

MTS OJSC
Annual Report
2005

Our main goals in 2005 were to retain leadership, integrate the business, and lay the foundation for strengthening the Company's lead and further international expansion in 2006 to 2008.

The latter included executing a number of crucial integration measures, such as the full-fledged rollout of our new management system, migration of our prepaid customers to a new billing platform, consolidation of call centers, and radical enhancement of customer service quality and other key operational processes. These measures were successfully implemented.

Our financial results for 2005 demonstrate solid growth of our top line and earnings. Our revenues for the year were up 29% at \$5.011 billion. OIBDA was up 21% at \$2.539 billion. Net income was up 14% year-on-year at \$1.126 billion. The OIBDA margin for the year was 50.7%.

The growth of our top line by \$1.1 billion in 2005 was unrivaled by anyone in our peer group. We added more than 24 million subscribers to the Company's consolidated subscriber base in 2005. At year-end we operated in 82 out of 86 regions for which we hold licenses in Russia. We added a further 2 million subs in the first two months of this year.

Our marketing initiatives of Q4 last year and Q1 of this year have been geared at strengthening our customers' loyalty and enhancing their trust in our services. The Company's subscriber market share at the end of 2005 stood at 35.1% and remained stable in the first two months of this year.

In Ukraine the competitive environment has changed with the entry of an aggressive new player, Astelit, in February 2005 and the acquisition of WellCom by Vimpelcom in November of '05. Despite increased competition, UMC continued to post strong results with impressive revenue and earnings growth. Our goals for 2006 are revenue and subscriber leadership in Ukraine.

Our operations in Uzbekistan showed a healthy subscriber and top-line growth dynamic. Our subscriber market share was at a level of 55% at year-end 2005.

In Turkmenistan, MTS brought its ownership in BCTI to 100% in November. We are well placed to continue being market leaders in this country as we invest in strengthening both our network and distribution channels.

Our expansion into some of the former Soviet Union countries has introduced us to new and at times unpredicted risks, as represented most acutely by the events in Kyrgyzstan. In this regard I would like to reaffirm our position on Bitel.

The acquisition that we announced in December 2005 was completed after proper due diligence and in accordance with the international and Kyrgyz legislation. We reiterate that the seizure of Bitel's offices was unlawful, and we will continue to defend our ownership title in courts of appropriate jurisdictions. Currently, MTS has no operational control of its offices in Kyrgyzstan.

There are a number of regulatory challenges to be faced in Russia in 2006, including Calling Party Pays, Mobile Number Portability, and MVNO regulations. CPP is to be introduced on July 1. The exact terms are currently being worked out. These terms may potentially have a negative effect on our profitability, as revenues may decrease without a similar reduction in associated costs. In Ukraine the implementation of a Universal Service Funds charge is contemplated for this year.

The liquidity of our stock increased in 2005 with the sale of the remaining stake by T-Mobile in September, and recently MTS was added to the RTS Index with a 5.7% weight, which should further increase our stock's liquidity.

We have recently added a number of high-caliber professionals to our management team. Andrei Terebenin, the Company's new VP for Corporate Communications in charge of public and investor relations; Garrett Johnston, the new Director of Marketing, that will work alongside Grzegorz Esz, the Company's freshly appointed CMO.

Andrei has a wealth of experience in corporate indications after having run one of the top five PR agencies. Garrett used to be the Chief Marketing Officer of Kyivstar prior to his move to MTS. Grzegorz has been acting CMO of MTS for the past four months.

To summarize, we feel that our achievements in 2005, coupled with competitive lessons learned, should be a solid foundation for robust performance in all of our operating markets in 2006. We remain committed to increasing shareholder value. The focal points for 2006 are customer loyalty, revenue growth, and operational efficiency. The Company's capital structure should support our ability to combine non-organic growth with increasing cash returns to our shareholders.

L.A. Melamed
MTS OJSC Acting President

S.D. Shchebetov
MTS OJSC BoD Chairman

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MTS OJSC Strategy

MTS OJSC strategy is aimed at retaining its position as the leading cellular operator in Russia and the CIS at the account of strengthening its market representation and differentiated approach to different customer segments. Achieving these goals requires that the Company meets top priority targets, such as:

- Keeping on the leading position by means of permanent extension of Company's subscriber base thanks to attraction of new and retention of existent subscribers;
- Provision of high quality services and customer care to support the status of the premium high quality operator;
- Making clearly structured and segmented marketing proposals to attract different customer groups constituting Company's subscriber base;
- Use of advantages of the integrated management system by means of Company activity standardization and improvement in regions and unification of services provided within the whole licensed territory under the common brand;
- Continued extension of our marketing proposal range at the account of wide spectrum of supplementary services targeted to different marketing segments and based on SMS, GPRS and other technological solutions;
- Selective network extension in regions where the Company has not yet operated giving the priority to regions with high density of population or located along highways;
- Continued development of customer loyalty programs targeted to retention of high revenue subscribers who are the most valuable customers for the Company.

