

MOBILE TELESYSTEMS OJSC  
Form 6-K  
November 23, 2005

## **FORM 6-K**

# **UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Report of Foreign Issuer  
November 23, 2005**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

Commission file number: 333-12032

## **Mobile TeleSystems OJSC**

(Exact name of Registrant as specified in its charter)

**Russian Federation**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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**FINANCIAL RESULTS FOR THE**

**THIRD QUARTER ENDED SEPTEMBER 30, 2005**

**Moscow, Russian Federation November 23, 2005 Mobile TeleSystems OJSC ( MTS - NYSE: MBT), the largest mobile phone operator in Russia and the CIS, today announces its financial and operating results for the third quarter of 2005(1) featuring strong financial performance and robust subscriber growth.**

**Financial Highlights:**

*Strong financial performance*

Revenues up 27% year-on-year to \$1,385 million

OIBDA(2) up 16% year-on-year to \$738 million (OIBDA margin of 53%)

Net income up 3% year-on-year to \$347 million

Free cash flow(3) positive with \$130 million for the first nine months of 2005

**Operating Highlights:**

*Robust subscriber growth*

Subscriber base increased by 6.29 million in Q3 2005; 19.02 million subscriber base growth year-to-date

53.24 million consolidated subscribers as of November 22, 2005

Greenfield operations launched in four regions of Russia

**Financial Summary (Unaudited)**

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| US\$ million         | Q3<br>2005 | Q3<br>2004 | Change<br>Y-on-Y | Q2<br>2005 | Change<br>Q-on-Q |
|----------------------|------------|------------|------------------|------------|------------------|
| Revenues             | 1,384.7    | 1,086.4    | 27.5%            | 1,236.6    | 12.0%            |
| Net operating income | 496.0      | 467.6      | 6.1%             | 434.7      | 14.1%            |
| OIBDA                | 737.6      | 634.8      | 16.2%            | 651.6      | 13.2%            |
| <i>OIBDA margin</i>  | 53.3%      | 58.4%      | -5.1pp           | 52.7%      | +0.6pp           |
| Net income           | 347.4      | 338.3      | 2.7%             | 303.9      | 14.3%            |

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(1) Based on unaudited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ).

(2) See Attachment A for definitions and reconciliation of OIBDA and OIBDA margin to their most directly comparable US GAAP financial measures.

(3) See Attachment B for reconciliation of free cash flow to net cash provided by operating activity.



Vassily Sidorov, MTS President and CEO, said: We are reporting a very good set of numbers today, featuring significant expansion in our subscriber base and strong growth in revenues and earnings. A strong top-line dynamic allowed us to achieve a high operating margin and increase our free cash flow, despite the negative impact on costs from the relatively high inflation in the countries of our operations.

Our new image campaign in Russia, the launch of a new set of tariffs and the broader application of churn prediction-based CRM campaigns are all part of our plan to increase customer loyalty. Our customer retention-oriented campaigns resulted in a notable reduction in churn in Russia in the third quarter.

As planned, we introduced i-mode in Moscow and St. Petersburg in September. This value-added service will be expanded to encompass further key regions in Russia and Ukraine in the near future. We are making progress in our discussions with RIM and the Russian regulators regarding our launch of the localized version of BlackBerry for our corporate and business customers; segments in which we are traditionally strong and dominant. We have also continued to invest into improving the level of service provided by our call centers and customer care offices.

In Ukraine, our operations continue to grow. We are well prepared for a potential increase in competition on this market with a great team, a strong brand, and a leading position in network development. We have further expanded our presence in Russia through the launch of greenfield operations; recently we started to provide services in four more regions with a total population of over 2 million, which brings our total number of operational regions to 83.

MTS continues to steadily expand and develop. We are in a unique position to capture substantial untapped demand for telecommunications services in countries with high market growth potential. Our management team is committed to further increasing shareholder value by focusing on revenue growth and achieving best-in-class operational efficiency.

