

Open Joint Stock Company “Mobile TeleSystems”

Auditor’s Report

Financial Statements for 2009
(Unofficial Translation)

AUDIT FIRM: ZAO "DELOITTE & TOUCHE CIS"

Registered office: 5 Lesnaya St., Moscow, 125047, Russia.

Tel: +7 (495) 787 0600.

Audit License No. E 002417 issued on 6 November 2002 by the Resolution of the Ministry of Finance of the Russian Federation for five years and renewed under the same number by Order of the Ministry of Finance of the RF No. 676, dated 31 October 2007, for 5 years from 6 November 2007.

Certificate of membership in Non-Commercial Partnership "Audit Chamber of Russia" No. 3026 dated May 20, 2009.

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

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

Ruble account No. 40702810600005004580 in the Moscow branch of OOO ICB Sovcombank. Bank address: 28 Shchepkina St., Moscow, 129090. BIC 044552967, corr. acc. 30101810900000000967.

AUDITED ENTITY: OPEN JOINT-STOCK COMPANY "MOBILE TELESYSTEMS"

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

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

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

Certificate of state registration of the Open joint-stock company "Mobile TeleSystems" No. P-7882.16, issued by the State Registration Chamber at the Russian Ministry of Justice on March 1, 2000.

AUDITORS' REPORT

To the shareholders of Open joint-stock company "Mobile TeleSystems":

We have audited the accompanying financial statements of Open joint-stock company "Mobile TeleSystems" ("the Company") for the period from January 1, 2009 to December 31, 2009 inclusive. The Company's financial statements comprise:

- Balance sheet as of December 31, 2009;
- Statement of profit and loss for 2009;
- Statement of changes in equity for 2009;
- Statement of cash flows for 2009;
- Appendix to the balance sheet for 2009; and
- Explanatory notes for 2009.

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 financial statements are presented fairly 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 No. 307-FZ dated 30 December 2008 "On Auditing Activity", federal rules (standards) of auditing and internal policies.

The audit was planned and performed to gain reasonable assurance that the financial statements of the Company are free of material misstatement. 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 the 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 fair presentation of the financial statements and the 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, 2009 and the results of its operations for the period from January 1, 2009 to December 31, 2009, inclusive, in accordance with the requirements of the legislation of the Russian Federation relating to the preparation of financial statements.

BALANCE SHEET
At December 31, 2009

Company OJSC "MTS"
 Taxpayer identification number _____
 Type of operations Telecommunication services
 Legal status/
 form of ownership Open Joint Stock Company /
 Joint private and foreign ownership
 Unit of measurement Thousands of rubles
 Address 4 Marksistskaya street, Moscow, 109147

	CODES
Form No. 1 OKUD	0710001
Date (day, month, year)	31.12.2009
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/ OKFS	47/34
OKEI	384

Date of approval **31.03.2010**Date of issue **05.04.2010**

ASSETS	Code	Opening balance	Closing balance
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets	110	378 369	374 533
Fixed assets	120	83 048 594	93 751 158
Construction in progress	130	34 622 021	24 848 156
Investment property	135	362 174	330 925
Long-term investments	140	69 477 889	129 240 511
Deferred tax assets	145	6 633 831	8 301 247
Other non-current assets	150	17 867 613	18 594 582
Total Section I	190	212 390 491	275 441 112
II. CURRENT ASSETS			
Inventories	210	7 675 648	1 849 462
including:			
raw materials and equivalents	211	6 242 325	774 620
work in progress	213	41 223	15 084
finished goods and goods for resale	214	1 176 531	927 929
prepaid expenses	216	215 569	131 829
Value-added tax reimbursable	220	1 739 602	328 029
Accounts receivable (maturing within 12 months)	240	23 376 218	22 461 450
including:			
trade receivables	241	9 400 897	9 058 945
Short-term investments	250	28 828 689	53 535 072
Cash	260	4 359 220	31 055 565
Other current assets	270	3 566 604	3 857 107
Total Section II	290	69 545 981	113 086 685
TOTAL ASSETS	300	281 936 472	388 527 797

UNOFFICIAL TRANSLATION

EQUITY AND LIABILITIES	Code	Opening balance	Closing balance
1	2	3	4
III. EQUITY AND RESERVES			
Share capital	410	199 333	199 333
Treasury shares	411	(11 139 866)	-
Additional paid-in capital	420	17 354 177	10 796 308
Reserve capital	430	29 900	29 900
including:			
reserves created as per legislative requirements	431	29 900	29 900
Retained earnings, current year	470	x	33 480 015
Retained earnings, prior years	471	96 311 378	59 034 367
Total Section III	490	102 754 922	103 539 923
IV. LONG-TERM LIABILITIES			
Loans and borrowings	510	93 156 265	174 747 609
Deferred tax liabilities	515	1 011 434	2 200 796
Total Section IV	590	94 167 699	176 948 405
V. CURRENT LIABILITIES			
Loans and borrowings	610	36 961 466	62 363 647
Payables	620	39 422 615	32 963 427
including:			
trade payable	621	25 420 547	17 744 603
wages and salaries payable	622	1 891 412	1 921 012
social tax payable	623	167 341	228 996
taxes payable	624	1 904 646	3 202 456
advances received	625	9 975 077	9 739 066
other creditors	626	63 592	127 294
Dividends payable	630	18 849	18 155
Deferred income	640	449 109	1 261 804
Accrued expenses	650	8 161 812	11 432 436
Total Section V	690	85 013 851	108 039 469
TOTAL EQUITY AND LIABILITIES	700	281 936 472	388 527 797

OFF-BALANCE SHEET ACCOUNTS

Description	Code	Opening balance	Closing balance
1	2	3	4
Leased property:	910	1 118 371	2 950 644
including assets received under finance lease	911	731 473	280 765
Assets accepted for storage	920	161 896	141 143
Goods received on consignment	930	23 265	24 651
Bad debts written off	940	1 276 182	2 550 672
Collateral and guarantees received	950	474 226	962 388
Collateral and guarantees issued	960	25 795 576	24 195 360
Depreciation of dwelling premises	970	433	482
Depreciation of non-productive facilities	980	2 882	3 011
Liabilities for derivative financial instruments	990	613 239	1 817 230

**STATEMENT OF PROFIT AND LOSS
for the year 2009**

		Form No. 2 OKUD	CODES
		Date (day, month, year)	0710002
Company	OJSC "MTS"	OKPO	31.12.2009
Taxpayer identification number		INN	52686811
Type of operations	Telecommunication services	OKVED	7740000076
Legal status/ form of ownership	Open Joint Stock Company / Joint private and foreign ownership	OKOPF/ OKFS	64.20.11
Unit of measurement	Thousands of rubles	OKEI	47/34
			384

Description	Code	Current year	Prior year
1	2	3	4
REVENUE AND EXPENSES FROM OPERATING ACTIVITIES			
Net revenue from sales of goods and services (net of VAT, excise and equivalent payments)	010	197 655 625	188 580 221
including:			
telecommunication services	011	195 449 505	185 279 944
equipment (retail)	012	1 574 296	2 364 993
rent and other	013	631 824	935 284
Cost of sold goods and services	020	(86 441 934)	(75 097 646)
including:			
cost of communication services	021	(3 376 106)	(71 917 276)
equipment (retail)	022	(3 055 532)	(3 168 809)
rent and other	023	(10 296)	(11 561)
Gross profit	029	111 213 691	113 482 575
Selling expenses	030	(25 121 442)	(21 371 255)
Administrative expenses	040	(19 434 337)	(17 350 059)
Operating profit	050	66 657 912	74 761 261
OTHER INCOME AND EXPENSES			
Interest income	060	6 214 131	2 533 876
Interest expense	070	(15 400 665)	(5 134 513)
Investment income	080	822 732	594 070
Other income	090	2 148 238	2 906 235
Other expenses	100	(20 571 910)	(21 615 466)
Profit before income tax	140	39 870 438	54 045 463
Deferred tax benefit	141	4 094 210	2 499 117
Deferred tax expense	142	(1 215 511)	(359 773)
Current income tax	150	(11 882 018)	(15 828 782)
Tax penalties of prior years	151	2 612 896	(681 142)
NET INCOME	190	33 480 015	39 674 883
ADDITIONAL INFORMATION			
Permanent tax assets	200	1 029 240	713 364
Basic earnings per share (roubles)	210	17.01	19.99
Diluted earnings per share (roubles)	215	17.01	19.99

