

Open joint-stock company “Mobile TeleSystems”

Auditors’ Report

Financial Statements for 2006
(Unofficial translation)

AUDIT FIRM: ZAO “DELOITTE & TOUCHE CIS”

Registered office (legal address): 4/7 Vozdvizhenka St., Bld.2, Business Center “Mokhovaya”, Moscow, 125009, Russia.

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

Tel: +7 (495) 787 0600.

Audit License No. E 002417 issued on November 6, 2002 by resolution of the Ministry of Finance of the Russian Federation for five years.

Registration Certificate of ZAO Deloitte & Touche CIS as a member of the Russian Institute of Certified Accountants and Auditors and the regional institute of certified accountants No. 00698/00 issued on November 23, 2005.

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

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

Ruble account No. 40702810500700961028 in ZAO “Citibank”, correspondent account No. 30101810300000000202, BIC 044525202.

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

Registered office (legal address): 4 Marksistskaya street, Moscow, 109147, Russia.

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

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1027700149124, issued by the Russian Ministry of Taxes and Duties Department for Moscow on September 2, 2002.

State registration certificate of Open joint-stock company “Mobile TeleSystems” No. R-7882.16, issued by the Moscow Registration Chamber under the Russian Ministry of Justice on March 1, 2000.

AUDITORS' REPORT

To shareholders of Open joint-stock company "MobileTeleSystems"

We have audited the accompanying financial statements of Open joint-stock company "Mobile TeleSystems" ("the Company") for the year 2006. The financial statements of the Company consist of:

- Balance Sheet as of December 31, 2006;
- Statement of Profit and Loss for the year ended December 31, 2006;
- Statement of Changes in Shareholders' Equity for the year ended December 31, 2006;
- Statement of Cash Flows for the year ended December 31, 2006;
- Appendix to the Balance Sheet for the year ended December 31, 2006; and
- Explanatory Notes.

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

We conducted our audit in accordance with Federal Law of the Russian Federation No. 119-FZ dated August 7, 2001 "On Auditing Activity"; federal rules (standards) of auditing; effective rules (standards) of auditing approved by Committee for Auditing Activity under President of the Russian Federation; and company standards.

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

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

In our opinion, the accompanying financial statements of Open joint-stock company "Mobile TeleSystems" present fairly, in all material respects, its financial position as of December 31, 2006, and the results of its operations for the year 2006 in accordance with the requirements of the legislation of the Russian Federation relating to the preparation of financial statements.

Without qualifying our opinion regarding the accompanying financial statements, we draw your attention to par. 3.2 of the Explanatory Notes containing information on a loan issued by the Company to its subsidiary Mobile TeleSystems Finance S.A. in the amount of 4,107,652 thousand rubles and included in short-term investments. Despite the fact that there are no indicators of impairment of this investment as provided by PBU 19/02, there is an uncertainty as to the recoverability of this loan. As of December 31, 2006, no estimate of the calculated value of the loan issued to Mobile TeleSystems Finance S.A. was performed. No impairment provision was recognized for this investment in the Company's financial statements for 2006.

BALANCE SHEET
as of December 31, 2006

Organization	OJSC "MTS"	Form No. 1 OKUD	071001
Taxpayer identification number	7740000076	Date (day, month, year)	31/12/2006
Industry (type of activity)	Telecommunication services	OKPO	52686811
Legal status/ form of ownership	Open joint-stock company Joint private and foreign ownership	INN	7740000076
Unit of measurement	Thousand rubles	OKVED	64.20.11
Address	4 Marksistskaya st., 109147, Moscow	OKOPF/	47/34
		OKFS	
		OKEI	384

Date of approval **2/4/2007**

ASSETS	Code	Opening balance	Closing balance
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets	110	669,552	653,156
Fixed assets	120	48,249,086	53,897,447
Construction in progress	130	22,003,770	36,315,957
Investment property	135	477,133	298,968
Long-term investments	140	38,859,161	28,887,268
Deferred tax assets	145	1,363,561	3,372,037
Other non-current assets	150	13,974,048	20,027,147
Total Section I	190	125,596,311	143,451,980
II. CURRENT ASSETS			
Inventories	210	10,795,478	11,360,641
Including:			
raw materials and equivalents	211	3,871,743	6,640,496
work in progress	213	569,958	421,601
finished goods and goods for resale	214	5,578,983	3,409,805
prepaid expenses	216	774,794	888,739
Value-added tax reimbursable	220	7,561,636	6,060,930
Receivables maturing within 12 months	240	14,719,677	19,041,628
Including:			
trade receivables	241	9,458,695	10,280,714
Short-term investments	250	2,574,618	14,066,460
Cash and cash equivalents	260	761,858	2,099,244
Other current assets	270	890,530	2,857,922
Total Section II	290	37,303,797	55,486,825
TOTAL ASSETS	300	162,900,108	198,938,805

EQUITY AND LIABILITIES	Code	Opening balance	Closing balance
1	2	3	4
III. EQUITY			
Share capital	410	199,333	199,333
Additional paid-in capital	420	17,452,113	17,452,113
Reserve capital	430	29,900	29,900
including:			
reserves created as per legislative requirements	431	29,900	29,900
Retained earnings, current year	470	-	32,094,015
Retained earnings, prior years	471	45,377,564	31,975,354
Total Section III	490	63,058,910	81,750,715
IV. LONG-TERM LIABILITIES			
Long-term loans	510	62,811,183	80,053,974
Deferred tax liabilities	515	425,805	589,832
Total Section IV	590	63,236,988	80,643,806
V. CURRENT LIABILITIES			
Short-term loans	610	12,577,276	4,180,957
Payables	620	22,706,121	26,949,540
including:			
trade payables	621	13,890,414	15,506,769
accrued wages and salaries	622	899,025	1,578,783
social insurance payable	623	51,196	88,855
taxes payable	624	594,295	114,891
advances received	625	6,950,212	8,809,145
other creditors	626	320,979	851,097
Dividends payable	630	37,626	16,792
Deferred revenues	640	4,209	4,278
Accrued expenses	650	1,278,978	5,392,717
Total Section V	690	36,604,210	36,544,284
TOTAL EQUITY AND LIABILITIES	700	162,900,108	198,938,805

OFF-BALANCE-SHEET ACCOUNTS

Description	Code	Opening balance	Closing balance
1	2	3	4
Leased property	910	132,609	315,355
including assets received under lease agreements	911	132,609	170,910
Assets accepted for storage	920	1,529,290	662,227
Consignment goods received	930	-	2
Bad debts written off	940	583,599	1,271,148
Collateral received	950	505,706	464,810
Collateral issued	960	47,170,348	34,196,546
Depreciation of dwelling premises	970	144	193
Depreciation of non-productive facilities	980	1,303	3,332

STATEMENT OF PROFIT AND LOSS
for the year 2006

Company	OJSC "MTS"	Form No. 2 OKUD	710002
Taxpayer identification number	7740000076	Date (day, month, year)	12/31/06
Industry (type of activity)	Telecommunication services	OKPO	52686811
Legal status/ form of ownership	Open joint-stock company Joint private and foreign ownership	INN	7740000076
Unit of measurement	Thousand rubles	OKVED	64.20.11
		OKOPF/	47/34
		OKFS	384/385
		OKEI	

Description	Code	Current year	Prior year
1	2	3	4
REVENUE AND EXPENSES FROM OPERATING ACTIVITIES			
Net revenue from sales of goods and services (less VAT, excise and equivalent payments)	010	115,533,261	79,117,945
including:			
telecommunication services	11	109,170,969	71,661,125
equipment sales	12	4,750,011	5,683,892
construction services and other	13	1,612,281	1,772,928
Cost of sales	020	(45,448,357)	(32,394,853)
including:			
telecommunication service cost	021	(40,785,638)	(26,344,004)
equipment sales	022	(4,486,897)	(5,605,667)
construction services and other	023	(175,822)	(445,182)
Gross profit	029	70,084,904	46,723,092
Selling expenses	030	(14,452,516)	(10,690,206)
General and administrative expenses	040	(10,462,820)	(8,092,084)
Operating profit	050	45,169,568	27,940,802
OTHER INCOME AND EXPENSES			
Interest income	060	534,870	640,939
Interest expense	070	(5,396,910)	(4,529,605)
Investment income	080	92,517	182,156
Other income	090	7,047,182	850,170
Other expenses	100	(4,232,968)	(7,417,197)
Income before tax	140	43,214,259	17,667,265
Deferred tax benefit	141	1,857,584	1,114,611
Deferred tax expense	142	(80,032)	(33,068)
Current income tax expense	150	(12,620,131)	(5,798,330)
Tax penalties	151	(277,665)	(406,393)
CURRENT YEAR NET INCOME	190	32,094,015	12,544,085
ADDITIONAL INFORMATION			
Permanent tax assets	200	471,157	476,643
Earnings per share, basic and diluted, rubles	210	16.10	6.29

