

MTS OJSC's balance sheet and income statement for the year 2001

MOBILE TELESYSTEMS CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2000 and 2001

(Amounts in thousands of U.S. dollars, except share amounts)

	December 31 2000	December 31 2001
CURRENT ASSETS:		
Cash and cash equivalents	\$75,828	\$219,629
Short-term investments	170,000	85,304
Trade receivables, net	15,817	24,258
Accounts receivable, related parties	4,937	2,377
Inventory, net	23,551	26,184
Prepaid expenses	11,268	22,712
VAT receivable.....	17,741	82,216
Deferred tax asset	2,071	12,040
Other current assets.....	8,771	8,374
Total current assets	329,984	483,094
PROPERTY, PLANT AND EQUIPMENT , net of accumulated depreciation of \$87,676 and \$168,989, respectively	439,307	841,308
LICENSES , net of accumulated amortization of \$43,913 and \$79,783, respectively	204,996	297,490
OTHER INTANGIBLE ASSETS , net of accumulated amortization of \$33,648 and \$52,953, respectively	57,586	83,507
GOODWILL , net of accumulated amortization of \$14,756 and \$20,861, respectively	27,984	22,411
SUBSCRIBER ACQUISITION COSTS , net of accumulated amortization of \$74,803 and \$nil, respectively	27,553	—
DEBT ISSUANCE COSTS , net of accumulated amortization of \$900 and \$1,209, respectively	450	3,997
INVESTMENTS IN AND ADVANCES TO AFFILIATES	13,472	740
Total assets	\$1,101,332	\$1,732,547

MOBILE TELESYSTEMS
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2000 and 2001

(Amounts in thousands of U.S. dollars, except share amounts)

	<u>December 31</u> <u>2000</u>	<u>December 31</u> <u>2001</u>
CURRENT LIABILITIES:		
Accounts payable, related parties	\$5,797	\$6,142
Trade accounts payable	37,860	106,068
Deferred connection fees	14,923	21,419
Subscriber prepayments and deposits	44,610	63,741
Debt, current portion	24,000	18,245
Promissory notes payable, current portion	—	580
Capital lease obligation, current portion	—	14,401
Income tax payable	15,082	23,078
Accrued liabilities	38,175	51,626
Other payables	2,316	3,357
Total current liabilities	<u>182,762</u>	<u>308,657</u>
LONG-TERM LIABILITIES:		
Notes payable, net of discount	—	248,976
Debt, net of current portion	23,305	30,150
Capital lease obligation, net of current portion	—	7,696
Promissory notes payable, net of current portion	5,468	5,792
Deferred connection fees, net of current portion	16,630	26,269
Deferred taxes	72,083	72,192
Total long-term liabilities	<u>117,486</u>	<u>391,075</u>
Total liabilities	<u>300,248</u>	<u>699,732</u>
COMMITMENTS AND CONTINGENCIES	—	—
MINORITY INTEREST	—	12,999
SHAREHOLDERS' EQUITY:		
Common stock: (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of September 30, 2001 and December 31, 2000, 345,244,080 of which are in the form of ADS (Note 1))	50,558	50,558
Treasury stock (9,966,631 common shares at cost)	(10,206)	(10,206)
Additional paid-in capital	552,030	555,794
Shareholder receivable	(49,519)	(38,958)
Retained earnings	258,221	462,628
Total shareholders' equity	<u>801,084</u>	<u>1,019,816</u>
Total liabilities and shareholders' equity	<u><u>\$1,101,332</u></u>	<u><u>\$1,732,547</u></u>

MOBILE TELESYSTEMS
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 and 2001

(Amounts in thousands of U.S. dollars, except share and per share amounts)

		December 31	
	1999	2000	2001
NET REVENUES:			
Service revenues.....	\$ 314,568	\$ 484,469	\$830,308
Connection fees	12,755	14,885	21,066
Equipment sales.....	31,004	36,358	41,873
	<u>358,327</u>	<u>535,712</u>	<u>893,247</u>
COST OF SERVICES AND PRODUCTS (including related party amounts of \$17,219, \$20,040 and \$30,537, respectively):			
Interconnection and line rental	38,958	41,915	75,278
Roaming expenses.....	21,725	41,178	68,387
Cost of equipment	29,932	39,217	39,828
	<u>90,615</u>	<u>122,310</u>	<u>183,493</u>
OPERATING EXPENSES (including related party amounts of \$9,670, \$5,064 and \$8,882, respectively and expenses associated with management stock bonus plan of \$nil, \$5,297 and \$nil, respectively):	74,612	110,242	134,598
SALES AND MARKETING EXPENSES (including related party amounts of \$930, \$6,400 and \$8,707, respectively):	23,722	76,429	107,729
DEPRECIATION AND AMORTIZATION	53,766	87,684	133,143
Net operating income	115,612	139,047	334,284
CURRENCY EXCHANGE AND TRANSLATION LOSSES	3,238	1,066	1,871
OTHER EXPENSES (INCOME) (including related party amounts of \$nil, \$952 and \$2,978, respectively):			
Interest income	(801)	(7,626)	(11,829)
Interest expenses, net of amounts capitalized	11,805	11,335	6,944
Impairment of investments and other	(829)	(502)	10,108
Total other expenses, net	10,175	3,207	5,223
Income before provision for income taxes and minority interest	102,199	134,774	327,190
PROVISION FOR INCOME TAXES	18,829	51,154	97,414
MINORITY INTEREST	(2,291)	(6,428)	6,614
NET INCOME before cumulative effect of a change in accounting principle and extraordinary gain	85,661	90,048	223,162
Cumulative effect of a change in accounting principle, net of income taxes of \$9,644	-	-	(17,909)
Extraordinary gain on debt repayment, net of income taxes of \$667	-	-	2,113
NET INCOME	<u>\$85,661</u>	<u>\$ 90,048</u>	<u>\$ 207,366</u>
Weighted average number of shares outstanding.....	1,634,527,440	1,806,968,096	1,983,359,507
Earnings per share (basic and diluted):			
Net income before cumulative effect of a change in accounting principle and extraordinary gain	\$ 0.052	\$ 0.050	\$ 0.113
Cumulative effect of a change in accounting principle	—	—	(0.009)
Extraordinary gain on debt repayment	—	—	0.001
Net income	\$ 0.052	\$ 0.050	\$ 0.105

