management positions at Ernst & Young: Global Executive Partner from 1994 to 2003, Vice Chairman and National Director of Human Resources from 1985 to 1994, and associate and assistant general counsel from 1977 to 1985.

Mr. Ostling began his career at Chadbourne & Parke as an Associate Attorney Litigation and Corporate Matters. Mr. Ostling is the Chairman of Audit Committee of United Services Organization, member of the Board of Directors of Transatlantic Business-Dialog (TABD) and Co-chairman of Ukrainian consulting board on foreign investments. Mr. Ostling is the CEO and General Director of Kungur Oilfield Equipment & Services, headquartered in Moscow, Russia. He is also the Deputy Chairman of cool nrg Pty, an international environmental services company headquartered in Australia. Mr. Ostling is the Chairman of the Business Council for International Understanding, and the Chairman of the Audit Committee of United Services Organization.

He held no shares of MTS OJSC during the reporting year.

Members of the Company's Board of Directors prior to the annual General Meeting of Shareholders in 2007:

- Sergei D. Schebetov, b. 1966
- Helmut Reuschenbach, b. 1948
- Alexei N. Buyanov, b. 1969
- Alexander E. Gorbunov, b. 1967
- Vladimir S. Lagutin, b. 1947
- Leonid A. Melamed, b. 1967
- Peter Middleton, b. 1934

The changes in the composition of the Board of Directors of MTS OJSC were related to compliance with the requirement of Federal Law No. 208-FZ of December 26, 1995, "On Joint-stock Companies" of mandatory election of a company's board of directors at its annual general meeting of shareholders.

Main issues considered by the Board of Directors in 2007:

- Strategy of MTS OJSC;
- Strategy of MTS OJSC: results of strategy sessions;
- Approval of the MTS OJSC budget for 2007;
- Implementation of the MTS OJSC budget in the first half of 2007;
- Approval of the technical development strategy of MTS OJSC;
- Approval of the financial policy of MTS OJSC for 2007;
- Approval of the dividend policy of MST OJSC for 2007;
- Approval of the Statute on the Option Program of MTS OJSC;
- Extension of the ADS Acquisition Program;
- Participation in other entities;
- Review of the results of operations of MTS OJSC in 2006 and budget performance according to US GAAP;
- Review and preliminary approval of the Statute of Remuneration and Compensation Payable to the Members of the Board of Directors of MTS OJSC;
- Committees of the Board of Directors of MTS OJSC.

Remuneration of members of the Board of Directors

The terms and conditions of payment of remuneration to members of the Board of Directors of MTS OJSC are set out in the Statute of Remuneration and Compensation Payable to the Members of the Board of Directors of MTS OJSC, a document approved by the General Meeting of Shareholders of MTS OJSC.

In accordance with that Statute, members of the Board of Directors of MTS OJSC during their term of office receive remuneration and are compensated for expenses associated with their duties as members of the Board of Directors. Compensation is paid for actually incurred expenses to a maximum of \$10,000 per month and includes costs of travel to and from the venue of meetings of the Board of Directors plus accommodation expenses.

Members of the Company's Board of Directors receive remuneration in three forms:

1. Performance-based remuneration:

The first form of remuneration is paid if results for the year satisfy the following conditions:

- the Company has earned a profit according to US GAAP;
- the Company's compliance with its budget for the reporting period is at least 95%.

If these conditions are met for the reporting year, each member of the Board of Directors receives compensation in the amount of \$250,000 for the year, while the Chairman of the Board of Directors receives \$275,000 for the year.

Thus, the Board of Directors has an incentive to improve the Company's results in each reporting year.

2. Remuneration for performing additional duties:

Members of the Board of Directors receive additional remuneration for performing duties associated with work on committees of the Board of Directors:

- for work on committees of the Board of Directors as committee chairman: \$75,000 per year (per committee);

Remuneration is paid by the Company's accounting office within the periods set by decision of the Remuneration and Appointments Committee of the Company's Board of Directors, but no later than 45 days after the annual general meeting of shareholders, on the basis of this Statute, the Company's annual or quarterly financial statements, and the minutes of the relevant meeting of the Remuneration and Appointments Committee.

3. Additional forms of direct and indirect remuneration:

The Company maintains professional liability coverage for the members of its Board of Directors, thereby ensuring indemnification of shareholders and investors for losses associated with decisions of the Board of Directors.

By resolution of the General Meeting of Shareholders, performance-based remuneration may be supplemented by the right to participate in the Company's option program.

Total remuneration paid to members of the Board of Directors in 2007: \$1,850,000.

Limit of coverage of civil liability of members of the Board of Directors of MTS OJSC under concluded insurance contracts:

- September 2006 to September 2007: \$100 million;
- October 2007 to October 2008: \$195 million;

Committees of the Board of Directors



Terms of reference of the committees and their activities during the reporting year

Budgeting Committee

The main function of the budget committee is to develop proposals on MTS' financial policy and monitor and oversee its implementation.

During the reporting year the Budget Committee reviewed and made decisions on such issues as:

- Improving efficiency and optimizing costs of companies in the MTS Group;
- Arranging ruble financing;
- Choosing a means of hedging MTS' currency risks;
- Appointing organizers for the issuance of MTS's ruble-denominated bonds;
- Hedging MTS' currency risks;
- Key input parameters for preparing the MTS OJSC budget for 2008;
- Review of MTS' budget for 2008.

Quality Committee

The main function of the Quality Committee is to develop standards for quality and effectiveness of MTS' cellular communications network, and to monitor compliance with adopted standards in the provision of communications services by the Company.

During the reporting year the Quality Committee reviewed and made decisions on such issues as:

- Analysis of the quality system and plan of activities for organizing the quality system in accordance with international and national standards;

- Plan for implementing uniform quality control standards for communications services in Macro–regions and foreign subsidiaries of MTS;
- Network quality in the Moscow region and the status of implementation of the Metropolis project;
- Report entitled “MTS Billing Quality: Current Situation, Major Problems, and Plans for Corrective Action”;
- Quality requirements adopted by MTS and their conformity to national and international standards and industry documents;
- Results of implementation of uniform quality standards (network, VAS, billing, service).

Audit Committee

The main function of the Audit Committee is to monitor accounting and the preparation and auditing of the Company’s financial reports.

As part of its duties, in 2007 the Audit Committee provided oversight in the following areas:

Financial reporting

- Analyzed the Company’s accounting policies, quarterly and annual financial reports, press releases, and the Annual Report on Form 20–F; held discussions with management and auditors.