BREAKDOWN OF CERTAIN GAINS AND LOSSES

Description	Line	Current year		Prior year	
		gains	losses	gains	losses
1	2	3	4	5	6
Fines and penalties recognized by court or debtor	810	10,705	13,306	42,425	4,574
Prior year adjustments	820	576,301	593,248	9,288	325,788
Reimbursement of losses caused by default or by improper fulfillment of obligations	830	31,384	813	29,563	152
Foreign currency exchange gains and losses	840	6,002,488	-	-	1,655,810
Provisions	850	X	2,512,259	X	1,428,600
Bad debts written off	860	70,270	36,182	189	1,388

**STATEMENT OF CHANGES IN EQUITY
for the year 2006**

			Form No. 3 OKUD	CODES
			Date (day, month, year)	710003
Company	OJSC "MTS"		OKPO	31/12/2006
Taxpayer's identification number	7740000076		INN	52686811
Industry (type of activity)	Telecommunication services		OKVED	7740000076
Legal status/ form of ownership	Open joint-stock company Joint private and foreign ownership		OKOPF/	64.20.11
Unit of measurement	Thousand rubles		OKFS	47/34
			OKEI	384/385

CHANGES IN EQUITY

Description	Code	Share capital	Additional paid-in capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7
Balance as of December 31, 2004	90	199,333	17,440,082	29,900	36,574,632	54,243,947
2005						
Balance as of January 1, 2005	100	199,333	17,440,082	29,900	36,574,632	54,243,947
Net income	105	X	X	X	12,544,085	12,544,085
Dividends	109	X	X	X	(11,465,517)	(11,465,517)
Increase in capital:						
reorganization	123	X	X	X	8,919,487	8,919,487
fixed assets disposals		X	16,802	X	4,484	21,286
Decrease in capital:						
reorganization	133	X	X	X	(1,199,607)	(1,199,607)
fixed assets disposals		X	(4,771)	X	X	(4,771)
Balance as of December 31, 2005	140	199,333	17,452,113	29,900	45,377,564	63,058,910
2006						
Balance as of January 1, 2006	100	199,333	17,452,113	29,900	45,377,564	63,058,910
Net income	105	X	X	X	32,094,015	32,094,015
Dividends	109	X	X	X	(15,149,278)	(15,149,278)
Increase in capital:						
reorganization	123	X	X	X	5,818,793	5,818,793
Decrease in capital:						
reorganization	133	X	X	X	(4,071,725)	(4,071,725)
Balance as of December 31, 2006	140	199,333	17,452,113	29,900	64,069,369	81,750,715

RESERVES

Description	Code	Balance	Additions	Disposals	Balance
1	2	3	4	5	6
Reserves created as per legislation requirements					
prior year	141	29,900	-	-	29,900
current year	142	29,900	-	-	29,900
Provisions					
Provision for doubtful debts					
prior year	145	1,592,239	1,184,034	-	2,776,273
current year	146	2,776,273	2,436,393	(1,156,329)	4,056,337
Provision for the inventory obsolescence					
prior year	147	501,790	244,566	-	746,356
current year	148	746,356	75,866	-	822,222
Accrued expenses					
Provision for contingent liabilities					
prior year	149	-	49	-	49
current year	150	49	503,836	-	503,885
Provision for unused vacation					
prior year	151	174,468	145,164	-	319,632
current year	152	319,632	83,495	-	403,127
Provision for services rendered					
prior year	153	57,459	901,838	-	959,297
current year	154	959,297	3,526,408	-	4,485,705
Accrued employee bonuses					
prior year	155	335,959	883,010	(335,959)	883,010
current year	156	883,010	414,503	-	1,297,513

SUPPLEMENTARY INFORMATION

Description	Code	Opening balance	Closing balance
1	2	3	4
Net assets	200	63,063,119	81,754,993

STATEMENT OF CASH FLOWS
for the year 2006

Company	OJSC "MTS"	Form No. 4 OKUD	CODES
Taxpayer identification number	7740000076	Date (day, month, year)	710004
Industry (type of activity)	Telecommunication services	OKPO	31/12/2006
Legal status/ form of ownership	Open joint-stock company Joint private and foreign ownership	INN	52686811
Unit of measurement	Thousand rubles	OKVED	7740000076
		OKOPF/	64.20.11
		OKFS	47/34
		OKEI	384/385

Description	Code	Current year	Prior year
1	2	3	4
Cash and equivalents at beginning of year	100	757,914	3,995,793
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	110	117,992,544	91,798,655
Other inflows	120	594,732	761,877
Reorganization	125	265,401	474,382
Cash and equivalents used for:	130		
payments for acquired goods, services, raw materials and other current assets	150	(41,793,006)	(52,896,849)
payments to employees	160	(6,190,189)	(4,142,820)
payments of dividends, interest	170	(18,701,370)	(14,138,714)
payments of taxes	180	(24,832,567)	(15,913,550)
other payments	190	(1,218,657)	(1,030,452)
Net cash from operating activities	200	26,116,888	4,912,529
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of fixed assets and other non-current assets	210	37,243	431
Sale of securities and other financial investments	220	12,307	139,111
Dividends received	230	92,517	223,915
Interest received	240	206,338	550,926
Proceeds from redeemed loans granted to other entities	250	1,478,715	2,470,297
Acquisition of subsidiaries	280	(897,783)	(5,094,323)
Purchase of fixed assets, investment property and intangible assets	290	(27,255,867)	(25,676,664)
Loans granted to other entities	310	(12,755,703)	(3,796,033)
Net cash from investing activities	340	(39,082,233)	(31,182,340)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans issued by other entities	355	33,723,438	30,381,083
Redemption of loans (excluding interest)	360	(19,335,075)	(7,280,622)
Redemption of finance lease liabilities	365	(81,688)	(64,585)
Net cash from financing activities	370	14,306,675	23,035,876
Net increase (decrease) in cash and equivalents	375	1,341,330	(3,233,935)
Cash and cash equivalents at end of year	380	2,099,244	761,858
Effect of changes in exchange rates	390	3,944	(92,466)

**APPENDIX TO THE BALANCE SHEET
for the year 2006**

Company
Taxpayer identification number
Industry (type of activity)
Legal status/
form of ownership
Unit of measurement

OJSC "MTS"
7740000076
Telecommunication services
Open joint-stock company
Joint private and foreign ownership
Thousand rubles

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

OKPO
INN
OKVED
OKOPF/
OKFS
OKEI

CODES
0710005
31/12/2006
52686811
7740000076
64.20.11
47/34
384/385

INTANGIBLE ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Objects of intellectual property (exclusive rights to use intellectual property)	010	549,470	13,659	(225)	562,904
including:					
patent rights to inventions, industrial prototypes, useful models	011	109,914	13,653	(225)	123,342
rights to use software	012	439,523	6	-	439,529
owner rights to trade marks, copyrights, appellations of origin	014	33	-	-	33
Numbering capacity and other	040	930,908	72,154	(391)	1,002,671
Total	041	1,480,378	85,813	(616)	1,565,575

Description	Code	Opening balance	Closing balance
1	2	3	4
Amortization of intangible assets - total, including:	050	810,826	912,419
Objects of intellectual property (exclusive rights to use intellectual property), including:	051	321,156	368,156
patent rights to inventions, industrial prototypes, useful models	52	11,386	41,967
rights to use software	53	309,770	326,189
Numbering capacity and other	54	489,670	544,263

FIXED ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Buildings	100	3,655,756	1,274,210	-	4,929,966
Constructions and transmission devices	101	2,532,026	1,335,574	-	3,867,600
Machinery and equipment	102	57,332,701	11,683,205	(1,765,040)	67,250,866
Vehicles	103	298,383	41,125	-	339,508
Production and support tools	104	440,628	128,939	-	569,567
Other types of fixed assets	108	119,157	248,958	-	368,115
Land plots and natural resources	109	16,791	3,641	-	20,432
Total	120	64,395,442	14,715,652	(1,765,040)	77,346,054

