

Open Joint-Stock Company Mobile TeleSystems

Auditor's Report

on the Financial Statements for 2010
(Unofficial Translation)

AUDIT FIRM: ZAO DELOITTE & TOUCHE CIS

Address: 5 Lesnaya St., Moscow, 125047.

Tel: +7 (495) 787 0600.

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 July 1, 2002 under No. 1027700425444 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for Moscow, on November 13, 2002.

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

AUDITED ENTITY: OPEN JOINT-STOCK COMPANY MOBILE TELESYSTEMS

Address: 4 Marksistskaya St, Moscow, 109147.

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

State Registration Certificate No.P-7882.16 issued by the State Registration Chamber of the Russian Federation Ministry of Justice on March 1, 2000.

REPORT ON THE FINANCIAL STATEMENTS

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") which comprise:

- The balance sheet as of December 31, 2010;
- The profit and loss statement for 2010;
- The appendices to the balance sheet and profit and loss statement:
 - The statement of changes in shareholders' equity for 2010;
 - The statement of cash flows for 2010;
 - The appendix to the balance sheet for 2010;
- The explanatory notes.

Responsibility of the Audited Entity for the Financial Statements

Management of the audited entity is responsible for the preparation and fair presentation of these financial statements and their compliance with Russian accounting and reporting standards, and for the system of internal controls necessary for preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinion on the fair presentation of the financial statements based on our audit. We conducted our audit in accordance with Federal Law No. 307-FZ dated December 30, 2008 "On Auditing", federal rules (standards) of auditing, and internal policies of our firm. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment, which is based on an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the system of internal control.

The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

UNOFFICIAL TRANSLATION

We believe that the audit evidence we have obtained provides a reasonable basis for an audit opinion on the financial statements.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Open Joint-Stock Company Mobile TeleSystems as of December 31, 2010, the results of its financial performance and its cash flows for 2010 in accordance with Russian accounting and financial reporting standards.

March 31, 2011

BALANCE SHEET
As of December 31, 2010

Entity **OJSC "MTS"**
 Taxpayer Identification Number
 Type of activity **Telecommunications services**
 Legal status/
 form of ownership **Open Joint-Stock Company/
 Joint Private and Foreign Ownership**
 Unit **Thousands of rubles**
 Address **4 Marksistskaya Street, Moscow, 109147**

Form № 1 OKUD
 Date (day, month, year)

OKPO

INN

OKVED

OKOPF/

OKFS

OKEI

Codes

0710001

31.12.2010

52686811

7740000076

64.20.11

47/34

384

Date of approval 31.03.2011

Date of issue 31.03.2011

ASSETS	Code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets	110	374 533	306 634
Property, plant and equipment	120	93 751 158	96 588 244
Construction in progress	130	24 848 156	21 950 246
Investment property	135	330 925	300 248
Long-term investments	140	129 240 511	155 540 680
Deferred tax assets	145	8 301 247	9 377 195
Other non-current assets	150	18 594 582	40 724 038
Total Section I	190	275 441 112	324 787 285
II. CURRENT ASSETS			
Inventories	210	1 849 462	2 491 983
including:			
raw materials	211	774 620	1 245 988
work in progress	213	15 084	16 331
finished goods and goods for resale	214	927 929	1 138 589
prepaid expenses	216	131 829	91 075
Value added tax receivable	220	328 029	153 678
Accounts receivable (maturing within 12 months from the reporting date)	240	22 461 450	22 194 851
including:			
trade receivables	241	9 058 945	10 941 474
Short-term investments	250	53 535 072	26 475 687
Cash	260	31 055 565	9 600 802
Other current assets	270	3 857 107	5 768 769
Total Section II	290	113 086 685	66 685 770
TOTAL ASSETS	300	388 527 797	391 473 055

EQUITY AND LIABILITIES	Code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
III. EQUITY AND RESERVES			
Share capital	410	199 333	199 333
Additional paid-in capital	420	10 796 308	10 731 725
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	27 428 577
Retained earnings, prior year	471	92 514 382	61 881 743
Total Section III	490	103 539 923	100 271 278
IV. NON-CURRENT LIABILITIES			
Long-term borrowings	510	174 747 609	207 867 081
Deferred tax liabilities	515	2 200 796	2 512 319
Total Section IV	590	176 948 405	210 379 400
V. CURRENT LIABILITIES			
Short-term borrowings	610	62 363 647	30 584 482
Accounts payable	620	32 963 427	27 212 366
including:			
trade payables	621	17 744 603	10 879 794
wages and salaries payable	622	1 921 012	1 765 245
social insurance payable	623	228 996	13 921
taxes payable	624	3 202 456	3 408 300
advances received	625	9 739 066	10 539 596
other payables	626	127 294	605 510
Dividends payable	630	18 155	18 974
Deferred income	640	1 261 804	2 535 967
Accrued expenses	650	11 432 436	20 470 588
Total Section V	690	108 039 469	80 822 377
TOTAL EQUITY AND LIABILITIES	700	388 527 797	391 473 055

OFF-BALANCE SHEET ACCOUNTS

Item description	Code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
Assets leased in:	910	2 950 644	2 626 493
including assets received under finance leases	911	280 765	238 258
Assets accepted for storage	920	141 143	194 118
Goods received on consignment	930	24 651	8 604
Bad debts written off	940	2 550 672	3 672 116
Collateral and guarantees received	950	962 388	23 267 103
Collateral and guarantees provided	960	24 195 360	35 048 435
Depreciation of residential real estate	970	482	532
Depreciation of outdoor facilities	980	3 011	3 084
Liabilities for derivative financial instruments	990	1 817 230	1 030 464

March 31, 2011

**PROFIT AND LOSS STATEMENT
for the year 2010**

		Form № 2 OKUD	Codes
		Date (day, month, year)	0710002
		OKPO	31.12.2010
Entity	OJSC "MTS"	INN	52686811
Taxpayer Identification Number		OKVED	7740000076
Type of activity	Telecommunications services	OKOPF/OKFS	64.20.11
Legal status/ form of ownership	Open Joint-Stock Company/ Joint Private and Foreign Ownership	OKEI	47/34
Unit	Thousands of rubles		384

Item description	Code	Current year	Prior year
1	2	3	4
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Revenue (net) from sales of goods, products, works and services (net of VAT, excise duties and similar obligatory charges)	010	216 130 036	197 655 625
including:			
telecommunications services	011	211 552 930	195 449 505
equipment (retail)	012	3 704 302	1 574 296
rent and other	013	872 804	631 824
Cost of sold goods, products, works and services	020	(97 962 471)	(86 441 934)
including:			
telecommunications services	021	(91 895 083)	(83 376 106)
equipment (retail)	022	(6 065 540)	(3 055 532)
building and assembly jobs and other	023	(1 848)	(10 296)
GROSS PROFIT	029	118 167 565	111 213 691
Selling expenses	030	(33 089 665)	(25 121 442)
Administrative expenses	040	(19 132 414)	(19 434 337)
Operating profit	050	65 945 486	66 657 912
OTHER INCOME AND EXPENSES			
Interest income	060	4 384 057	6 214 131
Interest expenses	070	(19 580 884)	(15 400 665)
Investment income	080	8 174 937	822 732
Other income	090	4 852 145	2 148 238
Other expenses	100	(26 782 122)	(20 571 910)
Profit before income tax	140	36 993 619	39 870 438
Deferred tax benefit	141	1 802 966	4 094 210
Deferred tax expense	142	(311 523)	(1 215 511)
Current income tax expense	150	(10 958 673)	(11 882 018)
Income tax and tax penalties of prior years	151	(97 812)	2 612 896
CURRENT YEAR NET INCOME	190	27 428 577	33 480 015
ADDITIONAL INFORMATION			
Permanent tax expense	200	3 866 812	1 029 240
Basic earnings per share (rubles)	210	13.76	17.01
Diluted earnings per share (rubles)	215	13.27	17.01