Risk management and internal controls

- Analyzed and discussed with management: i) methods of internal management of risks and ii) the results of risk assessments;
- Analyzed and discussed with management reports on the system of internal controls;
- Provided oversight and control of work to ensure compliance with SOX404 requirements;
- Analyzed and discussed with management issues of consistency with internal regulations.

Internal audit

- Reviewed and discussed results of the Internal Audit Department's work;
- Discussed and approved an internal audit strategy, chain of command and independence from management, and work plan and budget;
- Discussed and reviewed information on the work of the Internal Audit Department.

Independent auditors

- Analyzed and discussed reports and communications from Deloitte concerning the results of the annual audit and quarterly financial reviews;
- Analyzed and discussed the results of the audit of internal control and other issues;
- Oversaw compliance of auditors with the principles of independence, and reviewed the qualifications of the auditors and the quality of their work;
- Made recommendations to the Board of Directors based on the results of the independent auditors' reports;
- Granted preliminary approval of the scope and price of the services to be provided by the independent auditors in accordance with the requirements of the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB);
- Established procedures for cooperation with independent auditors, which included ensuring the involvement of leading experts in providing services to the Company.

Corporate governance

- Oversight over the corporate governance process;
- Analyzed and discussed with management the results of internal investigations, mergers and acquisitions, and other transactions with specific risks;

- Analyzed the results of internal audit reviews of related party transactions;
- Established procedures for reviewing and approving reporting on nonstandard composite transactions.

Organizational issues

- Approved the appointment of a financial expert for the Audit Committee;
- Analyzed the performance of the Audit Committee and submitted an annual report to the Board of Directors;
- Ensured the financial independence of the Audit Committee from the Company's management.

Remuneration and Appointments Committee

The main function of the Remuneration and Appointments Committee is to identify the Company's priorities relating to the development and implementation of human resources policy and development strategy in human resources and remuneration.

During the reporting year the Committee held a number of meetings at which it made decisions on such issues as:

- Defining new terms and conditions of the MTS Option Program;
- Approving the preliminary draft of the MTS Option Program;
- Approving a system of performance evaluation based on key performance indicators (KPIs) at MTS OJSC for 2008;
- Reviewing the terms and conditions of the MTS Option Program with the participation of members of the Board of Directors.

Committee for Corporate Conduct and Ethics

The main function of the Committee for Corporate Conduct and Ethics is to create a system of effective corporate conduct (governance) consistent with international standards that facilitates improved governance.

In accordance with international standards (the Sarbanes–Oxley Law), a Procedural Regulation entitled “Handling of Common Hotline Messages” was put into effect by order of the President of MTS OJSC dated June 27, 2007. It authorized the creation of a common center for receiving and processing messages. A special service for submitting messages to the Common Hotline was set up on the corporate information portal.

The MTS Common Hotline, which began operation on July 1, 2007 is used to receive reports of corporate conduct violations, ethical breaches, and corporate conflicts, as well as other communications. Each Hotline message is followed up by a separate investigation conducted by Control Department staff within 12 business days. The results of the operation of the common hotline are reported on a monthly basis to MTS management and staff.

Since the MTS Common Hotline began operation, no substantial breaches of corporate conduct rules or ethics have been identified.

Strategy Committee

The Strategy Committee was formed in September 2007. Its main function is the strategic development of the Company and formulating recommendations on other priority areas of the Company’s development.

In its brief existence during the reporting period the Strategy Committee examined such important issues for the Company as:

- M&A activities of MTS;
- Current M&A projects of MTS;
- New trends in the development and manufacture of subscriber equipment (emergence of multi-standard chipsets, etc.).

Tender and Procurement Committee

The Tender and Procurement Committee was formed in September 2007. Its main function is improving efficiency and optimizing costs of companies in the MTS Group. The Committee has now developed a work plan for 2008 that includes such issues as: reviewing the terms of contracts with a number of companies with respect to equipment supplies and placement of advertising.

Individual Executive Body: The President

Leonid A. Melamed

Mr. Melamed has been the President of MTS OJSC since June 14, 2006.

From 1991 to 2006 he worked at ROSNO insurance company, where he was appointed General Director and Management Board Chairman in 2003.

From 2004 to 2006 Mr. Melamed headed the Expert Council on Insurance Legislation, part of the State Duma Committee on Lending Institutions and Financial Markets.

In 2004 he was named Person of the Year in the annual People of the Year project run by the Internet holding company Rambler and received a Russian Golden Salamander Public Award in insurance in the category of Insurance Company Leader. In 2005 he received a national award as Person of the Year in the category of Insurance Company Leader and was named 2005 Manager of the Year for rapid enhancement of strategic potential under the Century Actors project carried out by the International League for Strategic Management, Assessment, and Accounting, the Institute of Economic Strategies, and the journal Economic Strategies. He was also named one of the 250 “Young Global Leaders” by the World Economic Forum in 2007.

Mr. Melamed has been a board member of the global GSM Association (GSMA) since 2008.

He was born in July 1967 in Moscow. He graduated from the Sechenov Moscow Medical Academy and holds a doctorate in medicine.

He held no shares of MTS OJSC during the reporting year.



Collective Executive Body: The Executive Management

On October 30, 2006, the General Meeting of Shareholders approved a new version of the Company's charter that provided for a new management body, the Executive Management. On the same day, the Board of Directors adopted a resolution electing the Executive Management's initial members.

Composition of the Management Board at December 31, 2007:



Leonid A. Melamed

Born in July 1967 in Moscow. He graduated from the Sechenov Moscow Medical Academy and holds a doctorate in medicine. Mr. Melamed has been a board member of the global GSM Association (GSMA) since 2008.

Mr. Melamed has been the President of MTS OJSC since June 14, 2006, and a member of its Board of Directors since June 23, 2006.

From 1991 to 2006 he worked at ROSNO insurance company, where he was appointed General Director and Management Board Chairman in 2003.

From 2004 to 2006 Mr. Melamed headed the Expert Council on Insurance Legislation, part of the State Duma Committee on Lending Institutions and Financial Markets.

He held no shares of MTS OJSC during the reporting year.



Mikhail V. Shamolin

Mr. Shamolin joined MTS in 2005 as Vice President responsible for Sales and Customer Service. On August 15, 2006, he was transferred to the post of Vice President and Director of the MTS Russia business unit.