MOBILE TELESYSTEMS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 and 2001

(Amounts in thousands of U.S. dollars, except share amounts)

	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income after cumulative effect on prior years (to December 31, 2000) of a change in accounting principle ...	\$ 85,661	\$ 90,048	\$ 207,366
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	(2,291)	(6,428)	6,614
Depreciation and amortization	53,766	87,684	133,143
Amortization of deferred connection fees	(12,755)	(14,867)	(20,027)
Deferred subscriber acquisition cost.....	(23,674)	(49,232)	(30,978)
Amortization of deferred subscriber acquisition costs.....	12,285	53,604	30,978
Cumulative effect of a change in accounting principle	—	—	17,909
Gain on debt extinguishment	—	—	(2,113)
Provision for obsolete inventory.....	590	2,114	2,543
Provision for doubtful accounts.....	8,006	2,403	3,219
Provision for other assets	379	—	—
Loan interest accrued	11,809	11,335	5,845
Loan interest paid	(11,431)	(17,850)	(4,068)
Deferred taxes	(17,594)	(932)	(49,742)
Non-cash expenses associated with stock bonus plan	—	5,297	—
Impairment of investments.....	—	—	10,000
Changes in operating assets and liabilities:			
Decrease / (Increase) in trade receivables	3,435	6,730	(7,181)
Decrease/(Increase) in accounts receivable, related parties.....	(5,245)	4,223	(3,091)
Increase in inventory.....	(8,074)	(8,922)	(4,129)
Increase in prepaid expenses	(267)	(1,680)	(8,552)
Increase in VAT receivable	(2,944)	(6,033)	(59,618)
(Increase)/Decrease in other current assets.....	2,818	(7,363)	1,613
Increase/(Decrease) in accounts payable, related parties ...	(11,921)	743	1,049
(Decrease)/Increase in trade accounts payable.....	29,143	(29,801)	20,470
Increase in subscriber prepayments and deposits and deferred connection fees	7,901	43,382	19,424
Increase/(Decrease) in income tax payable.....	(7,401)	19,787	49,980
Increase in accrued liabilities and other payables.....	4,605	6,672	17,547
Net cash provided by operating activities	116,801	190,914	338,201
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of UDN-900, net of cash acquired.....	(180)	—	—
Purchase of ACC, net of cash acquired.....	(83)	—	—
Purchase of Telecom XXI, net of cash acquired	—	—	(49,680)
Purchase of Telecom 900, net of cash acquired	—	—	(25,665)
Purchase of ReCom, net of cash acquired	—	—	(199)
Purchase of Novitel, net of cash acquired	—	—	13
Purchase of 20% interest in Rosico	—	(16,085)	—
Purchase of 32.5% interest in MSS	—	—	(327)
Purchase of property, plant and equipment	(109,012)	(194,983)	(396,667)
Purchase of intangible assets	(9,326)	(29,915)	(44,533)
Purchases of short term investments.....	—	(170,000)	(110,000)
Proceeds from sale of short term investments	—	—	195,602
Other non-current assets realized.....	2,313	—	—
Decrease/(Increase) in investments in and advances to affiliates	1,104	(12,366)	(10,067)
Net cash used in investing activities.....	(115,184)	(423,349)	(441,523)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of capital stock, net of direct expenses	—	348,553	—
Proceeds from issuance of notes, net of underwriter discount	—	—	248,135
Notes issuance cost.....	—	—	(3,856)
Capital lease obligation principal paid.....	—	—	(7,947)
Dividends paid	(11,224)	(14,425)	(2,959)
Proceeds from short-term debt	18,000	—	13,577
Loan principal paid	(18,333)	(62,665)	(13,683)
Payments from Sistema.....	—	27,080	14,325
Net cash provided by (used in) financing activities.....	<u>(11,557)</u>	<u>298,543</u>	<u>247,592</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(944)</u>	<u>(280)</u>	<u>(469)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	<u>(10,884)</u>	<u>65,828</u>	<u>143,801</u>
CASH AND CASH EQUIVALENTS , at beginning of year	<u>20,884</u>	<u>10,000</u>	<u>75,828</u>
CASH AND CASH EQUIVALENTS , at end of year	<u>\$10,000</u>	<u>\$75,828</u>	<u>\$219,629</u>
SUPPLEMENTAL INFORMATION:			
Income taxes paid.....	\$ 59,484	\$ 35,052	\$ 129,418