MOBILE TELESYSTEMS OJSC

RUSSIAN FEDERATION

4 Marksistskaya Street, Moscow 109147 Russian Federation
(Address of Principal Executive Offices)

ANNUAL REPORT
for the year ended December 31, 2001

(FOR MTS OJSC's ANNUAL GENERAL SHAREHOLDERS' MEETING PURPOSES ONLY)

Moscow, 2002

OUR LICENSE AREAS

1. Overview of Operations and Business Strategy

Our primary goal is to become the first truly national mobile cellular operator in Russia by integrating our regional networks into a single unified network, developing standardized tariffs and deploying integrated nationwide customer service and billing systems. In addition, we intend to take advantage of selected opportunities to expand our network coverage in the Russian Federation and other countries of the CIS and offer our customers new products and services. To accomplish this, we intend to implement the following strategies:

- Maintain our leading position in the Moscow license area by focusing on the high- and middle-market subscriber segments, quality service and cost control. We intend to invest in new customer service and billing systems to help maintain customer satisfaction, reduce costs and control churn.

- Develop commercial service coverage in the St. Petersburg license area, the second most important mobile cellular market in Russia.

- Selectively expand our network to parts of Russia in which we do not already operate, focusing on high-density population areas with higher per capita incomes, such as regional capitals, and along transportation routes.

- Initiate service in Belarus and expand our operations into other countries of the CIS as attractive opportunities arise through the acquisition of existing operators or new licenses.

- Continue to take advantage of the Moscow license area as a platform from which to test and launch new products and services, such as wireless application protocol (WAP); general packet radio service (GPRS); and universal mobile telecommunications system (UMTS).

- Provide tariff plans and value-added service options which appeal to the various groups of subscribers within our network.

Implementation of these strategies is subject to a number of risks, including our ability to manage our rapid growth and development, integrate new acquisitions successfully, and compete effectively against existing and new competitors. See “Risk Factors” for a description of these and other risks we face.

2. Russian Operating Environment

Both our subscriber base, which reflects only active subscribers, and our net revenues have increased significantly since 1999, as summarized below:

Period	Subscribers	Churn Rate	Net revenues (in thousands)
1999	307,000	20.8%	$358,327
2000	1,194,000	21.6%	$535,712
2001	2,650,000	26.8%	$893,247

According to J'son & Partners and Sotovik, news and information services providers specializing in Russian cellular telecommunications markets, Russia was the second largest cellular market in Eastern Europe after Poland, in terms of total number of subscribers. Recent growth in mobile cellular subscription in Russia has been as follows:

	Mobile Cellular Subscribers	Penetration Rate
December 31, 1999	1,360,000	0.9%
December 31, 2000	3,400,000	2.3%
December 31, 2001	8,040,000	5.5%

Our principal competitor in the Moscow license area is VimpelCom, which operates both dual-band GSM and Digital Advanced Mobile Phone Systems, or D-AMPS, networks. In addition, Sonic Duo, which operates as part of the nine-company MegaFon group that is expected to be formed in the first half of 2002, began commercial operations in the Moscow license area using a dual-band GSM network in December 2001. According to MegaFon press releases, the MegaFon operators together have licenses covering 100% of the territory and population of the Russian Federation.

Outside the Moscow license area, we compete against VimpelCom and the operators that will constitute MegaFon, as well as local or regional operators.

3. Summary Financial and Operating data

The selected financial data below shows our historical financial information at December 31, 1997, 1998, 1999, 2000 and 2001. This information is derived from our audited annual financial statements.

The selected financial data should be read in conjunction with our financial statements included elsewhere in this document and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years Ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
Statement of operations data:					
Net revenues:					
Service revenues[(1)]..........	$188,223	$313,282	$314,568	$484,469	$830,308
Connection fees	4,750	8,697	12,755	14,885	21,066
Equipment sales..............	15,435	16,344	31,004	36,358	41,873
Total net revenues	208,408	338,323	358,327	535,712	893,247
Cost of services and products:					
Interconnection and line rental	25,864	43,617	38,958	41,915	75,278
Roaming expenses..........	7,542	13,223	21,725	41,178	68,387

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
Cost of equipment	15,537	14,658	29,932	39,217	39,828
Cost of services and products	48,943	71,498	90,615	122,310	183,493
Operating expenses(2)	43,030	167,470	74,612	110,242	134,598
Sales and marketing expenses	9,554	15,657	23,722	76,429	107,729
Depreciation and amortization	14,757	19,629	53,766	87,684	133,143
Net operating income	93,881	164,069	115,612	139,047	334,284
Currency exchange and translation loss(3)	1,389	25,125	3,238	1,066	1,871
Other expenses (income):					
Interest income	(1,086)	(2,181)	(801)	(7,626)	(11,829)
Interest expenses, net of amounts capitalized(4)	756	8,302	11,805	11,335	6,944
Impairment of investments and other	3,773	4,838	(829)	(502)	10,108
Total other expenses (income), net	3,443	10,959	10,175	3,207	5,223
Income before provision for income taxes and minority interest	89,049	127,985	102,199	134,774	327,190
Provision for income taxes	29,409	62,984	18,829	51,154	97,414
Minority interest in net (loss) income	—	(1,027)	(2,291)	(6,428)	6,614
Net income before cumulative effect of a change in accounting principle, and extraordinary gain	59,640	66,028	85,661	90,048	225,275
Cumulative effect on prior years (to December 31, 2000) of a change in accounting principle	—	—	—	—	(17,909)
Extraordinary gain on repayment of debt, net of tax of $667	—	—	—	—	2,113
Net income	$59,640	$66,028	$85,661	$90,048	$207,366
Dividends paid	$3,777	$9,624	$11,224	$14,425	$2,959
Earnings per share	$0.049	$0.047	$0.052	$0.050	$0.113