BREAKDOWN OF CERTAIN GAINS AND LOSSES

Description	Code	Current year		Prior year	
		gains	losses	gains	losses
1	2	3	4	5	6
Fines and penalties recognized by court or debtor	810	45 100	6 517	37 496	7 416
Gain/ loss of prior years	820	130 128	3 622 627	1 415 908	904 829
Reimbursement of losses caused by default or by improper fulfillment of obligations	830	2 637	581	7 464	113
Foreign currency exchange gains and losses	840	-	3 671 234	-	12 681 458
Provisions	850	-	7 190 711	-	2 141 269
Bad debts written off	860	341 119	326 890	107 595	164 209

**STATEMENT OF CHANGES IN EQUITY
for the year 2009**

Company OJSC "MTS"
 Taxpayer identification number _____
 Type of operations Telecommunication services
 Legal status/
 form of ownership Open Joint Stock Company /
 Joint private and foreign ownership
 Unit Thousands of rubles

CODES	
Form No. 3 OKUD	0710003
Date (day, month, year)	31.12.2009
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/ OKFS	47/34
OKEI	384

CHANGES IN EQUITY

Description	Code	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7	8
Balance at December 31, 2007	90	199 333	-	17 452 113	29 900	81 471 260	99 152 606
2008							
Changes in accounting policy	100	X	X	X	X	1 265 642	1 265 642
Legislation changes (PBU 3/2006)	110	X	X	X	X	(5 284)	(5 284)
Balance as of January 1, 2008	120	199 333	-	17 452 113	29 900	82 731 618	100 412 964
Profit for the year	140	X	X	X	X	39 674 883	39 674 883
Dividends	150	X	X	X	X	(29 580 960)	(29 580 960)
Increase in the value of disposed fixed assets	153	X	X	(97 936)	X	97 936	-
Increase in capital: reorganization	160	X	X	X	X	4 150 829	4 150 829
Decrease in capital: reorganization	170	X	X	X	X	(646 974)	(646 974)
Acquisition of treasury shares	175	X	(11 139 866)	X	X	X	(11 139 866)
Balance as of December 31, 2008	190	199 333	(11,139,866)	17 354 177	29 900	96 427 332	102 870 876
2009							
Changes in opening balance due to changes in Profit Tax rate change	210	X	X	X	X	(115 954)	(115 954)
Balance as of January 1, 2009	220	199 333	(11 139 866)	17 354 177	29 900	96 311 378	102 754 922
Profit for the year	240	X	X	X	X	33 480 015	33 480 015
Dividends	250	X	X	X	X	(39 404 612)	(39 404 612)
Increase in the value of disposed fixed assets	253	X	X	(2 127 601)	X	2 127 601	-
Investment of treasury shares in the authorized capital of a subsidiary	270	X	11 139 866	(4 430 268)	X	X	6 709 598
Balance as of December 31, 2009	280	199 333	-	10 796 308	29 900	92 514 382	103 539 923

RESERVES

Description	Code	Balance	Additions	Disposals	Balance
1	2	3	4	5	6
Reserves created as per legislative requirements					
prior year	131	29 900	-	-	29 900
current year	132	29 900	-	-	29 900
Valuation reserves					
Provision for value added tax					
prior year	141	429 951	-	(347 405)	82 546
current year	142	82 546	451 413	-	533 959
Provision for impairment of investments					
prior year	143	4 104 506	1 303 695	-	5 408 201
current year	144	5 408 201	2 082 502	(114 370)	7 376 333
Allowance for doubtful debts					
prior year	145	4 737 087	1 952 836	(339 463)	6 350 460
current year	146	6 350 460	2 402 720	(1 444 865)	7 308 315
Provision for inventory obsolescence					
prior year	147	549 591	-	(327 306)	222 285
current year	148	222 285	2,705,489	-	2 927 774
Accrued expenses					
Provision for contingent liabilities					
prior year	149	1 314 302	313 706	(912,148)	715 860
current year	150	715 860	457 456	(426 147)	747 169
Provision for unused vacation					
prior year	151	573 056	224 258	-	797 314
current year	152	797 314	41 023	-	838 337
Provision for services rendered					
prior year	153	5 428 012	1 220 626	-	6 648 638
current year	154	6 648 638	9 317 659	(6 119 366)	9 846 931
Provision for annual performance bonuses					
prior year	155	1 459 510	2 379 206	(1 963 022)	1 875 694
current year	156	1 875 694	2 023 928	(1 992 335)	1 907 287

SUPPLEMENTARY INFORMATION

Description	Code	Opening balance	Closing balance
1	2	3	4
Net assets	200	103 204 031	104 801 727

STATEMENT OF CASH FLOWS
for the year 2009

		Form No. 4 OKUD	CODES
		Date (day, month, year)	071004
Company	OJSC "MTS"	OKPO	31.12.2009
Taxpayer identification number		INN	52686811
Type of operations	Telecommunication services	OKVED	7740000076
Legal status/ form of ownership	Open Joint Stock Company / Joint private and foreign ownership	OKOPF/ OKFS	64.20.11
Unit	Thousands of rubles	OKEI	47/34
			384

Description	Code	Current year	Prior year
1	2	3	4
Cash and cash equivalents at the beginning of the year	100	4 403 545	1 726 601
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	110	209 057 324	208 562 665
Other cash inflows	120	53 335	33 465
Reorganization	125	-	51 911
Cash and cash equivalents used for:	130	(179 252 965)	(160 318 254)
payments for acquired goods, services, raw materials and other current assets	150	(72 688 174)	(65 523 403)
payments to employees	160	(10 706 977)	(10 758 413)
payments of dividends and interest	170	(47 288 805)	(32 089 680)
payments of taxes	180	(38 800 765)	(43 866 787)
other payments	190	(9 768 244)	(8 079 971)
Net cash provided by operating activities	200	29 857 694	48 329 787
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of fixed assets and other non-current assets	210	781 380	462 667
Proceeds from disposal of securities and other financial investments	220	137	-
Dividends received	230	757 990	666 269
Interest received	240	2 424 068	1 191 801
Proceeds from redeemed loans granted to other entities	250	6 310 909	3 216 381
Other inflows	260	29	22 046
Acquisition of subsidiaries	280	(52 617 047)	(1 397 042)
Purchase of fixed assets, investment property and intangible assets	290	(40 398 897)	(35 387 300)
Loans granted to other entities	310	(17 043 342)	(29 241 016)
Net cash used in investing activities	340	(99 784 773)	(60 466 194)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans received from other entities	355	139 868 497	51 437 178
Loan principal paid (excluding interest)	360	(43 164 148)	(25 363 123)
Capital lease obligation paid	365	(125 250)	(165 163)
Repurchase of common stock	366	-	(11 139 866)
Net cash provided by financing activities	370	96 579 099	14 769 026
Net increase (decrease) in cash and equivalents	375	26 652 020	2 632 619
Cash and cash equivalents at the end of the year	380	31 055 565	4 359 220
Effect of exchange rate changes	390	(44 325)	(20 653)

**APPENDIX TO THE BALANCE SHEET
for the year 2009**

Company
Taxpayer identification
number
Type of operations
Legal status/
form of ownership
Unit

OJSC "MTS"

Telecommunication services
Open Joint Stock Company /
Joint private and foreign ownership
Thousands of rubles

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

OKPO

INN

OKVED

OKOPF/

OKFS

OKEI

CODES

0710005

31.12.2009

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47/34

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INTANGIBLE ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Items of intellectual property (exclusive rights to use intellectual property)	010	405 956	107 756	(145 368)	368 344
including:					
rights to use software and databases	012	405 745	107 756	(145 368)	368 133
owner rights to trademark, copyrights, appellations of origin	014	211	-	-	211
Numbering capacity and other	040	1 019 641	-	(2 367)	1 017 274
Total	041	1 425 597	107 756	(147 735)	1 385 618

Description	Code	Opening balance	Closing balance
1	2	3	4
Amortization of intangible assets - total	050	1 047 228	1 011 085
including:			
Items of intellectual property (exclusive rights to use intellectual property)	051	340 498	250 667
including:			
rights to use software and databases	053	340 498	250 667
Numbering capacity and other	054	706 730	760 418

FIXED ASSETS

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Buildings	100	6 510 320	1 333 561	(27 015)	7 816 866
Equipment and transmission devices	101	19 563 496	631 944	(180 456)	20 014 984
Machinery and equipment	102	109 463 678	35 928 455	(5 308 716)	140 083 417
Vehicles	103	646 044	242 998	(54 706)	834 336
Productions and support tools	104	633 352	39 338	(19 534)	653 156
Other fixed assets	108	864 938	317 040	(75 286)	1 106 692
Plots of land and natural resources	109	65 543	83 351	-	148 894
Total	120	137 747 371	38 576 687	(5 665 713)	170 658 345