## **Operating Overview**

### *Market Growth*

MTS principal markets Russia and Ukraine continue to produce significant growth in SIM card penetration, which can be partly attributed to the increase in multi-SIM card usage. In the third quarter of 2005, SIM card penetration<sup>(4)</sup> increased from 67% to 77% in Russia, and from 41% to 49% in Ukraine. In Belarus, SIM card penetration was up from 32% to 36% for the same period. MTS new markets continue to represent attractive growth prospects; mobile penetration in Uzbekistan and Turkmenistan is at approximately 3% and 1%, respectively.

### *Subscriber Development*

MTS subscriber base grew by 6.29 million during the third quarter of 2005. The Company maintained a good level of positive subscriber dynamics in all of its markets, with a net increase in its subscriber base of 4.78 million in Russia, 1.42 million in Ukraine, and around 89 thousand in Uzbekistan. Net additions by MTS joint venture in Belarus<sup>(5)</sup> were 240 thousand for the same period.

As part of its continuous effort to improve customer loyalty and increase customer retention, MTS launched a number of Customer Relations Management (CRM) campaigns in Russia during the third quarter of 2005. They were aimed at stimulating voice and VAS usage, as well as

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increasing customer loyalty by providing bonus minutes on an account recharge basis. As a result of these campaigns, as well as an overall improvement in subscriber loyalty, the Company's quarterly churn rate in Russia declined to 2.9%.

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(4) The source for all market information in this press release is AC&M-Consulting unless otherwise mentioned.

(5) MTS owns a 49% stake in Belarus operator, Mobile TeleSystems LLC, which is not consolidated.

In Ukraine, churn increased compared to the prior quarter to 6.2%.

Since the end of the third quarter to November 22, 2005, MTS subscriber net additions totaled 2.88 million, bringing MTS consolidated subscriber base to 53.24 million.

#### *Market Share*

In Russia, MTS accounted for around 34% of new subscriber additions during the third quarter and maintained its leading position with a market share of approximately 35%. In Ukraine, the Company accounted for around 35% of new subscriber additions and showed a decline in market share to 47% at the end of the period. MTS market share in Uzbekistan, estimated by the Company, was at 61%(6). In Belarus, the market share of MTS Belarus remained at 51%.

#### *Customer Segmentation*

Subscriptions to MTS pre-paid tariff plans (*Jeans* in Russia, and *Jeans* and *SIM-SIM* in Ukraine) accounted for 92% of gross additions in Russia, and 95% in Ukraine. By the end of the third quarter of 2005, 87% of MTS customers in Russia were signed up to pre-paid tariff plans; 89% in Ukraine.

#### **Key Operating Summary**

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|   | Q3 2005 | Q2 2005 | Q1 2005 | Q4 2004 | Q3 2004 |
|---|---------|---------|---------|---------|---------|
| Total consolidated subscribers, end of period (mln) | 50.36   | 44.07   | 38.69   | 34.22   | 26.63   |
| Russia  | 38.87   | 34.09   | 30.25   | 26.54   | 20.84   |
| Ukraine   | 10.94   | 9.52    | 8.08    | 7.37    | 5.53    |
| Uzbekistan  | 0.49    | 0.40    | 0.35    | 0.31    | 0.26    |
| Turkmenistan  | 0.06    | 0.06    |         |         |         |
| MTS Belarus   | 1.85    | 1.61    | 1.40    | 1.21    | 0.97    |
| <b>Russia</b>                                       |         |         |         |         |         |
| ARPU (US\$)(7)                                      | 8.9     | 9.3     | 9.1     | 11.2    | 14.0    |
| MOU (minutes)                                       | 130     | 134     | 138     | 164     | 168     |
| Churn rate (%)                                      | 2.9     | 6.8     | 6.7     | 6.3     | 6.7     |
| SAC per gross additional subscriber (US\$)          | 18.6    | 18.4    | 18.2    | 19.4    | 21.3    |
| <b>Ukraine</b>                                      |         |         |         |         |         |
| ARPU (US\$)   | 10.8    | 10.8    | 10.0    | 12.4    | 15.4    |
| MOU (minutes)                                       | 132     | 118     | 130     | 127     | 136     |
| Churn rate (%)                                      | 6.2     | 5.7     | 5.1     | 1.7(8)  | 5.9     |
| SAC per gross additional subscriber (US\$)          | 15.7    | 14.2    | 22.1    | 15.4    | 20.7    |

(6) No independent information source is available.