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
before change in accounting and extraordinary gain, basic and diluted					
Change in accounting principle.......................	—	—	—	—	(.009)
Extraordinary gain in repayment of debt	—	—	—	—	0.001
Net Income	$.049	$0.478	$0.52	$0.50	$0.105
Pro forma net income giving effect to the change in accounting principle, had it been applied retroactively.....	$54,006	$59,439	$78,258	$93,108	$225,275
Pro forma earnings per share giving effect to the change in accounting principle, had it been applied retroactively..................	$0.044	$0.043	$0.048	$0.052	$0.113
Other data:					
EBITDA[5]	$103,476	$154,762	$169,260	$232,595	$433,038
EBITDA margin[6]..........	49.7%	45.7%	47.2%	43.4%	48.5%
Adjusted EBITDA[5][7]....	94,809	144,625	157,871	236,967	457,810
Adjusted EBITDA margin[5][7][8]	45.5%	42.8%	44.1%	44.2%	51.3%
Cash provided by operating activities	90,523	103,486	116,801	190,914	340,982
Cash used in investing activities	(71,351)	(122,051)	(115,184)	(423,349)	(441,523)
Cash provided by (used in) financing activities .	28,253	(9,624)	(11,557)	298,543	247,592
Capital expenditures	71,351	103,132	118,338	224,898	441,200
Consolidated balance sheet data:					
Cash and cash equivalents....................	$52,664	$20,884	$10,000	$75,828	$219,629
Short-term investments ..	—	—	—	170,000	85,304
Total assets	252,519	614,165	682,047	1,101,332	1,728,122
Total debt (long-term and short-term)[9]..........	48,061	110,155	112,123	52,773	325,840
Total shareholders' equity:..........................	113,280	269,942	343,724	801,084	1,019,816
including capital stock .	46,800	49,276	49,276	40,352	40,352

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
Key financial ratios:					
Total debt/EBITDA(18) ...	0.5x	0.7x	0.7x	0.2x	0.8x
EBITDA/interest expense(18)	136.9x	18.6x	14.3x	20.5x	62.36x
Total debt/adjusted EBITDA(18)..................	0.5x	0.8x	0.7x	0.2x	0.7x
Adjusted EBITDA/interest expense(18)	125.4x	17.4x	13.4x	20.9x	65.93x
Ratio of earnings to fixed charges(10)(18)	21.2x	14.4x	8.8x	12.0x	48.1x
Key industry data:					
Estimated population in Russia (millions)(11)......	146.7	146.3	145.6	144.8	146
Russian cellular subscribers (end of period, thousands)(12)....	481	718	1,360	3,400	8,040
Industry penetration(12) ...	0.3%	0.5%	0.9%	2.3%	5.5%
Cellular subscribers—Moscow region (end of period, (thousands)(12)..............	224	328	751	1,996	4,080
Moscow region penetration(12)	1.5%	2.2%	5.0%	13.3%	27%
MTS operating data:(13)					
MTS—total subscribers (end of period, thousands)(14)................	59	114	307	1,194	2,650
MTS share of total Russian subscribers (end of period).............	12.2%	15.9%	22.6%	35.1%	33%
MTS—subscribers in Moscow and Moscow region (end of period, thousands)	59	113	299	1,106	2,035
MTS share of subscribers in Moscow and Moscow region (end of period) ..	26%	35%	40%	55%	50%
Average monthly usage per subscriber (minutes)(15).................	313	384	224	151	157
Average monthly revenue per subscriber	409	302	124	54	36

	Years Ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
	(Amounts in thousands, except earnings per share, industry and operating data and ratios)				
(in U.S. dollars)[16]					
Churn rate[17]	22.5%	31.2%	20.8%	21.6%	26.8%

(1) Service revenues represent subscription fees, usage charges and value-added service fees, as well as roaming fees charged to other operators for their subscribers, or guest roamers, utilizing our network. Guest roaming fees were $8.7 million, $38.9 million, $56.5 million, $44.0 million, $43.2 million and $52.6 million for the years ended December 31, 1996, 1997, 1998, 1999, 2000 and 2001, respectively.

(2) Operating expenses include taxes (other than Russian income taxes), primarily revenue and property-based taxes, of $3.6 million, $8.9 million, $16.5 million, $15.6 million, $26.9 million and $25.3 million for the years ended December 31, 1996, 1997, 1998, 1999, 2000 and 2001, respectively.

(3) On a day-to-day basis, we are exposed to exchange losses on cash balances and other monetary assets and liabilities denominated in rubles. See Note 2 to our consolidated financial statements included elsewhere in this document.

(4) Capitalized interest expenses were $nil, $3.5 million, $1.2 million, $1.3 million, $0.9 million and $nil for the years ended December 31, 1996, 1997, 1998, 1999, 2000 and 2001, respectively.

(5) EBITDA, which represents income before provision for income taxes, interest, depreciation and amortization, should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. We believe that EBITDA is a relevant measurement utilized by the cellular industry to assess performance which attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

(6) "EBITDA margin" represents EBITDA as a percentage of net revenues.

(7) "Adjusted EBITDA" represents EBITDA plus change in accounting for subscriber acquisition costs and the extraordinary gain on debt repayment. See our consolidated financial statements included elsewhere in this document.

(8) "Adjusted EBITDA margin" represents adjusted EBITDA as a percentage of net revenues.

(9) Includes bank loans, equipment financing and capital lease obligations.

(10) Represents "earnings" divided by "fixed charges". "Fixed charges" are defined as the sum of interest expensed and capitalized, amortized capitalized expenses related to indebtedness and an estimate of interest within rental expense. "Earnings" are defined as the result of adding income before provision for income taxes and minority interest, fixed charges, amortization of capitalized interest, and subtracting interest capitalized.

(11) Estimated population for the year ended December 31, 2001 is not available; estimated population for these periods is assumed to be equal to estimated population at December 31, 2000.

(12) Source: Sotovik.

(13) Source: Sotovik and our data.

(14) We define a "subscriber" as an individual or organization that has a contract with us for the provision of mobile cellular telecommunication services and whose invoices are not overdue by more than two months. Our subscriber figures exclude those of ReCom until April 2001, when ReCom became a consolidated subsidiary.

(15) Average monthly minutes of usage per subscriber is calculated by dividing the total number of minutes of usage during a given period by the average number of our subscribers during such period and dividing by the number of months in such period.

(16) We calculate our average monthly service revenue per subscriber by dividing our service revenues for a given period, including guest roaming fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

(17) We define our "churn rate" or "churn" as the total number of subscribers who cease to be a "subscriber" as defined in note (14) during the period (whether involuntarily due to non-payment or voluntarily, at such subscriber's request), expressed as a percentage of the average number of our subscribers during that period.

(18) The following table presents our pro forma key financial ratios. Pro forma financial ratios have been computed assuming that the issuance of the $300 million notes was consummated as of January 1, 2000, and that we did not capitalize any of the interest expenses related to these notes. Pro forma key financial ratios are calculated without giving any effect to the application of the proceeds of these notes, including in respect of other indebtedness or EBITDA or earnings. Pro forma key financial ratios have been computed by adjusting the corresponding historical key financial ratios to reflect the notes and the incremental interest expense. This incremental interest expense was computed based on the effective interest rates times the balances of these notes at the end of that period and includes amortization and deferred costs associated with issuance of these notes.