Description	Code	Opening balance	Closing balance
1	2	3	4
Depreciation of fixed assets - total	140	16,146,356	23,448,607
including:			
buildings and constructions	141	375,212	1,748,168
machinery, equipment and vehicles	142	15,378,362	21,189,160
other assets	143	392,782	511,279
Transferred for lease - total	145	539,346	376,092
including:			
buildings and constructions	146	396,783	247,448
machinery, equipment and vehicles	147	142,563	108,794
other assets	148	-	19,850
Transferred for temporary non-use	149	144	144
Received under lease - total	150	132,609	315,355
including:			
machinery, equipment and vehicles	152	132,609	170,910
Immovable property placed into operations under state registration	155	63,848	6,619,161
ADDITIONAL INFORMATION			
Changes in valuation of fixed assets as a result of completions, additions, reconstruction or partial liquidation	173	1,760,393	1,603,482

INVESTMENT PROPERTY

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Lessor leases	300	539,346	-	163,255	376,091
Total	305	539,346	-	163,255	376,091

Description	Code	Opening balance	Closing balance
1	2	3	4
Amortization of investment property	306	62,213	77,123

FINANCIAL INVESTMENTS

Description	Code	Long-term investments		Short-term investments	
		Opening balance	Closing balance	Opening balance	Closing balance
1	2	3	4	5	6
Investments in authorized capital stock of other entities - total	510	37,711,858	25,302,229	-	-
including:					
subsidiaries and associates	511	37,711,858	25,302,229	-	-
Securities of other entities - total	520	19,628	19,628	10,057	72,602
including:					
debt securities (bonds, promissory notes)	521	19,628	19,628	10,057	72,602
Loans issued	525	1,117,613	3,003,173	2,564,561	11,661,126
Deposits	530	-	455,528	-	2,332,732
Other	535	10,062	106,710	-	-
Total	540	38,859,161	28,887,268	2,574,618	14,066,460

RECEIVABLES AND PAYABLES

Description	Code	Opening balance	Closing balance
1	2	3	4
Receivables	600		
short-term - total	605	14,719,677	19,041,628
including:			
trade receivables	606	9,458,695	10,280,714
advances paid to suppliers	607	3,317,945	6,332,498
other	608	1,943,037	2,428,416
Total receivables	615	14,719,677	#####
Payables	620		
short-term - total	625	35,283,397	31,130,497
including:			
trade payables	626	13,890,414	15,506,769
advances received	627	6,950,212	8,809,145
taxes payable	628	594,295	114,891
bank loans	629	10,955,614	3,458,295
borrowings	630	1,621,662	722,662
other	631	1,271,200	2,518,735
long-term - total	635	62,811,183	80,053,974
including:			
bank loans	636	24,435,240	45,322,451
borrowings	637	38,375,943	34,731,523
Total payables	640	98,094,580	111,184,471

EXPENSES RELATED TO OPERATING ACTIVITIES

Description	Code	Current year	Prior year
1	2	3	4
Materials	710	10,087,405	14,423,319
Payroll	720	6,836,367	4,365,971
Social contributions	730	1,461,485	931,454
Depreciation and amortization	740	9,205,856	7,420,770
Other costs	750	42,772,580	24,035,629
Total for cost elements	760	70,363,693	51,177,143
Change in balances (increase [+], decrease [-]):			
work-in-progress	765	(148,357)	(369,443)
prepaid expenses	766	113,945	1,136,768
accrued expenses	767	4,113,739	1,047,051

COLLATERAL

Description	Code	Opening balance	Closing balance
1	2	3	4
Received - total	800	505,706	464,810
including: promissory notes	805	505,706	464,810
Given - total	830	47,170,348	34,196,546
including: issued guarantees	835	47,170,348	34,196,546

**EXPLANATORY NOTES TO FINANCIAL STATEMENTS
OF OPEN JOINT-STOCK COMPANY
MOBILE TELESYSTEMS FOR 2006**

1. SHORT DESCRIPTION OF THE COMPANY'S ACTIVITIES

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

Date of state registration is March 1, 2000.

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

Republic of Adygeya, Maikop; Altai Republic, Gorno-Altaysk; Altai territory, Barnaul; Amur region, Blagoveshchensk; Arkhangelsk region; Astrakhan region; Bashkortostan Republic, Ufa; Vladimir region; Volgograd region; Vologda region; Ivanovo region; Ingushetia Republic, Magas; Kabardino-Balkar Republic, Nalchik; Kaliningrad region; Kalmykia Republic, Elista; Kaluga region; Kamchatka region, Petropavlovsk-Kamchatsky; Karachaevo-Cherkess Republic, Cherkessk; Karelia Republic, Petrozavodsk; Kemerovo region; Kirov region; Komi Republic, Syktyvkar; Kostroma region; Krasnodar region; Krasnoyarsk region; Kurgan region; Mordovia Republic, Saransk; Murmansk region; Nenets Autonomous District, Narian-Mar; Nizhny Novgorod region, Nizhny Novgorod; Novgorod region, Veliky Novgorod; Novosibirsk region; Omsk region; Orenburg region; Perm region; Pskov region; Rostov region, Rostov-on-Don; Ryazan region; Samara region; St.-Petersburg, Leningrad region; Saratov region; Republic of Sakha (Yakutia), Yakutsk; Sakhalin region, Yuzhno-Sakhalinsk; Sverdlovsk region, Ekaterinburg; Smolensk region; Stavropol territory; Tambov region; Republic of Tatarstan, Kazan, Tver region; Tomsk region; Tula region; Tyva Republic, Kyzyl; Tyumen region; Udmurt Republic, Izhevsk; Ulyanovsk region; Khabarovsk region; Khakasia Republic, Abakan; Khanti-Mansiysk Autonomous District (Yugra), Khanti-Mansiysk; Chelyabinsk region; Chita region; Chuvash Republic, Cheboksary; Yamalo-Nenets Autonomous District, Salekhard; and Yaroslavl region.

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

On March 31, 2006, the following subsidiaries were merged into OJSC MTS as branches as a result of reorganization:

- OJSC Gorizont-RT;
- CJSC Uraltel;
- CJSC Far East Cellular Systems-900;
- CJSC Siberian Cellular Systems-900;
- OJSC TAIF-Telcom;
- CJSC Tomsk Cellular Communications;
- CJSC SibChallenge;
- CJSC BM Telecom; and
- CJSC MTS-RTK.

The reorganization was registered in the Unified State Register of Legal Entities. The financial result from the merger of these companies and the effect of reorganization on OJSC MTS' financial statements is disclosed in Note 14 "Reorganization".

1.2. The number of the Company's employees, including employees of the branches as at December 31, 2005 and 2006 was 18,336 and 18,025, respectively.

1.3. The Company generates revenue primarily from the following services:

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

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

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

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

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

Mailing address: bl. 45, 8 Pravdy street, Moscow, 125124, Russia.

License: № 10-000-1-000290, issued on June 17, 2003 for an unlimited period.

Issuing authority: Federal Commission for the Securities Market.

The mass media that publishes information on the Company is Attachment to the Newsletter of the Federal Service for Financial Markets.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for financial statements preparation

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

2.2. Going concern

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

2.3. Fixed assets valuation policy

- The actual costs of acquisition and construction of fixed assets which comprise the historical cost are determined in accordance with par. 8 of PBU 6/01. The historical cost includes the cost of loans (including interest) incurred to finance the acquisition and/or construction of investment assets. The inclusion of the costs of loans received in the historical cost of an investment asset ceases from the first day of the month following the month when such asset is recognized as a fixed asset.
- Investment assets include fixed assets, property complexes and other similar assets requiring a long time (more than 2 years) and significant costs (more than 1 billion rubles) to acquire and/or construct.
- Depreciation of fixed assets is calculated based on the straight-line method.
- Depreciation rates for fixed assets acquired before January 1, 2002 are determined in accordance with the rates approved by the Council of Ministers of the USSR Resolution No. 1072 dated October 22, 1990, on “Unified depreciation rates for the full replacement of fixed assets in the national economy of the USSR”; depreciation rates for fixed assets acquired after January 1, 2002 are calculated based on the asset useful life in accordance with the Fixed Assets Depreciation Groups Classification, approved with Russian Federation Government Decree No. 1 dated January 1, 2002. The useful life of fixed assets that are not included in applicable depreciation groups is determined in accordance with recommendations of manufacturers. The useful life of fixed assets that are not included in applicable depreciation groups and are not covered by recommendations of manufacturers is determined based on expert evaluation.
- Assets qualifying as fixed assets in accordance with par. 4 of PBU 6/01 which value does not exceed 10,000 rubles per unit are recorded as inventories.
- Fixed assets were not revalued as at the beginning of the reporting period.

