

**MOBILE TELESYSTEMS
FINANCE S.A.**

**(A beneficially wholly
owned subsidiary of Mobile
TeleSystems OJSC)**

2007 YEAR FINANCIAL REPORT

Financial Statements
for the year ended December 31, 2007 and 2006.

Statutory Accountants' Report

MOBILE TELESYSTEMS FINANCE S.A.
(A beneficially wholly owned subsidiary of Mobile TeleSystems OJSC)

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REPORT OF THE STATUTORY AUDITOR

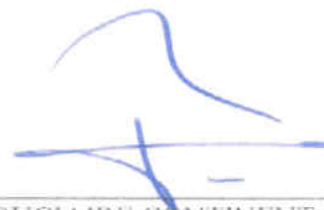
In conformity with the legal and statutory provisions, we have the honour to report on the execution, of the assignment as statutory auditor for the financial year ended December 31, 2007 and 2006 entrusted to us. We have carried out our supervisory mission on the basis of article 62 of the law of August 10, 1915, as amended, which does not obligate the statutory auditor to give an opinion on the annual accounts. We therefore have not examined the annual accounts in accordance with generally accepted auditing standards.

We have ascertained that the annual accounts as at December 31, 2007 and 2006, showing a balance sheet total of USD 1,240,426,997 and of USD 1,241,814,457, respectively, and a 2007 and 2006 year loss of USD 8,868,907 and USD 328,247,823 respectively, reflect the accounting books and vouchers which have been submitted to us.

As the total losses as at December 31, 2007 exceed more than three quarters of the share capital, the shareholders have to take a decision about the continuation of the activities of the company according to the article 100 of the commercial law of August 10, 1915.

We have no observations to formulate on the annual accounts and propose to approve them and to give discharge to the Board of Directors.

Luxembourg, April 1, 2008



FIDUCIAIRE CONTINENTALE S.A.
Statutory Auditor

MOBILE TELESYSTEMS FINANCE S.A.
(A beneficially wholly owned subsidiary of Mobile TeleSystems OJSC)

BALANCE SHEET

AT DECEMBER 31, 2007 and 2006

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

	December 31, 2007	December 31, 2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 245,436	\$ 17,894
Other current assets (Note 4)	37,346,063	37,448,246
Total current assets	<u>37,591,499</u>	<u>37,466,140</u>
DEBT ISSUANCE COSTS (Note 3)	2,835,498	4,348,317
RECEIVABLES FROM RELATED PARTIES (Note 5)	1,200,000,000	1,200,000,000
TOTAL ASSETS	<u>\$ 1,240,426,997</u>	<u>\$ 1,241,814,457</u>
CURRENT LIABILITIES:		
Taxes payable	-	\$ 615,656
Accounts payable (Note 6)	170,590,652	170,237,537
Accrued liabilities (Note 7)	37,650,331	36,550,359
Deferred income, current portion (Note 8)	1,675,039	1,675,039
Current portion of debt (Note 9)	167,382,725	159,200,341
Total current liabilities	<u>377,298,747</u>	<u>368,278,932</u>
NOTES PAYABLE , net of current portion (Note 9)	1,199,314,752	1,199,178,078
DEFERRED INCOME , net of current portion (Note 8)	1,807,293	3,482,335
SHAREHOLDERS' EQUITY:		
Common stock (1,000 shares with a par value of \$125 authorized, issued and outstanding) (Note 10)	125,000	125,000
Legal reserve	12,500	12,500
Retained earnings	(329,262,388)	(1,014,565)
Results for the period	(8,868,907)	(328,247,823)
Total shareholders' equity	<u>(337,993,795)</u>	<u>(329,124,888)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,240,426,997</u>	<u>\$ 1,241,814,457</u>

The accompanying notes to the financial statements are an integral part of these statements.

MOBILE TELESYSTEMS FINANCE S.A.
(A beneficially wholly owned subsidiary of Mobile TeleSystems OJSC)

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007 AND 2006

(Amounts in U.S. dollars)

	2007	2006
OPERATING EXPENSES (Note 14)	\$ (9,023,292)	\$ (5,547,302)
Operating loss	<u>(9,023,292)</u>	<u>(5,547,302)</u>
Interest income (Note 11)	107,137,923	107,696,739
Interest expense (Note 12)	(106,983,538)	(110,219,400)
Other non-operating income/(expense) (Note 15)	-	(320,098,000)
Income before provision for income taxes	<u>(8,868,907)</u>	<u>(328,167,963)</u>
PROVISION FOR INCOME TAXES	-	(79,860)
PROVISION FOR OTHER TAXES		
NET INCOME	<u>\$ (8,868,907)</u>	<u>\$ (328,247,823)</u>

The accompanying notes to the financial statements are an integral part of these statements.