Prior to joining MTS, he worked from 2004 at Interpipe Corp. (Ukraine) as Managing Director of its ferroalloys division. From 1998 to 2004 he worked at McKinsey & Co.

Mr. Shamolin was born in 1970. He graduated from Moscow Automobile and Road Institute in 1992. In 1993 he received a second degree at the Russian Academy of Government Service under the President of the Russian Federation. From 1996 to 1997 he studied at Wharton Business School, where he completed a finance and management course for senior managers.

He held no shares of MTS OJSC during the reporting year.



Vsevolod V. Rozanov

Vice President—Chief Financial Officer of MTS OJSC since April 24, 2006.

From 2004 to 2006 he was Deputy General Director for Economics and Finance of Comstar United TeleSystems, where he coordinated the preparation of the IPOs of Comstar UTS, MGTS, and MTU–Intel. From 2002 to 2004 he worked at MTU–Inform as Deputy General Director for Economics and Finance. From 1993 to 2001 Mr. Rozanov held various consulting positions at Bain & Company, Inc. in Moscow, London, and Stockholm.

He was born on July 30, 1971, in Moscow. He is a graduate of Lomonosov Moscow State University School of Economics.

He held no shares of MTS OJSC during the reporting year.



Cynthia A. Gordon

Vice President—Chief Marketing Officer of MTS OJSC since January 2007. She has 15 years of experience in telecommunications and 20 years of experience in product marketing.

Prior to joining MTS, Mrs. Gordon was Vice President of Marketing at Orange. She was Marketing Director at Orange in the U.K. from 2001 to 2003.

From 2000 to 2001 she was Marketing Director at Demon/Scottish Telecom. She held the same post at ACC International (AT&T) from 1998 to 1999, and from 1993 to 1998 held a range of senior marketing positions at British Telecom and was the head of ChargeCard. She worked at One to One (T-Mobile) from 1991 to 1993, and at Lloyds TBS and Abbey National from 1989 to 1993.

Mrs. Gordon started her career at Unilever on a management trainee program in brand management of major mass-market brands.

She graduated with a B.A. from Brighton University with distinction.

Mrs. Gordon is a Freeman of the City of London and a member of the Worshipful Company of Marketors. She is married with one son.

She held no shares of MTS OJSC during the reporting year.

**Andrei B. Terebenin**

Vice President—Corporate Communications of MTS since January 2006.

In 1999 he became a partner in the communications agency Treugolnik Porter Novelli, and prior to coming to MTS held the position of General Director and partner at the communications holding company R.I.M. Porter Novelli. He held management posts at Ekonomicheskaya Gazeta, Dun & Bradstreet CIS, and AIG Russia.

Mr. Terebenin was born in 1962. In 1985 he graduated from MGIMO in international economic relations. He is married with two children.

He held no shares of MTS OJSC during the reporting year.

**Pavel D. Belik**

Mr. Belik joined MTS in February 2005 as Director of Security for the Moscow macro-region. He has been Vice President—Security of MTS OJSC since October 3, 2005.

In 1987 he graduated from the KGB's Orel Higher Military Command Communications School specializing in the operation of radio-relay and tropospheric communication systems. He served in the government communication forces from 1987 to 1992. From 1992 to 2004 he served in military counter-intelligence units and the Internal Security Directorate of the Russian Federal Security Service (FSB). He graduated in law from the FSB Academy in 1999.

He was born in 1966 in Scherbinka, Moscow region. He is married with one daughter.

He held no shares of MTS OJSC during the reporting year.

**Sergey B. Nikonov**

Mr. Nikonov joined MTS in July 2006.

In October 2005 he became Deputy General Director of Power Machines OJSC responsible for human resources and administration.

From 2003 to 2005 he served as the Deputy General Director of ROSNO, where he headed human resources, administration, and internal control.

He worked with the Federal Tax Police Service from 1992 to 2002. He began his career in 1987 with state security agencies.

Mr. Nikonov was born in 1960. In 1987 he graduated from the Military Institute of the USSR Ministry of Defense as a military interpreter.

He held no shares of MTS OJSC during the reporting year.

**Pavel E. Pavlovsky**

Mr. Pavlovsky joined MTS OJSC in 2004.

From 2004 to 2005 he served as Deputy Director of Corporate Development for MTS OJSC. In 2006 he was appointed to the post of Director of Corporate Development of MTS OJSC and Vice President—Director of the MTS Foreign Subsidiaries Business Unit. He worked as a consultant at Mercer Management Consulting in London from 2000 to 2001, and under contract with Cisco Systems and A.T. Kearney from 2001 to 2002. In 2003 he served as Investment Director of Finartis CJSC.

Mr. Pavlovsky was born in 1969. In 1993 he graduated with distinction from Leningrad State University in geography. He earned his MBA degree from INSEAD in 1999.

He held no shares of MTS OJSC during the reporting year.

**Ruslan S. Ibragimov**

Mr. Ibragimov joined MTS in 2006 as Director of the Legal Department, and in February 2007 was appointed to the position of Director for Legal Matters.

Prior to coming to MTS, he worked at the Moscow firm of Ibragimov, Kagan, and Partners. From 1997 to 2002 he held the post of directing partner, Deputy General Director—Head of Tax and Legal Consultation at Top-Audit. From 1992 to 1996 he headed legal services in several commercial banks. He is a member of the Board of the Russian Corporate Counsel Association (RCCA).

Mr. Ibragimov was born in 1963. He graduated in law from Moscow State University in 1986, where he continued to post-graduate studies as a candidate of jurisprudence.

He is married with three daughters.

He held no shares of MTS OJSC during the reporting year.

**Michael Hecker**

Mr. Hecker joined MTS in May 2006. Prior to joining MTS, he worked at A.T. Kearney Europe, where he was involved in strategy, marketing, and finance projects for telecommunications companies and consumer-goods manufacturers. Prior to that he served as a junior associate lawyer in Berlin and Brandenburg (Germany).

He was born in 1970 in Kiel, Germany. He is a graduate in administration and international politics from Pierre Mendez France University of Grenoble (France) and a graduate in law and modern history from Göttingen University (Germany), where he also earned a PhD in the history of constitutional law. He held no shares of MTS OJSC during the reporting year.