2.4. Intangible assets valuation policy

- Intangible assets are amortized using the straight-line method. Intangible assets useful lives are established based on the terms of respective patents, certificates, etc., or, alternatively, are determined as the estimated period during which such asset will be used and is expected to generate economic benefits to the Company. Intangible assets whose useful life is impossible to determine are amortized over 20 years.
- Intangible assets amortization charge is recorded in the accounting records by the accumulation of corresponding amounts in a separate account 05 “Amortization of intangible assets”.

2.5. Inventory valuation policy

- The cost of purchased inventories is recorded using accounts 15 “Acquisition of inventories” and 16 “Variance in cost of inventories”. The planned cost of inventories is recognized on accounts 10 “Materials” and 41 “Goods” and is calculated based on the purchase price.
- Goods are recorded at their purchase cost based on actual expenses incurred for the purchase. At the end of each month transportation and acquisition expenses (“TAE”) are charged to cost of sales in accordance with the TAE allocation methodology.
- Finished goods are recorded in the balance sheet at their actual production cost without using account 40 “Production of goods and services”.
- Work-in-process is carried on the balance sheet at average actual direct production cost that relates to separate inventory items.
- On January 1, 2006, the Company changed its accounting policy in respect of inventory valuation. Since that date, the cost of inventories sold, issued to production or otherwise

disposed of has been calculated using the weighted average method. In prior reporting periods, the Company used the FIFO method. This change in the accounting policy is due to development by the Company of new accounting methods and is intended to provide a more reliable view of business transactions in accounting records and financial reports. Below is presented the monetary effect of the change in the accounting policy (the comparative data for 2005 have been adjusted to reflect the pro-forma effect of the current accounting policy):

Adjusted item	Line code	Reporting year, thousand rubles	Prior year' data adjusted for effects of changes in the accounting policies in the reporting year, thousand rubles		
			Amount		
			Before restatement	Restated	Variance
1	2	3	4	5	6
Statement of profit and loss					
Cost of sales	020	45,448,357	32,394,853	32,455,848	(60,995)
Selling expenses	030	14,452,516	10,690,206	10,718,660	(28,454)
Total		59,900,873	43,085,059	43,174,508	(89,449)
Balance sheet					
Materials and their equivalents	211	6,640,496	3,871,743	3,780,130	91,613
Finished goods and goods for resale	214	3,409,805	5,578,983	5,581,147	(2,164)
Total		10,050,301	9,450,726	9,361,277	89,449

2.6. Valuation of investments

- The Company's investments comprise securities of other entities, investments in other entities' shares, loans issued, and bank deposits.
- Investments are recorded at historical cost, including any costs related to their acquisition. The Company has no investments for which a readily determinable market value exists and does not calculate the discounted value for debt securities and loans issued.
- The value of investments disposed of is determined based on the historical cost of each investment.

2.7. Income measurement and recognition

- Revenues for accounting purposes are determined on an accrual basis.
- Revenue from the sale of telecommunication services is determined on the basis of data from the billing system on the volume and types of services provided for the reporting (tax) period and approved tariffs for telecommunication services, taking into account discounts as provided by OJSC MTS' marketing policy. Revenue from the sale of telecommunication services is recognized when invoices are issued to subscribers in the billing system. Revenue from connection fees is recognized when the subscriber is connected to the network and is not deferred.
- Revenue from the sale of goods is recognized when legal title passes to the customer.
- For construction and installation works performed by the Company the percentage of completion is determined on the basis of interim acceptance acts ("KS-2") and reports on the cost of works performed ("KS-3").

2.8. Expense measurement and recognition

- General and selling expenses are recognized in the period in which they are incurred;
- In accordance with the accounting policy adopted by the Company starting January 1, 2004, the following provisions are accrued for:
 - provision for doubtful debts;
 - provision for inventory obsolescence;
 - provision for unused vacation;
 - provision for annual bonuses;
 - provision for various expenses; and
 - provision for contingent liabilities.
- Prepaid expenses are recorded in the account 97 “Prepaid expenses” on the basis of actual costs. Prepaid expenses are amortized on a monthly basis to the debit of expense accounts during the period specified in the respective documents (licenses, contracts, etc.). If the period cannot be determined on the basis of such documents, it is established by a commission whose composition is approved by the Company’s management.

2.9. Long-term and current liabilities

- Borrowings and liabilities that mature in more than 12 months are recognized as part of long-term liabilities. Long-term liabilities are reclassified to current liabilities when their maturity is equal or less than 365 days from the reporting date.
- Principal and additional debt issuance costs are expensed as incurred and included in operating expenses.

2.10. Comparative information

- Certain prior year amounts have been reclassified to conform to the current year presentation.

3. INVESTMENTS

3.1. Long-term investments

As of December 31, 2005 and 2006, the carrying value of long-term investments is presented as follows:

	(thousand rubles)	
Description	2005	2006
Total long-term deposits, including:	-	455,528
Deposits with MBRD	-	455,528
Total debt securities, including:	19,628	19,628
OJSC Vekselya i Financy promissory note	15,547	15,547
OJSC Mobile Communication Systems promissory note	2,081	2,081
AFK Sistema promissory note	2,000	2,000
Total loans given, including:	1,117,613	3,003,173
Mobile TeleSystems Bermuda Limited (Bermuda)	-	2,896,440
MOBILE TELESYSTEMS FINANCE S.A.	755,432	83,657
OJSC ReCom	214,715	-
CJSC Sibchallenge	147,466	-
CJSC Amur Cellular Communications	-	23,076
Investments in shares of subsidiaries and associates, including:	37,711,858	25,302,229
CJSC Ukrainian Mobile Communications	11,625,862	11,625,862
LLC Uzdunrobita	3,527,342	3,527,342
OJSC ReCom	3,192,651	3,192,651
Barash Communications Technologies, Inc.,	1,312,352	1,312,352
CJSC Sibintertelecom	1,156,660	1,156,660
CJSC Telesot-Alania	1,109,064	1,109,064
CJSC Printelefon	899,834	899,834
Vostok Mobile B.V.	879,483	879,483
LLC Dagtelecom ¹	-	402,588
LLC Mobile TeleSystems	282,160	282,160
Vostok Mobile South B.V., Amsterdam	186,927	186,927
LLC PPT Telecom Kiev	106,403	106,403
CJSC Volgograd Mobile	84,767	84,767
OJSC Firma Novitel	83,617	83,617
LLC SweetCom	80,397	80,397
LLC Mobile TeleSystems (Republic of Belarus)	77,827	77,827
OJSC Mobile Communication Systems	72,421	72,421
LLC Mobile TeleSystems – T	41,695	41,695
Sistema Telekommunikasyon Anonim Sirketi ²	-	41,204
LLC Mobile TeleSystems in the Komi Republic	32,630	32,630
CJSC Astrakhan Mobile	32,153	32,153

¹ Acquired in 2006.

² Acquired in 2006 from AFK Sistema.

Investment	2005	2006
LLC TC-Service ¹	-	26,800
LLC TC-Retail ¹	-	26,800
CJSC Center – Telco	11,222	11,222
LLC Mobile TeleSystems – Kostroma	4,494	4,494
MOBILE TELESYSTEMS FINANCE S.A.	3,744	3,744
Mobile TeleSystems B.V. ¹	-	618
Mobile TeleSystems Bermuda Limited (Bermuda) ¹	-	321
OJSC Mobile Telematic Positioning Systems	168	168
LLC Mobile TeleSystems – Capital	25	25
OJSC TAIF-Telcom ²	3,821,778	-
OJSC Gorizont-RT ²	1,885,000	-
CJSC SibChallenge ²	1,641,239	-
CJSC Tomsk Cellular Communications ²	1,444,015	-
CJSC Siberian Cellular Systems-900 ²	1,401,947	-
CJSC BM Telecom ²	1,347,899	-
CJSC Uraltel ²	1,122,285	-
CJSC Far Eastern Cellular Systems-900 ²	243,772	-
CJSC MTS-RTK ²	25	-
Other	10,062	106,710
Total	38,859,161	28,887,268

3.2. Short-term investments

As of December 31, 2005 and 2006, the carrying value of short-term investments is presented as follows:

	(thousand rubles)	
Description of investment	2005	2006
Loans issued	2,564,561	11,661,126
Deposits	-	2,332,732
Securities	10,057	72,602
Total	2,574,618	14,066,460

Included in loans issued as part of the Company's short-term financial investments as of December 31, 2006, is a loan given by OJSC MTS to its subsidiary, Mobile TeleSystems Finance S.A. in the amount of 4,107,652 thousand rubles. This loan was received by Mobile TeleSystems Finance S.A. from OJSC MTS in March 2006 and was used to repay a loan received from ING Bank N.V. in November 2005. The loan received from ING Bank N.V. in the amount of 4,327,545 thousand rubles was used by Mobile TeleSystems Finance S.A. in November 2005 to acquire 51% of the shares in Tarino Limited, which owned 100% of LLC Bitel through its subsidiaries at the time of acquisition. Currently, the rights of Mobile TeleSystems Finance S.A. to the acquired assets are disputed in courts of various jurisdictions. Mobile TeleSystems Finance S.A. is unable to derive economic benefits from the use of this asset and does not conduct operating activities. As of December 31, 2006, no estimate of the calculated value of the loan issued to Mobile TeleSystems Finance S.A. was performed. No impairment provision was recorded in the Company's financial statements for 2006 for this investment.