Description	Code	Opening balance	Closing balance
1	2	3	4
Depreciation of fixed assets - total	140	54 698 777	76 907 187
including:			
buildings and constructions	141	2 550 998	5 087 822
machinery, equipment and vehicles	142	51 224 109	70 806 518
other	143	923 670	1 012 847
Transferred for lease - total	145	518 096	462 742
including:			
buildings and constructions	146	341 471	341 471
machinery, equipment and vehicles	147	174 443	118 655
others	148	2 182	2 616
Transferred for temporary non-use	149	56 834	-
Received for lease - total	150	1 118 371	1 118 371
including:			
machinery, equipment and vehicles	152	731 473	731 473
others	153	386 898	386 898
Property, placed into operation under state registration	155	28 577 824	28 440 419
ADDITIONAL INFORMATION			
Changes in valuation of fixed assets as a result of modernization, reconstruction or partial liquidation	173	1 586 005	1 854 959

INVESTMENT PROPERTY

Description	Code	Opening balance	Additions	Disposals	Closing balance
1	2	3	4	5	6
Lessor lease	300	517 890	36 557	(91 705)	462 742

Description	Code	Opening balance	Closing balance
1	2	3	4
Depreciation of investment property	306	155 716	131 817

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 equity capitals of other entities - total	510	37 135 580	105 022 802	-	-
including:					
subsidiaries and associates	511	37 135 580	105 022 802	-	-
Securities of other entities	520	17 168	-	-	-
including:					
debt securities (bonds and promissory notes)	521	17 168	-	-	-
Loans issued	525	32 325 141	24 217 709	11 364 241	26 435 072
Deposits	530	-	-	17 464 448	27 100 000
Total	540	69 477 889	129 240 511	28 828 689	53 535 072

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Description	Code	Opening balance	Closing balance
1	2	3	4
Accounts receivable:	600		
short-term - total	605	23 376 218	22 461 450
including:			
trade receivable	606	9 400 897	9 058 945
advances paid	607	4 456 540	2 830 113
other	608	9 518 781	10 572 392
Total	615	23 376 218	22 461 450
Accounts payable:	620		
short-term - total	625	76 384 081	95 327 074
including:			
trade payable	626	25 420 547	17 744 603
advances received	627	9 975 077	9 739 066
taxes payable	628	1 904 646	3 202 456
loans	629	30 794 763	17 078 177
borrowings	630	6 166 703	45 285 470
other	631	2 122 345	2 277 302
long-term - total	635	93 156 265	174 747 609
including:			
loans	636	42 957 616	128 494 145
borrowings	637	50 198 649	46 253 464
Total	640	169 540 346	270 074 683

EXPENSES RELATED TO OPERATING ACTIVITIES BY COST ELEMENTS

Description	Code	Current year	Prior year
1	2	3	4
Materials	710	3 123 998	4 393 486
Payroll	720	11 680 536	12 467 019
Social contributions	730	1 811 475	1 738 476
Depreciation and amortisation	740	30 953 980	17 011 243
Other costs	750	83 427 724	78 208 736
Total for cost elements	760	130 997 713	113 818 960
Changes (increase [+], decrease [-]) in:			
work in progress	765	(26 139)	(413 683)
prepaid expenses	766	(83 740)	(295 307)
accrued expenses	767	3 270 624	846 442

COLLATERAL

Description	Code	Opening balance	Closing balance
1	2	3	4
Received - total	800	474 226	962 388
including: promissory notes	805	474 226	962 388
Given - total	830	25 795 576	24 195 360
including: guarantees issued	835	25 795 576	24 195 360

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF
OPEN JOINT-STOCK COMPANY MOBILE TELESYSTEMS FOR 2009**

1. SHORT DESCRIPTION OF THE COMPANY'S ACTIVITIES

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

Date of state registration is March 1, 2000.

OJSC MTS has branches and structural divisions registered in the following locations in the Russian Federation:

Moscow Region, Moscow; Oryol Region, Oryol; Belgorod Region, Belgorod; Lipetsk Region, Lipetsk; Kursk Region, Kursk; Voronezh Region, Voronezh; Bryansk Region, Bryansk; Tula; Smolensk; Ryazan; Vladimir; Kaluga; Yaroslavl; Tver; Kostroma; Ivanovo; Tambov; Leningrad Region, St.-Petersburg; Pskov; Komi Republic, Syktyvkar; Arkhangelsk Region, Arkhangelsk; Nizhny Novgorod Region, Nizhny Novgorod; Kirov Region, Kirov; Republic of Tatarstan, Kazan; Udmurt Republic, Izhevsk; Chuvash Republic, Cheboksary; Republic of Mordovia, Saransk; Mariy-El Republic, Ioshkar Ola; Samara; Saratov; Orenburg; Ulyanovsk Region, Ulyanovsk; Republic of Bashkortostan, Ufa; Krasnodar Krai, Krasnodar; Astrakhan Region, Astrakhan; Volgograd Region, Volgograd; Stavropol Krai, Stavropol; Rostov Region, Rostov-on-Don; Novorossiysk; Sochi; Republic of Adygea, Maikop; Republic of Kalmykia, Elista; Kabardino-Balkar Republic, Nalchik; Karachay-Cherkess Republic, Cherkessk; Republic of Ingushetia, Magas; Republic of North Ossetia-Alania, Vladikavkaz; Republic of Dagestan, Makhachkala; Chechen Republic, Grozny; Sverdlovsk Region, Ekaterinburg; Perm Krai, Perm; Chelyabinsk Region, Chelyabinsk; Kurgan Region, Kurgan; Tyumen Region, Tyumen; Khanty-Mansi Autonomous District, Surgut; Yamalo-Nenets Autonomous District, Novosibirsk Region, Novosibirsk; Omsk Region, Omsk; Kemerovo Region, Kemerovo; Altai Region, Barnaul; Krasnoyarsk Krai, Krasnoyarsk; Tomsk Region, Tomsk; Republic of Khakassia, Abakan; Altai Republic, Gorno-Altai; Tyva Republic, Kyzyl; Primorsky Krai, Vladivostok; Khabarovsk Krai, Khabarovsk; Amur Region, Blagoveshchensk; Chita; Republic of Sakha (Yakutia), Yakutsk; Irkutsk Region, Irkutsk; Kamchatka Region, Petropavlovsk-Kamchatsky; Magadan Region, Magadan; Buryat Republic, Ulan-Ude; Sakhalin Region, Yuzhno-Sakhalinsk; Noyabrsk.

OJSC "Mobile TeleSystems" also has a representative office in the Republic of Belarus.

The Company's average headcount in 2009 and 2008 was 21,344 and 22,467 people, respectively.

The Company generates revenue primarily from the following services:

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

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

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

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

The Company's principal business activities are in the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to frequent changes, and the Company's assets and operations could be at risk due to negative changes in the political and business environment.

Since the end of 2008, capital and credit markets of the world's largest economies have been characterized by considerable volatility. A number of major global financial institutions have declared bankruptcy, been sold to other financial institutions and/or received financial assistance from the government. The continuing financial crisis resulted in an unstable situation in the capital markets, significant reduction of liquidity and stricter terms of lending in Russia. Despite the stabilization measures that were taken by the Government of the Russian Federation which were aimed at increasing both liquidity and the possibilities for the refinancing foreign debt of Russian banks and companies, an economic uncertainty remains as to the general business environment, the availability and cost of loans both for the Company and its counterparties as well as trends in consumer demand which may affect the Company's financial position, financial results and prospects of business development. So far economic downturn and stricter terms of lending have not significantly affected the Company's business.

The entity recording title to securities is Open joint-stock company Registrator NIKoil.

Information on the Company is published in the Attachment to the Newsletter of the Federal Service for Financial Markets.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statements preparation

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

Going concern assumption

In the 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 activities, and that therefore its obligations will be discharged appropriately.

Fixed assets

The actual costs of acquisition, construction and manufacturing of fixed assets which comprise the historical cost are determined in accordance with Clause 8 of PBU 6/01 "Accounting for fixed assets". The historical cost includes the cost, including interest, related to loans incurred to finance the acquisition and/or construction of investment assets. The inclusion of the costs of loans received in the historical cost of an investment asset ceases from the first day of the month following the month when such asset is recognized as a fixed asset.

Investment assets include fixed assets, property complexes and other similar assets that require a longer time (more than 2 years) and costs (more than 1 billion rubles) for acquisition and/or construction.

The carrying value of fixed assets is depreciated by using the straight-line method over their useful lives.

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 Clause 4 of PBU 6/01 whose value does not exceed 20,000 rubles per unit are recorded as inventories.

Fixed assets are not revalued.