4. Capitalization

The following table sets forth our consolidated capitalization at December 31, 2001, on a historical basis and as adjusted to give effect to the application of the net proceeds of the offering of the Restricted Notes as described under "Proceeds From the Exchange Offer." For further information regarding our financial condition, see "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements located elsewhere in this prospectus.

	At December 31, 2001	
	Historical	**As Adjusted**
	(Amounts in thousands)	
Short-term debt:		
Capital lease obligations	$14,401	$14,401

Ericsson loan[1]	4,500	4,500
Lines of credit	43,000	13,000
Motorola Inc. promissory note payable	580	580
Other debt and promissory notes	745	745
Total short-term debt	33,226	33,226
Long-term debt:		
Capital lease obligations	$7,696	$7,696
Ericsson loan	30,150	30,150
Other debt and promissory notes	5,792	5,792
$250,000,000 10.95% notes due 2004 issued on December 21, 2001	248,976	248,976
$50,000,000 10.95% notes due 2004 issued on March 19, 2002	—	50,808
Total long-term debt	292,614	343,422
Total debt[2]	325,840	376,648
Shareholders' equity:		
Common stock, 0.1 ruble par value, 2,096,975,792 shares authorized and 1,993,326,138 issued	50,558	50,558
Treasury shares[3]	(10,206)	(10,206)
Additional paid in capital	555,794	555,794
Shareholder receivable	(38,958)	(38,958)
Retained earnings	462,628	462,628
Total shareholders' equity	1,019,816	1,019,816
Total capitalization[4]	$1,345,875	$1,396,683

(1) Rosico is the obligor under the Ericsson loan. In connection with our acquisition of Rosico, Sistema agreed to indemnify Rosico and us for certain liabilities in connection therewith. See "Risk Factors—Sistema may not fulfill its obligation to make payments to us in connection with our loan from Ericsson, which would have an adverse effect on the anticipated increase in our shareholder's equity and our cash position", "Certain Transactions with Related Parties—Rosico Purchase" and "Description of Existing Indebtedness—Ericsson Loan."

(2) Includes secured debt in the amount of $5,305,000.

(3) In connection with our initial public offering, 13,554,618 of our shares were acquired by Rosico with respect to our management stock bonus and stock option plans. In anticipation of Rosico's merger, we formed a wholly-owned subsidiary that will hold the shares that are part of the management stock bonus and stock option plans. See "Management—Executive Compensation and Employment Agreements—Management Stock Bonus and Stock Option Plans."

(4) There have been no material changes in our capitalization since December 31, 2001. All of our charter capital has been fully paid in.

5. Operations

We have licenses to operate in a total of 48 regions of the Russian Federation and, as of April 1, 2002, were operating in 32 of these regions. Our licenses authorize us to provide GSM services in both the 900 and 1800 MHz frequency bands in 35 of these regions, and, as of April 12, 2002, we offered dual-band service in 27 regions, including in the Moscow, St. Petersburg and Nizhny Novgorod license areas.

To date, we have increased our sales primarily by increasing the number of subscribers.

	At December 31,		
	1999	**2000**	**2001**
Subscribers	307,000	1,194,000	2,650,000

We consider subscribers who are disconnected from our network, whether involuntarily due to non-payment or voluntarily, at such subscribers' request, for more than two months in any given year as churned subscribers. We view the rate of subscriber churn (the ratio of disconnected subscribers and the average number of subscribers in any given year) as a measure of market competition and customer dynamics. The following table shows this subscriber churn rate for 1998, 1999, 2000 and 2001.

	Year Ended December 31,		
	1999	**2000**	**2001**
Subscriber Churn Rate............................	20.8%	21.6%	26.8%

The churn rates for the years ended December 31, 1999, 2000 and 2001 were 20.8%, 21.6%, and 26.8%, respectively. The trend of increasing churn rates is due to the continued growth of competition in the Moscow license area, an increase in seasonal subscribers who use our network only during the summer months of May through October, and a general increase in migrating subscribers.

While our subscribers and revenues are constantly growing, our average monthly service revenues per subscriber are decreasing. Average monthly service revenue per subscriber fell from $302 in 1998 to $36 in 2001. We expect to see a continued decline due to tariff decreases and the increasing ratio of mass-market subscribers, such as family members of businessmen, students and retirees, to our total subscriber base. We calculate average monthly service revenue per subscriber by dividing our service revenues for a given period, including guest roaming fees, by the average number of our subscribers during that period and dividing by the number of months in that period. The following table shows the dynamic of average monthly service revenue per subscriber.

	Year Ended December 31,		
	1999	**2000**	**2001**
Average monthly service revenue per subscriber	$124	$54	$36

6. Recent Acquisitions

We completed a number of acquisitions in 2001 to increase our potential subscriber base, enhance our roaming capability within Russia and strengthen our competitive position.

1. Telecom XXI, which we acquired in May 2001 for approximately $50 million, has GSM 900 and 1800 licenses to operate in ten regions of Russia: the city of St. Petersburg, Leningrad region, Karelia Republic, Nenetsky autonomous district, Arkhangelsk region, Vologda region, Kaliningrad region, Murmansk region, Novgorod region and Pskov region. The total population of Telecom XXI's license areas is 13.4 million people. We launched our network in St. Petersburg and the Leningrad region on December 11, 2001, and as of April 2002 we had over 280,000 subscribers in St. Petersburg. We also began technical operation of our networks in the Murmansk, Novgorod, Vologda and Arkhangelsk regions and in the Republic of Karelia in December 2001.

We plan to spend $80 million for network development in connection with our acquisition of Telecom XXI and to create a full GSM 900 and 1800 network in the St. Petersburg license area. We launched our network in St. Petersburg and the Leningrad Region on December 11, 2001, and as of April 2002, had 280,000 subscribers in St. Petersburg. By the end of 2001, we had a network integrating a mobile switching center with a capacity of 200,000 numbers and over 130 base stations in St. Petersburg; we had also installed more than 200 base stations in the North West region overall, and began technical operation of our networks in the Murmansk, Novgorod and Arkhangelsk regions and in the Republic of Karelia during December, 2001, which enables us to service roamers in those areas. We also provide coverage within a corridor along the entire Moscow-St. Petersburg highway and railway, enabling us to provide continuous cellular connection along the transportation corridor between the two most important cities of the Russian Federation.