During the last years MTS OJSC actively extended its presentation at the Russia regions and some CIS countries thanks to launching networks in new licensed territories and acquisition of other mobile communication operators. Starting with 2003, MTS has concentrated at integration of existent businesses into the united company with the unified marketing approach and centralized control of network development and operational management. In the near future the Company will complete implementation of corporate centralized management functions targeted to increase of productivity and efficiency at every level of the Company. Consolidation of minority interests in regional subsidiaries and integration of them into MTS OJSC operating activity will be continued as well.

MTS OJSC capital expenditures in 2003 and 2004 were equal to USD 958.8 million and USD 1358.9 million, respectively. Estimated investments in 2005 were USD 2.0 billion. These investments were required to support increase in our subscriber base (i.e. for network capacity expansion) and construction of networks in regions for which licenses were issued in 2004.

The Company can start operation in CIS countries that have still not covered by its network, by means of acquisition of either companies represented in these markets or licenses in case of appropriate opportunity.

MTS OJSC Position in the Cellular Communications Market

MTS OJSC is the largest cellular communications operator both in Russia and the CIS. Over the last few years, the Company has grown from a regional market leader in Moscow to the largest cellular provider in Europe.

MTS OJSC is successfully pursuing its strategy of providing communications services throughout Russia, and developing its business in the CIS. MTS OJSC networks and those of its subsidiaries operate in all of Russian federal regions, all cities with million of population are covered by MTS OJSC networks. In 2005 the number of cellular communications users in Russia increased from 74.4 million to 125.8 million people and in the Ukraine from 7.4 million to 13.3 million people.

In 2005 MTS OJSC expansion continued by acquisition of Barash Communications Technologies, Inc. (BCTI), the leading cellular communications operator in Turkmenistan.

During 2005 MTS OJSC subscriber base increased by about 24 million people. As of 31 December, 2005, MTS OJSC consolidated subscriber base was about 58.2 million active subscribers, including 44.2 million in Russia, 13.3 million in the Ukraine, 0.6 million in Uzbekistan and 0.1 million in Turkmenistan. Mobile TeleSystems JLLC, a mobile communications operator in Belarus in which MTS OJSC has a 49.0% equity stake, provided services to about 2.1 million customers.

As of 28 February, 2006, MTS OJSC consolidated subscriber base achieved 60.3 million subscribers, including 45.5 million Russian residents, 14.2 million Ukrainian residents, 0.6 million residents in Uzbekistan and 0.1 million residents in Turkmenistan. Moreover, as of the date, Mobile TeleSystems JLLC provided services to 2.3 million customers.

As of the end of 2005, MTS OJSC maintained its leading share in the Russian cellular communications market at 35% level. At the same time MTS OJSC' share in the market achieved 44% in the Ukraine, 55% in Uzbekistan and 74% in Turkmenistan. Mobile TeleSystems JLLC' share in the market was 52%.

As of the end of 2005, MTS OJSC and its subsidiaries (including Mobile TeleSystems JLLC) owned licenses for provision of GSM communications services in territories with population over 233.1 million people.

MTS OJSC Development in 2005

In 2005 works on transformation of Company corporate management structure were completed.

- 3-tier management structure was implemented:
 - Head Quarter** determines the united Company strategy on separate functional directions, elaborates the united management standards, regulations and procedures
 - Macro Regions** control activity of regional business-units
 - Regions** are authorized with powers on operational management of Company activity within the territory of RF particular subject.All MTS personnel was successfully transferred into a new structure
- KPI control projects were completed within the frame of transformation works: functional plans for functional managers were developed and formalized; KPI targeted values and calculation methodology were agreed; Agreed Result Contracts were signed with all functional managers.

In 2005 MTS OJSC started active use of outsourcing of non-profile activities. In the course of this work outsourcing of such functions as archiving, catering, cleaning was successfully used in Macro Region Moscow. By means of outsourcing the Company managed to reduce staff by over 300 people and decrease its own operating expenses for such functions by over USD 4 million.