Intangible assets

The carrying value of intangible assets is depreciated by using the straight-line method over their useful lives. Useful lives of intangible assets are determined at the initial recognition of the assets. Useful lives of intangible assets are determined based on the following:

- The validity of the Company's rights for the results of intellectual activity or individualization means and period of control over the asset (validity of the patent, license agreement, certificate and other limitations on the useful lives of intellectual assets in accordance with the legislation of the Russian Federation); and
- The estimated period during which the asset will be used and is expected to generate economic benefits to the Company, determined in accordance with the agreement or internal supporting document.

Useful lives of intangible assets are reviewed on an annual basis to determine if they need to be amended. Reviews are performed by working committees in charge of putting intangible assets into operation in the end of the reporting year. The estimated useful life of an asset is checked, and either the useful life determined previously is confirmed or a new useful life is determined. A new useful life is applied if it significantly differs from previous useful lives (by more than 5% compared to the useful life determined earlier).

The intangible assets amortization charge is reflected in accounting records by accumulation of corresponding amounts in the separate account 05 "Amortization of intangible assets".

Inventory

The cost of purchased inventories is recorded using accounts 15 "Acquisition of inventories" and 16 "Variance in cost of inventories". The cost of inventories is recognized in accounts 10 "Materials" and 41 "Goods" and is 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 the average actual direct production cost that relates to separate inventory items.

The Company accounts for the cost of inventories sold, issued to production or otherwise disposed of using the weighted average method.

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.

Financial investments for which market value could be determined under the established procedure are presented in the financial statements at the current market value as at the end of the reporting quarter of the year through adjustment of their value as of the previous reporting date. Difference between the current market value of investments at the reporting date and the previous valuation of investments is charged to the Company's financial results in the other income (expenses).

Calculation of the discounted value for debt securities and loans given is not performed.

The value of investments disposed of is determined based on the historical cost of each investment.

The Company makes a provision for the impairment of financial investments in accordance with PBU 19/02 "Accounting for Financial Investments". The provision is made if, after a review, there is some evidence of sustained significant impairment of financial investments.

Revenue Recognition

Revenues for accounting purposes are recognized on an accrual basis.

Income from the sale of telecommunication services is determined on the basis of data from the billing system on the volume and types of services provided for the reporting period and approved tariffs for telecommunication services, taking into account discounts as provided by OJSC MTS marketing policy. Revenues from the sale of telecommunication services are recognized when invoices are issued to subscribers in the billing system.

Starting from January 1, 2009, revenues from connection fees and other non-recurrent services are recognized as deferred income at the time of subscriber's connection to the network with subsequent recognition using the straight-line method throughout the expected subscriber life or marketing action period.

Revenue from the sale of goods is recognized when legal title passes to the buyer.

For construction and installation works performed by the Company the percentage of completion is determined on the basis of interim acceptance acts ("KS-2") and reports on the cost of works performed ("KS-3") (see section 3 "Changes in accounting policy and legislation").

Expenses

General and selling expenses are recognized in full in the period in which they are incurred.

The Company accrues the following provisions for:

- Valuation reserves:
 - (i) provision for doubtful debts (monthly)
 - (ii) provision for the impairment of investments (quarterly)
 - (iii) provision for inventory obsolescence (monthly)
- Provision for accrued operating expenses:
 - (i) provision for unused vacation (monthly)
 - (ii) provision for annual / quarterly performance bonuses (monthly)
- Provision for contingencies (quarterly)
- Provision for work performed, services rendered (monthly).

Prepaid expenses are recognized in 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 it is impossible to conclude on the period from the relevant documents, it is determined by a commission whose composition is appointed by the Company's management.

Long-term and short-term liabilities

Borrowings and liabilities that mature in more than 12 months are recognized as part of long-term liabilities. Long-term liabilities are reclassified to short-term liabilities when, under the loan agreement, their maturity is less than 365 days from the reporting date.

3. CHANGES IN ACCOUNTING POLICY AND LEGISLATION

Changes in legislation

Due to the change of the income tax rate from 24% to 20% effective January 1, 2009, the Company recalculated deferred tax assets and liabilities as of January 1, 2009. In accordance with Clauses 14, 15 of PBU 18/02 "Accounting for corporate income tax payments" the opening balance for retained earnings of 2009 was decreased by 276,812 thousand rubles proceeding from the recalculation of deferred tax assets and increased by 160,858 thousand rubles from the recalculation of deferred tax liabilities.

Adjustments of comparative figures

In the current year the Company changed the classification of a range of fixed assets and as a result the corresponding figures of the Company's financial statements as of the beginning of the reporting year were adjusted to ensure comparability with the 2009 figures. Figures are as follows:

Adjusted item	Line code	Previous year's data adjusted for effects of changes in accounting policies in the reporting year, thousand rubles		
		Initial amount	Adjusted amount	Difference
Supplement to the Balance Sheet				
Buildings	100	6 510 216	6 510 320	104
Equipment and transmission devices	101	18 056 797	19 563 496	1 506 699
Machinery and equipment	102	110 974 153	109 463 678	(1 510 475)
Vehicles	103	646 044	646 044	-
Production and support tools	104	633 239	633 352	113
Other fixed assets	108	861 379	864 938	3 559
Plots of land and natural resources	109	65 543	65 543	-
Total	120	137 747 371	137 747 371	-

Changes in accounting policy

Effective from January 1, 2009 the Company amended its accounting policy since the use of new accounting methods implies better presentation of business facts in the Company's accounting records and financial statements. In accordance with PBU 1/2008 "Accounting Policy of an Organization", the effects of changes in accounting policy are recognized retrospectively. Retrospective recognition of the effects of changes in accounting policy means adjustment of opening balances of the retained earnings over the earliest period presented as well as values of related balance sheet accounts disclosed for each period presented in the financial statements as if new accounting policy were applicable from the moment when the business facts of this type arose.

The Company made the following changes to its accounting policy:

- Recognition of the connection fees and other non-recurrent services as deferred income at the time of subscriber's connection to the network with subsequent recognition using the straight-line method throughout the expected subscriber life or marketing action period (see section 2 "Significant accounting policies").
Changes in accounting policy with regard to the recognition of connection fee and other non-recurrent services had no material effect on the Company's financial situation, financial results and cash flow.
- Recognition of additional borrowing costs in the amount of more than 1 million rubles, using a straight-line method during the term of the borrowing (loan agreement) (see section 6 "Loans and borrowings").

Set out below are the estimated effects of changes in the accounting policy for the period preceding the reporting period as regards recognition of additional borrowing costs:

Adjusted item	Line code	Prior year's data adjusted for effects of changes in accounting policies in the reporting year, thousand rubles		
		Initial amount	Adjusted amount	Difference
Balance sheet				
Other non-current assets	150	16 414 677	17 867 613	1 452 936
Retained earnings, current year	470	(39 778 176)	(39 674 883)	103 293
Retained earnings, prior years	471	(55 486 807)	(56 752 449)	(1 265 642)
Deferred tax liabilities	515	(881 705)	(1 172 292)	(290 587)
Statement of profit and loss				
Other expenses	100	(21 486 349)	(21 615 466)	(129 117)
Deferred tax liabilities	142	(385 597)	(359 773)	25 824
Net income for the reporting period	190	39 778 176	39 674 883	(103 293)
Basic earnings per share (RUB)	210	20,05	19,99	(0,06)
Diluted earnings per share (RUB)	215	20,05	19,99	(0,06)

4. INVESTMENTS

Long-term financial investments

As of December 31, 2009 and 2008, long-term investments consisted of the following:

	2009	(RUB '000) 2008
Total debt securities,	-	17 168
including:		
OJSC Vekselya i Finansy promissory note	-	15 117
OJSC Moskovskaya Sotovaya Svyaz promissory note	-	2 051
Total loans given,	29 789 444	32 325 141
including:		
CJSC Russian Telephone Company	9 370 575	-
Mobile TeleSystems Finance S.A.	5 354 185	118 298
Mobile TeleSystems Bermuda Limited	4 726 229	22 462 917
International Cell Holding Ltd.	2 921 697	6 170 749
LLC Bastion	2 378 614	3 079 374
CJSC COMSTAR-Regions	1 815 249	-
CJSC Telephone.ru	957 540	-
CJSC Gazprombank	607 211	-
CJSC Dagtelecom	504 121	-
LLC Eldorado-Centre	324 978	-
OJSC Mobile Telematic Positioning Systems	217 244	-
Vostok Mobile B.V.	200 792	-
OJSC Intellect Telecom	182 523	158 720
LLC Retail.Telephone.ru	96 421	-
LLC LogjCom	56 174	-
LLC Salon Svyazi Eldorado	48 625	-
CJSC Teleforum	25 584	-
Narico Holding Limited	1 378	-
MCT Sib Corp.	304	-
OJSC TS-Retail	-	327 779
Mobile TeleSystems B.V.	-	7 304
Total investments in shares of affiliated companies and subsidiaries,	105 485 727	37 140 868
including:		
LLC Operator Svyazi	44 290 446	-
CJSC Ukrainian Mobile Communications	11 625 862	11 625 862
International Cell Holding Ltd.	11 072 981	10 191 388
LLC Uzdunrobita	9 995 499	9 995 499
LLC Capital	6 710 833	-
Mobile TeleSystems Bermuda Ltd	5 905 192	1 207
CJSC Evrotel	3 352 460	-
Narico Holding Ltd	3 064 553	3 600
CJSC Dagtelecom	2 195 632	402 883
CJSC Russian Telephone Company	1 292 249	25
Barash Communications Technologies, Inc.	1 317 569	1 317 569
CJSC Sibintertelecom	1 156 613	1 156 613
Vostok Mobile B.V.	1 063 988	1 063 988
LLC Eldorado-Centre, LLC Salon Svyazi Eldorado	782 037	-
CJSC Teleforum	328 595	-
LLC Bastion	308 300	308 300
LLC Mobile TeleSystems	282 160	282 160
Coral/Sistema Strategic Fund	274 694	274 694
LLC PPT Telecom Kiev	106 403	106 403
OJSC TS-Retail	86 100	86 100
OJSC Firma Novitel	83 831	83 831
LLC SweetCom	80 389	80 389
JLLC Mobile TeleSystems	77 827	77 827
LLC Mobile TeleSystems in the Komi Republic ¹	-	30 371
NPF Sistema	14 085	14 085
LLC TS-Service	13 400	13 400
CJSC Center-Telco ²	-	11 222
LLC Mobile TeleSystems-Kostroma ¹	-	9 540
Mobile TeleSystems Finance S.A.	3 744	3 744
OJSC Mobile Telematic Positioning Systems	285	168
Other	3 760	94 143
Provision for impairment of investments	(6 038 420)	(99 431)
Total	129 240 511	69 477 889

¹ Company liquidated in 2009² Investments sold in 2009 under respective sale-purchase agreements

Short-term investments

	<u>2009</u>	<u>(RUB '000)</u> <u>2008</u>
Bank deposits	27 100 000	17 464 448
Total loans given,	27 772 985	16 673 011
including:		
MTS Bermuda Ltd	18 032 744	4 543 565
LLC Bastion	3 200 119	2 058 377
CJSC K-Telecom	2 452 243	-
LLC Uzdunrobta	1 787 494	1 575 646
OJSC TS-Retail	913 147	477 967
CJSC Beta Link	836 742	826 867
LLC SweetCom	375 166	325 691
Mobile TeleSystems Finance S.A.	97 360	5 036 371
LLC Digital Television and Radio Broadcasting	37 667	19 372
CJSC Sotovaya Svyaz Primorya	26 899	26 131
CJSC Ukrainian Mobile Communications	-	470 945
CJSC Dagtelecom	-	459 853
GLAXEN CORPORATION	-	358 885
Vostok Mobile B.V.	-	194 100
OJSC MTS P	-	192 317
JLLC Mobile TeleSystems	3 024	60 230
Other	10 380	46 694
Provision for impairment of investments	<u>(1 337 913)</u>	<u>(5 308 770)</u>
Total	<u>53 535 072</u>	<u>28 828 689</u>

Provision for impairment of investments

In accordance with the Company's accounting policy the provision for impairment of long-term and short-term investments was accrued as follows:

- Provision in the amount of 5,451,545 thousand rubles that includes the allowance of 4,481,903 thousand rubles for impairment of a loan issued in March 2006 to the subsidiary Mobile TeleSystems Finance S.A. in the amount of 156,000 thousand US Dollars. The loan was used to acquire 51% of the shares in Tarino Limited which owned 100% of LLC Bitel through its subsidiaries in the amount of 4,481,903 thousand rubles at the time of acquisition, as well as the allowance of 969,642 thousand rubles for the impairment of a loan issued to cover the court proceedings as regards LLC Bitel. Currently, the rights of Mobile TeleSystems Finance S.A. to the acquired assets are disputed in courts of various jurisdictions. In accordance with the loan agreement Mobile TeleSystems Finance S.A. should have repaid the principal and accrued interest on December 31, 2007. As of now, there is an uncertainty as to the recoverability of this loan as Mobile TeleSystems Finance S.A. does not conduct operating activities and has no available assets.
- Allowance for impairment of loans given and investments in equity of the following companies:

	<u>(RUB '000)</u>
CJSC Beta Link	836 742
LLC SweetCom	446 919
Coral/Sistema Strategic Fund	274 694
OJSC Mobile Telematic Positioning Systems	217 529
Total	<u>1 775 884</u>

- Allowance for impairment of other investments in the amount of 148,904 thousand rubles.

5. INVENTORIES

As of December 31, 2009 and 2008, the Company had no inventory in transit or pledged as collateral.

As of December 31, 2009 and 2008, the provision for inventory obsolescence (handsets, accessories and advertising materials) amounted to 163,488 thousand rubles and 222,285 thousand rubles, respectively.

6. LOANS AND BORROWINGS

In 2009 the Company entered into an agreement with OJSC Sberbank of Russia on additional financing in the amount of 47 billion rubles and 12 billion rubles maturing in 2013 and 2011, respectively. The funds raised were used to finance the direct and indirect purchase of shares of OJSC Comstar-United TeleSystems and the implementation of the program of investments in network development and other general corporate needs of the Company. In accordance with the terms of loan agreement for the amount of 47 billion rubles the 50.18% stake in OJSC Comstar-United TeleSystems owned by subsidiaries of OJSC MTS and telecommunications equipment with carrying amount of 30 billion rubles were pledged as a collateral.

Maturities of the main types of debt outstanding as of December 31, 2009 are presented below:

	(RUB '000)					
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings	43 091		45 242 380	44 251 077	-	89 536 548
Loans	2 073 510	1 414 259	13 590 407	123 469 459	5 024 686	145 572 321
Promissory notes	-	-	-	-	2 002 387	2 002 387
Total	2 116 601	1 414 259	58 832 787	167 720 536	7 027 073	237 111 256

In 2009 the Company issued two ruble-denominated notes in the amount of 15 billion rubles each maturing in 2014 and 2016, respectively. The ruble-denominated notes are all subject to put option in 2011 and 2012, respectively, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of coupons. The notes in the accompanying financial statements are disclosed as maturing in the period, when the demand for repurchase could be submitted, disregarding the expectations of the Company about the intentions of the notes holders. Therefore, the Company disclosed the notes as maturing in 2011 and 2012 in the aggregated maturities schedule presented above.

On January 1, 2009 the Company made changes in the accounting policy regarding to accounting of additional borrowing costs (see section 3 "Changes in accounting policy").

The accrued expenses on loans and borrowings (interest and other additional expenses) for 2009 amounted to 16,464,939 thousand rubles, including:

- 15,400,665 thousand rubles recognized as interest expense;
- 1,064,274 thousand rubles recognized as other expenses (debt issuance costs).

The capitalized debt issuance costs for 2009 amounted to 3,675,023 thousand rubles.

Maturities of the main types of debt outstanding as of 31 December 2008 are presented as follows:

	(RUB '000)					
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Borrowings	412 220	-	2 339 503	52 668 741	-	55 420 464
Loans	2 127 938	600 705	31 481 100	35 638 647	2 846 490	72 694 880
Promissory notes	-	-	-	-	2 002 387	2 002 387
Total	2 540 158	600 705	33 820 603	88 307 388	4 848 877	130 117 731

The accrued expenses on loans and borrowings (interest and other additional expenses) for 2008 amounted to 5,464,171 thousand rubles, including:

- 5,134,513 thousand rubles recognized as interest expense;
- 329,658 thousand rubles recognized as other expenses (debt issuance costs).

The capitalized debt issuance costs for 2008 amounted to 197,220 thousand rubles.