¹ Companies incorporated in 2006.

² Companies merged with OJSC MTS as a result of reorganization (see note 14 "Reorganization").

4. INVENTORIES

As of December 31, 2005 and 2006, the Company had no inventory in transit or pledged as collateral.

As of December 31, 2005 and 2006, the provision for inventory obsolescence (handsets, accessories and advertising materials) amounted to 746,356 thousand rubles and 822,222 thousand rubles, respectively.

5. LOANS AND BORROWINGS

Maturities of the main types of debt outstanding as of December 31, 2006, are presented in the table below:

(thousand rubles)

Description	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Borrowings	714,432	-	8,230	22,196,696	10,532,440	33,451,798
Bank loans	173,209	751,627	2,533,459	36,910,858	8,411,593	48,780,746
Promissory notes	-	-	-	-	2,002,387	2,002,387
Total	887,641	751,627	2,541,689	59,107,554	20,946,420	84,234,931

The accrued expenses on loans and borrowings (interest and additional expenses) for 2005 amounted to 6,169,016 thousand rubles, including:

- 4,529,605 thousand rubles recognized as interest expense; and
- 1,639,411 thousand rubles recognized as other expenses (debt issuance costs).

The accrued expenses on loans and borrowings (interest and additional expenses) for 2006 amounted to 5,942,611 thousand rubles, including:

- 5,396,910 thousand rubles recognized as interest expense; and
- 545,701 thousand rubles recognized as other expenses (debt issuance costs).

6. INCOME TAX

Current income tax expense for 2006 and 2005 comprises:

(thousand rubles)

	2006	2005
Notional income tax	10,371,422	4,240,144
Permanent tax asset:		
expenses non-deductible for tax purposes	628,212	567,413
expenses in excess of allowable limits	3,496	1,964
other	39,269	14,940
Total	670,977	584,317
Permanent tax liability:		
non-taxable income	(197,492)	(100,598)
other	(2,328)	(7,076)
Total	(199,820)	(107,674)
Increase in deferred tax asset:		
fixed assets, including due to:		
different depreciation periods and methods for accounting and tax purposes	203,585	381,691
prepaid expenses (on software), including due to:		
different amortization periods and methods for accounting and tax purposes	145,801	131,708
inventories, including due to:		
difference in valuation for accounting and tax purposes	16,650	110,726
bad debt provision	277,122	55,950
provision for services rendered	900,977	322,407
difference in the methods of sales revenue recognition	74,114	23,528
other provisions	239,335	88,601
Total	1,857,584	1,114,611
Increase in deferred tax liability:		
fixed assets, including due to:		
different depreciation periods and methods for accounting and tax purposes	(580)	(23,815)
difference in valuation for accounting and tax purposes	-	(316)
other	(79,452)	(8,937)
Total	(80,032)	(33,068)
Total current income tax	12,620,131	5,798,330

As a result of the merger of subsidiaries with OJSC MTS, balances of deferred tax assets and liabilities of 150,892 thousand rubles and 83,995 thousand rubles, respectively, were transferred to the balance sheet of OJSC MTS as of the date of merger. See Note 14 "Reorganization".

7. SHARE CAPITAL

Share capital of the Company as at December 31, 2006, consisted of:

Type of shares	Par value, rubles	Number of shares	Of these, the number of shares fully paid up	Of these, the number of treasury shares (acquired by the Company, its subsidiaries and associates)
1	2	3	4	5
Ordinary shares	0.1	1,993,326,138	1,993,326,138	15,922,129
Total	X	1,993,326,138	1,993,326,138	15,922,129

The share capital is equal to 199,333 thousand rubles; no changes took place in 2006 and 2005.

8. ADDITIONAL BALANCE SHEET BREAKDOWNS

(thousand rubles)

Description	Line code	Account	December 31,	
			2005	2006
Construction in progress, including:	130		22,003,770	36,315,957
Equipment for installation		07	6,973,363	7,994,794
Unfinished construction of telecommunication equipment		08	13,356,641	26,034,499
Other investments in non-current assets		15,16	1,673,766	2,286,664
Other non-current assets, including:	150		13,974,048	20,027,147
Numbering capacity, non-exclusive rights to use software products with useful lives over 12 months		97	9,363,858	11,889,523
Advances given to acquire fixed assets and services in capital construction		60	4,610,190	8,137,624

8.1. Other current assets

As of December 31, 2006, line 270 "Other current assets" includes telecommunication equipment and spare parts purchased earlier from Lucent Technologies. The Company intends to sell these assets to LLC Tekhnoserv AS in 2007. As at December 31, 2006, the net book value of these assets was 1,488,475 thousand rubles.

9. ADDITIONAL PROFIT AND LOSS STATEMENT BREAKDOWNS

(thousand rubles)

Description	Line code	2006	2005
Other income, including:	090	7,047,182	850,170
Foreign exchange gains and losses, net		6,002,488	-
Prior years income identified in the reporting period		576,301	9,288
Currency transaction gains		119,753	33,455
Income from sale and disposal of fixed assets		59,555	62,400
Income from sale and disposal of other property		33,886	97,262
Income from sale of securities		19,331	139,278
Penalties and fines		10,705	42,425
Other		225,163	466,062
Other expenses, including:	100	4,232,968	7,417,197
Provision for doubtful debts		1,948,206	986,873
Expenses on sale and disposal of other property		134,041	149,585
Bank charges		644,876	1,812,029
Prior year losses identified in the reporting period		593,248	325,788
Expenses on sale and disposal of fixed assets		141,044	59,505
Taxes and duties		137,944	702,590
Provision for inventory obsolescence		75,866	244,566
Currency transaction losses		66,021	89,728
Expenses on sale of securities		17,067	302,249
Penalties and fines		13,306	4,574
Foreign exchange gains and losses, net		-	1,655,810
Other		461,349	1,083,900

10. BOARD OF DIRECTORS

As of December 31, 2006, the Board of Directors comprised the following members:

Full name	Position
S.D. Shchebetov	Chairman of the Board of Directors
L.A. Melamed	Member of the Board of Directors
A.E. Gorbunov	Member of the Board of Directors
A. N. Buyanov	Member of the Board of Directors
Sir Peter Middleton	Member of the Board of Directors
V.S. Lagutin	Member of the Board of Directors
Helmut Reuschenbach	Member of the Board of Directors

The total amount of compensation paid to the Board of Directors in 2005 and 2006 totaled 138,247 thousand rubles and 37,621 thousand rubles, respectively.

See Note 19 "Subsequent events".

11. MANAGEMENT BOARD

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

As of December 31, 2006, the Management Board was comprised of the following members:

Leonid Adolfovich Melamed	- President of OJSC MTS
Mikhail Valerievich Shamolin	- Vice-President of OJSC MTS
Sergey Gareginovich Aslanyan	- Vice-President of OJSC MTS
Vsevolod Valerievich Rozanov	- Vice-President of OJSC MTS
Esz Grzegorz Arthur	- Vice-President of OJSC MTS
Tatyana Vladimirovna Evtushenkova	- Vice-President of OJSC MTS
Andrey Borisovich Terebenin	- Vice-President of OJSC MTS
Pavel Dmitrievich Belik	- Vice-President of OJSC MTS
Sergey Borisovich Nikonov	- Vice-President of OJSC MTS
Pavel Evgenyevich Pavlovsky	- Director of Foreign companies Business unit
Alexander Valerievich Nikitin	- Head of the President's staff
Adam Wojacki	- Vice-President of OJSC MTS

See Note 19 "Subsequent events".