The following persons ceased to be members of the Executive Management between January 1 and December 31, 2007, by resolution of the Board of Directors:

- Grzegorz Esz (resolution of the Board of Directors adopted on February 14, 2007)
- Adam Wojacki (resolution of the Board of Directors adopted on March 20, 2007)
- Alexander V. Nikitin (resolution of the Board of Directors adopted on March 20, 2007)
- Tatiana V. Evtushenkova (resolution of the Board of Directors adopted on June 26, 2007)
- Sergey G. Aslanyan (resolution of the Board of Directors adopted on October 2, 2007)

Total remuneration paid to members of the Executive Management and President of the Company in 2007: US\$ 32,479,355.84*.

* The remuneration amount shall be calculated at the average USD/RUR exchange rate in 2007 (RUR 25.5770 for one USD).

Financial and business oversight bodies

The financial and business oversight bodies of MTS OJSC are structured as follows:

Revision Commission of MTS OJSC

On June 29, 2007, the annual General Meeting of Shareholders of MTS OJSC elected the following persons as members of the Revision Commission:

1. **Marina S. Manuilova**, a citizen of the Russian Federation, b. 1966, is Chief of the Control & Audit Department of Sistema Telecom CJSC;
2. **Vasily V. Platoshin**, a citizen of the Russian Federation, b. 1965, is Chief Accountant of Sistema JSFC.
3. **Artem E. Popov**, a citizen of the Russian Federation, b. 1979, is Executive Director of the Financial Planning & Budget Department of Sistema JSFC.

The Revision Commission is independent from officers of the Company's management bodies and reports solely to the General Meeting of Shareholders of the Company.

The Revision Commission prepared an opinion on the financial statements of MTS OJSC for 2007. In the opinion of the Revision Commission, the review provided a reasonable basis to express the opinion that the financial and business operations of MTS OJSC during the reporting year were in all material respects carried out in accordance with current legislation, and that the annual financial statements of MTS OJSC for 2007 fairly present the Company's financial condition as at December 31, 2007, and the results of its financial and business operations for the period from January 1 to December 31, 2007, inclusive.

Auditor of MTS OJSC

On June 29, 2007, the annual General Meeting of Shareholders of MTS OJSC approved as the Company's auditor ZAO Deloitte & Touche CIS (location: 4/7 ul. Vozdvizhenka, bldg. 2, Moscow, Russian Federation, main state registration number (OGRN) 1027700425444, License No. E 002417 issued on November 6, 2002, by the RF Ministry of Finance for 5 years, extended by RF Ministry of Finance Order No. 676 of October 31, 2007, for five years from November 6, 2007, under the same number. Deloitte has received international recognition and numerous awards for its high quality of service and unique corporate culture. Kennedy Information ranks Deloitte as the world's number one provider of advisory services.

In 2006 the London publication International Securitisation Report (ISR) named Deloitte the world's best audit firm in the provision of securitization services.

Deloitte's tax practice was voted best in Europe in International Tax Review's survey of tax directors and CFOs.

Deloitte Touche Tomatsu was recognized by the World Business Council for Sustainable Development (WBCSD) as having the best scores for economic development.

The Auditor has conducted

- an audit of the Annual Financial Statements of MTS OJSC for 2007 prepared according to Russian Accounting Standards;
- an audit of the Consolidated Financial Statements of MTS Group for 2007 in accordance with US GAAP and the Sarbanes-Oxley Act.

Based on the audits, the Auditor expressed the opinion that the financial statements of MTS OJSC were fairly presented and its accounting procedures complied with the laws of the Russian Federation and US GAAP.

The Auditor's fee is approved by the Board of Directors of MTS OJSC and for 2007 was \$2,960,000 exclusive of VAT.

Internal Audit Department of MTS OJSC

The Internal Audit Department of MTS OJSC was formed in September 2003, and is an independent unit of the Company within the MTS Group's Corporate Center. The department operates in accordance with its governing statute. Today the department consists of a head of the department, a financial and business operations analysis section, and an operational audit and coordination section, and employees at the Company's macro-regional branches.

The Internal Audit Department performs the following functions:

- provides guarantees of the fair presentation of information, compliance with requirements and verification of effectiveness through reviews, internal audits, diagnostic studies, and releases: regularly, as needed, or in the form of ad hoc audit projects;
- participates in investigations, transactions, and various operations of the Company, and in projects of other units of the Company: as needed or in the form of ad hoc projects/assignments;
- provides advice and recommendations, including explanations on selected issues, assists in finding solutions and improvements, educating employees in matters under review: as necessary, in the course of reviews, or in the form of ad hoc advisory and educational projects.

Control Department of MTS OJSC

The Control Department was formed in June 2006, and is an independent unit of MTS OJSC within the MTS Group's Corporate Center. The department operates in accordance with its governing statute. The department consists of a head of the department, a deputy head of the department, a financial and business operations review section, and administrative control section, and a performance assessment section.

The Control Department performs the following main functions:

- monitoring and analyzing the results of financial and business operations of the units of MTS OJSC;

- monitoring compliance with fiscal discipline at MTS OJSC and monitoring the implementation of decisions of its management bodies, including its collective management bodies;
- verifying that internal documents and decisions of the management bodies of MTS OJSC are consistent with the Company's financial and business interests;
- monitoring that the Company's agreements with third parties are consistent with MTS' financial and business interests;
- monitoring the preparation and implementation of operational and design plans;
- monitoring the implementation of internal regulations and business processes;
- monitoring the effectiveness and transparency of the system of governance at MTS OJSC, including identifying abuses by executive bodies and officers of MTS OJSC;
- monitoring compliance with instructions of the President of MTS OJSC;
- conducting independent investigations at the request of the President or collective management bodies of the Company;
- conducting independent investigations in the event of conflicts between different units of the Company;
- preparing opinions on violations brought before the disciplinary commission of MTS OJSC.

The Control Department reports to the Director of External Resources Control and Administration of MTS OJSC.

Audit Committee of the Board of Directors of MTS OJSC

The Audit Committee of the Board of Directors of MTS OJSC was created in October 2003. It is an advisory body of the Board of Directors that ensures that the Board of Directors is provided with objective information on a number of issues.