7. INCOME TAX

Current income tax expense for 2009 and 2008 comprised the following:

	<u>2009</u>	<u>(RUB '000)</u> <u>2008</u>
Theoretical income tax expense	7 974 079	12 976 074
Permanent tax assets:		
non-deductible expenses	1 148 010	1 016 364
provision for impairment of investments	-	198 448
other	91 125	2 778
Total	1 239 135	1 217 590
Permanent tax liabilities:		
non-taxable income	(191 231)	(486 780)
other	(18 664)	(17446)
Total	(209 895)	(504 226)
Increase/(decrease) in deferred tax assets:		
provision for services rendered	2 134 149	1 370 567
allowance for doubtful debt	(42 835)	285 272
difference in the methods of revenue recognition	137 851	75 324
provisions for inventory impairment	541 098	(78 075)
other provisions	387 436	53 079
fixed assets, including due to:		
different periods and methods of depreciation for accounting		
and tax purposes	935 261	792 214
other operations with fixed assets	1 250	736
Total	4 094 210	2 499 117
Increase in deferred tax liabilities for:		
fixed assets, including due to:		
different periods and methods of depreciation for accounting		
and tax purposes	(495 425)	(253 022)
other operations with fixed assets	(76 034)	49 692
prepaid expenses and capitalized debt issuance costs	(644 052)	(156 443)
Total	(1 215 511)	(359 773)
Total current income tax	11 882 018	15 828 782

Line 151 "Income tax and tax penalties of previous years" in the statement of profit and loss includes the following:

	<u>2009</u>	<u>(RUB '000)</u> <u>2008</u>
Adjusted income tax returns for the years 2006 to 2008	4 164 263	(359)
Reimbursement of deductible temporary differences due to adjustment of tax returns for the years 2006 to 2008	(2 193 398)	-
Arbitration court's ruling in favor of OJSC MTS	860 730	(782 789)
Non-reimbursed deductible temporary differences for 2006	(233 396)	73 082
Other	14 697	28 924
Total	2 612 896	(681 142)

8. SHARE CAPITAL

Share capital of the Company as of December 31, 2009 and 2008 comprised the following:

Types of shares	Par value, RUB	Number of shares		Of these, number of shares fully paid,		Of these, number of treasury shares (acquired by the Company, its subsidiaries and associates)	
		2009	2008	2009	2008	2009	2008
		Ordinary shares	0.1	1 993 326 138	1 993 326 138	1 993 326 138	1 993 326 138
Total		1 993 326 138	1 993 326 138	1 993 326 138	1 993 326 138	76 456 877	108 273 338

In 2008 the Company purchased 37,762,257 of its own shares for the amount of 11,139,866 thousand rubles. In 2009 the Company contributed to LLC Capital its treasury shares which were subsequently exchanged for the shares of OJSC Comstar-United TeleSystems.

The shareholder structure as of December 31, 2009 and 2008 was as follows:

	Ownership interest, %	
	2009	2008
CJSC ING Bank (Eurasia) (nominal holder)	39,82	39,70
JFC Sistema	25,98	31,92
OJSC Deutsche Bank (nominal holder)	9,71	9,73
CJSC Depository Clearing Company (nominal holder)	9,09	2,11
CJSC Invest-Svyaz	8,04	8,04
Other shareholders	7,36	8,50
Total	100,00	100,00

9. ADDITIONAL DISCLOSURES ABOUT ASSETS AND LIABILITIES

Non-depreciable fixed assets	(RUB '000)	
	31 December	
	2009	2008
Land plots	148 894	65 543
Outdoor improvements	61 571	45 720
Residential properties	416	792
Total	210 881	112 055

	Line code	Account	(RUB '000)	
			31 December	
			2009	2008
Construction in progress, including:	130		24 848 156	34 622 021
Construction in progress of telecommunication equipment		08	15 523 806	25 361 415
Equipment for installation		07, 14	9 254 996	9 095 507
Other investments in non-current assets		15,16	69 354	165 099
Other non-current assets, including:	150		18 594 582	17 867 613
Numbering capacity, non-exclusive rights to use software products with useful lives over 12 months		97	12 451 890	12 884 793
Debt issuance costs		97	4 315 974	1 452 936
Advances given for acquisition of fixed assets and construction services		60,63	1 826 718	3 529 884

Due to the development of next-generation networks of 3G technologies, the Company performed an analysis of non-operating equipment in 2009 aimed at determining the appropriateness of its further use. The analysis resulted in identifying equipment which was operable or saleable, fit for further use or obsolete, unfit for operation or lacking in demand. As of December 31, 2009 the Company established a reserve for equipment lacking in demand in the amount of 1,534,934 thousand rubles recorded in line 130 "Construction in progress".

Other receivables

Other receivables as of December 31, 2009 and 2008 comprised the following:

	Line code	31 December	
		2009	2008
Other receivables, including:	608	10 572 392	9 518 781
Tax receivable		5 754 896	4 055 863
Other receivables - roaming		3 110 512	2 011 986
Other receivables - dealers		360 978	1 223 132
Other receivables - customs		291 208	181 833
Other receivables – Social Security Fund		255 729	231 053
Dividends receivable		175 007	57 485
Other receivables – commercial representatives		115 972	156 777
Advances for operating expenses		84 337	508 399
Other		423 753	1 092 253

Other current assets

As of December 31, 2009 line 270 "Other current assets" includes telecommunication equipment and spare parts purchased earlier from Lucent Technologies. As of December 31, 2009 and 2008 the net book value of these assets amounted to 604,884 thousand rubles and 1,928,330 thousand rubles, respectively. In 2009 the Company made a provision in the amount of 1,229,352 thousand rubles as it had no plans regarding the further use or disposal of this equipment.

The Company intends to sell telecommunication equipment and spare parts purchased earlier from Lucent Technologies at net book value within 2010.

10. ADDITIONAL DISCLOSURES TO OTHER INCOME AND EXPENSES

	Line code	(RUB '000)	
		2009	2008
Other income, including:	090	2 148 238	2 906 235
Income on sale and disposal of other property		930 191	398 349
Accounts payable written off as unrecoverable		341 119	107 595
Income from sale of securities		320 571	-
Prior year profits identified in the current period		130 328	1 415 908
Trademark income		95 062	209 968
Income on sale and disposal of fixed assets		73 979	357 453
Penalties and fines		45 100	37 496
Gain in the result of inventory count		27 682	33 916
Income on swaps		-	220 252
Other		184 206	125 298
Other expenses, including:	100	20 571 910	21 615 466
Foreign exchange gains and losses, net		3 671 234	12 681 458
Prior years loss identified in current period		3 622 627	904 829
Provision for inventory obsolescence		2 705 489	(327 306)
Provision for doubtful debts		2 402 720	1 952 836
Provision for impairment of investments		2 082 502	515 739
Loss on sale and disposal of other property		1 267 049	613 102
Loss on swaps		795 847	297 736
Loss on sale and disposal of fixed assets		750 816	2 034 094
Debt issuance cost		1 064 274	329 658
Provision for contingencies and provision for VAT reimbursable		489 852	707 441
Accounts receivable written off as unrecoverable		326 890	164 209
Reimbursement of value-added tax		310 649	369 886
Loss on the sale of securities		208 660	-
Loss in the result of inventory count		133 868	584 244
Bank charges		124 997	122 880
Penalties and fines		6 517	7 416
Other		607 919	657 244

Expenses related to operating activities for the years 2009 and 2008 comprised the energy consumption expenses amounting to 1,202,760 thousand rubles and 810,146 thousand rubles, respectively.

11. BASIC AND DILUTED EARNINGS

Basic and diluted earnings for the years 2009 and 2008 were as follows:

	2009	(RUB '000) 2008
Basic earnings, thousand rubles	33 480 015	39 674 883
Weighted average number of outstanding ordinary shares	1 968 151 300	1 984 393 188
Basic earning per share, RUB	17.01	19.99
Diluted earnings, thousand rubles	33 480 015	39 674 883
Weighted average number of outstanding ordinary shares	1 968 151 300	1 984 393 188
Diluted earning per share, RUB	17.01	19.99

12. BOARD OF DIRECTORS

As of December 31, 2009, the Board of Directors was comprised of the following members:

Ron Sommer	Chairman of the Board
Sergei Alekseevich Drozdov	Vice-Chairman of the Board
Paul James Ostling	Member of the Board of Directors
Mikhail Valerievich Shamolin	Member of the Board of Directors
Anton Vladimirovich Abugov	Member of the Board of Directors
Alexei Nikolaevich Buyanov	Member of the Board of Directors
Mohanbir Singh Gyani	Member of the Board of Directors
Tatiana Vladimirovna Yevtoushenkova	Member of the Board of Directors
Daniel Eldon Crawford	Member of the Board of Directors

The total amount of compensation paid to the Board of Directors in 2009 and 2008 totaled 51,420 thousand rubles and 298,723 thousand rubles, respectively.

13. MANAGEMENT BOARD

As of 31 December 2009 the Management Board was comprised of the following members:

Mikhail Valerievich Shamolin
Pavel Dmitrievich Belik
Mikhail Yurievich Gerchuk
Andrei Eduardovich Ushatskiy
Andrei Anatolievich Dubovskov
Ruslan Sultanovich Ibragimov
Alexey Valeryevich Kornya
Sergey Borisovich Nikonov
Aleksander Valeryevich Popovskiy
Oleg Yurievich Raspopov
Andrei Borisovich Terebenin
Michael Hecker
Valery Viktorovich Shorzhin

The total amount of compensation paid to the Management Board in 2009 and 2008 totaled 297,892 thousand rubles and 881,828 thousand rubles, respectively.