12. RELATED PARTIES***12.1. List of the parties related to the Company for the year 2006 and type of relations:***

1. **Alexey Nikolaevich Buyanov**, member of the Board of Directors;
2. **Alexander Evgenievich Gorbunov**, member of the Board of Directors;
3. **Vladimir Sergeevich Lagutin**, member of the Board of Directors;
4. **Peter Middleton**, member of the Board of Directors;
5. **Helmut Reuschenbach**, member of the Board of Directors;
6. **Leonid Adolfovich Melamed**, member of the Board of Directors, member of the Management Board;
7. **Sergey Dmitrievich Schebetov**, member of the Board of Directors;
8. **Mikhail Valerievich Shamolin**, member of the Management Board;
9. **Sergey Gareginovich Aslanyan**, member of the Management Board;
10. **Vsevolod Valerievich Rozanov**, member of the Management Board;
11. **Esz Grzegorz Arthur**, member of the Management Board;
12. **Tatiana Vladimirovna Evtushenkova**, member of the Management Board;

13. **Sergey Borisovich Terebenin**, member of the Management Board;
14. **Pavel Dmitrievich Belik**, member of the Management Board;
15. **Sergey Borisovich Nikonov**, member of the Management Board;
16. **Pavel Evgenievich Pavlovsky**, member of the Management Board;
17. **Alexander Valerievich Nikitin**, member of the Management Board;
18. **Adam Wojacki**, member of the Management Board;
19. **Bekhzod Bakhodirovich Akhmedov**, general director of LLC IP Uzdurobita;
20. **Dmitry Vyacheslavovich Bobikov**, head of OJSC MTS branch in the Mary-El Republic;
21. **Maxim Alexandrovich Kalinin**, general director of LLC MTS;
22. **Vladimir Mikhailovich Kliger**, general director of OJSC MTS P;
23. **Boris Gennadievich Podolsky**, general director of MST Sibi Corp.;
24. **Ilya Vitalievich Chuprinko**, general director of Vostok Mobile South B.V.;
25. **Vladimir Alexandrovich Morozov**, general director of CJSC Volgograd Mobile;
26. **Alexander Grigorievich Novitsky**, general director of OJSC Firma Novitel;
27. **Arkady Valentinovich Ryazanov**, general director of OJSC Mobile Communication Systems;
28. **Viktor Valentinovich Belyavsky**, general director of OJSC ReCom;
29. **Karema Abusalimovna Izieva**, general director of LLC Dagtelecom;
30. **Teimuraz Beshtauovich Kozhiev**, general director of CJSC Telesot-Alania;
31. **Sergey Viktorovich Lebedev**;
32. **Igor Vladislavovich Mariasov**, director of LLC MTS-T;
33. **Vladimir Viktorovich Midyushko**, general director of CJSC Uraltel-plus;
34. **Dmitry Vitalievich Novik**, general director of LLC Sweet-Com;
35. **Sergey Valerievich Pashchenko**, Chairman of the liquidation commission of LLC Krasintel;
36. **Andrey Evgenievich Sazonov**, general director of PTT Telecom Kiev;
37. **Andrey Nikolaevich Kholodov**, general director of CJSC Astrakhan Mobile;
38. **Marina Samuilovna Melamed**;
39. **Alla Grigorievna Melamed**;

40. **Adolf Abramovich Melamed;**
41. **Sofia Leonidovna Melamed;**
42. **Iliia Leonidovich Melamed;**
43. **Open joint-stock company Joint-Stock Financial Corporation Sistema and subsidiaries;**
44. **Barash Communications Technologies, Inc.,** subsidiary;
45. **MOBILE TELESYSTEMS FINANCE S.A.,** subsidiary;
46. **MCT Sibi Corp.,** subsidiary;
47. **Vostok Mobile B.V.,** subsidiary;
48. **Vostok Mobile South B.V.,** subsidiary;
49. **Closed joint-stock company Mar Mobile GSM,** subsidiary;
50. **Closed joint-stock company Sibintertelecom,** subsidiary;
51. **Limited liability company Private Security Company CHOP Shchittelecom,** subsidiary;
52. **Closed joint-stock company Astrakhan Mobile,** subsidiary;
53. **Closed joint-stock company Volgograd Mobile,** subsidiary;
54. **Closed joint-stock company Primtelefon,** subsidiary;
55. **Closed joint-stock company Russian Telephone Company,** subsidiary;
56. **Closed joint-stock company Telesot-Alania,** subsidiary;
57. **Closed joint-stock company Ukrainian Mobile Communications,** subsidiary;
58. **Limited liability company Mobile TeleSystems – T,** subsidiary;
59. **Limited liability company Foreign Production Entity Uzdunrobita,** subsidiary;
60. **Limited liability company Mobile TeleSystems – Capital,** subsidiary;
61. **Limited liability company Mobile TeleSystems – Kostroma,** subsidiary;
62. **Limited liability company Mobile TeleSystems in the Komi Republic,** subsidiary;
63. **Limited liability company Mobile TeleSystems,** subsidiary;
64. **Limited liability company PTT Telecom Kiev,** subsidiary;
65. **Limited liability company SWEET-Com,** subsidiary;
66. **Open joint-stock company Mobile Communication Systems,** subsidiary;
67. **Open joint-stock company Mobile Telematic Positioning Systems,** subsidiary;

68. **Open joint-stock company ReCom**, subsidiary;
69. **Open joint-stock company Firma Novitel**, subsidiary;
70. **Joint venture limited liability company (SOOO) Mobile TeleSystems**, associate;
71. **Sistema Telekomunikasyon Anonim Sirketi**, subsidiary;
72. **Closed joint-stock company Uraltel-plus**, subsidiary;
73. **Limited liability company Krasintel**, subsidiary;
74. **Limited liability company Dagtelecom**, subsidiary;
75. **Mobile TeleSystems Bermuda Limited**, subsidiary;
76. **Mobile TeleSystems B.V.**, subsidiary;
77. **Limited liability company TC-Service**, subsidiary;
78. **Limited liability company TC-Retail**, subsidiary;
79. **Vladimir Petrovich Evtushenkov**;
80. **Closed joint-stock company Center-Telco**, related company;
81. **Limited liability company VAST**, related company; and
82. **Closed joint-stock company Invest-Svyaz**, related company.

*12.2. Transactions with related parties in 2005 and 2006 included:***Purchase of equipment, goods, works and services; interest expense**

(thousand rubles)

Description	Purchase of equipment, goods, works and services		Interest expense	
	2006	2005	2006	2005
LLC MTS-Kostroma	-	16,514	-	-
LLC MTS-T	-	189,296	-	-
OJSC ReCom	277,826	290,715	-	-
OJSC Telecom XXI ¹	-	345,927	-	-
LLC MTS in the Komi Republic	-	56,493	586	-
CJSC MTS-Nizhny Novgorod ¹	-	78,738	-	-
OJSC TAIF-Telcom ²	26,826	113,586	1,889	1,821
CJSC Udmurt Digital Network-900 ¹	-	22,486	-	-
CJSC BM Telecom ²	20,193	82,360	3,082	-
CJSC Kuban GSM ¹	-	116,745	-	43,751
CJSC Donteicom ¹	-	46,479	-	-
CJSC MTS-Barnaul ¹	-	15,749	-	-
CJSC SibChallenge ²	12,514	64,670	-	-
CJSC Volgograd Mobile	59,439	34,062	-	-
CJSC Astrakhan Mobile	17,027	48,064	-	-
CJSC Primtelefon	323,369	209,918	-	1,947
SOOO MTS	70,615	46,551	-	-
LLC Firma Novitel	-	32,337	-	-
CJSC Ukrainian Mobile Communications	296,014	224,827	-	-
CJSC UralTel ²	50,019	156,492	-	-
CJSC Siberian Cellular Systems-900 ²	35,806	122,943	14,962	53,724
CJSC Far Eastern Cellular Systems-900 ²	27,626	82,079	1,294	1,738
Mobile Telesystems Finance S.A.	-	-	2,854,346	2,916,797
CJSC Sibinterteicom	65,681	35,620	24,547	325
OJSC Gorizont-RT ²	4,907	15,435	1,356	655
OJSC Rosno	190,244	224,085	-	-
OJSC RA Maxima	1,606,971	1,198,605	-	-
CJSC Telmos	36,090	35,000	-	-
OJSC MGTS	357,660	239,330	-	-
CJSC Company MTU-Inform	669,255	691,915	-	-
OJSC Comstar-United TeleSystems	149,561	135,025	-	-
Strom Telecom S. R. O.	2,639,298	3,186,689	-	-
LLC Kvazar Micro	1,066,374	1,297,949	-	-
OJSC Mezhregionalny Transit Telecom	1,204,504	639,707	-	-
CJSC Metro-telecom	115,920	-	-	-
CJSC Mediaplanning	706,564	618,894	-	-
OJSC Mobile Communication Systems	59,417	-	5,500	-
CJSC Tomsk Cellular Communications ³	8,579	-	-	-
LLC MTS	-	-	1,054	-
CJSC Telesot-Alania	28,638	-	-	-
CJSC Mar Mobile GSM	23,045	-	-	-
LLC Sweet-Com	93	-	-	-
Barash Communications Technologies Inc.	2,061	-	-	-
LLC Uzdunrobita	17,886	-	-	-
CJSC Sitronics Telecom Solutions	1,148,737	-	-	-
LLC Company Smart Cards	468,543	-	-	-
Other	85,330	88,376	-	5,543
TOTAL	11,872,632	10,803,661	2,908,616	3,026,301

¹ Transactions with these companies in 2005 are presented for the first half of 2005, as on June 30, 2005, they were merged with OJSC MTS as branches as part of the corporate reorganization.