The main duties of the Audit Committee are:

- overseeing the work of the management of MTS OJSC, evaluating its effectiveness, and providing information to the Board of Directors, and formulating relevant recommendations, in the following areas:
 - risk management and internal control;
 - financial accounting preparation of the Company's reports and evaluation of their fair presentation;
 - compliance with requirements applicable to the activities of MTS OJSC;
 - effectiveness of implementation of goals and objectives by the Board of Directors;
- overseeing and coordinating activities and plans and evaluating the performance of the internal audit service of MTS OJSC;
- appointing and determining the qualifications, level of remuneration, and independence of the external auditor; evaluating the quality of services provided by the auditor; reviewing opinions and results of the work of external auditors; providing preliminary approval and confirmation of auditors' services in accordance with applicable requirements of regulators; and formulating relevant recommendations for the Board of Directors and management;
- providing effective coordination of information exchange between external and internal auditors, maintaining proper independence of auditors, and assisting in addressing factors that diminish their independence;
- ensuring the development and implementation of effective policies and standards relating to risk management, compliance with the Company's requirements and internal controls, and compliance with measures to prevent fraud and abuse, including measures to support procedures for receiving, keeping, and reviewing complaints;
- advising employees of MTS OJSC on accounting, internal controls, and auditing (including anonymous whistle-blower systems).

Financial results for 2007

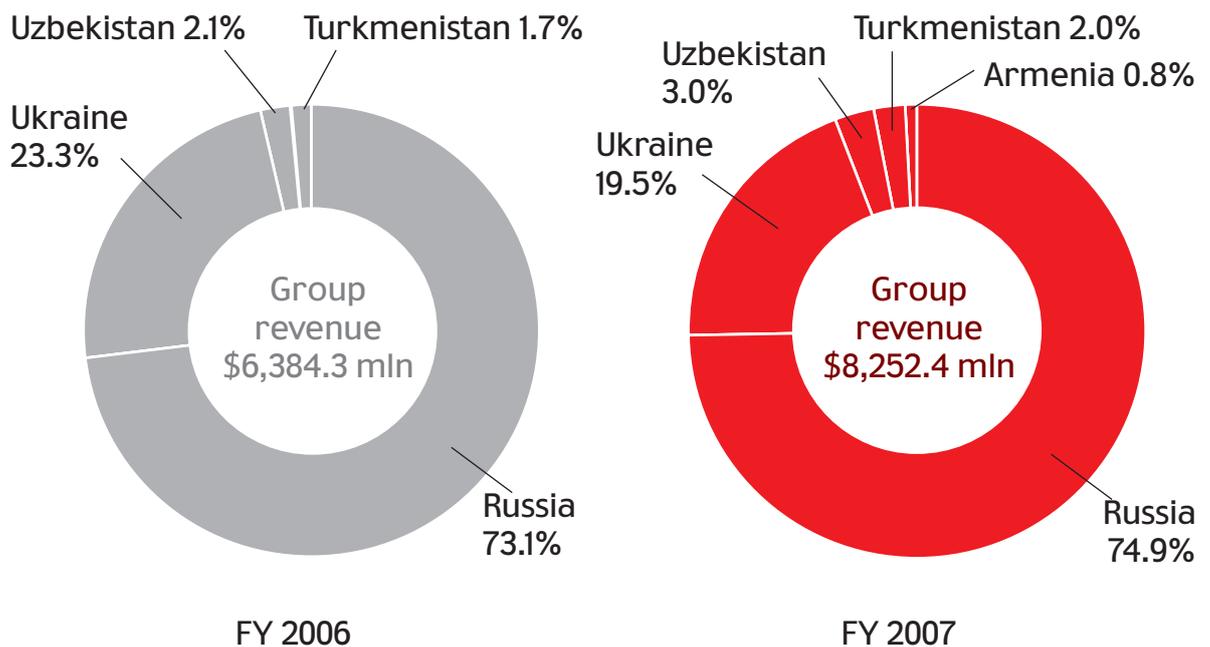


Financial results for 2007

In the past several years MTS OJSC has grown from the leader of a single regional market of Moscow into a major multinational operator providing services to 85.77 million subscribers in various regions and countries (including subscribers of Mobile TeleSystems JLLC in Belarus, whose financial results are not consolidated in the US GAAP financial statements of MTS OJSC).

Below we present information from the consolidated financial statements, excluding the financial results of the operations of MTS OJSC in the Republic of Belarus.

Group revenue. Revenue contribution per country*



* Percentages indicated do not equal 100% due to rounding

** Figures are based on consolidated US GAAP financial statements

Key financial indicators for 2007 (US\$ million)

Indicator	Q4 2007	Q4 2006	Change Q4 2007/ Q4 2006	Q3 2007	Change over quarter	2007	2006	Change over year
Revenue	2,326	1,806	29%	2,216	5%	8,252	6,384	29%
OIBDA	1,127	938	20%	1,175	-4%	4,223	3,230	31%
OIBDA margin	48.4%	51.9%	-3.5 pp	53.0%	-4.6 pp	51.2%	50.6%	+0.6 pp
Operating profit	644	649	-1%	802	-20%	2,734	2,134	28%
Operating profit margin	27.7%	35.9%	-8.2 pp	36.2%	-8.5 pp	33.1%	33.4%	-0.3 pp
Net profit	460	110*	317%	655	-30%	2,072	1076*	93%

* Reflects write-offs of \$320 million relating to Bitel.

- Consolidated revenue increased by 29% on an annual basis to \$8,252 million
- Consolidated OIBDA increased by 31% relative to 2006 to \$ 4,223 million (OIBDA margin of 51.2%)
- Consolidated net profit increased by 93% on an annual basis to \$2,072 million
- The Company's positive net cash flow in 2007 was \$964 million

Revenue structure (in US\$ million)

Region	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2006	2007	Change over year
Russia	1,332.5	1,309.0	1,481.5	1667.1	1723.4	4,665.5	6,181.0	+32%
Ukraine	400.4	351.0	393.2	438.5	425.3	1,490.3	1,608.0	+8%
Uzbekistan	46.3	49.1	57.0	65.8	76.6	136.7	248.5	+82%
Turkmenistan	29.6	35.2	41.3	45.3	46.7	105.8	168.5	+59%
Armenia*				8,3	58.2		66.5	

* Note: Armenia numbers have been included in the Group's financial statements since September 14, 2007.

OIBDA (in US\$ million)

Region	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2006	2007	Change over year
Russia	692.3	681.9	767.9	880.9	822.0	2,330.2	3,152.7	+35%
Ukraine	201.7	168.4	198.8	219.7	194.8	764.3	781.8	+2%
Uzbekistan	29.6	31.3	36.7	41.1	48.7	83.6	157.8	+89%
Turkmenistan	14.4	21.6	15.2	28.1	28.6	51.7	93.5	+81%
Armenia*				5.0	32.7		37.7	

* Note: Armenia numbers have been included in the Group's financial statements since September 14, 2007.