(7) See Attachment C for definitions of ARPU, MOU, Churn and SAC.

(8) The significant decrease in the quarterly churn rate to 1.7% can be largely attributed to the adoption in Ukraine of the churn policy used by MTS in Russia, whereby pre-paid customers are defined as churning after six months of inactivity, rather than the previous three month criteria. Under the previous churn calculation, quarterly churn rate in Q4 2004 was at 7.2%.

**Russia**

Revenues up 20% year-on-year to \$1,015 million(9)

OIBDA up 10% year-on-year to \$543 million (OIBDA margin of 53%)

Net income decreased 7.5% year-on-year to \$240 million

MTS' average monthly minutes of usage per subscriber (MOU) in Russia decreased in the third quarter of 2005 from 134 minutes to 130 minutes, driven by a dilution of the subscriber mix by low usage customers. At the same time, MOU of premium(10) subscribers increased from 282 minutes in the second quarter of 2005 to 309 minutes in the third quarter.

The average monthly service revenue per subscriber (ARPU) in Russia decreased sequentially to \$8.9 in line with the decline in the per subscriber usage.

Subscriber acquisition cost per gross additional subscriber (SAC) in Russia increased insignificantly in Russia to \$18.6 as commission to dealers declined, but the Company continued to invest into advertising its renewed image.

#### **Ukraine**

Revenues up 39% year-on-year to \$336 million(11)

OIBDA up 23% year-on-year to \$168 million (OIBDA margin of 50%)

Net income up 19% year-on-year to \$94 million

Unlike Russia, MOU increased sequentially in Ukraine from 118 minutes to 132 minutes as a result of positive seasonal factors, including more working days during the quarter, and summer period offers to pre-paid customers (free calls within the network to four pre-selected numbers).

Third quarter 2005 ARPU in Ukraine remained unchanged at \$10.8, as the bulk of usage growth was due to an increase in unbillable traffic as well as customer migration to cheaper tariff plans. At the same time, the Company saw a notable growth in post-paid ARPU from \$35.1 in the second quarter to \$36.9 in the third quarter of 2005, in line with seasonal expectations.

SAC in the third quarter of 2005 grew from \$14.2 to \$15.7 due to a larger share of post-paid contract subscribers in the new additions as well as higher advertising costs as the Company reacted to increased competition on the market.

#### **Uzbekistan**

MTS operations in Uzbekistan contributed \$23.0 million to the Company's consolidated revenues, \$14.6 million to its consolidated OIBDA (OIBDA margin of 63%), and \$7.5 million to its consolidated net income. Third quarter ARPU was at \$18.3, up from \$17.6 in the previous quarter.

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(9) Excluding intercompany eliminations of \$0.7 million.

(10) Subscribers signed to MTS family of tariff plans.

(11) Excluding intercompany eliminations of \$4.3 million.



**Turkmenistan**

MTS operations in Turkmenistan contributed \$15.8 million to the Company's consolidated revenues, \$12.1 million to its consolidated OIBDA (OIBDA margin of 77%), and \$5.1 million to its consolidated net income. Third quarter ARPU was at \$89.0.

**Financial Position**

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The Company's cash expenditure on property, plant and equipment (capital expenditures) in the third quarter of 2005 amounted to \$500 million (\$406 million in Russia; \$79 million in Ukraine; \$15 million in Uzbekistan). In addition, its cash expenditure on intangible assets during the quarter amounted to \$107 million (\$74 million in Russia; \$24 million in Ukraine; \$9 million in Uzbekistan). For the first nine months of 2005, MTS' total capital expenditures and cash expenditure on intangible assets amounted to \$1.4 billion (approximately \$85 per net subscriber addition).