2. In August 2001, we acquired 81% of the outstanding common stock of Telecom-900 from offshore companies owned by Sistema for approximately $27 million. Telecom-900's other shareholder is Invest-Svyaz-Holding, a holding company of which 51% is owned by Sistema and 49% is owned by DeTeMobil, our significant shareholders. Telecom-900, in turn, owns a controlling interest in three companies that collectively hold GSM licenses to operate in four regions of Russia where we did not have licenses prior to the acquisition of Telecom-900.

Telecom-900 owns a controlling interest in three companies that collectively hold GSM licenses to operate in four regions of Russia where we did not have licenses.

In particular, Telecom-900 owns 60% of the outstanding common stock of FECS-900, which has a GSM 900 license to operate in the Khabarovsk region. As of December 31, 2001, FECS-900 had approximately 21,400 subscribers constituting 34.7% of all mobile users in the Khabarovsk region. The other shareholders of FECS-900 are OJSC ElectroSvyaz of Khabarovsk region.

In addition, Telecom-900 owns 53.175% of the outstanding common stock of Uraltel, which has a GSM 900 license to operate in the city of Ekaterinburg and the Sverdlovsk region. As of September 30, 2001, Uraltel had approximately 52,600 subscribers and was the leading cellular operator in the region. Uraltel's other shareholders are MCT of Ekaterinburg LP, CJSC Lank and the Institute of Economic Problems for the Transition Period.

Telecom-900 also owns 51% of the outstanding common stock of SCS-900, which has GSM 900 and GSM 1800 licenses to operate in the Novosibirsk region. As of December 31, 2001 SCS-900 had approximately 112,200 subscribers constituting 73.7% of all subscribers in the Novosibirsk region. The other shareholders of SCS-900 are OJSC ElectroSvyaz of Novosibirsk region, CJSC Sibirskie Zvezdy and CJSC SovetHolding.

3. In October 2001, we acquired 51% of the outstanding common stock of Novitel, a Russian closed joint stock company, for the total amount of approximately $1.4 million. Novitel is a dealer of mobile phones and accessories in Moscow.

4. In January 2001, we and certain individuals established and registered closed joint stock company Mobile TeleSystems-Nizhny Novgorod (MTS-NN) located in Nizhny Novgorod. In September 2001, we launched our operations in Nizhny Novgorod. Due to its advantageous geographical position, high level of industrial development and dense population, Nizhny Novgorod has become the third most important region for us in terms of its economic potential after Moscow and St. Petersburg.

5. In September 2001, we won a tender initiated by the Telecommunications Ministry of the Republic of Belarus for a GSM 900/1800 license to operate in Belarus. Under the tender conditions, we will be obliged:

- to form a joint venture company, in which we will own a 49% stake, together with the government of Belarus and a state-owned entity, and into which we must make a capital contribution of approximately $2.5 million in cash or in kind;

- to make a one-time payment of $10 million to the government of Belarus, which we have already paid; and

- to pay $6 million in annual installments of $1.2 million from 2003 through 2007.

In addition, under the terms of the tender, the joint venture will be required to pay to the government of Belarus for the license a one-time fee of $5 million and an annual fee of $60,000. Once we receive our license, it will be valid for ten years, after which it may be prolonged for two additional five-year periods as long as the joint venture fulfils the conditions of the license.

6. We launched our network in St. Petersburg and the Leningrad region on December 11, 2001, and as of April 2002 we had over 280,000 subscribers in St. Petersburg. We also began technical operation of our networks in the Murmansk, Novgorod, Vologda and Arkhangelsk regions and in the Republic of Karelia in December 2001.

7. We completed Eurobond offerings through Mobile Telesystems Finance S.A., our 100% beneficially owned subsidiary, on December 21, 2001 and March 20, 2002. The 10.95% notes, $250 million of which were issued on December 21, 2001, at 99.254%, and $50 million of which were issued on March 20, 2002, at 101.616%, were issued under an indenture dated December 21, 2001, and are part of the same series. These notes are guaranteed by us and mature on December 21, 2004. They are listed on the Luxembourg Stock Exchange. The proceeds from this offering have been and will continue to be used for general corporate purposes, including acquisitions.

8. We also acquired a 51% controlling stake in Krasnodar-based CJSC Kuban GSM at the end of March 2002 for $71.4 million. Kuban GSM is Russia's largest mobile operator in the regions outside of Moscow and St. Petersburg. It has close to 500,000 subscribers and operates in thirteen major cities in the Russian Federation, including Sochi, Krasnodar and Novorossisk.

Kuban GSM shareholders have approved the additional issuance of 3,600 shares to us, and we will subscribe for such shares, which will represent an additional 13% stake in the company following their issuance, for $50.4 million by July 1, 2002. Also, one of the existing shareholders of Kuban GSM, KubTelecom LLC, has an option to put to us the company's remaining shares. This option will be exercisable at the market price for the Kuban GSM shares from the date that is two years from the completion of our purchase of the 3,600 newly issued shares until February 15, 2006. We also have an option to buy some or all of these shares under the same conditions. We can give no assurance that this option will be exercised on favorable terms or at all. See "Risk Factors—Risks Relating to Our Business—Rapid growth and expansion may cause us difficulty in obtaining adequate managerial and operational resources, restricting our ability to expand our operations" and "—If we cannot successfully develop our network, we will be unable to expand our subscriber base, and therefore lose market share and revenues."

7. Results of Operations

The following table sets forth, for the periods indicated, the percentages that certain operations contribute to revenues.

	Year Ended December 31,		
	1999	2000	2001
Statement of Operations Data:			
Net revenues:			
Service revenues, net[1]	87.8%	90.4%	93.0%
Connection fees	3.6	2.8	2.3
Equipment sales	8.6	6.8	4.7
Total net revenues	100.0%	100.0%	100.0%
Cost of services and products:			
Interconnection and line rental	10.9%	7.8%	8.4%
Roaming expenses	6.1	7.7	7.7
Cost of equipment	8.3	7.3	4.5
Cost of services and products	25.3	22.8	20.6
Operating expenses[2]	18.6	20.1	14.7
Sales and marketing expenses	6.6	14.3	12.1
Provision for doubtful accounts	2.2	0.4	0.4
Depreciation and amortization	15.0	16.4	14.9
Net operating income	32.3	26.0	37.3
Currency exchange and translation losses (gain)[3]	0.9	0.2	0.2
Other expenses (income):			
Interest income	(0.2)	(1.4)	(1.3)
Interest expenses, net of amounts capitalized	3.3	2.1	0.7
Loss on other assets	0.2	—	
Other expenses (income)	(0.4)	(0.1)	0.8
Total other expenses (income), net	2.9	0.6	0.2
Income before provision for income taxes and minority interest	28.5	25.2	36.9
Provision for income taxes	5.2	9.5	11.0
Minority interest in net (loss) income	(0.6)	(1.2)	0.7

	Year Ended December 31,		
	1999	2000	2001
Net income before cumulative effect of a change in accounting principle	23.9%	16.9%	25.2
Cumulative effect on prior years (to December 31, 2000) of a change in accounting principle	—	—	(2.0)
Net income	23.9%	16.9%	23.2%

(1) Service revenues represent subscription fees, usage charges and value-added service fees, as well as roaming fees charged to other operators for guest roamers utilizing our network. Guest roaming fees represented 12.3% of our revenues in 1999, 8.1% in 2000, and 6.7% in 2001, respectively.