Main Risk Factors Related to MTS OJSC Business Activity

Intensified competition and changes in the subscriber base (increase in mass market part and regional subscribers part in Company subscriber base) lead to a decrease in average revenue per user (ARPU). Although MTS OJSC' subscriber base and revenues are growing as a result of increase in subscribers in Moscow as well as of expansion to regions, the Company's ARPU is falling. MTS OJSC expects a further decrease in ARPU as a result of tariff reductions and growth in the share of mass market subscribers as a proportion of MTS' total subscriber base.

If MTS is unable to modernize its network effectively, it will be unable to increase its subscriber base, which could also lead to a loss in market share and revenues. For expansion of its network infrastructure in the following areas MTS OJSC plans to:

- expand radio coverage and increase transmission capability of the existent network in Moscow licensed area;
- continue the further development of the network in the Republic of Belarus as well as expand radio coverage in Saint-Petersburg, Krasnodar, Nizhny Novgorod, Perm, Rostov and other regions;
- start provision of services in those licensed regions where networks has still not operated.

The Company rapid growth and expansion could lead to difficulties in attracting high quality management. The Company further successful development will depend, to a large extent, on a small number of top managers and high quality technical personnel.

MTS OJSC network expansion will be limited and as a result MTS could lose market share and revenue if its traditional bandwidths are given to other providers, or if the Company has difficulties in renewing its existing licenses.

The Company could lose licenses should it fail to meet the licensing requirements, such as failure to meet required licensing payments. MTS' licenses have a number of different requirements, including meeting technical standards, investing in network infrastructure, offering employment opportunities for Russian technical specialists, etc. Moreover, each license has deadlines regarding the service start date, number of subscribers and area of network coverage. If the Company should fail to meet any of these conditions, a given license could be annulled or suspended. This has never happened previously to MTS.

Should MTS fail to maintain the good reputation of its trademark, it could face difficulties in attracting new subscribers, and could lose existing subscribers, leading to a fall in market share and a drop in revenues.

MTS could fail to secure the 3G (UMTS) licenses it plans to acquire, which could affect the Company's competitiveness, and limit its ability to offer new services, leading to a fall in market share and a drop in revenues.

Statement on Payment of Declared (Accrued) Dividends on Shares in the Company

The amount of the declared annual dividends per a common registered share in MTS OJSC for 2004 was RUR 5.75195247 per ordinary share.

The amount of the declared annual dividends paid out on total shares in MTS OJSC were RUR 11 465 517 202.98.

Deadline for dividends to be paid out: December 31, 2005.

Form of dividend payment: monetary.

Accounting period for which these dividends were to be paid out: 2004.

The total amount of the dividends paid out on all shares in MTS OJSC for 2004, following payment of all taxes, was RUR 10 226 144 731.00.

These dividends were not paid out in full as some of the shareholders provided incorrect, incomplete or out-dated information on their bank accounts for dividends in forms of persons registered by the registrar.

In 2005 MTS OJSC neither approved nor signed major financial transactions

Interested Party Transactions Made in 2005

Occasionally, in the course of its normal business activities, there arises the necessity to conclude different agreements between MTS OJSC and its subsidiaries within the MTS OJSC Group, such as purchase and sale agreements, service agreements, guarantees, etc.

Under such contracts, MTS OJSC carries out the construction of GSM cellular communications networks within the licensing territories of its subsidiaries (general contracts), equipment supply and modernization and software programming support (supply and service agreements), financing of its subsidiaries (loan and guarantee agreements), MTS OJSC trademark promotion in regional markets (licensing agreements) and other agreements.

In 2005 MTS approved and concluded a large number of interested party transactions (see Appendix 1).

MTS OJSC Board of Directors

From the beginning of 2005 up to MTS OJSC Annual General Shareholders Meeting held on 21 June 2005, the following persons were MTS OJSC Board of Directors members:

Alexei Buyanov;

Friedbert Gerlach

Alexander Goncharuk;

Michael Guenther;

Vladimir Lagutin;

Helmut Reuschenbach;

Vassily Sidorov.

A new Board of Directors was elected at MTS OJSC Annual General Shareholders Meeting Dated 21 June 2004, including the following persons:

Alexei Buyanov;

Alexander Goncharuk;

Michael Guenther;

Vladimir Lagutin

Peter Middleton

Helmut Reuschenbach

Vassily Sidorov.

Vladimir Sergeevich Lagutin

b. 1947, elected Chairman of MTS OJSC Board of Directors on 9 November, 2004.