MOBILE TELESYSTEMS FINANCE S.A.
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NOTES TO FINANCIAL STATEMENTS
(Amounts in U.S. dollars, except if otherwise stated)

1. GENERAL

Mobile TeleSystems Finance S.A. (the "Company") is a company incorporated under the laws of Luxembourg on December 10, 2001 under the legal form of a "Société Anonyme." The registered office of the Company is 3 Avenue Pasteur, L-2311 Luxembourg. The Company's operations include holding of participations directly and indirectly, in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities of any kind, and the ownership, administration, development and management of its portfolio. The Company may also hold interest in partnerships.

The Company may borrow in any form and proceed to the issue of bonds and debentures. It may lend funds including the proceeds of such borrowings and issues to its subsidiaries, affiliated companies or any other companies. In a general fashion it may grant assistance to affiliated companies, take any controlling and supervisory measures and carry out any operation which may deem useful in accomplishment and development of its purposes.

Since the Company's incorporation, its main activity has been issuing of notes and loaning the gross proceeds of the notes to Mobile TeleSystems OJSC ("MTS OJSC"), the Company's 100% beneficial shareholder that is incorporated under the laws of the Russian Federation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles

The Company maintains its accounting books and records in U.S. dollars based on Luxembourg accounting regulations. The accompanying financial statements have been prepared in order to present the Company's financial position and its results of operations in accordance with accounting principles generally accepted in Luxembourg.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand, in bank accounts and in short term investments having original maturity of less than three months.

Receivable from related parties

Loans receivable from related parties are recorded at nominal value. Based on management assessment of the recoverability of the amounts, no specific bad debt provision was created at December 31, 2007 and 2006.

Debt issuance costs

Legal and other direct costs incurred in connection with the issuance of debt are deferred and amortized through interest expense using the effective interest rate method over the life of the underlying debt.

Notes payable

Notes payable are initially recorded at par value less any issue discount (or plus any premium). The discount or premium between issue and redemption value is amortized over the life of the underlying debt through interest expense using the effective interest rate method.

Deferred income

Fees reimbursed by MTS OJSC in connection with notes issuance costs and discounts on the issuance of debt are deferred and recognized as income over the life of the debt to match the amortization of the corresponding initial borrowing costs and the discount on issue of the debt.

Taxation

Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credits carry-forwards using enacted tax rate expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is not more likely than not that these assets will be realized.

Interest income and interest expense

Interest income and interest expense are recorded on an accrual basis.

Foreign currency translation

The Company's functional currency is the U.S. dollar. Monetary assets and liabilities stated in currencies other than U.S. dollar have been translated at the period end exchange rates. Revenues, expenses and cash flows have been translated at historical rates. Translation differences resulting from the use of these rates have been accounted for as currency translation gains and losses in the accompanying statements of operations.

Financial instruments

At December 31, 2007 and 2006, the fair value of the notes payable (see Note 9), calculated based on quoted market prices was approximately \$1,228 and \$1,278 million, respectively.

The long-term receivables from MTS OJSC bear a market rate of interest and management believes that the book value approximates the market value of this receivable at December 31, 2007 and 2006. The fair value of financial instruments included in the current assets approximates the historical costs disclosed in the financial statements due to the short-term maturities of these instruments.

In December 2004, in order to limit the impact of interest fluctuations, the Company entered into a swap agreement in the amount of \$150 million. That swap agreement matured in July 2007. The Company does not use derivatives for trading purposes.

3. DEBT ISSUANCE COSTS

Debt issuance costs are comprised of commissions and fees incurred related to the issue of the notes payable and associated with the loan agreements. As of December 31, 2007 and 2006, debt issuance costs related to the issue of the notes payable (see Note 9) amounted to \$2,835,498 and \$4,348,317 after amortization of \$10,785,545 and \$9,272,726, respectively.

4. OTHER CURRENT ASSETS

Other current assets as of December 31, 2007 and 2006 include accrued interest related to the loan receivable from MTS OJSC (see Note 5) of \$36,925,778 and \$36,394,060, respectively, and other current assets in the amount of \$420,285 and of \$1,054,186, respectively.

5. RECEIVABLES FROM RELATED PARTIES

As of December 31, 2007 and 2006 receivables from related parties are comprised of loans to MTS OJSC in the amounts of \$1,200 million and of \$1,200 million, respectively.

On January 30, 2003 the Company entered into a \$400 million loan agreement with MTS OJSC that bears interest at the rate of 9.84%, payable semi-annually in arrears. The loan matured on January 29, 2008 (see Note 16).

On October 15, 2003, the Company entered into a \$400 million loan agreement with MTS OJSC that bears interest at 8.47% payable semi-annually in arrears. The loan matures on October 14, 2008.