BREAKDOWN OF CERTAIN GAINS AND LOSSES

Item description	Code	Current year		Prior year	
		gain	loss	gain	loss
1	2	3	4	5	6
Fines and penalties recognized by court or debtor	810	121 434	(3 761)	45 100	(6 517)
Prior year gain/(loss)	820	752 981	(1 011 346)	130 328	(3 622 627)
Reimbursement of losses caused by default on or by improper fulfillment of obligations	830	6 351	(2 376)	2 637	(581)
Exchange gain/(loss) from transactions in foreign currency	840	1 504 753	-	-	(3 671 234)
Valuation reserves	850	-	(9 459 919)	-	(7 190 711)
Accounts receivable and accounts payable written off upon the expiration of limitation period	860	575 124	(414 685)	341 119	(326 890)

March 31, 2011

STATEMENT OF CHANGES IN EQUITY
for the year 2010

Entity	OJSC "MTS"
Taxpayer Identification Number	
Type of activity	Telecommunications services
Legal status/ form of ownership	Open Joint-Stock Company/ Joint private and foreign ownership
Unit	Thousands of rubles

Form № 3 OKUD	Codes
Date (day, month, year)	0710003
OKPO	31.12.2010
INN	52686811
OKVED	7740000076
OKOPF/	64.20.11
OKFS	47/34
OKEI	384

CHANGES IN EQUITY

Item description	Code	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Total
1	2	3	4	5	6	7	8
Balance as of December 31, 2008	90	199 333	(11 139 866)	17 354 177	29 900	96 427 332	102 870 876
2009 year							
Changes in opening balance due to changes in Profit Tax rate	100	X	X	X	X	(115 954)	(115 954)
Balance as of January 1, 2009	110	199 333	(11 139 866)	17 354 177	29 900	96 311 378	102 754 922
Net income for the year	140	X	X	X	X	33 480 015	33 480 015
Dividends	150	X	X	X	X	(39 404 612)	(39 404 612)
Increase in the value of disposed fixed assets	153	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	190	199 333	-	10 796 308	29 900	92 514 382	103 539 923
2010 year							
Balance as of January 1, 2010	220	199 333	-	10 796 308	29 900	92 514 382	103 539 923
Net income for the year	240	X	X	X	X	27 428 577	27 428 577
Dividends	250	X	X	X	X	(30 697 222)	(30 697 222)
Increase in the value of disposed fixed assets	253	X	X	(64 583)	X	64 583	-
Balance as of December 31, 2010	280	199 333	-	10 731 725	29 900	89 310 320	100 271 278

RESERVES

Item description	Code	Balance at the beginning of the year	Additions	Disposals	Balance at the end of the year
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	82 546	451 413	-	533 959
current year	142	533 959	3 801	-	537 760
Provision for impairment of investments					
prior year	143	5 408 201	2 082 502	(114 370)	7 376 333
current year	144	7 376 333	6 639 032	(126 584)	13 888 781
Allowance for doubtful debts					
prior year	145	6 350 460	2 402 720	(1 444 865)	7 308 315
current year	146	7 308 315	2 490 727	(1 458 580)	8 340 462
Provision for inventory obsolescence					
prior year	147	222 285	2 705 489	-	2 927 774
current year	148	2 927 774	326 358	(2 699 066)	555 066
Accrued expenses					
Provision for contingent liabilities					
prior year	149	715 860	457 456	(426 147)	747 169
current year	150	747 169	7 065 315	(792 158)	7 020 326
Provision for unused vacation					
prior year	151	797 314	41 023	-	838 337
current year	152	838 337	94 838	-	933 175
Provision for executed works and services rendered					
prior year	153	6 648 638	9 317 659	(6 119 366)	9 846 931
current year	154	9 846 931	12 504 914	(9 834 758)	12 517 087
Provision for quarterly and annual performance bonuses					
prior year	155	1 875 694	1 499 626	(1 468 033)	1 907 287
current year	156	1 907 287	1 870 284	(2 028 846)	1 748 725

ADDITIONAL INFORMATION

Item description	Code	At the beginning of the reporting year	At the end of the reporting year
1	2	3	4
Net assets	200	104 801 727	102 807 245

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STATEMENT OF CASH FLOWS
for the year 2010

Entity	OJSC "MTS"	Form № 4 OKUD	Codes
Taxpayer Identification Number		Date (day, month, year)	0710004
Type of activity	Telecommunications services	OKPO	31.12.2010
Legal status/ form of ownership	Open Joint-Stock Company/ Joint private and foreign ownership	INN	52686811
Unit	Thousands of rubles	OKVED	7740000076
		OKOPF/	64.20.11
		OKFS	47/34
		OKEI	384

Item description	Code	Current year	Prior year
1	2	3	4
Cash and cash equivalents at the beginning of the reporting year	100	29 815 285	4 403 545
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from customers	110	231 740 737	209 057 324
Other cash inflows	120	1 625 350	53 335
Cash and cash equivalents used for:	130	(192 870 909)	(179 252 965)
payments for acquired goods, services, raw materials and other current assets	150	(95 713 042)	(72 688 174)
payments to employees	160	(11 341 938)	(10 706 977)
payments of dividends and interest	170	(46 322 989)	(47 288 805)
payments of taxes	180	(37 278 322)	(38 800 765)
other payments	190	(2 214 618)	(9 768 244)
Net cash provided by operating activities	200	40 495 178	29 857 694
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sales of fixed assets and other non-current assets	210	228 417	781 380
Proceeds from sales of investments	220	8	137
Dividends received	230	8 557 273	757 990
Interest received	240	903 910	2 424 068
Proceeds from repayment of loans given to other entities	250	4 402 433	6 310 909
Other inflows	260	-	29
Deposits repaid	270	27 100 000	-
Acquisition of subsidiaries	280	(26 454 808)	(52 617 047)
Purchases of fixed assets and intangible assets	290	(60 828 792)	(40 398 897)
Loans granted to other entities	310	(11 985 715)	(17 043 342)
Net cash used in investing activities	340	(58 077 274)	(99 784 773)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings	355	141 624 309	139 868 497
Repayment of borrowings (excluding interest)	360	(143 933 327)	(43 164 148)
Repayment of finance lease liabilities	365	(323 369)	(125 250)
Net cash from financing activities	370	(2 632 387)	96 579 099
Net (decrease)/increase in cash and cash equivalents	375	(20 214 483)	26 652 020
Cash and cash equivalents at the end of reporting year	380	9 600 802	31 055 565
Effect of foreign exchange rate changes on cash and cash equivalents	390	(1 240 280)	(44 325)

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**APPENDIX TO THE BALANCE SHEET
for the year 2010**

Entity

Taxpayer Identification

Number

Type of activity

Legal status/

form of ownership

Unit

OJSC "MTS"**Telecommunications services****Open Joint-Stock Company/****Joint private and foreign ownership****Thousands of rubles**

Form № 5 OKUD

Date (day, month, year)

OKPO

INN

OKVED

OKOPF/

OKFS

OKEI

Codes

0710005

31.12.2010

52686811

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INTANGIBLE ASSETS

Item description	Code	At the beginning of the year	Additions	Disposals	At the end of the year
1	2	3	4	5	6
Intellectual property assets (exclusive rights to use intellectual property)	010	368 344	1 528	(151 962)	217 910
The right of the patent holder to computer programs and databases	012	368 133	260	(151 962)	216 431
Trademarks and service marks, names of protected places of origin	014	211	1 268	-	1 479
Numbering capacity and other	040	1 017 274	-	(672)	1 016 602
Total	041	1 385 618	1 528	(152 634)	1 234 512

Item description	Code	At the beginning of the year	At the end of the year
1	2	3	4
Amortization of intangible assets - total	050	1 011 085	927 878
including:			
Items of intellectual property (exclusive rights to use intellectual property)	051	250 667	130 148
including:			
rights to use software and databases	053	250 667	130 148
Numbering capacity and other	054	760 418	797 730