OIBDA margin (in US\$ million)

Region	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	2006	2007
Russia	52.0%	52.1%	51.8%	52.8%	47.7%	49.9%	51.0%
Ukraine	50.4%	48.0%	50.6%	50.1%	45.8%	51.3%	48.6%
Uzbekistan	64.0%	63.7%	64.4%	62.5%	63.6%	61.1%	63.5%
Turkmenistan	48.5%	61.2%	36.8%	62.0%	61.4%	48.9%	55.5%
Armenia*				59.8%	56.2%		56.6%

* Note: Armenia numbers have been included in the Group's financial statements since September 14, 2007.

Main conclusions

- The Group's strong financial position provides flexibility to respond to opportunities in the market and general additional shareholder value.
- Increasing revenues due to subscriber growth and rising usage of voice and value-added services.
- Exceeding the Group's 50% OIBDA margin target despite cost inflation.
- Retaining profitability in more competitive markets through cost control and effective investment in developing these markets.
- Leveraging greater scale by expanding our footprint to Armenia and expanding networks in our markets.
- 2008 outlook: Continued profitable growth through implementation of the "3+2" Strategy.

Thanks to its successful financial results for 2007, MTS is now one of the Russian stock market's "blue chip" companies and ranks among the world's 10 largest operators by size of subscriber base.

The Company's share price increased substantially over that period. It is currently at US\$20.358, 102.8% higher than their value at the end of 2006*.

* The price of one MTS OJSC share is specified at the close of ADR trading on the New York Stock Exchange (1 ADR = 5 MTS OJSC registered common shares).

Major risk factors

Major risk factors

We are an operator that provides tariffed telecommunications services. Our financial status and operating indicators, inter alia, depend on the paying capacity of the public, competitive situation in the countries of our presence, demand for our services and the efficiency of sales channels. Our operations are regulated by the government, in particular, through licenses and laws issued in the countries of our presence. As far as the wireless communications technology is concerned, we use radio frequencies that are assigned by respective authorities of the countries in question. We will develop our network infrastructure by means of extending the coverage and capacity of the existing network in the licensed territories, further extension of our activities in the countries of our presence and in other countries through acquisitions or new licenses, and this in its turn is taken into account in our CAPEX program.

In the recent time in Russia we saw positive trends, such as GDP growth, relative stability of national currency, growth of demand at the domestic market, growth of real earnings, reduction of inflation rates and increase of paying capacity of our customers. However, these positive trends were supported, to some extent, by the global growth of commodity prices and it may happen that such growth will not continue in the future.

In addition to Russia we are present at the markets in the Ukraine, Uzbekistan, Belarus, Turkmenistan and Armenia, and in the future we may extend our presence to other countries. Our business, operating indicators and financial status may depend on relations between Russia and other countries of our presence, efficiency of local and regional authorities, economic situation in these countries and in Russia, social status of the population. Economics in the countries of our presence in its turn is subject to the influence of the global economic recession and the slow-down of the world economy growth rates. In case of Russia and Turkmenistan it also depends on the stability and growth of export prices for oil and gas in the world market.

The typical features of telecommunications market are quick changes in technology and continuous emergence of new products and services. Therefore, it is always necessary to comply with new technologies, products and services. The technologies we presently use may become less profitable and even outdated. The competition grows and includes the competition on the part on the possible new mobile operators in the markets where we are

present. To manage such risks we invest in the extension of VAS portfolio, 3G roll-out and development of wireless services. Our competitive position, financial status and operating indicators, inter alia, depend on the successful implementation of these initiatives.

Independent dealers account for a substantial portion of new connections and our financial indicators depend on their loyalty. However, we are also developing sales channels that are under our control.

Government authorities in the countries of our presence have a rather wide range of discretion in such areas as issuance, prolongation, suspension and revocation of licenses, setting up criteria for regarding the companies in certain territories as monopolists or as companies having a dominant/significant position etc. by issuing appropriate laws and acts. If we or any of our subsidiaries is regarded as a dominating company in the country of our presence the government of such country will be able to impose certain restrictions on our operations, tariffs, services and interconnections, and this may affect our business, financial status and operating results. The capacity of our network and the ability to develop it depend on our ability to prolong in due time our rights to the presently assigned frequencies and to obtain new frequencies, and this is very important, inter alia, for retaining our market share in terms of subscribers and revenues.

We keep the major portion of our excess cash denominated in Russian rubles and foreign currency in Russian banks, including affiliates of foreign banks. A significant portion of our expenses and financial liabilities, including CAPEX and borrowings, is denominated in US dollars or is closely connected with this currency while the major portion of our revenues is denominated in Russian rubles. The situation in the Russian market, including the stability of banking system, inflation, RUR/USD exchange rate variations, and the existence of an adequate amount of marketable financial instruments denominated in Russian rubles have an influence on our operating indicators and operating results.

Our ability to serve, pay off and refinance our debt and provide financing for the planned CAPEX will depend on our capacity to generate funds in the future. In addition to the above factors it will also depend on stake floating in the world financial markets, competitive, legal, regulatory and other factors that are beyond our control.

Agreements relating to our unredeemed Eurobonds and Eurobonds of AFK "Sistema", our controlling shareholder, as well as some loan agreements

contain obligations that limit our ability and the ability of AFK “Sistema” and its affiliated companies (including our company), inter alia, to obtain borrowed funds, create liens, dispose of assets, merge/consolidate with other entities, sell/assign any of our GSM licenses or GSM licenses of our subsidiaries, including foreign subsidiaries. A failure to meet such obligations as well as the change of the majority shareholder may result in early redemption of Eurobonds.

For further information about risks please refer to: “Item 3—Key Information—D. Risk Factors” in MTS OJSC Annual Report (20F) and to the quarterly reporting 2007 in MTS OJSC.

Human resources and social policy



Human resources and social policy

Work and compensation

As of December 2007, MTS OJSC had 20,681 employees. In 2007, as part of the wage policy of MTS OJSC, which calls for annual reviews of our employees' wages based on performance evaluations, average pay increased by 14%.

Today we use a pay system that consists of fixed and variable parts.

The fixed portion (salary) is determined taking into account salary bands established for each pay rank or grade based on an analysis of the labor market in the region.

