

MOBILE TELESYSTEMS OJSC  
Form 20-F  
June 25, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## Form 20-F

Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

or

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or

Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**Date of event requiring this shell company report**

**Commission file number 333-12032**

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## MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**RUSSIAN FEDERATION**

(Jurisdiction of incorporation or organization)

**4 Marksistskaya Street, Moscow 109147 Russian Federation**

(Address of Principal Executive Offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

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Title of Each Class	Name of Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 5 SHARES OF COMMON STOCK COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE NEW YORK STOCK EXCHANGE(1)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**NONE**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**NONE**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,977,404,009 ordinary shares, par value 0.10 Russian rubles each and 155,310,125 American Depositary Shares, as of December 31, 2006.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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(1) Listed, not for trading or quotation purposes, but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

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Unless the context otherwise requires, references to MTS, we, us, or our refer to Mobile TeleSystems OJSC and its subsidiaries. UMC refers to Ukrainian Mobile Communications, our Ukrainian operations, which we acquired in March 2003. We refer to Mobile TeleSystems LLC, our 49%-owned joint venture in Belarus as MTS Belarus. As MTS Belarus is an equity investee, our revenues and subscriber data do not include MTS Belarus. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

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In this document, references to U.S. dollars, dollars, \$ or USD are to the lawful currency of the United States, references to rubles or RUR are to the lawful currency of the Russian Federation, references to hryvnias are to the lawful currency of Ukraine and references to , euro or EUR are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the "U.S. Securities Act") and Section 21E of the U.S. Securities Exchange Act of 1934 (the "U.S. Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Mobile TeleSystems OJSC, or MTS, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words believe, expect, anticipate, intend, estimate, forecast, project, predict, should, could and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, Item 3. Key Information D. Risk Factors, Item 4. Information on Our Company B. Business Overview and Item 5. Operating and Financial Review and Prospects, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- liquidity, capital resources and capital expenditures;
- growth in demand for our services;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the condition of the economies of Russia, Ukraine and certain other Commonwealth of Independent States, or CIS, political stability in Russia, Ukraine and certain other CIS countries, the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission, or the SEC.

Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

**PART I**

**Item 1.** *Identity of Directors, Senior Management and Advisors*



Not applicable.

**Item 2.** *Offer Statistics and Expected Timetable*

Not applicable.

**Item 3.**      *Key Information*

A. Selected Financial Data

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The selected consolidated financial data for the years ended December 31, 2004, 2005 and 2006, and as of December 31, 2005 and 2006, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. In addition, the following table presents selected consolidated financial data for the years ended December 31, 2002 and 2003, and as of December 31, 2002, 2003 and 2004, derived from our audited consolidated financial statements not included in this document. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition. The summary financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, D. Risk Factors and Item 5. Operating and Financial Review and Prospects. Certain industry and operating data are also provided below.