On January 28, 2005, the Company entered into a \$400 million loan agreement with MTS OJSC that bears interest at 8.011% payable semi-annually in arrears. The loan matures on January 28, 2012.

Accrued interest on these loans at December 31, 2007 and 2006 amounted to \$36,925,778 and \$36,394,060, respectively.

For the year ended December 31, 2007 and 2006 the Company received interest payments under these loan agreements of \$104,931,098 and \$105,780,902, respectively.

6. ACCOUNTS PAYABLE

As of December 31, 2007 and 2006, accounts payable are mainly comprised of liability in the amount of \$170,000,000 associated with a put and call option agreement with Nomihold to acquire the remaining 49% interest in Tarino, owner of Bitel (see Note 13).

As of December 31, 2007 and 2006 payables to legal consultants in the amount of \$736,150 and \$237,537, respectively, were recognized in the accompanying balance sheet.

7. ACCRUED LIABILITIES

As of December 31, 2007 and 2006, accrued liabilities are comprised of accrued interest on notes payable of \$36,550,359 and of \$36,550,359, respectively. An additional amount of \$1,099,972 was accrued for future payments to legal consultants as of December 31, 2007.

8. DEFERRED INCOME

In 2005 The Company charged \$3,571,939 to MTS OJSC to reimburse the debt issuance costs and issue discount incurred in originating the loans described in Note 9. This income has been deferred and is recognized as interest income in the statements of operations to match the amortization of the debt issuance costs and the issue discount. As of December 31, 2007 and 2006 the balance on this account, is \$3,482,332 (including current portion of deferred income in the amount of \$1,675,039) and \$5,157,374 (including current portion of deferred income in the amount of \$1,675,039), respectively, net of accumulated amortization of \$12,689,604 and \$11,014,564, respectively.

9. NOTES PAYABLE

On January 30, 2003, the Company issued \$400,000,000 9.75% notes at par. Related debt issuance costs in the amount of \$3,399,988 were capitalized. These notes with the maturity date on January 30, 2008 were guaranteed by MTS OJSC. The Company was required to make interest payments on the notes semi-annually in arrears on January 30 and July 30 of each year, commencing on July 30, 2003. The notes were listed on the Luxembourg Stock Exchange. The proceeds were loaned to MTS OJSC. On January 30, 2008, the Company redeemed the outstanding notes, mentioned above in the principal amount plus accrued interest thereon as to the date of redemption (see Note 16).

On October 14, 2003, the Company issued \$400,000,000 notes bearing interest at 8.375% at par. Related debt issuance costs in the amount of \$3,320,000 were capitalized. The cash proceeds, net of issuance costs of approximately \$3,300,000, amounted to \$396,700,000. These notes are fully and unconditionally guaranteed by MTS OJSC and will mature on October 14, 2010. The Company is required to make interest payments on the notes semi-annually in arrears on April 14 and October 14 of each year, commencing on April 14, 2004. The notes are listed on the Luxembourg Stock Exchange.

On January 28, 2005, the Company issued \$400,000,000 8.00% notes at the price of 99.736%. Proceeds received from the notes, net of underwriting discount, were \$398,944,000. Related debt issuance costs in the amount of \$2,515,939 were capitalized. These notes are guaranteed by MTS OJSC and mature on January 28, 2012. The Company is required to make interest payments on the notes semi-annually in arrears on January 25 and July 25 of each year, commencing on July 25, 2005. The notes are listed on the Luxembourg Stock Exchange. The proceeds were loaned to MTS OJSC.

10. SHAREHOLDERS' EQUITY

On December 10, 2001, the Company was incorporated with a share capital amounting to \$125,000, represented by 1,000 shares with a nominal value of \$125 each, fully subscribed and paid-up. On an annual basis, if the Company reports a profit for the year, Luxembourg law requires appropriation of an amount equal to at least 5 percent of the annual net income to a legal reserve until such reserve equals 10 percent of the issue capital. This reserve is not available for distribution. The amount of this reserve at December 31, 2007 and 2006 was \$12,500 and \$12,500, respectively.

11. INTEREST INCOME

For the year ended December 31, 2007, interest income comprises of \$105,462,816, interest income from MTS OJSC (see Note 5); interest income on bank deposits of \$68 and of \$1,675,039, relating to the recognition of deferred income (see Note 8).

For the year ended December 31, 2006, interest income comprises of \$105,462,816, of interest income from MTS OJSC (see Note 5); interest income on bank deposits of \$558,884, \$1,675,039, relating to the recognition of deferred income (see Note 8).