PROPERTY, PLANT AND EQUIPMENT

Item description	Code	At the beginning of the year	Additions	Disposals	At the end of the year
1	2	3	4	5	6
Buildings	100	7 817 100	630 118	(2 922)	8 444 296
Constructions and transmission devices	101	23 124 877	5 411 880	(528 746)	28 008 011
Machinery and equipment	102	137 008 890	24 058 310	(9 576 625)	151 490 575
Vehicles	103	794 259	45 735	(66 302)	773 692
Production and support tools	104	652 867	32 518	(100 314)	585 071
Other types of fixed assets	108	1 111 458	793 052	(168 955)	1 735 555
Land plots and objects of natural resources	109	148 894	46 190	-	195 084
Total	120	170 658 345	31 017 803	(10 443 864)	191 232 284

Item description	Code	At the beginning of the year	At the end of the year
1	2	3	4
Depreciation of property, plant and equipment - total	140	76 907 187	94 644 040
including:			
buildings and constructions	141	5 381 807	7 959 634
machinery, equipment and vehicles	142	70 512 533	85 584 338
others	143	1 012 847	1 100 068
Transferred for lease - total	145	462 742	405 988
including:			
buildings and constructions	146	341 471	341 498
machinery, equipment and vehicles	147	118 655	61 957
others	148	2 616	2 533
Transferred for temporary non-use	149	-	224 760
Received for lease - total	150	2 950 644	2 626 493
including:			
buildings and constructions	152	280 767	238 258
others	153	2 669 877	2 388 235
Immovable property, placed into operation and under the process of state registration	155	28 440 419	26 764 438
ADDITIONAL INFORMATION			
Valuation changes of fixed assets as a result of completions, additions, reconstruction, partial liquidation	173	1 854 959	1 246 580

INVESTMENT PROPERTY

Item description	Code	At the beginning of the year	Additions	Disposals	At the end of the year
1	2	3	4	5	6
Investment property	300	462 742	61	(56 815)	405 988

Item description	Code	At the beginning of the year	At the end of the year
1	2	3	4
Accumulated depreciation of investment property	306	131 817	105 740

INVESTMENTS

Item description	Code	Long-term		Short-term	
		At the beginning of the year	At the end of the year	At the beginning of the year	At the end of the year
1	2	3	4	5	6
Contributions to authorized (contributory) capital of other organizations - total	510	105 022 802	123 377 810	-	-
including:					
subsidiaries and associates	511	105 022 802	123 377 810	-	-
Securities of other entities - total	520	-	1 236 553	-	-
including:					
debt securities (bonds and promissory notes)	521	-	1 236 553	-	-
Loans granted	525	24 217 709	30 926 317	26 435 072	26 475 687
Deposits	530	-	-	27 100 000	-
Total	540	129 240 511	155 540 680	53 535 072	26 475 687
Including financial investments at current market value	545	X	X	X	X
Of which:					
Contributions to authorized (contributory) capital of other organizations - total	550	-	7 827 525	-	-
including:					
subsidiary and associates	551	-	7 823 749	-	-
ADDITIONAL INFORMATION					
To financial investments at current market value; change in the value as a result of the correction of assessment	580	-	(650 897)	-	-

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Item description	Code	At the beginning of the year	At the end of the year
1	2	3	4
Accounts receivable:	600		
short-term - total	605	22 461 450	22 194 851
including:			
trade receivables	606	9 058 945	10 941 474
advances paid	607	2 830 113	2 369 197
other	608	10 572 392	8 884 180
Total	615	22 461 450	22 194 851
Accounts payable:	620		
short-term - total	625	95 327 074	57 796 848
including:			
trade payables	626	17 744 603	10 879 794
advances received	627	9 739 066	10 539 596
taxes payable	628	3 202 456	3 408 300
loans	629	17 078 177	6 804 328
borrowings	630	45 285 470	23 780 154
other	631	2 277 302	2 384 676
long-term - total	635	174 747 609	207 867 081
including:			
loans	636	128 494 145	107 456 014
borrowings	637	46 253 464	100 411 067
Total	640	270 074 683	265 663 929

EXPENSES RELATED TO OPERATING ACTIVITIES BY COST ELEMENTS

Item description	Code	Reporting year	Prior year
1	2	3	4
Raw materials	710	6 967 090	3 123 998
Payroll	720	12 456 537	11 680 536
Social contributions	730	1 685 627	1 811 475
Depreciation and amortization	740	31 876 100	30 953 980
Other expenses	750	97 199 196	83 427 724
Total by type of expenses	760	150 184 550	130 997 713
Changes (increase [+], decrease [-]) in:			
work in progress	765	1 247	(26 139)
prepaid expenses	766	(40 754)	(83 740)
accrued expenses	767	9 038 152	3 270 624

COLLATERAL

Item description	Code	At the beginning of the year	At the end of the year
1	2	3	4
Received - total	800	962 388	23 267 103
Pledge of property	810	-	7 259 958
of which: securities and other financial investments	820	-	7 259 958
Provided - total	830	24 195 360	35 048 435

March 31, 2011

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF
Open Joint-Stock Company Mobile TeleSystems for 2010**

1. SHORT DESCRIPTION OF THE COMPANY'S ACTIVITIES

Open Joint-Stock Company Mobile TeleSystems ("the Company" or "OJSC MTS") provides telecommunications 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:

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

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

The average number of staff at the Company in 2010 and 2009 was 18,947 and 21,344 people, respectively.

The Company generates revenue primarily from the following services:

- Mobile radiotelephone communication;
- Lease of communication channels;
- Local and international telephone services;
- Telematic services;
- Sales of handsets and accessories;
- Sales of equipment; and
- Work performed under construction licenses.

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 leads the Company's management to believe that in the event of a loss of a particular customer any negative consequence will be insignificant.

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

On December 23, 2010, a general meeting of shareholders adopted a resolution with regard to the reorganization of the Company through the merger of the following companies: CJSC Capital – March 3, 2011, CJSC MTS – March 3, 2011, CJSC Operator Svyazi – March, 14, 2011, CJSC United TeleSystems – March 23, 2011, OJCS Evrotel – April 1, 2011, CJSC Dagtelecom – April 1, 2011, OJSC COMSTAR-UTS – April 1, 2011, CJSC COMSTAR-Direct – April 8, 2011.

The Company's principal business operations are located 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.

The global financial turmoil that has negatively affected Russian financial and capital markets in 2008 and 2009 has receded and Russian economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in oil and gas prices could slow or disrupt the Russian economy, adversely affect the Company's access to capital and cost of capital for the Company and, more generally, its business, results of operations, financial condition and prospects.

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 statement preparation

The Company's financial statements are prepared in accordance with the accounting and reporting 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 neither plans no necessity 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 historical cost are determined in accordance with Clause 8 of PBU 6/01 "Accounting for fixed assets". The historical cost includes the costs, 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 Resolution No. 1072 of the Council of Ministers of the USSR 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 by the 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 by the Company 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 the 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 based on the following:

- The validity of the Company's rights for the results of intellectual activity 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 an agreement or internal supporting document.

Useful lives of intangible assets are reviewed on a regular basis to determine if they need to be revised. 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 reviewed, 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 resulting adjustments are recorded and reported as at the beginning of the reporting year as changes in accounting estimates.

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 the separate inventory items.

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

Financial investments valuation

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 established procedures are presented in the financial statements at current market value as at the end of the reporting period through adjustment of their value as of the previous reporting date. The difference between the current market value of investments at the reporting date and the previous valuation of investments is recognized in the Company's financial results in the other income (expenses).

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

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

Upon disposal of assets recognized as financial investments, for which the current market value is determinable, cost is measured by the Company based on the last valuation.

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 an evidence of sustained significant impairment of financial investments.

Revenue recognition

Revenues for accounting purposes are recognized on an accrual basis.

Revenue from the sale of telecommunications 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 telecommunications services, after applying discounts as provided by the Company's marketing policy. Revenues from the sale of telecommunications services are recognized when invoices are issued to subscribers in the billing system.

Revenues from connection fees and other non-recurring services are recognized as deferred income at the time of a 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").

Expense recognition

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

The Company creates the following provisions:

- Valuation reserves:
 - (i) provision for VAT (quarterly);
 - (ii) provision for the impairment of investments (quarterly);
 - (iii) provision for doubtful debts (monthly);
 - (iv) provision for inventory obsolescence (monthly).
- Provisions for accrued expenses:
 - (i) provision for contingent liabilities (quarterly);
 - (ii) provision for unused vacation (monthly);
 - (iii) provision for executed works and services rendered (monthly).
- Provision for annual/quarterly performance bonuses (monthly).