² In 2006 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization").

Sales of equipment, goods, services, construction and installation works; interest income

(thousand rubles)

Description	Sales of equipment, goods, services, construction and installation works;		Interest income	
	2006	2005	2006	2005
OJSC ReCom	887,590	821,859	13,445	51,479
OJSC Telecom XXI ¹	-	344,486	-	5,927
LLC MTS in the Komi Republic	31	-	-	-
OJSC TAIF-Telcom ²	229,020	789,104	-	-
CJSC Udmurt Digital Network-900 ¹	-	103,552	-	3,420
CJSC BM Telecom ²	151,218	757,111	-	-
CJSC Volgograd Mobile	224,110	446,991	35,141	15,689
CJSC Astrakhan Mobile	55,390	143,030	11,268	6,044
CJSC Kuban GSM ¹	-	248,123	-	-
CJSC Dontelecom ¹	-	141,497	-	-
CJSC MTS-Barnaul ¹	-	187,239	-	5,759
CJSC SibChallenge ²	105,386	385,920	3,171	4,075
OJSC Mobile Communication Systems	391,324	357,141	-	-
CJSC Tomsk Cellular Communications ²	29,805	335,848	-	-
CJSC Amur Cellular Communications ¹	-	136,632	-	-
LLC MTS-Kostroma	-	196	-	205
LLC MTS-T	14	5,087	-	-
CJSC Primtelefon	1,162,571	960,907	-	-
CJSC Mar Mobile GSM	76,412	184,272	9,025	4,069
SOOO MTS, Minsk	41,022	44,689	97,005	143,667
CJSC Ukrainian Mobile Communications	88,740	80,780	117,854	-
CJSC UralTel ²	275,184	847,383	-	-
CJSC Siberian Cellular Systems-900 ²	230,150	691,138	-	-
CJSC Far Eastern Cellular Systems-900 ²	110,896	219,929	-	-
MST SibiCorp.	-	-	-	-
CJSC Sibintertelecom	213,297	51,960	-	-
OJSC Gorizont-RT ²	11,103	45,114	-	-
AKB Moscow Bank for Reconstruction and Development	-	-	151,514	113,407
OJSC Mezhrefionalny Transit Telecom	-	69,761	-	-
CJSC Telesot-Alania	93,939	-	1,249	-
OJSC MTS P	14	-	498	-
CJSC Amur Cellular Communications	-	-	581	-
LLC Sweet-Com	268	-	14,865	-
LLC MTS-Capital	437	-	-	-
Mobile Telesystems Bermuda Limited	-	-	7,073	-
LLC Dagtelecom	13,445	-	9,719	-
CJSC MTS-RTK ²	1,965	-	-	-
Barash Communications Technologies	152	-	-	-
LLC Uzdnrobita	1,326	-	-	-
Mobile Telesystems Finance S.A.	-	-	14,383	-
Vostok Mobile B.V.	-	-	798	-
Other	-	15,120	1,659	10,996
Total	4,394,809	8,414,869	489,248	364,737

¹ Transactions with these companies in 2005 are presented for the first half of 2005, as on June 30, 2005, they were merged with OJSC MTS as branches as part of the corporate reorganization.

² In 2006 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization").

Receivables, payables, loans issued and loans received

(thousand rubles)

Description	Accounts receivable		Accounts payable		Loans issued		Loans received	
	December 31,		December 31,		December 31,		December 31,	
	2005	2006	2005	2006	2005	2006	2005	2006
OJSC ReCom	199,501	805,656	158,452	258,794	207,155	113,249	-	-
OJSC TAIF-Telcom ¹¹	214,401	-	113,609	-	-	-	161,821	-
CJSC BM Telecom ²²	182,356	-	193,540	-	-	-	253,733	-
CJSC Volgograd Mobile	433,816	639,987	25,220	137,939	602,104	889,010	-	-
CJSC Astrakhan Mobile	253,734	320,691	92	5,633	219,712	276,058	-	-
CJSC SibChallenge ²	342,842	-	118,699	-	147,466	-	-	-
OJSC Mobile Communication Systems	32,386	147,459	57,979	31,657	-	-	110,060	115,560
CJSC Tomsk Cellular Communications ²	35,127	-	78,402	-	-	-	1,775	-
CJSC Primtelefon	522,155	791,063	407,166	44,816	-	-	-	-
CJSC Mar Mobile GSM	204,521	270,085	7,576	3,188	148,114	230,998	-	-
SOOO MTS, Minsk	9,556	2,964	8,513	3,344	1,203,368	570,264	-	-
LLC MTS-T	5,296	394	-	-	-	-	-	-
LLC MTS	-	18	-	-	-	-	248,130	131,487
CJSC UralTel ²	341,333	-	228,539	-	-	-	-	-
CJSC Siberian Cellular Systems-900 ²	73,312	-	1,134,181	-	-	-	1,144,450	-
CJSC Far Eastern Cellular Systems-900 ²	43,882	-	43,079	-	-	-	106,366	-
LLC MTS-Kostroma	6,209	-	125	-	-	-	-	-
Vostok Mobile B.V.	-	-	-	-	-	163,867	-	-
Mobile Telesystems Finance S. A.	-	-	-	-	748,345	4,192,468	34,859,015	32,579,383
LLC MTS-RTK	32,076	-	-	-	12,948	-	-	-
CJSC Sibintertelecom	11,588	6,534	13,000	16,424	-	-	290,325	598,872
OJSC RA Maxima	48,621	55,294	-	92,717	-	-	-	-
CJSC Company MTU-Inform	-	-	69,946	1,626	-	-	-	-
AFK Sistema	-	-	-	-	-	-	1,911,745	2,002,387
Strom Telecom S. R. O.	-	-	730,441	718,922	-	-	-	-
LLC Kvazar Micro	-	-	188,935	168,484	-	-	-	-
OJSC ROSNO	105,438	-	-	2,625	-	-	-	-
OJSC Interregional Transit Telecom	8,933	-	73,919	15,247	-	-	-	-
LLC Mobile TeleSystems in the Komi Republic	-	-	-	15,254	-	-	-	18,266
CJSC Ukrainian Mobile Communications	-	16,189	-	-	-	4,724,665	-	-
OJSC MTS P	-	763	-	-	-	153,585	-	-
CJSC Amur Cellular Communications	-	-	-	-	-	23,076	-	-
LLC Sweet-Com	-	10	-	110	-	214,266	-	-
CJSC Telesot-Alania	-	42,550	-	4,689	-	42,257	-	-
LLC Dagtelecom	-	15,898	-	-	-	173,341	-	-
MST SibiCorp	-	-	-	-	-	139	-	-
Mobile Telesystems Bermuda Limited	-	-	-	-	-	2,896,440	-	-
LLC MTS-Capital	-	1,772	-	-	-	-	-	8,230
Barash Communications Technologies	-	18	-	-	-	-	-	-
OJSC MGTS	-	-	-	20,159	-	-	-	-
OJSC Comstar-United TeleSystems	-	-	-	40,389	-	-	-	-
LLC Uzdunrobita	-	550	-	2,896	-	-	-	-
CJSC Metro-Telecom	-	-	-	24,497	-	-	-	-
CJSC Sitronics Telecom Solutions	-	-	-	738,816	-	-	-	-
CJSC Mediaplanning	-	95,059	-	-	-	-	-	-
LLC Company Smart Cards	-	-	-	45,409	-	-	-	-
Other	40,652	12,398	44,904	994	166,583	616	118,885	-
Total	3,147,735	3,225,352	3,696,317	2,394,629	3,455,795	14,664,299	39,206,305	35,454,185

¹ Transactions with these companies in 2005 are presented for the first half of 2005, as on June 30, 2005, they were merged with OJSC MTS as branches as part of the corporate reorganization.