12. INTEREST EXPENSE

For the year ended December 31, 2007 interest expense comprised mainly of \$105,295,384, of interest expense, related to notes payable (see Note 9), \$1,649,493, relating to the amortization of debt issuance costs and debt issue discount and premium (see Notes 3 and 9), \$36,832, relating to the bank commission expense and other insignificant amounts totaled \$1,829.

For the year ended December 31, 2006 interest expense comprised of \$107,908,669, of interest expense, related to notes payable (see Note 9), \$2,283,939, relating to the amortization of debt

issuance costs and debt issue discount and premium (see Notes 3 and 9), and \$22.872, relating to the bank commission expense and other insignificant amounts totaled \$3,920.

13. COMMITMENTS AND CONTINGENCIES

In December 2005, MTS Finance acquired a 51% stake in Tarino Limited ("Tarino") for \$150.0 million in cash from Nomihold Securities Inc. ("Nomihold"). Tarino was at that time the indirect owner, through its wholly-owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Concurrently with the purchase of a 51% stake, the Company entered into a put and call option agreement with Nomihold to acquire the remaining 49% interest in Tarino. The call option was exercisable from November 22, 2005 to November 17, 2006, and the put option was exercisable by the seller from November 18, 2006 to December 8, 2006. The call and put option price was \$170.0 million. The put and call option was recorded at fair value, which approximated \$nil at December 31, 2005. At December 31, 2006, a liability of \$170.0 million was recorded.

After the decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. The Company could not re-gain operating control over Bitel's operations.

During 2006, MTS Finance took steps to vindicate its ownership rights on Bitel although these efforts so far have not proven to be successful. The matter was brought to the Kyrgyz Prosecutor General for investigation. On January 15, 2007, the Prosecutor General informed Company's management that it sees no grounds to become involved in the ownership dispute over Bitel and additionally stated that MTS Finance had no basis to appeal the decision of the Kyrgyz courts in connection with ownership of Bitel.

In addition, an appeal to overturn certain adverse Kyrgyz courts rulings connected with ownership rights to Bitel was also filed with the Kyrgyz Supreme Court on December 15, 2006, but the time period in which the appeal should have been heard has expired without any action by the court.

Consequently the decision was made by the Company to write off the costs associated with the purchase of 51% stake in Bitel. As of December 31, 2006, the investment was fully impaired.

Furthermore, as noted above, with the impairment of the underlying asset, a liability of \$170.0 million was recorded with an associated charge to non-operating expenses.

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 remaining 49% stake in Tarino Limited for \$170.0 million. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs. The matter is currently pending. As of December 31, 2007 liability in the amount of \$170.0 (see Note 6) was recognized in the accompanying balance sheet.

A group of individual shareholders of Sistema, the majority shareholder of MTS OJSC, owner of the Company, has agreed to compensate MTS Finance for any potential loss up to \$170.0 million should the arbitration decision regarding exercise of the aforementioned put option prove unfavourable to MTS Finance.

In a separate arbitration proceeding initiated against the KFG Companies (three Isle of Man companies affiliated with MTS Finance) by Kyrgyzstan Mobitel Investment Company Limited (KMIC) under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a May 31, 2003 Transfer Agreement concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies

and IPOC International Growth Fund Limited (IPOC) although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. It is not possible to predict the outcome of these proceedings or the amount of damages to be paid, if any.

In addition, the KFG Companies have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately \$25.2 million plus compensatory damages, and to recover approximately \$3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, MTS Finance may be liable to Bitel for such claims.

The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo and Altimo Holding, for the wrongful appropriation and control of Bitel. In November 2007 the Isle of Man court declined the jurisdiction for this claim which decision was immediately appealed by the KFG Companies. It is not possible at this time to predict the outcome or resolution of these claims.

Management believes that it has adequately provided for tax, and other legal liabilities in the accompanying financial statements; however, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

14. OPERATING EXPENSE

For the year 2007 and 2006 operating expense comprise of consultancy and legal services expense relating to Bitel matter in the amount of \$9,023,292 and \$5,547,302, respectively.

15. OTHER NON-OPERATING EXPENSE

As of December 31, 2006 other non-operating expense in the amount of \$320,098,000 represent write off costs relating to purchase of Bitel (see Note 13).

16. SUBSEQUENT EVENTS

Redemption of \$400,000 Eurobond – The Company redeemed its \$400,000 notes payable which matured on January 30, 2008. The coupon payments for the entire period, including the last coupon, which took place simultaneously with the issuance of repayments, amounted to \$195,000. The Eurobond was issued in January 2003 in the amount of \$400,000 with a semi-annual coupon rate of 9.75% (see Note 9).

Repayment of \$400,000 loan to MTS OJSC – On January 28, 2008 the Company repaid loan to MTS OJSC in the amount of \$400,000. The loan was granted on January 30, 2003 (see Note 5).