(2) Operating expenses, including taxes (other than Russian income taxes) and primarily revenue and property-based taxes, represented 4.4% of our revenues in 1999, 5.0% in 2000, and 2.8% in 2001, respectively.

(3) On a day-to-day basis, we are exposed to exchange losses on cash balances denominated in rubles and other monetary assets and liabilities. (See Note 2 to our consolidated financial statements as of December 31, 2001 included elsewhere in this document).

Year Ended December 31, 2001, Compared to Year Ended December 31, 2000

Revenues for the year ended December 31, 2001 increased to 893.2 million compared to 535.7 for the year ended December 31, 2000, primarily due to significantly increased number of subscribers (see "Overview" above in this section) and minutes of use, slightly offset by a decrease in certain tariffs and equipment sales. For the year ended December 31, 2001 service revenues increased by $345.8 million and connection fees increased by $6.2 million compared to the year ended December 31, 2000 due to growth in the number of subscribers. Equipment revenues increased by $5.5 million for the year ended December 31, 2001 compared to the year ended December 31, 2000 due to increased volume offset by decreased average selling price of handsets.

Cost of services and products for the year ended December 31, 2001 increased to $184.5 million from $122.3 million for the year ended December 31, 2000. Increases in the cost of services and products were primarily due to an increase of $60.6 million in payments to other operators for interconnection, line rental and roaming, as a result of volume increases, while cost of equipment remained relatively consistent at $39.8 million due to lower level of equipment sales. Cost of services and products as a percentage of revenues decreased by 2.3%, due to subscriber growth that was not materially offset by a decrease in tariffs, and our increasing reliance on our own optic-fiber network, which decreased interconnection and line rental expenses per revenue unit.

Operating expenses for the year ended December 31, 2001 increased to $131.4 million compared to $107.8 million for the year ended December 31, 2000. Increases in operating expenses were primarily due to an increase of $10.7 million in salaries and related social contributions for additional personnel, an increase of $2.2 million in rent expense and an increase of $7.4 million in repair and maintenance expenses. Operating expenses as a percentage of revenues decreased to 14.7 in 2001 from 20.1% in 2000 as personnel cost and costs related to expansion of the network per revenue unit decreased.

Sales and marketing expenses for the year ended December 31, 2001 increased to $107.7 million compared to $76.4 million for the year ended December 31, 2000, primarily as a result of the significant increase in the level of business activity and the expansion of sales and marketing support infrastructure. During late 2001, we increased our expenditures on advertising, marketing and other customer-related activities in response to increased competition to accelerate subscriber growth and to increase market penetration. Sales and marketing expenses as a percentage of revenues decreased from 14.3% in 2000 to 12.1% in 2001.

Provision for doubtful accounts receivable of $3.2 million was recorded for the year ended December 31, 2001, compared to a provision of $2.4 for the year ended December 31, 2000. Provision for doubtful accounts receivable represented 0.4% of revenues for the year ended December 31, 2001 and December 31, 2000. The level of doubtful accounts has stabilized with the introduction of the advance payment system.

Depreciation and amortization of network equipment, telephone numbering capacity, license costs and goodwill for the year ended December 31, 2001 increased to $131.1 million, compared to $87.7 million for the year ended December 31, 2000. This increase was attributable to the increased asset base resulting from our continuing expansion of our network, increased numbering capacity to support our growing subscriber base and the amortization of license costs and goodwill recognized in the acquisitions of Rosico and RTC. Nevertheless, as a percentage of total revenues, depreciation and amortization for the year ended December 31, 2001 decreased to 14.9% from 16.4% for the year ended December 31, 2000.

Operating income for the year ended December 31, 2001 increased to $334.3 million, compared to $139.0 million for the year ended December 31, 2000, and operating income as a percentage of revenues for 2001 increased to 37.4% from 26.0% for 2000, as a result of the foregoing factors.

Loss on foreign currency exchange for the year ended December 31, 2001 increased to $1.9 million, compared to $1.1 million for the year ended December 31, 2000. As we conduct our basic operations in rubles and are required to comply with Russian currency law restrictions, we expect that we will continue to sustain losses in line with the devaluation of the ruble in the foreseeable future. See "Risk Factors—Risks Relating to our Financial Condition—Changes in exchange rates could increase our costs, decrease our reserves or prevent us from repaying our debt" and "—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk."

Interest expense for the year ended December 31, 2001 decreased to $11.3 million, compared to interest expense of $6.9 million for the year ended December 31, 2000, due to the full year impact of EBRD debt repayments in October 2000.

Provisions for income taxes for the year ended December 31, 2001 increased to $98.1 million, compared to $51.2 million for the year ended December 31, 2000. These provisions comprised a current income tax charge of $138.1 million for 2001 and $52.1 million for 2000, and deferred tax benefit $40.0) million for 2001 and $0.1 million for 2000. The reduction in the statutory income tax rate from 35% to 24% resulted in the recognition of a deferred tax benefit of approximately $22 million in 2001. Provisions for income taxes increased to 11.05% of revenues in 2001, compared to 9.5% in 2000, due to reduction of available income tax concessions.

Net income for the year ended December 31, 2001 increased by 117.4% to $207.4 million, compared to $90.0 million for the year ended December 31, 2000, as a result of the foregoing factors.

Cumulative effect of a change in accounting principle. During the second quarter of 2001, we changed our accounting method regarding recognition of subscriber acquisition costs. Subscriber acquisition costs represent the direct costs paid for each new subscriber enrolled through our independent dealers. Prior to the second quarter of 2001, these costs were capitalized to the extent of any revenues that had been deferred from the acquisition of a subscriber, such as connection fees charged to a subscriber to initiate call service, and amortized as a component of sales and marketing expense on a straight-line basis over the estimated average subscriber life. From the second quarter of 2001, we now expense subscriber acquisition costs as incurred. The change was made to facilitate the comparison of our results with other telecommunication companies.