In 2007, MTS OJSC introduced a new incentive program that establishes out clear and transparent principles for setting bonus target amounts and calculating their actual amounts on the basis of performance. The incentive system is based on a system of key performance indicators and personal objectives set out in the bonus plan signed with each employee. In 2007, we introduced quarterly and annual bonuses paid on the basis of fulfillment of the bonus plan.

Main reasons for introducing the new incentive system in 2007 are as follows:

- to link an employee's income to his/her performance and the performance of the Company as a whole;
- to provide both short-term and long-term incentives to achieve our goals;
- to define a clear and transparent system of objective rules for setting targets and evaluating their fulfillment and principles for calculating bonuses.

Main results of implementing the incentive system:

- Our pay system is fully regulated and establishes clear, objective, and transparent rules for setting both fixed and variable pay;
- Bonus plans setting out bonus targets have been signed with all employees.
- The implementation of the incentive system helped us meet our financial goals in 2007 and improved the fiscal discipline of our managers.

Refinement of the organizational structure of MTS OJSC in 2007

	Result of changes:
<p>January 21, 2007. Creation of a Legal Unit of the Group's Corporate Center</p>	<p>Increased legal security of the MTS Group as part of the implementation of our legal security strategy. Optimization of budget expenditures by ensuring effective cross-functional cooperation among legal departments.</p>
<p>March 1, 2007. Restructuring of the Finance and Investments Unit of the MTS Group's Corporate Center and reassignment of the operational function to the MTS Russia Business Unit.</p>	<p>Reassignment of the operational function from the Finance and Investments Unit at the Corporate Center to the MTS Russia Business Unit. The creation of sub-units of the Finance and Investments Unit at the level of the MTS Russia Business Unit. Stronger control, improved management reporting, and better budgeting. The transfer of budget controllers from functional units to a controlling sub-unit. More effective handling of receivables.</p>
<p>March 23, 2007. Reorganization of the Legal Unit of the MTS Group's Corporate Center.</p>	<p>Implementation of the MTS Group's legal security strategy, development of organizational/legal functions and corporate governance functions. The transfer to the Legal Unit of collective body management functions and coordinating functions relating to issues of legislation, cooperation, and settlement of disputes with respect to orders of public authorities, administrative control functions, functions of performance appraisal of sub-units, functions of review of the Company's financial and business activities, and coordinating functions relating to issues of licensing, legislation, and settlement of disputes with respect to orders of public authorities.</p>
<p>April 13, 2007. Reorganization of the Marketing Unit of the MTS Group's Corporate Center and the MTS Russia Business Unit.</p>	<p>Separation of marketing functions between the MTS Group's Corporate Center and the MTS Russia Business Unit. Delineation of the activities of the Marketing Unit of the MTS Group's Corporate Center into strategy and operational. Removal of operational functions, sub-units, and budgets from the MTS Group's Corporate Center and the MTS Russia Business Unit.</p>
<p>June 1, 2007. Creation of the post of Director of External Resources Control and Administration at the MTS Group's Corporate Center. Removal of the Department of External Resources Control and Administration to report directly to the Director of External Resources Control and Administration.</p>	<p>More effective internal control and procurement in the MTS Group.</p>

<p>June 9, 2007. Change in organizational structure of the MTS Foreign Subsidiaries Business Unit.</p>	<p>Acquisition by the MTS Foreign Subsidiaries Business Unit of some functional expertise, delineation of authority between the MTS Foreign Subsidiaries Business Unit and functional units of the MTS Group's Corporate Center with regard to the drafting and adoption of management decisions and functions of management of subsidiaries.</p>
<p>July 25, 2007. Change in organizational structure of the Security Unit, the Technical Development Unit, and the Technical Unit of the MTS Group's Corporate Center.</p>	<p>Transfer of research and innovation functions to Intellect Telecom OJSC. Concentration of technological security functions in the Technical Unit to create a single locus of responsibility for the development and implementation of a convergent technological security strategy.</p>
<p>August 6, 2007. Reorganization of the Information Technologies Unit of the MTS Group's Corporate Center and the MTS Business Unit</p>	<p>Unification of the information technology structure with all MTS Business Units. Standardization of the creation of strategic IT projects pursued in the interests of the MTS Group as a whole.</p>
<p>August 24, 2007. Creation of a Public Relations Department within the organizational structure of the MTS Russia Business Unit.</p>	<p>Transfer of marketing PR sub-units working with the regions to the level of the MTS Russia Business Unit.</p>
<p>October 29, 2007. Creation of a Legal Department in the MTS Russia Business Unit.</p>	<p>More objective and targeted protection and support for business. Transfer of current operations to the MTS Russia Business Unit. Focusing of efforts of the Legal Department of the MTS Group's Corporate Center on methodological activities and strategic issues.</p>

The main purpose of the changes in our organizational structure was to improve the management system through synergy and the use of best organizational development practices.

As part of our organizational restructuring, we made efforts to separate functions between the Corporate Center, whose main objectives are to determine strategy and methodology as a whole, and the Business Units, supporting our operational component.

Staff development

MTS OJSC has a system-based model of training tied to personnel evaluation in accordance with the Company's strategic goals. The purpose of the Staff Training and Development process is to provide system-based, effective staff development in the key competencies for our Company, bring together the knowledge, skills, and attitudes needed by employees and managers to increase effectiveness in their existing positions, and to create a resource of knowledge and skills for the candidate pool in the future.

Staff training and development are carried out using the following forms and methods:

- **Induction training.** We conduct uniform, centralized induction training for all new employees, the aim of which is an understanding of the culture of our Company and its structure, and studying of internal processes and organizational procedures by new employees. For new managers we provide additional programs of introduction to the Company's internal structure, business process, and accepted procedures for cooperation. For existing employees we conduct team-building activities to enhance corporate spirit and strengthen corporate culture. Directors of our functional sub-units train current employees according to the rules developed in internal regulations. Functional seminars are conducted for newly implemented processes.
- **Vocational training.** We have a system of vocational training aimed at ensuring constant development of expertise among our staff. Standards and content for training programs are set in accordance with the requirements of the position. Vocational training is planned based on the results of skill assessments and annual performance evaluations and in accordance with the needs of the particular sub-unit. This element of the training system accounts for the greatest number of activities and employees involved in training. Vocational training for employees who work directly with customers is provided mainly through in-house resources according to uniform standards (taking into account regional differences).
- **Managerial training for managers.** The foundation of this system is the concept of targeted and modularized training for managers. Targeted programs are mandatory for selected categories of managers, while modular programs are created based on annual evaluations of managers' competencies. Particular attention is given to training managers in methods of personnel management (selection, evaluation, grading,

feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. An important goal of management training, besides creating a uniform management approach among managers, is to motivate and retain them. The direction and content of management training programs is defined by our development strategy, the business objectives of the relevant sub-unit, and the level of development of managers' competencies according to evaluation results.