Prepaid expenses are recognized in account 97 "Prepaid expenses" on the basis of actual costs incurred. Prepaid expenses are amortized on a monthly basis by debiting related expense accounts during the period specified in the respective documents (licenses, contracts, etc.). If it is impossible to reach a conclusion on the period from the relevant documents, it is determined by a commission 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 a loan agreement, their maturity is less than 365 days from the reporting date.

3. CHANGES IN ACCOUNTING POLICIES

Adjustments of comparative figures

In the reporting 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 figures as of December 31, 2010. The summary of the changes is as follows:

		Prior year's data adjusted for effects of changes in accounting policies in the reporting year, thousand rubles		
Supplement to the Balance Sheet	Line code	Initial amount	Adjusted amount	Difference
Buildings	100	7 816 866	7 817 100	234
Equipment and transmission devices	101	20 014 984	23 124 877	3 109 893
Machinery and equipment	102	140 083 417	137 008 890	(3 074 527)
Vehicles	103	834 336	794 259	(40 077)
Production and support tools	104	653 156	652 867	(289)
Other fixed assets	108	1 106 692	1 111 458	4 766
Plots of land and natural resources	109	148 894	148 894	-
Total	120	170 658 345	170 658 345	-
Depreciation of fixed assets				
including:				
buildings and constructions	141	5 087 822	5 381 807	293 985
machinery, equipment and vehicles	142	70 806 518	70 512 533	(293 985)
other assets	143	1 012 847	1 012 847	-
Total	140	76 907 187	76 907 187	-

4. INVESTMENTS

Long-term financial investments

As of December 31, 2010 and 2009 long-term financial investments consisted of the following:

	2010	(RUB '000) 2009
Debt securities		
LLC System of Telecommunications, Informatics and Communication	1 221 200	-
LLC Digital Television and Radio Broadcasting	15 353	-
Total	1 236 553	-
Loans given		
CJSC Russian Telephone Company	10 560 331	9 370 575
LLC Bastion	6 280 295	2 378 614
Mobile TeleSystems Finance S.A.	5 487 942	5 354 185
MTS Bermuda Ltd.	4 947 369	4 726 229
CJSC Multiregion	3 130 263	-
Mr. Pierre and Mr. Moussa Fattouch ¹	2 750 586	-
CJSC Telephone.ru	1 064 504	957 540
CJSC K-Telecom	1 028 155	-
FE Uzdunrobita	523 458	-
LLC SWEET-COM	364 382	-
LLC Eldorado-Centre	361 031	324 978
OJSC MTS P	217 244	217 244
CJSC T.RU	171 945	152 595
LLC Salon Svyazi Eldorado	54 025	48 625
International Cell Holding Ltd.	51 800	2 921 697
CJSC COMSTAR-Regions	-	1 815 249
OJSC Gazprombank	-	607 211
CJSC Dagtelecom	-	504 121
Vostok Mobile B.V.	-	200 792
OJSC Intellect Telecom	-	182 523
CJSC Teleforum	-	25 584
Other	15 916	1 682
Total	37 009 246	29 789 444

	2010	(RUB '000) 2009
Investments in share capitals of subsidiaries and affiliates		
CJSC Operator Svyazi	44 098 859	44 290 446
PrJSC MTS Ukraine	11 625 862	11 625 862
LLC Tovarnye znaki	11 613 475	-
International Cell Holding Ltd.	11 266 226	11 072 981
FE Uzdunrobita	9 995 499	9 995 499
OJSC COMSTAR-UTS	7 823 749	-
CJSC Capital	6 710 833	6 710 833
MTS Bermuda Ltd.	5 905 192	5 905 192
CJSC Russian Telephone Company	5 440 116	1 292 249
OJSC Evrotel	3 265 173	3 352 460
Narico Holding Ltd.	3 129 655	3 064 553
CJSC Dagtelecom	2 195 632	2 195 632
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
Eldorado Group of companies	782 037	782 037
LLC SWEET-COM	344 789	80 389
CJSC Metro-Telecom	340 048	-
LLC Bastion	308 300	308 300
CJSC Mobile TeleSystems	282 160	282 160
Coral/Sistema Strategic Fund	274 694	274 694
LLC PTT Telecom Kiev	106 403	106 403
OJSC TS-Retail	86 100	86 100
OJSC Firma Novitel	83 831	83 831
CJSC Teleforum	-	328 595
Other	115 150	113 101
Total	129 331 953	105 489 487
Provision for impairment of long-term investments	(12 037 072)	(6 038 420)
Total	155 540 680	129 240 511

¹ Holders of 20% of shares in International Cell Holding Ltd. provided as security for loan

Short-term financial investments

As of December 31, 2010 and 2009 short-term financial investments comprised the following:

	2010	(RUB '000) 2009
Bank deposits	-	27 100 000
Loans given		
MTS Bermuda Ltd.	18 596 218	18 032 744
International Cell Holding Ltd.	2 791 935	-
CJSC COMSTAR-Regions	1 931 132	-
OJSC TS-Retail	1 014 274	913 147
FE Uzdunrobita	974 438	1 787 494
OJSC Evrotel	942 777	-
CJSC Beta Link	836 742	836 742
OJSC Gazprombank	822 472	-
CJSC Capital	316 566	-
LLC Bastion	-	3 200 119
CJSC K-Telecom	-	2 452 243
LLC SWEET-COM	-	375 166
Mobile TeleSystems Finance S.A.	-	97 360
Other	100 842	77 970
Total	28 327 396	27 772 985
Provision for impairment of short-term investments	(1 851 709)	(1 337 913)
Total	26 475 687	53 535 072

Provision for impairment of investments

In accordance with the Company's accounting policy the provision for impairment of long-term and short-term investments comprised the following:

- Provision in the amount of 5,491,689 thousand rubles that includes the allowance 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 shares in Tarino Ltd. which owned 100% of LLC Bitel through its subsidiaries in the amount of 4,649,171 thousand rubles at the time of acquisition, as well as an allowance of 838,771 thousand rubles for the impairment of a loan issued to cover the court proceedings as regards LLC Bitel and an allowance of 3,747 thousand rubles for the impairment of a contribution to the share capital. 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.

- Provision for impairment of loans given and investments in share capital of the following companies:

	(RUB '000)
Narico Holding Ltd.	3 129 655
Barash Communications Technologies, Inc. (see Cl. 20 of "Contingencies")	1 317 569
OJSC TS-Retail	1 100 374
CJSC Beta Link	836 742
Eldorado Group of companies	782 037
LLC SWEET-COM	364 382
Coral/Sistema Strategic Fund	274 694
OJSC MTS P	217 244
Mobile TeleSystems B.V.	13 614
Total	8 036 311

- Provision for impairment of other investments in the amount of 360,781 thousand rubles.

Financial investments write off

In 2010 the Company forgave a loan issued to CJSC Russian Telephone Company, 100% subsidiary of OJSC MTS, in the amount of 2,000,000 thousand rubles. The result of the transaction was recorded in line 100 "Other expenses" of the profit and loss statement.

5. INVENTORIES

As of December 31, 2010 and 2009, the Company had no inventory in transit or pledged as collateral.

As of December 31, 2010 and 2009, the provision for inventory obsolescence (handsets, accessories and advertising materials) amounted to 54,040 thousand rubles and 163,488 thousand rubles, respectively.

6. LOANS AND BORROWINGS

In 2010 the Company entered into an agreement with OJSC Sberbank of Russia on additional financing in the amount of 60 billion rubles and 40 billion rubles maturing in 2017 and 7 years from the credit facility drawdown, respectively. The funds raised under the credit line of 60 billion rubles were used to refinance loans from OJSC Sberbank of Russia totaling 53 billion rubles raised in 2009 to finance the direct and indirect purchase of shares of OJSC COMSTAR-UTS and the implementation of the program of investments in network development and other general corporate needs of the Company. The credit facility of 40 billion rubles, undrawn as of December 31, 2010, will ensure availability of funds whenever required for the repurchase of bonds as part of merger with OJSC COMSTAR-UTS and investment in further 3G network development in 2011.