	<b>Years Ended December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(Amounts in thousands of U.S. dollars, except share and per share amounts, industry and operating data and ratios)</b>				
<b>Consolidated statements of operations data:</b>					
<b>Net operating revenues:</b>					
Service revenues and connection fees	\$ 1,299,141	\$ 2,465,089	\$ 3,800,271	\$ 4,942,288	\$ 6,287,100
Sales of handsets and accessories	62,615	81,109	86,723	68,730	97,154
Total net operating revenues	1,361,756	2,546,198	3,886,994	5,011,018	6,384,254
<b>Operating expenses:</b>					
Cost of services, excluding depreciation and amortization shown separately below	196,445	301,108	481,097	732,867	1,223,715
Cost of handsets and accessories	90,227	173,071	218,590	254,606	209,260
Sales and marketing expenses	171,977	326,783	460,983	608,092	607,835
Depreciation and amortization expenses	209,680	415,916	675,729	907,113	1,095,981
Sundry operating expenses(1)	229,056	406,722	631,532	876,309	1,113,727
Net operating income	464,371	922,598	1,419,063	1,632,031	2,133,736
Currency exchange and transaction losses (gains)	3,474	(693)	(6,529)	(10,319)	(24,051)
<b>Other income (expenses):</b>					
Interest income	(8,289)	(18,076)	(21,792)	(24,828)	(13,055)
Interest expense, net of capitalized interest	44,389	106,551	107,956	132,474	177,145
Equity in net income of associates		(2,670)	(24,146)	(42,361)	(58,083)
Bitel investment and write off					320,000
Other income (expenses), net	(2,454)	6,090	(9,310)	13,211	65,913
Total other income (expenses), net	33,646	91,895	52,708	78,496	491,920
Income before provision for income taxes and minority interest	427,251	831,396	1,372,884	1,563,854	1,665,867
Provision for income taxes	110,417	242,480	354,664	410,590	576,103
Minority interest	39,711	71,677	30,342	26,859	14,026
Net income	\$ 277,123	\$ 517,239	\$ 987,878	\$ 1,126,405	\$ 1,075,738
Dividends declared(2)		\$ 111,355	\$ 219,918	\$ 402,692	\$ 561,629

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Net income per share, basic and diluted	0.14	0.26	0.50	0.57	0.54
Dividends declared per share		0.06	0.11	0.20	0.28
Number of common shares outstanding	1,983,359,507	1,983,397,064	1,986,124,030	1,987,925,652	1,977,404,009
Weighted average number of common shares outstanding	1,983,359,507	1,983,374,949	1,984,497,348	1,986,819,999	1,987,610,121
<b>Consolidated cash flow data:</b>					
Cash provided by operating activities	\$ 412,772	\$ 965,984	\$ 1,711,589	\$ 1,803,610	\$ 2,389,903
Cash used in investing activities	(697,921)	(1,910,087)	(1,543,201)	(2,458,347)	(1,790,549)
(of which capital expenditures)(3)	(574,272)	(958,771)	(1,358,944)	(2,181,347)	(1,721,968)
Cash (used in)/provided by financing activities	100,817	997,545	10,773	461,528	(464,066)
<b>Consolidated balance sheet data (end of period):</b>					
Cash, cash equivalents and short-term investments	\$ 64,661	\$ 335,376	\$ 347,510	\$ 106,343	\$ 276,036
Property, plant and equipment, net	1,344,633	2,256,076	3,234,318	4,482,679	5,297,669
Total assets	2,283,296	4,225,351	5,581,187	7,545,780	8,573,945
Total debt (long-term and short-term)(4)	454,485	1,660,334	1,937,148	2,850,557	3,078,452
Total shareholders equity	1,302,044	1,723,910	2,523,323	3,294,089	3,751,781
Including capital stock(5)	40,352	40,361	43,162	45,024	(64,220)
<b>Financial ratios (end of period):</b>					
Total debt/total capitalization(6)	25.9	% 49.1	% 43.4	% 46.4	% 45.1
<b>Industry and operating data:(7)</b>					
Mobile penetration in Russia (end of period)	12	% 25	% 51	% 87	% 105
Mobile penetration in Ukraine (end of period)		13	% 29	% 64	% 105
Subscribers in Russia (end of period, thousands)(8)	6,644	13,370	26,540	44,219	51,222
Subscribers in Ukraine (end of period, thousands)(8)		3,349	7,374	13,327	20,003
Overall market share in the Moscow license area (end of period)	43	% 43	% 45	% 45	% 42
Overall market share in Russia (end of period)	38	% 37	% 36	% 35	% 34
Overall market share in Ukraine (end of period)		51	% 53	% 44	% 41
Average monthly usage per subscriber in Russia (minutes)(9)	159	144	157	128	129
Average monthly usage per subscriber in Ukraine (minutes)(9)		97	114	117	142
Average monthly service revenue per subscriber in Russia(10)					