² In 2006 transactions with these companies are presented for the first quarter (see Note 14 "Reorganization").

Dividends received and paid

(thousand rubles)

Description	Dividends received		Dividends paid	
	2006	2005	2006	2005
OJSC ReCom	-	91,765	-	-
LLC MTS-T	-	15,156	-	-
LLC MTS	-	-	-	41,426
SOOO MTS, Minsk	92,446	75,235	-	-
T-Mobile	-	-	-	1,153,413
OJSC AFK Sistema	-	-	4,409,992	4,678,262
Non resident shareholders	-	-	6,848,781	-
Other, including shareholders – private individuals	71	-	2,151,774	5,592,416
Total	92,517	182,156	13,410,547	11,465,517

13. DISTRIBUTION OF RETAINED EARNINGS

On June 23, 2006, the annual shareholders' meeting approved the payment of dividends from the undistributed earnings for 2005, in the amount of 15,149,279 thousand rubles.

On June 21, 2005, the annual shareholders' meeting approved the payment of dividends from the undistributed earnings for 2004, in the amount of 11,465,517 thousand rubles.

14. REORGANIZATION

On March 31, 2006, the following subsidiaries were merged into the Company as branches as a result of reorganization:

- OJSC Gorizont-RT;
- CJSC Uraltel;
- CJSC Far East Cellular Systems -900;
- CJSC Siberian Cellular Systems-900;
- OJSC TAIF-Telcom;
- CJSC Tomsk Cellular Communications;
- CJSC SibChallenge;
- CJSC BM Telecom; and
- CJSC MTS-RTK.

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

Fixed and intangible assets of the merged companies were transferred to OJSC MTS balance sheet at net book value; other assets and liabilities - at carrying value at the date of merger according to the acts of transfer dated March 31, 2006. Profit and loss accounts of the merged companies were included in the financial statements of OJSC MTS starting from the date of merger. The result of the merger is presented in lines 123 and 133 of the statement of changes in equity.

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

14.1. Amounts related to merged companies at the date of the merger:

(thousand rubles)

Name	Investments	Fixed assets	Other non-current assets	Intangible assets	Accounts payable	Other liabilities
CJSC MTS-RTK	-	21,127	210	9,431	34,973	-
OJSC TAIF-Telcom	31,720	1,476,604	784,435	605,364	609,981	188,390
CJSC BM Telecom	250,172	858,202	532,826	1,000,520	461,116	26,029
CJSC Uraltel	4	1,512,968	1,117,692	1,090,433	866,393	12,629
CJSC Tomsk Cellular Communications	1,785	389,159	258,297	370,287	180,362	8,553
CJSC Siberian Cellular Systems-900	1,235,181	1,070,293	645,586	1,965,064	477,992	84,118
CJSC SibChallenge	74	553,928	719,745	714,716	865,277	17,201
OJSC Gorizont-RT	118,967	308,795	169,707	616,031	432,444	23,740
CJSC Far East Cellular Systems -900	107,661	260,245	289,620	365,084	387,829	21,715
Total	1,745,564	6,451,321	4,518,118	6,736,930	4,316,367	382,375

As a result of reorganization through merger, the following investments were excluded from the long-term investments of OJSC MTS:

14.2. Financial investments into merged companies as of the date of merger:

(thousand rubles)

Company	Investment
OJSC TAIF-TELCOM	3,821,778
OJSC Gorizont-RT	1,885,107
CJSC SibChallenge	1,641,239
CJSC Tomsk Cellular Communications	1,444,015
CJSC Siberian Cellular Systems-900	1,401,947
CJSC BM Telecom	1,347,899
CJSC Uraltel	1,222,285
CJSC Far East Cellular Systems -900	243,772
CJSC MTS-RTK	107
Total	13,008,149

14.3. Pro forma results of operations (unaudited)

The pro forma financial indicators for the years ended December 31, 2006 and 2005 presented below reflect the merger of CJSC Telecom-900; OJSC Telecom XXI; CJSC Kuban GSM; CJSC DonTelecom; CJSC MTS-Nizhny Novgorod; CJSC UDN-900, CJSC Amur Cellular Communications; CJSC MTS-Barnaul on 30 June 2005 and merger of OJSC Gorizont-RT; CJSC Uraltel; CJSC Far Eastern Cellular Systems-900; CJSC Siberian Cellular Systems-900; OJSC TAIF-Telcom; CJSC Tomsk Cellular Communications; CJSC SibChallenge; CJSC BM Telecom; CJSC MTS-RTK on 31 March 2006 as if they occurred at the beginning of the respective reporting periods:

(thousand rubles)

	2006	2005
Pro forma indicators		
Sales	118,190,307	97,788,229
Operating income	46,674,752	37,967,634
Net income	32,902,416	19,979,873
Earnings per share, basic and diluted, rubles	16.51	10.02

15. FOREIGN EXCHANGE GAINS/LOSSES

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

As of December 31, 2005:

USD 1 = RUR 28.78;
EUR 1 = RUR 34.19;

As of December 31, 2006:

USD 1 = RUR 26.33;
EUR 1 = RUR 34.70.

16. REPORTING SEGMENTS

The Company provides telecommunication services on the territory of the Russian Federation in an environment of similar economic and political risks in various Russian regions which have similar economic within the same characteristics and economic and political environment. Therefore, the Company's management believes that in 2005 and 2006 the Company operated within one reporting segment. Hence, there are no grounds for disclosing information by reporting segments.

17. GUARANTEES ISSUED AT 31 DECEMBER 2006

Debtor's name	Creditor's name	Origination date of off-balance sheet liability	Termination date of off-balance sheet liability	Contract currency	Contract value (thousand)	Contract value (thousand rubles) ¹
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	30/01/2003	30/01/2008	US Dollar	400,000	10,532,440
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	14/10/2003	14/10/2010	US Dollar	400,000	10,532,440
MOBILE TELESYSTEMS FINANCE S.A.	Bondholders of MOBILE TELESYSTEMS FINANCE S.A.	31/01/2005	28/01/2012	US Dollar	400,000	10,532,440
CJSC Ukrainian Mobile Communications	ING BHF-BANK; Commerzbank (Frankfurt)	30/12/2003	31/01/2009	Euro	51,670	1,792,764
SOOO Mobile TeleSystems (Republic of Belarus)	Citibank International plc	23/01/2004	01/04/2007	US Dollar	21,044	554,116
MOBILE TELESYSTEMS FINANCE S.A.	HSBC Bank plc	02/12/2004	27/07/2007	US Dollar	8,908	234,550
Other						17,796
Total						34,196,546

¹ Translated using the rate as at December 31, 2006.

18. CONTINGENCIES

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

The additional taxes and penalties assessed amounted to 975,723 thousand rubles, including:

• Corporate profit tax	726,548 thousand rubles
• Value added tax	248,811 thousand rubles
• Land tax	50 thousand rubles
• Property tax	104 thousand rubles
• Advertising tax	21 thousand rubles
• Unified social tax	187 thousand rubles
Penalties	161,013 thousand rubles
Fines	146,925 thousand rubles

As of December 31, 2006, the Company acknowledged a portion of the additional taxes and penalties assessed in the amount of 61,472 thousand rubles and paid it to the government.

Having analyzed the objectivity and reasonableness of the other items of the decision, and following the prudence principle, the Company recorded a provision for contingencies in accordance with OJSC MTS' accounting policy of 503,836 thousand rubles.

The above decision of the Tax Inspectorate was appealed against with the Arbitration court of Moscow. See note 19 "Subsequent events".

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

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

19. SUBSEQUENT EVENTS

Merger of subsidiaries with OJSC MTS as branches – On April 2, 2007, as part of the reorganization, the following subsidiaries merged into the Company as branches:

- OJSC ReCom; and
- CJSC Telesot-Alania.

The share capital of OJSC MTS (number and par value of shares) did not change following the merger.

Changes in the Management Board of OJSC MTS – starting from March 31, 2007, the Management Board of OJSC MTS comprises the following members:

Leonid Adolfovich Melamed
Mikhail Valerievich Shamolin
Sergey Gareginovich Aslanyan
Vsevolod Valerievich Rozanov
Cynthia Elison Gordon
Tatyana Vladimirovna Evtushenkova
Andrey Borisovich Terebenin
Pavel Dmitrievich Belik
Sergey Borisovich Nikonov
Pavel Evgenyevich Pavlovsky

Appeal against a decision of the Interregional Tax Inspectorate of the Russian Federal Tax Service – On February 19, 2007, the Arbitration Court of Moscow ruled in favour of OJSC MTS.