Maturities of the main types of debt outstanding as of December 31, 2010 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	426 917	-	23 353 237	65 551 005	32 857 675	122 188 834
Loans	366 382	2 181 585	4 256 361	64 609 224	42 846 790	114 260 342
Promissory notes	-	-	-	-	2 002 387	2 002 387
Total	793 299	2 181 585	27 609 598	130 160 229	77 706 852	238 451 563

A number of notes of the Company are subject to put options as the holders have the unilateral right to demand repurchase of the notes at par value prior to maturity. The notes in the accompanying financial statements are disclosed as maturing in the period, when put options could be exercised.

In 2010 MTS International Funding Ltd., incorporated in accordance with the legislation of Ireland, issued notes on the Irish Stock Exchange in the amount of 750 million US Dollars (22,858 billion rubles in accordance with the CBR exchange rate as of December 31, 2010) maturing in 2020. The funds raised were transferred to the Company as a loan with similar conditions and used to refinance existing debts.

Subject to certain exceptions and qualifications, loans contain covenants limiting the Company's ability to incur debt, enter into loan transactions with affiliates, merge or consolidate with another person or convey its properties and assets to another person, and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas, undertake certain types of reorganizations or a change in control.

If the Company fails to meet these covenants, after certain notice and passage of cure periods, the creditors can accelerate the debt to be immediately due and payable.

Most of loan agreements contain provisions with regard to early repayment upon the creditor's demand in case of judgment against the Company requiring payment of money or recovery against property in an amount in excess of the certain limits determined by the agreements and the continuance of any such judgment unsatisfied and in effect for any period of 60 consecutive calendar days without a stay of execution. Loan agreements also contain cross default provisions with other loan agreements of OJSC MTS and its subsidiaries. In 2010 with respect to the decision on LLC Bitel (see Cl. 20 of "Contingencies"), the Company failed to comply with the covenants specified in the loan agreements. As at the date of approval of the financial statements, the Company received consents to waive these violations from all creditors except Barclays bank. Therefore, the outstanding amount of 1,002 million rubles under the loan received from Barclays bank was classified as short-term debt as of December 31, 2010 and repaid in February 2011.

The accrued expenses on loans and borrowings (interest and other additional expenses) for 2010 amounted to 22,291,228 thousand rubles, including:

- 19,580,884 thousand rubles recognized in line 070 "Interest payable" of the profit and loss statement;
- 2,710,344 thousand rubles recognized in line 100 "Other expenses" of the profit and loss statement (debt issuance costs).

The capitalized debt issuance costs for 2010 amounted to 2,011,859 thousand rubles.

Maturities of the main types of debt outstanding as of December 31, 2009 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	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

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 in line 070 "Interest payable" of the profit and loss statement;
- 1,064,274 thousand rubles recognized in line 100 "Other expenses" of the profit and loss statement (debt issuance costs).

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

7. INCOME TAX

Current income tax expense for 2010 and 2009 comprised the following:

	2010	(RUB '000) 2009
Profit before income tax	36 993 619	39 870 438
including:		
dividends received	8 991 530	-
Notional income tax expense	5 600 418	7 974 079
Permanent tax liabilities:		
non-deductible expenses	1 842 070	1 148 010
provision for contingent liabilities	1 284 722	-
prior year loss	309 794	-
dividends received from foreign subsidiaries	529 099	-
differences in valuation and recognition of income/expenses in tax and financial accounting for derivatives	106 150	-
expenses in excess of allowable limits	135 642	-
Other	5 141	91 125
Total	4 212 618	1 239 135
Permanent tax assets:		
non-taxable income	(322 682)	(191 231)
Other	(23 124)	(18 664)
Total	(345 806)	(209 895)
Increase/(decrease) in deferred tax assets:		
fixed assets, including due to:		
different periods and methods of depreciation for accounting and tax purposes	1 011 380	935 261
other operations with fixed assets	629	1 250
provision for services rendered	948 877	2 134 149
difference in the methods of revenue recognition	204 187	137 851
allowance for doubtful debt	14 033	(42 835)
provisions for inventory obsolescence	(474 541)	541 098
provision for contingent liabilities	(102 310)	-
other provisions	263 514	387 436
Other	(62 803)	-
Total	1 802 966	4 094 210
Decrease/(increase) in deferred tax liabilities for:		
prepaid expenses and capitalized debt issuance costs	450 898	(644 052)
fixed assets, including due to:		
different periods and methods of depreciation for accounting and tax purposes	(317 321)	(495 425)
other operations with fixed assets	(233 276)	(76 034)
prior year profit/loss	(150 596)	-
differences in valuation of income/expenses in tax and financial accounting for derivatives	(10 958)	-
other	(50 270)	-
Total	(311 523)	(1 215 511)
Total current income tax expense	10 958 673	11 882 018

Permanent tax assets and liabilities are recorded on a net basis in the financial statements.

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

	2010	(RUB '000) 2009
Adjusted income tax returns for prior periods	992 221	4 164 263
Reimbursement of deductible temporary differences due to adjustment of tax returns for prior periods	(727 018)	(2 193 398)
Arbitration court's ruling in favor of the Company	-	860 730
Income tax arrears	(80 959)	-
Non-reimbursed deductible temporary differences for prior periods	-	(233 396)
Tax penalties of prior periods	(226 676)	-
Other tax penalties	(55 380)	14 697
Total	(97 812)	2 612 896

8. SHARE CAPITAL

Share capital of the Company as of December 31, 2010 and 2009 consisted of 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 subsidiaries and associates)	
		2010	2009	2010	2009	2010	2009
Ordinary shares	0.1	1 993 326 138	1 993 326 138	1 993 326 138	1 993 326 138	76 456 877	76 456 877
Total		1 993 326 138	1 993 326 138	1 993 326 138	1 993 326 138	76 456 877	76 456 877

The shareholder structure as of December 31, 2010 and 2009 was as follows:

	Ownership interest, %	
	2010	2009
CJSC ING Bank (Eurasia) (nominal holder)	39.74	39.82
JFC Sistema	31.92	25.98
OJSC Deutsche Bank (nominal holder)	9.71	9.71
CJSC Invest-Svyaz	8.04	8.04
CJSC Depository Clearing Company (nominal holder)	2.57	9.09
Other shareholders	8.02	7.36
Total	100.00	100.00

9. ADDITIONAL DISCLOSURES ABOUT ASSETS AND LIABILITIES

Non-depreciable fixed assets:	(RUB '000)	
	December 31, 2010	2009
Land plots	195 084	148 894
Outdoor improvements	6 511	61 571
Residential properties	416	416
Total	202 011	210 881

	Line code	Account	(RUB '000)	
			December 31, 2010	2009
Construction in progress	130			
Construction in progress of telecommunication equipment		08	12 450 084	15 523 806
Equipment for installation		07, 14	9 392 389	9 254 996
Other investments in non-current assets		15, 16	107 773	69 354
Total			21 950 246	24 848 156
Other non-current assets	150			
Advances given for acquisition of fixed assets and construction services		60, 63	22 534 557	1 826 718
Numbering capacity, non-exclusive rights to use software products with useful lives over 12 months		97	14 568 312	12 445 306
Debt issuance costs		97	3 594 209	4 315 974
Acquisition-related costs		58	26 960	6 584
Total			40 724 038	18 594 582

Due to the development of next-generation 3G networks, the Company performed an analysis of idle equipment in 2010 and 2009 aimed at determining the appropriateness of its further use. The analysis resulted in identifying equipment which was obsolete, unfit for operation or lacking in demand. As of December 31, 2010 and 2009, the Company established an allowance for obsolete equipment in the amount of 501,026 thousand rubles and 1,534,934 thousand rubles, respectively, recorded in line 130 "Construction in progress" of the balance sheet.