MTS' cash, cash equivalents and short-term investments decreased from \$728 million to \$557 million at the end of the third quarter of 2005, mostly due to the Company's dividend payments for 2004 during the quarter. As of September 30, 2005, MTS' total debt<sup>(12)</sup> was at \$2.3 billion. Net debt amounted to \$1.8 billion at the end of the quarter and the net debt to LTM OIBDA<sup>(13)</sup> ratio remained at 0.7 times as at the end of the previous quarter.

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(12) Total debt is comprised of the current portion of debt, current capital lease obligations, long-term debt and long-term capital lease obligations; net debt is the difference between the total debt and cash and cash equivalents and short-term investments; see Attachment B for reconciliation of net debt to our consolidated balance sheet.

(13) LTM OIBDA represents the last twelve months of rolling OIBDA; see Attachment B for reconciliation of the most directly comparable US GAAP financial measure.

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Mobile TeleSystems ( MTS ) is the largest mobile phone operator in Russia and the CIS. Together with its subsidiaries, the Company services over 53.24 million subscribers. The regions of Russia, as well as Belarus, Ukraine, Uzbekistan, and Turkmenistan, in which MTS and its subsidiaries are licensed to provide GSM services, have a total population of approximately 233.1 million. Since June 2000, MTS Level 3 ADRs have been listed on the New York Stock Exchange with the ticker symbol MBT. Additional information about MTS can be found on MTS website at [www.mtsgsm.com](http://www.mtsgsm.com).

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Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as expect, believe, anticipate, estimate, intend, will, could, may or might the terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically, the Company's most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned Risk Factors, that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures; rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, risks associated with operating in Russia, volatility of stock price, financial risk management, and future growth subject to risks.

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**Attachments to the Third Quarter 2005 Earnings Press Release**

**Attachment A**

*Non-GAAP financial measures.* This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

*Operating Income Before Depreciation and Amortization (OIBDA) and OIBDA margin.* OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; it is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of mobile operators and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the wireless telecommunications industry. OIBDA can be reconciled to our consolidated statements of operations as follows:

| US\$ million                       | Q3 2005 | Q2 2005 | Q3 2004 |
|------------------------------------|---------|---------|---------|
| Net operating income               | 496.0   | 434.7   | 467.7   |
| Add: depreciation and amortization | 241.6   | 216.9   | 167.1   |
| OIBDA                              | 737.6   | 651.6   | 634.8   |

OIBDA margin can be reconciled to our operating margin as follows:

|   | Q3 2005 | Q2 2005 | Q3 2004 |
|---|---------|---------|---------|
| Net operating margin  | 35.8%   | 35.2%   | 43.0%   |
| Add: depreciation and amortization as a percentage of revenue | 17.5%   | 17.5%   | 15.4%   |
| OIBDA margin  | 53.3%   | 52.7%   | 58.4%   |

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**Attachment B**

Net debt can be reconciled to our consolidated balance sheets as follows:

| US\$ million   | As of<br>Sept. 30, 2005 | As of<br>December 31, 2004 |
|--|-------------------------|----------------------------|
| Current portion of debt and of capital lease obligations | 403.5                   | 379.4                      |
| Long-term debt   | 1,905.1                 | 1,553.8                    |
| Capital lease obligations                                | 2.6                     | 3.9                        |
| Total debt   | 2,311.2                 | 1,937.1                    |
| Less:  |                         |                            |
| Cash and cash equivalents                                | (470.4)                 | (274.2)                    |
| Short-term investments                                   | (87.0)                  | (73.4)                     |
| Net debt   | 1,753.8                 | 1,589.5                    |

Free cash flow can be reconciled to our consolidated net cash provided by operating activities as follows:

| US\$ million                                      | For nine<br>months ended<br>Sept. 30, 2005 | For nine<br>months ended<br>Sept. 30, 2004 |
|---|--|--|
| Net cash provided by operating activities         | 1,538.0                                    | 1,281.2                                    |
| Less  |  |  |
| Purchase of property, plant and equipment         | (1,146.4)                                  | (697.3)                                    |
| Purchase of intangible assets                     | (226.7)                                    | (82.9)                                     |
| TAIF Telecom call option exercise                 |  | (63.0)                                     |
| Investments in and advances to associates         | 2.8  | (2.2)                                      |
| Acquisition of subsidiaries, net of cash acquired | (37.9)                                     | (172.2)                                    |
| Free cash flow                                    | 129.8                                      | 263.6                                      |