As a cumulative effect of this change, the remaining balance of capitalized subscriber acquisition cost as of December 31, 2000 in the amount of $17.9 million (net of $9.6 million in taxes) was expensed and included in income during the year ended December 31, 2001 (See Note 4 "Accounting Changes" to our consolidated financial statements as of December 31, 2001 included elsewhere in this document).

8. Liquidity and Capital Resources

On July 6, 2000, we completed our initial public offering on the New York Stock Exchange. The proceeds from the offering, net of underwriting discount, were $348 million and were used:

- to fund investments in network infrastructure in the Moscow license area and regional license areas;
- to acquire 100% of Rosico, our consolidated subsidiary since August 1998, which has a GSM 1800 license;
- to acquire 100% of Telecom XXI, which has a GSM 900/1800 license for the North- West region;
- to acquire a controlling interest in ReCom, our affiliated company since February 1998, which has licenses in six regions of Russia;
- to acquire 81% of Telecom-900, a company with controlling stakes in three subsidiaries licensed to operate in four regions in Russia;
- to fund investments in new mobile data services such as higher-speed data transmission, Internet access and third-generation telecommunications technologies;
- to repay our loan from the EBRD in full in October 2000;
- to purchase equipment; and

- to finance working capital needs.

During 1999, 2000 and 2001, our operating activities generated positive cash flows. During 1999 we had negative cash flows from financing activities. We also had negative cash flows from investing activities during each of the past three years. We expect for the foreseeable future to continue to have negative cash flows from investing activities as we continue our network expansion.

	Year Ended December 31,		
	1999	**2000**	**2001**
Liquidity and capital resources data:			
Cash flows from operating activities	$ 116,801	$ 190,914	$337,749
Cash flows from financing activities	$ (11,557)	$ 298,543	$248,044
Cash flows from investing activities	$(115,184)	$(423,349)	$(441,523)
Capital expenditures	$ 118,338	$ 224,898	$441,200

During the year ended December 31, 2001, net cash provided by operating activities was $337.7 million, an increase of 76.9% from the year ended December 31, 2000. The increase is primarily attributable to increases in net income, non-cash depreciation and amortization charges, income tax payable and the cumulative effect of a change in accounting principle regarding deferred subscriber acquisition costs (see "Results of Operations" above in this section and Note 4 "Accounting Changes" to our consolidated financial statements included elsewhere in this document), an increase in trade accounts payable and a decrease in accounts receivable, offset by increases in related parties, VAT receivable and trade accounts receivable, and a decrease in deferred taxes. Net cash used in investing activities was $441.5 million, of which $396.7 million related to expansion of the network infrastructure. Net cash provided by financing activities was $248.0 million, which was primarily from the issuance of the notes registered herein. This was offset by repayment of certain debt obligations.

Working capital is defined as current assets less current liabilities. As of December 31, 2001, we had a working capital surplus of $179.2 million compared $147.2 million as of December 31, 2000. Cash and short term investments have increased by $59.1 million and VAT receivables have increased by $64.5 million while the remaining current assets have remained consistent. These increases were offset by an accounts payable and accrued liabilities of $82.0 million and an increase in subscriber deposits of $19.1 million while the remaining current liabilities remained relatively consistent between years.

As of December 31, 2001, we had indebtedness of approximately $68.3 million, of which $20.2 million were capital lease obligations.

Indebtedness (excluding capital lease obligations)	Currency of denomination	Amount outstanding as of December 31, 2001 (in	Interest Rate at December 31, 2001

		thousands)	
Ericsson………………….	USD	$34,650	LIBOR + 4%
Dresdner…………………….	USD	3,000	LIBOR + 3.2%
International Moscow Bank...	USD	10,000	LIBOR + 3.1%
Motorola Inc. promissory notes……………………...	USD	5,350	12%
Other promissory notes……..	Ruble	1,023	—
Other debt…………………..	Ruble	963	variable
Total:………………………..		$54,986	

In December 1996, Rosico entered into a credit agreement with Ericsson Project Finance AB, or Ericsson, which provides for a credit facility with an aggregate principal amount of $60 million and has a maximum term of five years. The Ericsson credit agreement contains covenants restricting Rosico's ability to encumber its present and future assets and revenues without the lender's express consent. The loan is repayable in ten equal consecutive quarterly payments of $6 million commencing on the date falling 33 months after the date of first advance but not later than five years from disbursement of the first advance. The amounts advanced under the agreement bear interest of LIBOR plus 4%. If Rosico fails to pay any amount payable under the credit facility, the overdue amount bears interest at a rate of an additional 6% per annum.

Concurrent with the sale of Rosico to us, Sistema agreed to fund the full and timely repayment of the Ericsson loan and to indemnify Rosico and us for any costs incurred by either of us in connection with the repayment of the Ericsson loan. During 2000, we agreed with Sistema on a method that would allow Sistema to fund its obligation in a manner that minimizes the total costs of meeting this obligation and decreases our tax costs. Under our agreement, we have entered into a ruble denominated promissory note with 0% interest, which will mature from 2049 to 2052 to repay a portion of the funding from Sistema. The carrying value of this obligation, due to its term and interest rate, is insignificant. We will record interest expense over the term of the loan such that on the date of repayment the full amount will be reflected as liability.

At the request of Sistema, on July 24, 2001, we, Rosico and Ericsson signed an agreement rescheduling Rosico's principal payments in nineteen consecutive quarterly installments with a date of last repayment of February 25, 2006 (see Note 9 to our consolidated interim financial statements included elsewhere in this document). As of December 31, the outstanding principal was $34.7 million.

In August 1997, our subsidiary MSS entered into a credit facility with OJSC AB Inkombank, or Inkombank, for the purposes of financing GSM 900 network development. The credit facility in the amount up to $12 million was granted to MSS with the final repayment date no later than March 31, 2002. On November 26, 2001, we repurchased the loan, which had a carrying value of $6.0 million for $4.2 million, resulting in a gain on the transaction of $2.8 million.

In October 1997, MSS issued promissory notes to Motorola, Inc. for the delivery and installation of GSM 900 cellular equipment in Omsk region. During November 27, 2001, we restructured the repayment date of these notes. The notes and the accrued interest as of November 27, 2001 will now be repaid in regular installments starting from February 2002 up to May 2004. As of December 31, 2001, the amount of these promissory notes payable was $6.8 million, which represented the principal and accrued interest.