Other receivables

Other receivables as of December 31, 2010 and 2009 consisted of the following:

	Line code	2010	2009
(RUB '000)			
Other receivables	608		
Other receivables – roaming		4 971 050	3 110 512
Other receivables – taxes and duties		1 985 190	5 754 896
Other receivables – dealers and commercial representatives		1 323 053	360 978
Other receivables – Social Security Fund		184 083	255 729
Other receivables – customs		100 917	291 208
Other		319 887	799 069
Total		8 884 180	10 572 392

10. ADDITIONAL DISCLOSURES TO THE PROFIT AND LOSS STATEMENT

	Line code	2010	2009
(RUB '000)			
Other income	090		
Foreign exchange gain and loss, net		1 504 753	-
Prior year gain identified in the current period		752 981	130 328
Accounts payable written off as unclaimed		575 124	341 119
Income on sale and disposal of other property		496 508	930 191
Interest receivable on bank accounts		415 407	46 329
Reimbursement of expenses on operations with American depository receipts		338 030	60 128
Income on sale and disposal of fixed assets		336 526	73 979
Penalties and fines		121 434	45 100
Trademark income		110 468	95 062
Gain found based on the inventory count results		5 889	27 682
Income from sale of securities		8	320 571
Other		195 017	77 749
Total		4 852 145	2 148 238

	Line code	2010	2009
(RUB '000)			
Other expense	100		
Provision for impairment of investments		6 639 032	2 082 502
Provision for contingent liabilities		6 273 157	489 852
Debt issuance cost		2 710 344	1 064 274
Allowance for doubtful debts		2 490 727	2 402 720
Write-off of investments		2 000 000	-
Loss on swaps		1 886 461	795 847
Prior years loss identified in current period		1 011 346	3 622 627
Loss on sale and disposal of fixed assets		747 635	750 816
Expenses on revaluation of securities to current market value		650 897	-
Loss on sale and disposal of other property		488 382	1 267 049
Accounts receivable written off as unrecoverable		414 685	326 890
Loss on the sale of securities		327 243	208 660
Provision for inventory obsolescence		326 358	2 705 489
Reimbursement of value-added tax		206 277	310 649
Loss found based on the inventory count results		135 080	133 868
Bank charges		116 179	124 997
Penalties for canceling lease agreements		47 375	-
Penalties and fines		3 761	6 517
Foreign exchange gain and loss, net		-	3 671 234
Other		307 183	607 919
Total		26 782 122	20 571 910

Expenses related to the operating activities for the years 2010 and 2009 comprised energy consumption expenses amounting to 1,568,190 thousand rubles and 1,202,760 thousand rubles, respectively.

11. BASIC AND DILUTED EARNINGS

Basic and diluted earnings for the years 2010 and 2009 were as follows:

	2010	(RUB '000) 2009
Basic earnings, thousand rubles	27 428 577	33 480 015
Weighted average number of outstanding ordinary shares	1 993 326 138	1 968 151 300
Basic earnings per share, RUB	13.76	17.01
Diluted earnings, thousand rubles	27 428 577	33 480 015
Weighted average number of outstanding ordinary shares	2 066 411 143	1 968 151 300
Diluted earnings per share, RUB	13.27	17.01

12. BOARD OF DIRECTORS

As of December 31, 2010, the Board of Directors consisted of the following members:

Ron Sommer	Chairman of the Board of Directors
Sergei Alekseevich Drozdov	Vice-Chairman of the Board of Directors
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
Charles Dunston	Member of the Board of Directors
Tatiana Vladimirovna Yevtoushenkova	Member of the Board of Directors
Stanley Miller	Member of the Board of Directors

The total amount of compensation paid to the Board of Directors members in 2010 and 2009 totaled 49,214 thousand rubles and 51,420 thousand rubles, respectively.

13. MANAGEMENT BOARD

As of December 31, 2010 the Management Board consisted of the following members:

Mikhail Valerievich Shamolin	President
Pavel Dmitrievich Belik	Vice-President of Security
Mikhail Yurievich Gerchuk	Vice-President of Commerce
Andrei Eduardovich Ushatskiy	Vice-President of Technology
Andrei Anatolievich Dubovskov	Director of Ukraine Business Unit
Ruslan Sultanovich Ibragimov	Vice-President of Corporate and Legal Issues
Alexey Valeryevich Kornya	Vice-President of Finance and Investments
Sergey Borisovich Nikonov	Vice-President of HR and Administrative Services
Aleksander Valeryevich Popovskiy	Vice-President, Director of MTS-Russian Business Unit
Oleg Yurievich Raspopov	Vice-President, Director of MTS Foreign Companies Business Unit
Andrei Borisovich Terebenin	Vice-President of Corporate Communications
Michael Hecker	Vice-President of Strategy, Mergers, Acquisitions, and Corporate Development
Frederic Vanoosthuyze	Vice-President of Information Technology
Viktor Valerievich Stankevich	Director of Control

The total amount of compensation paid to the Management Board members in 2010 and 2009 totaled 459,121 thousand rubles and 297,892 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***

	2010	(RUB '000) 2009
Mobile TeleSystems Finance S.A.	1 767 631	2 119 926
MTS International Funding Ltd.	1 042 684	-
Vostok Mobile B.V.	677 744	-
LLC Bastion	488 960	709 006
CJSC K-Telecom	56 487	59 378
CJSC Sibintertelecom	54 344	28 700
CJSC AMT	7 432	-
CJSC Petrodvor	7 432	-
OJSC MGTS	7 432	-
Other	20 326	20 100
Total	4 130 472	2 937 110

Interest income on loans given

	2010	(RUB '000) 2009
Mobile TeleSystems Bermuda Ltd.	1 121 676	1 501 488
CJSC Russian Telephone Company	1 070 156	546 975
LLC Bastion	701 562	717 240
FE Uzdunrobita	184 199	180 783
International Cell Holding Ltd.	123 493	184 899
CJSC Telephone.ru	106 964	61 902
CJSC Multiregion	99 963	-
OJSC TS-Retail	98 172	100 514
CJSC K-Telecom	70 910	148 693
OJSC Evrotel	46 777	-
CJSC COMSTAR-Regions	45 883	-
LLC Eldorado-Centre	36 053	24 538
CJSC Dagtelecom	18 155	44 268
LLC SWEET-COM	777	33 592
PrJSC MTS Ukraine	-	176 524
Other	126 002	76 936
Total	3 850 742	3 798 352

Purchase of equipment, goods, works and services

	2010	(RUB '000) 2009
CJSC Russian Telephone Company	7 402 077	307 142
CJSC Sitronics Telecom Solutions	4 059 946	2 710 585
LLC Sitronics IT	3 946 565	2 957 853
LLC Media Planning Group	2 316 890	-
OJSC Advertising Agency Maxima	1 582 025	2 882 832
CJSC Sibintertelecom	1 324 098	1 141 923
OJSC COMSTAR-UTS	1 108 179	1 065 610
CJSC Dagtelecom	1 044 691	413 757
PrJSC MTS Ukraine	763 915	568 641
LLC Sitronics Smart Technologies	660 117	518 341
OJSC MGTS	522 830	522 220
OJSC Mezhtregionalny Transit Telecom	268 004	809 877
JLLC Mobile TeleSystems	174 899	100 466
CJSC AMT	78 613	83 989
CJSC City Hals	57 821	312 262
OJSC TS-Retail	44 815	801 804
CJSC Metro-Telecom	32 266	82 308
CJSC Mediaplanning	1 837	1 151 310
Telephone.RU Group of companies	11	121 358
Other	873 113	830 203
Total	26 262 712	17 382 481

Sale of equipment, goods, works and services

	2010	(RUB '000) 2009
OJSC Russian Telephone Company	4 314 238	489 353
OJSC MGTS	1 049 184	1 115 269
OJSC COMSTAR-UTS	979 995	686 769
CJSC Sibintertelecom	727 705	468 859
CJSC Dagtelecom	479 307	531 384
PrJSC MTS Ukraine	473 553	354 134
JLLC Mobile TeleSystems	158 870	96 367
CJSC AMT	43 355	45 714
CJSC COMSTAR-Direct	32 696	256
OJSC MTS P	12 477	21 402
OJSC Mezhtregionalny Transit Telecom	-	305 579
Other	210 081	234 482
Total	8 481 461	4 349 568