Mr. Lagutin graduated from the National Correspondence Electro-Technical Institute in 1975 with a degree in Automatic Electric Communications. From 1967, he worked at Moscow City Telephone Network, where he rose through a number of engineering and managerial posts, including the posts of Chief Telephone Exchange Engineer, Chief of Telephone Exchange, and Deputy General Director for Economics. From 1994, Mr. Lagutin served as MGTS OJSC General Director. In July 2003, Mr. Lagutin assumed the post of Sistema Telekom CJSC President.

Mr. Lagutin holds a degree of Doctor of Technical Sciences. He is an Academician of the International Communications Academy, and the author of more than 100 published works, including four monographs. Mr. Lagutin heads the City Telephone Network Systems Management Department of Moscow Technical and Informatics University (MTUSI), and teaches a course on Telematics Services. Honoured Telecommunications Worker of RF (1994), Master of

Telecommunications (1988). He is a bearer of Glory to Russia Order (2001), For Heroic Work Medal (1970) and For Working Success Medal (1980).

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr V.S. Lagutin did not have common registered shares in MTS OJSC.

Alexei Nikolaevich Buyanov

b. 1969, elected to MTS OJSC Board of Directors in 2003. Mr. Buyanov graduated from the Moscow Physical-Technical Institute (MFTI) in 1992 with a degree in Applied Physics and Mathematics.

Mr. Buyanov worked at AFK Sistema from 1994-95 in property management. In 1995, he was appointed Chief of Management of Sistema-Invest CJSC, then Vice-President of Sistema-Invest CJSC. In 1997 he was appointed First Vice-President of Sistema-Invest CJSC. Mr. Buyanov served as MTS OJSC Vice-President from 1998-2002. In July 2002, Mr. Buyanov was appointed AFK Sistema Vice-President to run the Department for Financial Restructuring. Since September 2002, Mr. Buyanov has served as First Vice-President of AFK Sistema, heading the company's Financial and Investment Group.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr A.N. Buyanov owned 12409 common registered shares in MTS OJSC.

Fridbert Gerlach

b. 1957, elected to MTS Board of Directors in June 2004. Mr. F. Gerlach is the First Vice-President of T-Mobile International AG & Co. KG for international joint ventures management and a Member of Boards of Directors (Supervisory Councils) of several telecommunications companies in different countries.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr F. Gerlach did not have common registered shares in MTS OJSC.

Alexander Yurievich Goncharuk

b. 1956, was MTS OJSC Board of Directors Chairman from June, 2002 to October, 2003. Mr. Goncharuk also served as MTS OJSC Deputy Board of Directors Chairman in 1997, and during January-June, 1999, and MTS OJSC Board of Directors Chairman in 1998. He was graduated from Sevastopol Naval Engineering College in 1978 and Grechko Naval Engineering Academy in 1987 with A grade. During 1987–1991 he served as a senior rank officer in the General Naval Staff. Later on Mr Goncharuk was General Director of ASO Leader. During 1998-2003 he was the head of Sistema Telecom SC. In July, 2003 Mr Goncharuk was appointed KNC OJSC General Director. He has been AFK Sistema Board of Directors member from 2000.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr A.Yu. Goncharuk owned 279 585 common registered shares in MTS OJSC.

Michael Guenther

b. 1944, MTS OJSC Board of Directors Deputy Chairman. Mr M. Guenther is also a member of the Board of Directors of T-Mobile International AG & Co. KG, MTS OJSC shareholder, and of some other telecommunications companies in different countries.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr M. Guenther did not have common registered shares in MTS OJSC.

Helmut Reuschenbach

b. 1948, elected to MTS OJSC Board of Directors in November, 2004. Helmut Reuschenbach is Director at Lazard & Co. GmbH Frankfurt. Mr. Reuschenbach joined Lazard, a global investment bank. He was Senior Executive Vice-President of Finance in Deutsche Telekom AG during 1995-2000. Prior to 1994, he was the Chief Financial Officer and a Member of the Board at Mercedes-Benz S.A. in Belgium, while heading Daimler-Benz Coordination Center S.A. and Daimler-Benz Financial Company S.A. as the Chief Executive Officer. From 1989 to 1993 Mr. Reuschenbach was Vice-President of Finance at Daimler-Benz AG in Stuttgart. Previously, he was Director of Finance at AEG Aktiengesellschaft in Frankfurt, Director of Finance and Administration at AEG Italiana S.p.A. in Milan, and Corporate Finance Manager at AEG-TELEFUNKEN Aktiengesellschaft in Frankfurt. Mr. Reuschenbach was graduated in Business and Administration from the Fachhochschule des Landes Rheinland-Pfalz in Mainz and in Macro-Economics from the Johannes-Gutenberg-University in Mainz.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr H. Reuschenbach did not have common registered shares in MTS OJSC.