Last twelve months (LTM) OIBDA can be reconciled to our consolidated statements of operations as follows:

| US\$ million                       | Three months ended<br>December 31, 2004<br>A | Nine months ended<br>Sept. 30, 2005<br>B | Twelve months<br>ended<br>Sept. 30, 2005<br>C=A+B |
|------------------------------------|--|--|---|
| Net operating income               | 272.9  | 1,269.4                                  | 1,542.3   |
| Add: depreciation and amortization | 225.0  | 656.6                                    | 881.6   |
| OIBDA                              | 497.9  | 1,926.0                                  | 2,423.9   |

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**Attachment C**

**Definitions**

*Subscriber.* We define a subscriber as an individual or organization whose account shows chargeable activity within sixty one days, or one hundred and eighty three days in the case of our Jeans brand tariff, or whose account does not have a negative balance for more than this period.

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

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

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

*Subscriber acquisition cost (SAC).* We define SAC as total sales and marketing expenses and handset subsidies for a given period. Sales and marketing expenses include advertising expenses and commissions to dealers. SAC per gross additional subscriber is calculated by dividing SAC during a given period by the total number of gross subscribers added by us during the period.

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## MOBILE TELESYSTEMS

## CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

## FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(Amounts in thousands of U.S. dollars, except share and per share amounts)

|  | Three months<br>ended<br>September 30, 2005 | Three months<br>ended<br>September 30, 2004 | Nine months ended<br>September 30, 2005 | Nine months ended<br>September 30, 2004 |
|--|---|---|---|---|
| <b>Net operating revenue</b>                                   |   |   |   |   |
| Service revenue and connection fees                            | 1 370 554                                   | 1 060 177                                   | 3 632 086                               | 2 741 553                               |
| Sales of handsets and accessories                              | 14 174                                      | 26 185                                      | 46 238                                  | 65 785                                  |
|  | <b>1 384 728</b>                            | <b>1 086 362</b>                            | <b>3 678 324</b>                        | <b>2 807 338</b>                        |
| <b>Operating expenses</b>                                      |   |   |   |   |
| Cost of services   | 216 511                                     | 129 794                                     | 534 750                                 | 335 480                                 |
| Cost of handsets and accessories                               | 52 199                                      | 62 432                                      | 171 081                                 | 149 272                                 |
| Sales and marketing expenses                                   | 147 006                                     | 107 537                                     | 415 803                                 | 298 401                                 |
| General and administrative expenses                            | 194 888                                     | 138 071                                     | 552 421                                 | 389 164                                 |
| Depreciation and amortization                                  | 241 576                                     | 167 120                                     | 656 641                                 | 450 742                                 |
| Provision for doubtful accounts                                | 10 663                                      | 5 722                                       | 36 318                                  | 17 429                                  |
| Other operating expenses                                       | 25 911                                      | 8 052                                       | 41 945                                  | 20 667                                  |
|  | <b>495 974</b>                              | <b>467 634</b>                              | <b>1 269 365</b>                        | <b>1 146 183</b>                        |
| <b>Net operating income</b>                                    |   |   |   |   |
| Currency exchange and translation losses (gains)               | (5 526)                                     | 349   | (5 080)                                 | (2 647)                                 |
| <b>Other expense (income):</b>                                 |   |   |   |   |
| Interest income  | (7 176)                                     | (7 725)                                     | (22 101)                                | (18 577)                                |
| Interest expenses  | 30 054                                      | 25 119                                      | 94 089                                  | 78 828                                  |
| Other expense (income)   | (5 730)                                     | (5 553)                                     | (20 979)                                | (22 006)                                |
| <b>Total other expense (income), net</b>                       | <b>17 148</b>                               | <b>11 841</b>                               | <b>51 009</b>                           | <b>38 245</b>                           |
| Income before provision for income taxes and minority interest | 484 352                                     | 455 445                                     | 1 223 436                               | 1 110 585                               |
| Provision for income taxes                                     | 129 294                                     | 106 902                                     | 319 444                                 | 269 590                                 |
| Minority interest  | 7 642                                       | 10 259                                      | 20 233                                  | 27 372                                  |
| <b>Net income</b>  | <b>347 416</b>                              | <b>338 283</b>                              | <b>883 759</b>                          | <b>813 623</b>                          |
| Weighted average number of shares outstanding, in thousands    | 1 987 084                                   | 1 983 400                                   | 1 986 447                               | 1 983 400                               |
| Earnings per share - basic and diluted                         | 0.175                                       | 0.171                                       | 0.445                                   | 0.410                                   |