Dividends received and paid

	Dividends received		Dividends paid	
	2010	2009	2010	2009
PrJSC MTS Ukraine	6 513 342	-	-	-
JLLC Mobile TeleSystems	1 661 303	822 597	-	-
Barash Communications Technologies, Inc.	816 593	-	-	-
Non-resident shareholders	-	-	14 182 077	18 139 914
JFC Sistema	-	-	8 967 527	11 715 486
CJSC Capital	-	-	83 805	-
CJSC MTS	-	-	35 459	46 325
Other	292	135	4 008 282	5 004 069
Total	8 991 530	822 732	27 277 150	34 905 794

Amounts outstanding with related parties**Loans received**

	December, 31 2010	December, 31 2009	(RUB '000) Period of settlement of 2010 operations
MTS International Funding Ltd.	22 906 962	-	2012
Mobile TeleSystems Finance S.A.	12 617 677	24 363 967	2012
LLC Bastion	5 258 065	5 324 637	2013-2018
Vostok Mobile B.V.	3 095 544	107 854	2012
CJSC Sibintertelecom	2 291 093	684 972	2012
LLC System of Telecommunications, Informatics and Communication	2 002 387	2 002 387	2049-2056
CJSC AMT	1 407 432	-	2011
CJSC Petrodvor	1 407 432	-	2011
OJSC MGTS	1 407 432	-	2011
CJSC K-Telecom	1 102 389	1 037 718	2013
OJSC COMSTAR-UTS	1 100 701	-	2011
CJSC MTS	450 228	430 708	2012
Other	128 156	8 145	2011
Total	55 175 498	33 960 388	

Loans given

	December, 31 2010	December, 31 2009	(RUB '000) Period of settlement of 2010 operations
Mobile TeleSystems Bermuda Ltd.	23 543 587	22 758 972	2011-2013
CJSC Russian Telephone Company	10 560 331	9 370 575	2012-2013
LLC Bastion	6 280 295	5 578 732	2012-2013
Mobile Telesystems Finance S.A.	5 487 942	5 451 545	2012
CJSC Multiregion	3 130 263	-	2013
International Cell Holding Ltd.	2 843 735	2 921 697	2011-2012
CJSC COMSTAR-Regions	1 931 132	1 815 249	2011
FE Uzdunrobita	1 497 896	1 787 494	2011-2012
LLC System of Telecommunications, Informatics and Communication	1 221 200	-	2014-2015
CJSC K-Telecom	1 028 155	2 452 243	2013
CJSC Telephone.ru	1 064 504	957 540	2012
OJSC TS-Retail	1 014 274	913 147	2011
OJSC Evrotel	942 777	-	2011
CJSC Dagtelecom	-	504 121	2011
LLC SWEET-COM	364 382	375 166	2013
LLC Eldorado-Centre	361 031	324 978	2012
CJSC Capital	316 566	-	2011
OJSC MTS P	217 244	217 244	2012
Vostok Mobile B.V.	-	200 792	
JLLC Mobile TeleSystems	91 431	3 024	2011
Other	251 297	485 956	
Total	62 148 042	56 118 475	

Accounts Receivable

		(RUB '000)	
	Type of transaction	December 31, 2010	December 31, 2009
LLC Sitronics IT	Purchase of goods, work, services	3 350 111	140 060
OJSC Russian Telephone Company	Sale of goods, work, services	1 501 386	206 991
CJSC Sibintertelecom	Sale of goods, work, services	338 532	209 063
CJSC Sitronics Telecom Solutions	Purchase of goods, work, services	116 884	562 871
OJSC COMSTAR-UTS	Sale of goods, work, services	157 674	59 629
OJSC MTS P	Sale of goods, work, services	105 996	113 218
OJSC MGTS	Sale of goods, work, services	90 718	92 592
PrJSC MTS Ukraine	Sale of goods, work, services	69 709	152 126
CJSC Dagtelecom	Sale of goods, work, services	64 517	127 705
CJSC Mediaplanning	Purchase of goods, work, services	50	92 047
OJSC Advertising Agency Maxima	Purchase of goods, work, services	20	240 535
Other		384 952	184 855
		6 180 549	2 181 692

As of December 31, 2010 and 2009 allowance for doubtful debts from related parties and the provision for impairment of investments to related parties comprised the following:

	(RUB '000)	
	December 31, 2010	December 31, 2009
Provision for impairment of loans	7 083 842	6 033 171
Mobile TeleSystems Finance S.A.	5 487 942	5 451 545
OJSC TS-Retail	1 014 274	-
LLC SWEET-COM	364 382	364 382
OJSC MTS P	217 244	217 244
Allowance for doubtful debts	1 108	11 528
Total	7 084 950	6 044 699

Accounts receivable written off in 2010 totaled 1,964 thousand rubles, including 192 thousand rubles written off against the allowance.

Accounts payable

		(RUB '000)	
	Type of transaction	December 31, 2010	December 31, 2009
LLC Sitronics Smart Technologies	Purchase of goods, work and services	201 209	212 387
OJSC Advertising Agency Maxima	Purchase of goods, work and services	198 566	309 365
CJSC Sitronics Telecom Solutions	Purchase of goods, work and services	341 268	661 825
LLC Sitronics IT	Purchase of goods, work and services	179 526	439 621
OJSC Russian Telephone Company	Purchase of goods, work and services	127 889	211 954
CJSC Dagtelecom	Purchase of goods, work and services	124 623	139 406
CJSC Sibintertelecom	Purchase of goods, work and services	111 984	640 764
OJSC MGTS	Purchase of goods, work and services	41 765	32 368
PrJSC MTS Ukraine	Purchase of goods, work and services	39 674	67 433
OJSC TS-Retail	Purchase of goods, work and services	12 377	27 798
Vostok Mobile B.V.	Acquisitions	-	2 572 109
CJSC Mediaplanning	Purchase of goods, work and services	-	80 636
Other		440 627	183 799
Total		1 819 508	5 579 465

15. DISTRIBUTION OF RETAINED EARNINGS

The annual meeting of shareholders which took place on June 20, 2010 decided to use part of the profit retained by the Company in 2009 to pay dividends to shareholders in the amount of 30,697,222 thousand rubles.

The annual meeting of shareholders 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.

16. FOREIGN EXCHANGE DIFFERENCES

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

Currency	December 31, 2010	December 31, 2009
USD	30.48	30.24
EUR	40.33	43.39
		(RUB '000)
	2010	2009
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in foreign currency	1 216 192	(3 892 161)
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in rubles	288 561	220 927
Total	1 504 753	(3 671 234)

17. DERIVATIVE FINANCIAL INSTRUMENTS

In 2010 and 2009 the Company entered into a number of derivative agreements 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, 2010 and 2009 were as follows (in the financial instrument's currency and in rubles at the exchange rate as of the reporting date):

Derivative instruments			(RUB '000)	
	Value of underlying assets		Fair value of liabilities on financial instruments	
	2010	2009	2010	2009
Options	8 838 301	2 419 536	72 063	99 928
Swaps	36 724 086	50 387 954	958 401	1 717 302
Total	45 562 387	52 807 490	1 030 464	1 817 230

In 2010 and 2009 expenses from swap transactions amounted to 1,886,461 thousand rubles and 795,847 thousand rubles, respectively. The swaps will mature in 2011-2015.

Options entered into by the Company have fixed maturities. The swaps will mature in 2011-2012.

The Company does not use financial instruments 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 2010 and 2009 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 of December 31, 2010 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.	Bondholder	31.01.2005	28.01.2012	USD	400 000	12 190 760
MTS International Funding Limited	Bondholder	22.06.2010	22.06.2020	USD	750 000	22 857 675
Total						35 048 435

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

20. CONTINGENCIES

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. 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 legislation by the tax and customs authorities, as applied to the transactions and activities of the Company, may not coincide with that of the management. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years prior to the year of the tax review. Under certain circumstances, reviews may cover longer periods.