In July 1999, we entered into a rollover credit facility with Dresdner Bank CJSC for the purpose of financing working capital. The credit facility, in an amount up to $12 million, was granted to us with a final repayment date of no later than July 2, 2002. As of December 31, 2001, we had no borrowings outstanding on this facility. any borrowings on this facility bear interest of LIBOR plus 1.95% per annum.

In November 2001, Telecom XXI entered into a credit facility with the International Moscow bank to borrow up to $15 million. Amounts borrowed under the credit facility must be repaid within two months of the disbursement and will bear interest of LIBOR plus 3.1% per annum. Any overdue amounts will bear interest at a rate of 7.9% per annum. At December 31, 1002, there was $10 million outstanding under this agreement.

In December 2001, Telecom XXI entered into a rollover credit facility with Dresdner Bank CJSC. Amounts borrowed by Telecom XXI under this $20 million credit facility have a final repayment date of November 2003 and bear interest of LIBOR plus 3.2% per annum. As of December 31, 2001, Telecom XXI had $3 million outstanding under this facility.

In December 2001, MTS Finance, issued $250 million of 10.95% notes at a price of 99.254%. These notes are guaranteed by MTS and mature on December 21, 2004. MTS Finance will make interest payments on the notes semi-annually in arrears on June 21 and December 21 of each year, commencing on June 21, 2002. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes, net of discount, were $248 million. In addition, we paid $3.9 million of debt issuance costs.

In March 2002, MTS Finance issued $50 million of 10.95% notes at a price of 101.616%. These notes are guaranteed by MTS and mature on December 21, 2004. MTS Finance will make interest payments on these notes semi-annually in arrears on June 21 and December 21 each year, commencing on June 21, 2002. These notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes, including premium on issuance, were $50.8 million.

9. Contractual Obligations and Commercial Commitments

We have various contractual obligations and commercial commitments to make future payments including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations, including interest, under these contracts due by period as of December 31, 2001:

	2002	2003 to 2004	2005 to 2006	Thereafte r	Total
Contractual Obligations [(1)]:					
Promissory Notes	$0.8	$5.9	$1.0	$ -	$7.8
Notes payable	-	300.0	-	-	300.0
Other debt	18.5	15.3	14.9	-	48.7
Capital leases	13.6	8.3	0.2	-	22.1
Operating leases					
Committed Investments:					
Network expansion	189.0				189.0
Other	2.9				2.9

Total					

(1) Debt payments could be accelerated upon violation of debt covenants. We believe the likelihood of a debt covenant violation is remote.

This table does not reflect payments which would be required under the a Tender Offer we won to operate a GSM 900/1800 license in Belarus as it uncertain whether or not we will commence operations – see Note 36 of the consolidated financial statements included elsewhere herein.

10. Capital Expenditures

We expect that capital expenditures will increase this year as a result of additional acquisitions and investment in our St. Petersburg and regional networks. We plan to finance these capital expenditures through working capital and the proceeds from the offering of the Restricted Notes.

The table below sets forth our plans for capital expenditures for the three-year period through 2004:

	Year Ended December 31,			
	2002	2003	2004	Total
	(in millions)			
Estimated capital expenditures in:				
Moscow license area	$195	$165	$137	$497
St. Petersburg license area	34	51	41	126
Other license areas	311	293	242	846
Total	$540	$509	$420	$1,469

These estimates do not include potential acquisitions or any expenditures associated with the development of a UMTS network. Our actual capital expenditures may vary significantly from our estimates.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. We have not entered into agreements to hedge risks associated with the movement of interest rates. However, in connection with the $34.7 million Ericsson loan shown in the table below, we have, under the terms of the Rosico acquisition agreement, received a commitment from Sistema whereby Sistema agrees to currently fund Rosico for the full and timely repayment of the loan, as described in full under "—Liquidity and Capital Resources" above.

Russian Legislation effectively prohibits us from acquiring financial instruments denominated in foreign currencies, which prevents us from economically hedging against interest rate risks that may exist under our current or future indebtedness.

For indebtedness as of December 31, 2001, the table below presents principal cash flows and related weighted average interest rates by expected maturity dates.

Variable rate debt	Currency	Expected Maturity Date as of December 31, 2001 2002	2003	2004	2005	2006	Total	Interest Rate at December 31, 2001
		(amounts in thousands)						
Ericsson………	USD	4,500	6,750	8,550	11,700	3,150	34,650	LIBOR + 4% (6.51%)
Dresdner……...	USD	3,000	-	-	-	-	3,000	LIBOR + 3.2% (5.14%)
International Moscow Bank...	USD	10,000	-	-	-	-	10,000	LIBOR + 3.1% (5.04%)
Total variable debt………….		17,500	6,750	8,550	11,700	3,150	47,650	
Weighted average interest rate…………		6.07%	6.51%	6.51%	6.51%	6.51%		

It is not practical to determine the fair value of our indebtedness due to the current instability in the Russian economy and its effect on interest rates appropriate for determining fair value.

We have not experienced significant changes in the market risks associated with our debt obligations in the table above subsequent to September 30, 2001.

Employees

At December 31, 2001, we had 4,990 employees, representing growth of approximately 93% from year-end 2000. Over 52% of these employees, or 2,633, worked in Moscow. Of the Moscow employees, 7 were executives; 596 were technical and maintenance employees; 1,193 were sales, marketing and customer service staff; and 844 were administration and finance staff. As of December 31, 2001, 2,357 of our employees worked in the regions outside of the Moscow license area. Of these employees, we estimate that 585 were technical and maintenance employees; 1,002 were sales, marketing and customer service staff; and 770 were administration and finance staff.

The substantial growth in the number of our employees is attributable primarily to the continued expansion of our network in the Moscow license area and other regions of Russia and our increased focus on customer care. The following chart sets forth the number of our employees at the year-end of 1998, 1999, 2000 and 2001:

	December 31,			
	1998	1999	2000	2001
Moscow license area	618	963	1,782	2,633
Other regions	201	214	558	2,357
Total	819	1,177	2,340	4,990
Percent increase of total employees over prior period	n/a	43.7%	98.8%	113.3%

Our future success will depend in significant part on the continued service of our key technical, sales and senior management personnel. To date, we have experienced a low level of departures, voluntary or otherwise. Our employees are not unionized, we have not experienced any work stoppages and we consider our relations with employees to be strong.