**MOBILE TELESYSTEMS****CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS****AS OF SEPTEMBER 30, 2005 AND DECEMBER 31, 2004**

(Amounts in thousands of U.S. dollars, except share amounts)

|   | As of September 30,<br>2005 | As of December 31,<br>2004 |
|---|-----------------------------|----------------------------|
| <b>CURRENT ASSETS:</b>  |                             |                            |
| Cash and cash equivalents   | \$ 470 418                  | \$ 274 150                 |
| Short-term investments  | 87 005                      | 73 360                     |
| Trade receivables, net  | 177 372                     | 162 525                    |
| Accounts receivable, related parties  | 28 743                      | 17 768                     |
| Inventory, net  | 110 576                     | 89 518                     |
| VAT receivable  | 330 792                     | 272 578                    |
| Prepaid expenses and other current assets   | 334 727                     | 151 056                    |
| <b>Total current assets</b>   | <b>1 539 633</b>            | <b>1 040 955</b>           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  | <b>4 081 703</b>            | <b>3 234 318</b>           |
| <b>INTANGIBLE ASSETS</b>  | <b>1 246 245</b>            | <b>1 208 133</b>           |
| <b>INVESTMENTS IN AND ADVANCES TO ASSOCIATES</b>  | <b>106 881</b>              | <b>81 235</b>              |
| <b>OTHER ASSETS</b>   | <b>16 523</b>               | <b>16 546</b>              |
| <b>Total assets</b>   | <b>6 990 985</b>            | <b>5 581 187</b>           |
| <b>CURRENT LIABILITIES</b>  |                             |                            |
| Accounts payable  | 269 026                     | 242 495                    |
| Accrued expenses and other current liabilities  | 1 006 896                   | 591 058                    |
| Accounts payable, related parties   | 87 944                      | 17 009                     |
| Current portion of long-term debt, capital lease obligations  | 403 484                     | 379 406                    |
| <b>Total current liabilities</b>  | <b>1 767 350</b>            | <b>1 229 968</b>           |
| <b>LONG-TERM LIABILITIES</b>  |                             |                            |
| Long-term debt  | 1 905 165                   | 1 553 795                  |
| Capital lease obligations   | 2 623                       | 3 947                      |
| Deferred income taxes   | 132 048                     | 160 390                    |
| Deferred revenue and other  | 59 286                      | 47 665                     |
| <b>Total long-term liabilities</b>  | <b>2 099 122</b>            | <b>1 765 797</b>           |
| <b>Total liabilities</b>  | <b>3 866 472</b>            | <b>2 995 765</b>           |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                             |                            |
| <b>MINORITY INTEREST</b>  | <b>74 976</b>               | <b>62 099</b>              |
| <b>SHAREHOLDERS EQUITY:</b>   |                             |                            |
| Common stock: (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of September 30, 2005 and December 31, 2004, 712,764,485 of which are in the form of ADS as of | 50 558                      | 50 558                     |

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September 30, 2005 and 432,414,940 - as of December 31, 2004)

|   |                  |                  |
|---|------------------|------------------|
| Treasury stock (5,400,486 common shares at cost as of September 30, 2005 and 7,202,108 as of December 31, 2004) | (5 534)          | (7 396)          |
| Additional paid-in capital  | 568 132          | 564 160          |
| Unearned compensation   | (1 689)          | (1 780)          |
| Shareholder receivable  | (10 369)         | (18 237)         |
| Accumulated other comprehensive income  | 52 344           | 22 444           |
| Retained earnings   | 2 396 095        | 1 913 574        |
| <b>Total shareholders equity</b>  | <b>3 049 537</b> | <b>2 523 323</b> |
| <b>Total liabilities and shareholders equity</b>  | <b>6 990 985</b> | <b>5 581 187</b> |