Staff training and development are carried out using the following forms and methods:

- **Direct training sessions and workshops.** In conducting training sessions and workshops of this kind, extensive use is made of in-house resources, internal training sessions are developed, and in-house training officers are prepared.
- **Distance education.** We actively make use of distance forms of education for all types of training. Theory courses are conducted mainly in distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained from study and to evaluate satisfaction with programs of instruction;
- **On-the-job training** is seen as the preferred and most effective method. One of the main objectives of a manager at any level is the professional growth of his or her subordinates;
- **Long-term development of a candidate pool and high-potential employees (top talent)** is key to the implementation of our strategy. In collaboration with Human Resources, managers formulate long-term career development programs for the candidate pool and high-potential employees (top talent), oversee their implementation, and work personally with these employees and their supervisors and mentors. We create conditions that allowing promising leaders to manage their own career.
- **Staff rotation and evolving appointments** are regarded as an effective tool for developing, training, and retaining promising employees. The rotation mechanism is actively used to develop reserve personnel.

Today over 30 in-house training sessions have been developed in our Company, a system of internal training officers has been established, standards for training and certification of on-staff and corporate training

officers have been approved, rules for planning and organizing employee training have been approved, and an Employee Distance Testing and Training system has been implemented.

In all forms of training, the foundation for program planning and training assignment is the MTS Group's approved competency model, as well as existing various criteria depending on the type of training.

Induction training is provided to all new employees, and analogous training is provided to all our employees when new regulations are implemented.

Selection criteria for vocational training are approved vocational training plans and the results of skills assessments of employees.

Criteria used to select for management competencies are the results of management competency evaluations, the shaping of personal development, and the formation of training programs focused on group priorities.

The best employees from the candidate pool are selected for long-term development programs and MBAs and mini MBAs.

Comparative data on employee training in 2006 and 2007

Key indicators	2006	2007	Growth
Number of employees trained	18070	23741	+31%
Number of training sessions	2907	3311	+14%
Satisfaction with training programs (percentage of feedback forms rating training results higher than 8 on a 10-point scale)	90%	95%	+5.5%

The training system we have put in place meets the needs of business and impacts the achievement of our strategic goals. An outcome of this system's existence is a well constructed training system that is understood and shared by managers and has an impact on our performance and the achievement of strategic goals. According to a survey of Directors in 2006 and 2007:

- satisfaction with our training system increased by 29%;
- employee performance in terms of training results rose increased by 7%;
- understanding of the training planning system increased by 10%; and
- overall satisfaction increased by 5%.

Our social policy

A higher level of social responsibility for MTS OJSC is an opportunity to manage non-financial risks that may affect our financial performance indicators in the future. Our Company's development in this sector is aimed at long-term business development and increasing its value in world financial markets.

Our internal social policy is aimed at constant improvement of our corporate culture, which is crucial to creating a stable business environment, improving our financial indicators, increasing labor productivity, and, as a result, increasing our market value.

MTS OJSC is constantly improving its corporate culture by raising the level of involvement (loyalty) of staff, which includes offering non-financial incentives.

We engage in a number of activities to improve corporate culture, such as:

- the formation of an MTS OJSC company team of employees, which, among other things, takes part in the annual sports meet held by our major shareholder, Sistema;
- organizing athletic training for the company team;
- holding regular sporting events, tournaments, and games within the Company;
- rewarding individual athletes and the team as a whole for their (by now traditional) success in placing at sporting competitions;
- conducting an annual "Health Day";
- celebrating the Company's anniversary and national holidays; and
- other activities aimed at building the team spirit of the workforce and its loyalty to the Company.

We conduct regular surveys among our employees to identify their perception of such of the Company's values as leadership in the industry, brand value, and other criteria no less importance to us. We also steadily track the level of engagement (loyalty) of our staff, evaluate the performance of

functional sub-units in terms of their internal customer-oriented mindset, and make every effort to maintain and strengthen these indicators.

The development of a corporate culture is one of our priorities, and consists of a set of measures aimed at increasing the non-financial incentives for staff and establishing and maintaining feedback with employees through surveys.

Besides caring about our own workers and their family members, we show ongoing concern for the most disadvantaged members of society under various external social policy programs.

We believe that social and charitable programs are one of the most important aspects of our activities, and that they facilitate constructive cooperation with the state, business, and society.

For example, for several years, as part of a comprehensive program to support children in the Chita region without parental care, we have been providing support to children's homes in the region, and as an official partner of the 16th International Arts Festival "Slavonic Bazaar in Vitebsk" arranged travel for children from the children's home in Druya to the gala concert of the 5th International Children's Musical Competition "Vitebsk 2007" held as part of the festival.

We aspire to help strengthen and develop cultural appreciation among the public. In 2007 MTS was the sponsor and partner of a number of cultural events, including the Second International Yuri Bashmet Festival.

In addition, our support for the development of professional and amateur sport cannot go unmentioned. To take one example, we were an official sponsor of the Staraya Maina Forest project, a racing tournament for off-road vehicles, held between July 27 and 29, 2007, near Staraya Maina in the Ulyanovsk region.

We also aim to heighten physical security among the public. For four years in a row MTS has been an official partner of Russian Defense Expo 2007—International Exhibition of Means of Defense and Protection, held in Nizhny Tagil, Sverdlovsk region, providing participants in this large-scale event with mobile communications.

President of MTS OJSC
Leonid A. Melamed

Chief Accountant of MTS OJSC
Irina R. Borisenkova

Additional information about the Company

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Entity maintaining records of rights to securities	Registrar NIKoil OJSC Postal address: 8 ul. Pravdy, block 45, Moscow, 125124, Russia License No. 10-000-1-000290, issued on June 17, 2003, with no expiry date. Issuing authority: RF Federal Commission for the Securities Market.
Mass media publication publishing information about the Company	Annex to the Bulletin of the Federal Financial Markets Service (FFMS)