11. Certain Transactions with related parties

ReCom Convertible Bonds

During 1999 and 2000, we acted as the general contractor for the construction of ReCom's network. During these years, we delivered to ReCom network equipment in the amount of $15 million. In connection with this, in November 2000, ReCom issued to us bonds in the amount of $12 million, convertible under certain circumstances into common stock of ReCom. These bonds have maturities varying from 2003 to 2005. If we were to exercise these conversion options in full, we would become holder of up to 75% of the outstanding common stock of ReCom.

Rosico Purchase

In August 1998, MTS CJSC purchased from Sistema 13,680 shares of common stock of Rosico, representing 80% of the issued and outstanding capital stock of Rosico, in exchange for 408,631,860 newly issued shares of MTS CJSC's common stock, which represented approximately 25% of its issued and outstanding capital stock immediately after that exchange. MTS CJSC recorded the purchase price at $118 million, based on the estimated fair value of the Rosico businesses acquired. Under this purchase agreement, Sistema agreed to fund all payment and other obligations arising under the Ericsson loan and to indemnify us and Rosico for any costs we or Rosico incur in connection with the repayment of the Ericsson loan.

Moscow Bank for Reconstruction and Development

Beginning in August 2000, we have maintained accounts with the Moscow Bank of Reconstruction and Development, whose major shareholder is Sistema. As of December 31, 2001, we had deposited with the Moscow Bank of Reconstruction and Development $112.4 million, including a $105 million time deposit and a $7.4 million current account. During 2001, the related interest accrued and collected on the deposits amounted to approximately $3 million, which is reflected in our financial statements as a component of interest income.

Rosno OJSC

We have entered into insurance contracts with Rosno OJSC and its affiliates, for which we made payments totaling approximately $6.4 million in 1998 for our 1999 policy. Sistema is a major shareholder of Rosno. We insured our property for approximately $193 million in 1999 and $274 million in 2000, respectively, with Rosno OJSC. Insurance premiums paid to Rosno amounted to $4.7 million in 1999, $6.5 million in 2000 and $8.0 million in 2001, including premiums paid for medical insurance of approximately $0.7 million in 1999 and $1.6 million in 2000. We believe that that all of the insurance contracts with Rosno have been entered on market terms. Rosno has entered into reinsurance contracts with leading global reinsurers, with the exception of medical risks.

Maxima Advertising Agency

In 1999, 2000 and 2001, we entered into contracts for advertising services with Maxima Advertising Agency. Maxima is related to us through certain members of our board of directors, who are also members of Maxima's board of directors. Advertising fees paid to Maxima amounted to $6.4 million in 2000 and $10.4 million in 2001.

MTU-Inform

We have interconnection arrangements with, and receive domestic and international long-distance services from, MTU-Inform. We believe that these arrangements are on market terms. MTU-Inform is owned 51% by MGTS, which is majority-owned by Sistema and its affiliates.

Telmos

We have interconnection arrangements with, and receive domestic and international long-distance services from, Telmos. We believe that these arrangements are on market terms. Telmos is 40% owned by MGTS, which is majority-owned by Sistema and its affiliates, which in turn also owns 40% of Telmos.

Moscow City Telephone Network (MGTS)

Our primary interconnection arrangement is with MGTS, and we made payments totaling $1.24 million to MGTS under our interconnection agreement in 2001. We also purchased a building from MGTS for the amount of approximately $2.9 million in 2000. We believe that this purchase was, and the interconnection agreement is, on market terms. MGTS is related to us through certain members of our board of directors, who are also members of MGTS' board of directors.

DeTeMobil

As of April 12, 2002, we had a non-exclusive roaming agreement with DeTeMobil that was comparable to roaming agreements between us and other cellular mobile operators.

Telecom-900

We recently purchased 81% of Telecom-900. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions." We purchased our shares in Telecom-900 from offshore companies affiliated with Sistema.

Key Advisors for Initial Public Offering

Officers of two of our shareholders, Sistema and DeTeMobil, advised us in connection with our initial public offering. In return for their assistance, these key advisors purchased a total of 538,201 of our shares from Rosico during the period from September 12, 2000 through September 22, 2000, at the nominal price of 0.1 rubles per share, for total compensation of approximately $797,000.

DESCRIPTION OF EXISTING INDEBTEDNESS

Ericsson Loan

In December 1996, Rosico entered into a credit agreement with Ericsson Project Finance AB, or Ericsson, that provides for a credit facility with an aggregate principal amount of $60 million and has a maximum term of five years. The Ericsson credit agreement contains covenants restricting Rosico's ability to encumber its present and future assets and revenues without the lender's express consent. The loan is repayable in ten equal consecutive quarterly payments of $6 million commencing on the date falling 33 months after the date of first advance but not later than five years from disbursement of the first advance. The amounts advanced under the agreement bear interest of LIBOR plus 4%. If Rosico fails to pay any amount payable under the credit facility, the overdue amount bears interest at a rate of an additional 6% per annum. Concurrent with the sale of Rosico to us, Sistema agreed to fund the full and timely repayment of the Ericsson loan and to indemnify Rosico and us for any costs incurred by either of us in connection with the repayment of the Ericsson loan.

At the request of Sistema, on July 24, 2001, we, Rosico and Ericsson signed an agreement rescheduling Rosico's principal payments in nineteen consecutive quarterly installments with a date of last repayment of February 25, 2006 (see Note 15 to our consolidated financial statements as of December 31, 2001 included elsewhere in this document). As of December 31, 2001, the outstanding principal was $34.7 million and current interest payable amounted to $219,390.

Dresdner Bank Credit Facility

In July 1999, we entered into a rollover credit facility with Dresdner Bank CJSC for the purpose of financing working capital. The credit facility, initially in an amount up to $12 million, was granted to us with a final repayment date of no later than July 2, 2002. As of December 31, 2001, there were no principal and interest outstanding under this facility. The amounts advanced under this credit facility bear interest of LIBOR plus 1.95% per annum.

In December 2001, Telecom XXI entered into a rollover credit facility with Dresdner Bank CJSC. Amounts borrowed by Telecom XXI under this $20 million credit facility have a final repayment date of November 2003 and bear interest of LIBOR plus 3.2% per annum. As of December 31, 2001, Telecom XXI had $3 million outstanding under this facility.

Motorola Promissory Notes

In October 1997, MSS issued promissory notes to Motorola, Inc. for the delivery and installation of GSM 900 cellular equipment in Omsk region. Under the notes, MSS is obliged to pay $6.7 million in accordance with an agreed schedule commencing on December 1, 2002.