## MOBILE TELESYSTEMS

## CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(Amounts in thousands of U.S. dollars)

|  | Nine months ended<br>September 30, 2005 | Nine months ended<br>September 30, 2004 |
|--|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |   |   |
| Net income   | \$ 883 759                              | \$ 813 623                              |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |   |   |
| Minority interest  | 20 233                                  | 27 372                                  |
| Depreciation and amortization  | 656 641                                 | 450 742                                 |
| Amortization of deferred connection fees   | (39 604)                                | (36 509)                                |
| Equity in net income of associates   | (29 667)                                | (17 631)                                |
| Provision for obsolete inventory   | 4 275                                   | 2 611                                   |
| Provision for doubtful accounts  | 36 318                                  | 17 429                                  |
| Deferred taxes   | (67 669)                                | (44 517)                                |
| Non-cash expenses associated with stock bonus and stock options                          | 91                                      | 533                                     |
| <b>Changes in operating assets and liabilities:</b>                                      |   |   |
| Increase in accounts receivable  | (61 375)                                | (80 556)                                |
| Increase in inventory  | (24 030)                                | (2 396)                                 |
| Increase in prepaid expenses and other current assets                                    | (146 888)                               | (19 323)                                |
| Increase in VAT receivable   | (58 008)                                | 13 746                                  |
| Increase in trade accounts payable, accrued liabilities and other current liabilities    | 363 884                                 | 156 097                                 |
| <b>Net cash provided by operating activities</b>   | <b>1 537 960</b>                        | <b>1 281 221</b>                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |   |   |
| TAIF Telecom call option exercise  |   | (63 034)                                |
| Acquisition of subsidiaries, net of cash acquired  | (37 932)                                | (172 202)                               |
| Purchase of property, plant and equipment  | (1 146 419)                             | (697 318)                               |
| Purchase of intangible assets  | (226 691)                               | (82 894)                                |
| Purchase of short-term investments   | (20 137)                                | (42 392)                                |
| Proceeds from sale of short-term investments   | 6 539                                   | 236 806                                 |
| Investments in and advances to associates  | 2 769                                   | (2 237)                                 |
| <b>Net cash used in investing activities</b>   | <b>(1 421 871)</b>                      | <b>(823 271)</b>                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |   |   |
| Proceeds from stock options exercised  | 5 135                                   | 4 049                                   |
| Proceeds from notes issue  | 399 022                                 |   |
| Repayment of notes   |   | (300 000)                               |
| Notes issuance/loans agreement costs   | (6 784)                                 | (10 215)                                |
| Capital lease obligation principal paid  | (6 477)                                 | (7 656)                                 |
| Dividends paid   | (295 818)                               | (166 893)                               |
| Proceeds from loans  | 245 801                                 | 412 600                                 |
| Loan principal paid  | (264 736)                               | (295 653)                               |

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|  |                |                  |
|--|----------------|------------------|
| Payments from shareholders                                   | 9 173          | 7 008            |
| <b>Net cash provided/(used) in financing activities</b>      | <b>85 316</b>  | <b>(356 760)</b> |
| Effect of exchange rate changes on cash and cash equivalents | (5 137)        | 979              |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS:</b>            | <b>196 268</b> | <b>102 168</b>   |
| <b>CASH AND CASH EQUIVALENTS, at beginning of period</b>     | <b>274 150</b> | <b>90 376</b>    |
| <b>CASH AND CASH EQUIVALENTS, at end of period</b>           | <b>470 418</b> | <b>192 544</b>   |



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MOBILE TELESYSTEMS OJSC**

By: Vassily Sidorov  
Name: Vassily Sidorov  
Title: Acting President/CEO

Date: **November 23, 2005**