In 2010 Interregional Tax Inspectorate of the Russian Federal Tax Service for largest taxpayers No. 7 performed a field tax audit of the Company for 2007-2008 which resulted in the assessment of additional tax liabilities in the amount of 353,866 thousand rubles including interest and penalties. The Company appealed against the resolution to the RF Federal Tax Service. The appeal was not considered as at the date the financial statements are authorized for the issuance.

Based on the prudence concept, the Company's management decided to accrue a provision for contingencies in the amount of 353,866 thousand rubles as of December 31, 2010. The provision was recorded in line 650 "Accrued expenses".

The Company purchases equipment and rights to use software from foreign suppliers in the ordinary course of business. Management believes that customs 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 of December 31, 2010.

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 could be subject to transfer pricing rules. The Company's management believes that taxes payable are calculated in compliance with 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 of December 31, 2010.

Legal proceedings

Legal proceedings by anti-monopoly authorities – In March, 2010, the Federal Anti-Monopoly Service of Russia ("FAS") initiated legal 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.

Subsequently, the FAS Commission additionally stated that actions of OJSC MTS, OJSC VimpelCom and OJSC Megafon violated the competition law with regard to:

- Imposition of unfavorable terms of contracts, and agreed upon actions on setting up tariff zones, tariff plans, similar tariffication units for mobile telecommunications in roaming;
- Agreements, agreed upon actions of mobile telecommunication operators in the Russian Federation and roaming partners in the Republic of Kazakhstan as regards interconnection agreements for roaming services.

On October 22, 2010, FAS Russia recognized that the Company violated Clauses 1, 3 of Part 1 of Article 10 of the Federal Law "On protection of competition" in terms of fixing and maintaining monopolistically high prices for telecommunications services in roaming and imposing unfavorable contract terms for subscribers in CIS countries. As for violation of Article 11 of the Federal Law "On protection of competition" (conclusion of agreements and agreed upon actions), the proceeding is dismissed due to the absence of actions of the Company violating the anti-monopoly legislation of the Russian Federation.

On December 27, 2010, the protocol of administrative violations set forth in Article 14.31 of the RF Code of administrative violations, i.e. for abusing market dominance, was prepared with regard to the Company.

Therefore, as of December 31, 2010, the Company accrued a provision of 21,892 thousand rubles in the amount of 1% of its roaming revenues in CIS countries for 2009 and included it in line 650 "Accrued expenses".

CJSC Beta Link – CJSC Beta Link submitted a claim in the amount of 643,542 thousand rubles against OJSC MTS regarding a dealer agreement dated October 10, 2008. On December 11, 2009 the Arbitration Court of Moscow ordered MTS to pay an amount of 421,117 thousand rubles. 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 dated December 11, 2009 and dismissed the claims made by CJSC Beta Link. However, as CJSC Beta Link remained entitled to challenge this decision at the cassation instance court, the Company's management decided to accrue a provision in the amount of 421,117 thousand rubles as of December 31, 2009.

In June 2010, the Federal Arbitration Court of the Moscow District dismissed the cassation appeal of CJSC Beta Link. The provision in the amount of 421,117 thousand rubles was reversed in full as of December 31, 2010.

Barash Communications Technologies, Inc. – In December 2010, Barash Communications Technologies, Inc (BCTI), a 100% subsidiary of OJSC MTS, received a notice from the Ministry of Communications of Turkmenistan informing the company of a decision to suspend licenses of BCTI for the period of one month starting from December 21, 2010.

BCTI conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, OJSC MTS and the Ministry of Communications of Turkmenistan (the "Agreement") which expired on December 21, 2010. The company at all times believed that the Agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry failed to grant the extension in accordance with the terms of the Agreement.

In January 2011, a letter was received from TurkmenTelecom, a local state-owned telecommunications company, about early termination of contracts for rent of premises and requirement to dismantle BCTI's equipment. At the same time, the State Inspectorate for supervision of the radio frequency spectrum use at the Ministry of Communications of Turkmenistan unilaterally terminated the agreement with BCTI for use of the assigned radio frequency spectrum, and obliged the company to disable all remaining radio-electronic devices.

The license suspension period imposed by the Ministry of Communications of Turkmenistan ended on January 22, 2011. However, services cannot be provided due to the absence of frequencies and long-distance channels. On January 27, 2011, the Company received a refusal from the Ministry of Communications of Turkmenistan to its request dated January 22, 2011 with regard to the provision of frequencies and lease of communication channels due to the discontinuation of BCTI's mobile communication services in Turkmenistan.

The company has initiated legal actions against the Ministry of Communications of Turkmenistan in the International Court of Arbitration at the International Chamber of Commerce in connection with a number of violations by the Ministry of the trilateral agreement and in the Arbitration Court of Turkmenistan in connection with the aforementioned decision to suspend BCTI's licenses. In addition, BCTI filed requests of arbitration with the International Court of Arbitration at the International Chamber of Commerce against TurkmenTelecom and Altyn Asyr, another state-owned telecommunications company, in connection with their alleged termination of the interconnection agreements with BCTI. The Company's management is continuing negotiations with the Ministry of Communications and officials of the Government of Turkmenistan to resolve the situation amicably and continue its operations in Turkmenistan.

On January 21, 2011, formal proceedings were initiated against Turkmenistan in the International Centre for Settlement of Investment Disputes ("ICSID"), which is part of the World Bank Group, in accordance with the Investment Protection Agreement between Russia and Turkmenistan.

Due to material uncertainties in BCTI's ability to conduct operations in Turkmenistan as at the reporting date, the Company decided to accrue a provision for the entire amount of investments in BCTI in the amount of 1,317,569 thousand rubles.

LLC Bitel – In December 2005, Mobile TeleSystems Finance S.A. (MTS Finance) acquired a 51.0% stake in Tarino Ltd. ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for 150 million US Dollars based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of LLC Bitel (Bitel), a Kyrgyz operator holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51% stake, MTS Finance entered into a put and call option agreement with Nomihold for "Option Shares," representing the remaining 49% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was 170 million US Dollars.

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. The Company did not regain operational control over Bitel's operations.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for 170 million US Dollars to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase the Option Shares. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs.

In November 2010, the London Court of International Arbitration ruled that MTS Finance S.A., a subsidiary of the Company, should acquire 49% in Tarino Limited from Nomihold Securities Inc. for 170 million US Dollars, and compensate the latter for legal fees and interest as well as dividends of 5.88 million US Dollars. MTS Finance S.A. has no sufficient funds to implement the decision of the Arbitration court. The Company's management estimates the probability of reimbursement for the expenses related to the implementation of the Arbitration court as high. In accordance with PBU 8/01 "Contingencies", the Company decided to accrue a provision for contingent liability in the amount of 6,423,311 thousand rubles including the compensation for legal fees in the amount of 1,242,238 thousand rubles.

21. SUBSEQUENT EVENTS

Changes to legislation

According to Resolution of the RF Government No. 933 dated November 27, 2010 "On the Maximum Limit for Calculating Social Contributions to State Non-budgetary Funds as from 1 January 2011", the base amount established by Federal Law No. 212-FZ dated July 24, 2009 of 415 thousand rubles is indexed 1.1164 times following the average salary growth in Russia, and will amount to 463 thousand rubles. The provision applies to parties providing payments and other remuneration to individuals: organizations, individual entrepreneurs and individuals who are not individual entrepreneurs. The payments and other remuneration in excess of this amount shall not be liable to insurance contributions.

Changes in share capital

In February 2011, as part of reorganization of OJSC MTS through a merger with other companies, the shareholders of OJSC MTS claimed the repurchase of 8,000 ordinary shares for 245.19 rubles.

As part of the reorganization of OJSC MTS through a merger with companies of CJSC MTS, CJSC Capital recognized 8,461,542 treasury shares in the balance sheet of the Company including those owned by CJSC MTS (2,515,747 shares) and CJSC Capital (5,945,795 shares).

Change in leadership

On March 4, 2011, the Board of Directors of OJSC MTS appointed A. A. Dubovskov as the President of OJSC MTS.

March 31, 2011