14. RELATED PARTIES

Related parties of OJSC MTS are represented by its subsidiaries and affiliates, JFC Sistema, all the companies controlled by or significantly influenced by JFC Sistema, and also key management personnel of OJSC MTS and the above companies.

Related party transactions***Interest expenses on loans received***

Related party	(RUB '000)	
	2009	2008
MTS Bermuda Ltd	2 119 926	1 728 503
LLC Bastion	709 006	130 725
CJSC K-Telecom	59 378	36 629
CJSC Sibintertelecom	28 700	28 700
Other	20 100	27 027
Total	2 937 110	1 951 584

Interest income on loans issued

Related party	(RUB '000)	
	2009	2008
MTS Bermuda Ltd	1 501 488	1 182 926
LLC Bastion	717 240	136 416
CJSC Russian Telephone Company	546 975	-
International Cell Holding Ltd.	333 592	274 150
IP Uzdunrobita	180 783	79 456
CJSC Ukrainian Mobile Communications	176 524	67 099
OJSC TS-Retail	100 514	36 888
CJSC Telephone.ru	61 902	-
CJSC Dagtelecom	44 268	45 614
LLC SweetCom	33 592	25 035
LLC Eldorado-Centre	24 538	-
Other	76 936	105 260
Total	3 798 352	1 952 844

Purchase of equipment, goods, works and services

Related party	(RUB '000)	
	2009	2008
LLC Sitronics IT (formerly LLC Kvazar Micro.ru)	2 957 853	2 027 251
OJSC Advertising Agency Maxima	2 882 832	2 499 603
CJSC Sitronics Telecom Solutions	2 710 585	2 083 677
CJSC Mediaplanning	1 151 310	2 285 709
CJSC Sibintertelecom	1 141 923	255 051
OJSC Comstar-United TeleSystems	1 065 610	1 000 110
OJSC Mezhrregionalny Transit Telecom	809 877	5 059 638
OJSC TS-Retail	801 804	137 384
CJSC Ukrainian Mobile Communications	568 641	446 123
OJSC MGTS	522 220	549 453
LLC Sitronics Smart Technologies	518 341	774 188
CJSC Dagtelecom	413 757	268 159
CJSC City Hals	312 262	347 074
CJSC Telephone.ru and subsidiaries	121 358	-
JLLC Mobile TeleSystems	100 466	98 439
CJSC AMT	83 989	109 450
CJSC Metro-Telecom	82 308	108 911
Subsidiaries acquired in 2008	-	875 201
Other	1 053 356	267 532
Total	17 298 492	19 192 953

Sale of equipment, goods, works and services

Related party	(RUB '000)	
	2009	2008
OJSC MGTS	1 115 269	835 778
OJSC Comstar-United TeleSystems	686 769	575 374
CJSC Dagtelecom	531 384	360 121
OJSC Russian Telephone Company	489 353	-
CJSC Sibintertelecom	468 859	304 610
CJSC Ukrainian Mobile Communications	354 134	124 748
OJSC Mezhtregionalny Transit Telecom ³	305 579	2 082 313
JLLC Mobile TeleSystems	96 367	50 253
CJSC AMT	45 714	40 040
OJSC Mobile Telematic Positioning Systems	21 402	21 833
CJSC Comstar-Direct	256	178 885
Subsidiaries merged in 2008	-	1 705 739
Other	234 482	118 149
Total	4 349 568	6 397 843

Dividends received and paid

Related party	(RUB '000)			
	Dividends received		Dividends paid	
	2009	2008	2009	2008
LLC MTS	-	-	46 325	52 936
JLLC MTS, Belarus	822 597	593 967	-	-
JFC Sistema	-	-	11 715 486	8 607 040
Non-resident shareholders	-	-	18 139 914	13 592 862
Other	135	103	5 004 069	3 928 796
Total	822 732	594 070	34 905 794	26 181 634

Amounts outstanding with related parties**Loans received**

Related party	31 December		(RUB '000)
	2009	2008	Period of settlement of operations, 2009
	Mobile TeleSystems Finance S.A.	24 363 967	24 118 273
LLC Bastion	5 324 637	6 002 045	2010
JFC Sistema	2 002 387	2 002 387	2049-2056
CJSC K-Telecom	1 037 718	953 432	2013
CJSC Sibintertelecom	684 972	656 272	2012
LLC Mobile TeleSystems	430 708	281 561	2012
Vostok Mobile B.V.	107 854	104 067	2010
LLC Mobile TeleSystems – Capital	8 145	8 145	2010
Total	33 960 388	34 126 182	

³ The company was a related party until the end of Q1 2009

Loans issued

Related party	31 December		(RUB '000)
			Period of
	2009	2008	settlement of operations, 2009
Mobile TeleSystems Bermuda Limited	22 758 972	27 006 482	2010-2012
CJSC Russian Telephone Company	9 370 575	-	2012
LLC Bastion	5 578 732	5 137 752	2010-2012
Mobile Telesystems Finance S.A.	5 451 545	5 154 668	2010-2012
International Cell Holding Ltd	2 921 697	6 214 926	2011-2012
CJSC K-Telecom	2 452 243	-	2010
CJSC COMSTAR-Regions	1 815 249	-	2011
LLC Foreign Production Enterprise Uzdunrobita	1 787 494	1 575 646	2010
CJSC Telephone.ru	957 540	-	2012
OJSC TS-Retail	913 147	805 746	2010
CJSC Dagtelecom	504 121	459 853	2013
LLC SweetCom	375 166	325 691	2010
LLC Eldorado-Centre	324 978	-	2012
OJSC Mobile Telematic Positioning Systems	217 244	192 316	2012
Vostok Mobile B.V.	200 792	194 099	2012
JLLC Mobile TeleSystems	3 024	60 230	2010
Other	485 956	637 263	
Total	56 118 475	47 764 672	

Accounts Receivable

Related party	Type of transaction	31 December		(RUB '000)
		2009	2008	
CJSC Sitronics Telecom Solutions	Purchase of goods, work, services	562 871	-	
OJSC Advertising Agency Maxima	Purchase of goods, work, services	240 535	245 207	
CJSC Sibintertelecom	Sale of goods, work, services	209 063	436 676	
OJSC Russian Telephone Company	Sale of goods, work, services	206 991	-	
CJSC Ukrainian Mobile Communications	Sale of goods, work, services	152 126	31 919	
LLC Sitronics IT (formerly LLC Kvazar Micro.ru)	Purchase of goods, work, services	140 060	13 389	
CJSC Dagtelecom	Sale of goods, work, services	127 705	283 486	
OJSC Mobile Telematic Positioning Systems	Sale of goods, work, services	113 218	104 439	
OJSC MGTS	Sale of goods, work, services	92 592	277 249	
CJSC Mediaplanning	Purchase of goods, work, services	92 047	-	
OJSC Comstar-United TeleSystems	Sale of goods, work, services	59 629	75 270	
Other	Sale of goods, work, services	136 587	168 271	
Other	Purchase of goods, work, services	48 268	18 587	
		2 181 692	1 608 779	

UNOFFICIAL TRANSLATION

Accounts Payable

Related party	Type of transaction	31 December (RUB '000)	
		2009	2008
Vostok Mobile B.V. (together with Vostok Mobile South)	Acquisition of subsidiaries	2 572 109	2 572 109
CJSC Sitronics Telecom Solutions	Purchase of goods, work, services	661 825	1 474 825
CJSC Sibintertelecom	Purchase of goods, work, services	640 764	90 194
LLC Sitronics IT (formerly LLC Kvazar Micro.ru)	Purchase of goods, work, services	439 621	1 105 466
OJSC Advertising Agency Maxima	Purchase of goods, work, services	309 365	346 609
LLC Sitronics Smart Technologies	Purchase of goods, work, services	212 387	47 512
OJSC Russian Telephone Company	Purchase of goods, work, services	211 954	-
CJSC Dagtelecom	Purchase of goods, work, services	139 406	49 435
CJSC Mediaplanning	Purchase of goods, work, services	80 636	125 228
CJSC Ukrainian Mobile Communications	Purchase of goods, work, services	67 433	-
OJSC MGTS	Purchase of goods, work, services	32 368	45 715
OJSC TS-Retail	Purchase of goods, work, services	27 798	10 248
OJSC Mezhtsentrallyy Transit Telecom ³	Purchase of goods, work, services	-	145 145
Other	Sale of goods, work, services	107 694	3 017
Other	Purchase of goods, work, services	76 105	115 531
Total		5 579 465	6 131 034

As of December 31, 2009 and 2008 allowance for doubtful debts from related party and the provision for impairment of investments to related parties were comprised as follows:

	31 December	
	2009	2008
Provision for the impairment of investments, total including:	6 038 420	4 481 903
Mobile TeleSystems Finance S.A.	5 451 545	4 481 903
Allowance for doubtful debt	11 528	430
Total	6 049 948	4 482 333

Accounts receivable written off in 2009 totalled 8,623 thousand rubles, including 502 thousand rubles written off against the provision.