Peter Middleton

b. 1934, a member of MTS OJSC Board of Directors from June, 2005.

Sir Peter is President of Camelot Group plc, President of British Bankers' Association, President of Barclays Group Advisory Committee for Asia and Pacific Region, Vice-President of United Utilities, President of Sheffield Urban Regeneration Company (Sheffield-1), President of CEDAR (Centre of Efficient Dispute Arrangement) and President of Reyniers & Co.

He is Chancellor of Sheffield University, a member of International Advisory Committee for Monetary Authority of Singapore, a board member of the National Institute for Economic & Social Research and a member of Advisory Councils of Marsh McLennan, Financial Dynamics and Sistema. He was a member of the Board of Bass PLC from 1992 to 2001 and General Accident (later on renamed as CGU) from 1992 to 1995.

Sir Peter passed Sheffield Municipal Grammar School and was graduated from Sheffield and Bristol Universities for economics and statistics. Then he served in the Army for two years as lieutenant of Financial Service of the Army.

Sir Peter worked in the Ministry of Finance for about 30 years when he tightly cooperated with nine Prime-Ministers and was Permanent Under-Secretary from 1983 to 1991.

Sir Peter was a head of British Film Industry Supervisory Commission for Thatcher Government and of Civil Justice Supervisory Commission for Blair Government.

Sir Peter became President of the group of Barclays Bank PLC in April, 1999 and went into retirement in August, 2004. He started to work in Barclays group in 1991 as Vice-President of the group and Executive Director of BZW, in October, 1997 he became President of Barclays Capital after reorganization of BZW and was Director of the group from November, 1998 to October, 1999.

Sir Peter is an honorary member of the board of London Business School and was a visiting member of the board of Naffield College in Oxford. He is a member of International Bankers' Guild Council and a member of Institute of Bankers.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Sir Peter did not have common registered shares in MTS OJSC.

Information on MTS OJSC Sole Executive Body

MTS OJSC President

Vassily Vassilievich Sidorov

b. 1971, appointed MTS OJSC President at an Extraordinary General Shareholders Meeting Dated 25 October, 2003. From 1 September, 2003, Vassily Sidorov served as MTS OJSC President in accordance with the resolution of the Board of Directors Dated 11 August, 2003.

Vassily Sidorov joined MTS from Sistema Telecom, where he served for three years as First Deputy General Director for Finance and Investments. In this position he was responsible for the M&A, corporate finance and investment policy of the holding.

Prior to joining Sistema Telecom, Mr. Sidorov served as Deputy General Director/CFO of Sviazinvest Holding from 1997.

From 1994 to 1997, he owned and managed several companies specializing in investment and M&A advisory, as well as equity and fixed-income trading.

His previous professional experience includes various positions in Sector Capital, Barents Group LLC, an investment & advisory department of KPMG Peat Marwick in Washington, D.C., Arthur Andersen in Moscow, and the New York Mercantile Exchange.

Vassily Sidorov was graduated from the Wharton School of Business of the University of Pennsylvania and of the International Law Faculty of the Moscow State International Relations Institute.

As of 3 May, 2005 (the date of making a list of persons entitled to participate in MTS OJSC Annual General Shareholders Meeting), Mr V.V. Sidorov owned 279 585 common registered shares in MTS OJSC.

Criteria for Evaluating and the Amount of Compensation Paid to MTS OJSC President and MTS OJSC Board of Directors Members

When determining the amount of compensation to be paid to MTS OJSC President and MTS OJSC Board of Directors members, the following criteria are used:

- Fulfilling the Company's full-year plans for:
 - infrastructure development,
 - addition in subscribers, and
 - revenue and net profit growth.

- Growth in Company's market capitalization in 2005.

The total bonus awarded to MTS OJSC President and MTS OJSC Board of Directors members paid out in 2005 was RUR 153.4 million.

Observance of the Code of Business Conduct by MTS OJSC

MTS OJSC acknowledges the need to follow the principles of Business conduct recommended by the Code, and strives to follow these recommendations.

MTS OJSC Code of Business Conduct, made on the basis of the draft recommendations by the Federal Commission on the Securities Markets of the Russian Federation, was approved at MTS OJSC Board of Directors Dated 16 December, 2004.

Information related to observance of the principles of the Code of Business Conduct by the Company is set forth in Appendix 2.