15. DISTRIBUTION OF RETAINED EARNINGS

The annual shareholder meeting which took place on June 25, 2009 decided to use part of the profit retained by the Company in 2008 to pay dividends to shareholders in the amount of 39,404,612 thousand rubles.

The annual shareholder meeting which took place on June 27, 2008 decided to use part of the profit retained by the Company in 2007 to pay dividends to shareholders in the amount of 29,580,960 thousand rubles.

16. FOREIGN EXCHANGE DIFFERENCES

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

Currency	31 December	
	2009	2008
USD	30,24	29,38
EUR	43,39	41,44
Foreign exchange differences	2009	2008
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in foreign currency	3 892 161	11 867 188
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in rubles	(220 927)	814 270
Foreign exchange differences recognized in accounts other than the profit and loss account	-	5 284
Total	3 671 234	12 686 742

(RUB '000)

17. DERIVATIVE FINANCIAL INSTRUMENTS

In 2009 and 2008 the Company entered into a number of agreements as regards financial instruments of term transactions aimed at hedging the currency / interest rate risks associated with the Company's loan liabilities.

Cost of underlying assets and fair value of the Company's liabilities as of December 31, 2009 were as follows (in the financial instrument's currency and in rubles at the exchange rate as of the reporting date):

Currency	Value of underlying assets		Fair value of liabilities on financial instruments	
	Currency units, thousand	thousand rubles	Currency units, thousand	thousand rubles
Options:				
USD	80 000	2 419 536	3 304	99 928
Swaps:				
USD	1 316 116	39 804 867	45 966	1 398 971
EUR	243 916	10 583 087	7 337	318 331
Total	X	52 807 490	X	1 817 230

In 2009 and 2008 expenses from swap transactions amounted to 795,847 thousand rubles and 77,484 thousand rubles respectively. The swaps will mature in 2010-2015.

Options entered into by the Company have fixed maturities. The swaps will mature in 2010-2011.

The Company does not use financial instruments of term transactions for speculative purposes.

18. REPORTING SEGMENTS

The Company provides telecommunication services in the Russian Federation in a number of regions that share similar economic and political risks. Therefore, the Company's management believes that in 2009 and 2008 the Company operated within one reportable segment. Hence, there are no grounds for disclosing information by reporting segments.

19. GUARANTEES ISSUED

Guarantees issued by the Company as at December 31, 2009 were as follows:

Debtor's name	Creditor's name	Origination date	Termination date	Contractual currency	Contractual amount (USD '000)	Contractual amount (RUB '000)
Mobile Telesystems Finance S.A.	Bondholders of Mobile Telesystems Finance S.A.	14.10.2003	14.10.2010	USD	400 000	12 097 680
Mobile Telesystems Finance S.A.	Bondholders of Mobile Telesystems Finance S.A.	31.01.2005	28.01.2012	USD	400 000	12 097 680
Total						<u>24 195 360</u>

As the Company's management does not expect that any material liabilities as regards the above guarantees may arise, no provisions for possible payments have been established.

20. CONTINGENCIES

In 2008 the Interregional Tax Inspectorate of the Russian Federal Tax Service for largest taxpayers No. 7 issued a decision on imposing tax penalties on the Company. Total additional tax assessment amounted to 1,114,485 thousand rubles, including tax 970,516 thousand rubles (including VAT of 12,756 thousand rubles – claim for offsetting is declared), penalty interest amounted to 73,720 thousand rubles and fine of 70,249 thousand rubles. During the third quarter of 2008 the Company set off the overpaid amount of taxes against additional tax assessments resulting from the tax audit.

The Company appealed against the resolution of the tax authorities and filed two claims to the Arbitration Court of Moscow: the tax amounts were 860,729 thousand rubles and 21,466 thousand rubles, respectively, in both claims (including penalty interests and fines).

The court of first instance satisfied the Company's first claim in full. Resolution of the appeal instance court dated March 31, 2009 upheld the decision of the first instance court. Resolution of the Federal Arbitration Court dated 9 July 2009 upheld these judicial acts and dismissed the tax authority's cassation appeal.

On September 1, 2009 Arbitration Court of Moscow ruled to satisfy the Company's second claim in full. Resolution of the Ninth Arbitration Court of Appeal of December 9, 2009 upheld the decision of the first instance court.

Pursuant to the Resolution of the Ninth Arbitration Court of Appeal of Moscow dated January 22, 2009 the amount of 860,730 thousand rubles was recorded in the second quarter of 2009 as the budget's debt to the Company.

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 are more significant than typically found in countries with more developed tax systems.

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

In connection with planned control activities in respect of the Company and based on the prudence concept the Company's management decided to accrue provision for contingencies in the amount of 1,021,617 thousand rubles as of December 31, 2009, of which 747,169 thousand rubles recorded in line 650 "Provisions for future expenses", while 274,448 thousand rubles – in line 624 "Taxes payable".

The Company purchases equipment and rights to use software from foreign suppliers in the ordinary course of business. The management believes that custom duties are calculated in compliance with the applicable legislation. However, there is a risk that relevant regulatory authorities may take a different view. No provision was made with respect to such contingencies as at December 31, 2009.

Pricing of revenue and expenses between OJSC MTS and its subsidiaries and various discounts and bonuses to the subscribers in the course of performing its marketing activities might be a subject to transfer pricing rules. The Company's management believes that taxes payable are calculated in compliance with the applicable tax regulations. However, there is a risk that relevant regulatory authorities may take a different view. No provision was made with respect to such contingencies as at December 31, 2009.

Legal proceedings

CJSC Beta Link made a claim in the amount of 643,542 thousand rubles against OJSC MTS regarding the dealer agreement dated October 10, 2008. On December 11, 2009 Arbitration Court of Moscow excised the amount of 421,117 thousand rubles from OJSC MTS. Both plaintiff and defendant appealed the Arbitration Court's decision.

On March 23, 2010 the Arbitration Court of Appeal reversed the decision of the Arbitration Court of Moscow of December 11, 2009 and dismissed the claims made by CJSC Beta Link. However, as CJSC Beta Link remains entitled to challenge this decision at the cassation instance court, the Company's management decided to establish a provision in the amount of 421,117 thousand rubles as of December 31, 2009.

21. SUBSEQUENT EVENTS

Changes to legislation

On January 1, 2010 the Federal Law "On insurance contributions to the Pension Fund of the Russian Federation, Social Security Fund of the Russian Federation, Federal Obligatory Medical Insurance Fund and territorial obligatory medical insurance funds" No 212-FZ dated 24 July 2009 came into effect. Under this law basis for social contributions will be assessed for each employee from the year beginning cumulatively, but the income liable to such contributions should not exceed 415 thousand rubles. The payments in excess of this amount shall not be liable to social contributions.

Repayment of syndicated loan

On 24 February 2010 the Company on its own initiative made an advanced repayment of a syndicated loan (agent ING Bank N.V. (London)) in the amount of USD 373,771 thousand (in accordance with the CBR exchange rate as of 31 December 2009 - 11,304 million rubles) and EUR 247,567 thousand (in accordance with the CBR exchange rate as of 31 December 2009 - 10,742 million rubles).

Legal proceedings

On March 2, 2010 the Federal Anti-Monopoly Service of the Russian Federation initiated proceedings against the Company on the latter's violation of the anti-monopoly legislation of the Russian Federation as regards setting and supporting high monopolistic prices for roaming services. Similar proceedings were initiated against other telecommunications operators - OJSC VimpelCom and OJSC Megafon.

Should the Company based on the litigation results be found guilty of violating the anti-monopoly legislation, the Federal Anti-Monopoly Service may commence administrative proceedings with the aim of imposing the special turnover penalty interest on the Company in the amount of up to 15% of its roaming revenues. The first hearing of this case was scheduled to take place on April 7, 2010. The Company's management believes the Company has not violated the anti-monopoly legislation of the Russian Federation, however a possibility of negative consequences and potential amount of possible losses are difficult to estimate. No provision was made with respect to such contingencies as at December 31, 2009.