

MOBILE TELESYSTEMS OJSC
Form 6-K
December 17, 2002

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Report of Foreign Issuer

December 17, 2002

**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)

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

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

EXPLANATORY NOTE

Included in this Form 6-K is a press release that was issued December 16, 2002 announcing MTS' third quarter 2002 financial results. The press release contained certain computational errors regarding MTS' financial results for the three months ended September 30, 2002. These changes increase net income for the three months ended September 30, 2002 by \$3.0 million from \$81.3 million as disclosed in the press release to \$84.3 million. The Company's net income increased by 8% compared to the same period last year and by 27% compared to the second quarter ended June 30, 2002, rather than 4% and 25%, respectively, as reported in the press release. These changes have no effect on MTS' consolidated balance sheet as at September 30, 2002 and consolidated statements of operations for the nine months ended September 30, 2002. The effect of these changes on MTS' consolidated statement of operations as reported in the press release is set forth below.

| Three months ended September 30, 2002 | Previously reported | Corrected |
|---|--|------------------|
| | (Amounts in thousands of U.S. dollars, except share amounts) | |
| Depreciation and Amortization | 57,966 | 60,072 |
| Net operating income | 147,900 | 145,794 |
| Income before provision for income taxes and minority interest | 136,787 | 134,681 |
| Provision for income tax | 40,274 | 40,146 |
| Minority interest | 15,189 | 10,192 |
| Net income before cumulative effect of a change in accounting principle | 81,324 | 84,343 |
| Net income | 81,324 | 84,343 |
| Earnings per share (basic and diluted) | | |
| Net income before cumulative effect of a change in accounting principle | 0.041 | 0.043 |
| Net income | 0.041 | 0.043 |

MTS' corrected consolidated statement of operations for the three months ended September 30, 2002 follows this explanatory note and supercedes the corresponding information contained in the press release that is filed herewith.

MOBILE TELESYSTEMS

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

| Amounts in thousands of U.S. dollars, except share amounts | Three months ended September 30, 2002 |
|---|--|
| NET REVENUES: | |
| Service revenues | \$ 368,800 |
| Connection fees | 6,492 |
| Equipment sales | 13,256 |
| | 388,548 |
| COST OF SERVICES AND PRODUCTS | |
| Interconnection and line rental | 36,597 |
| Roaming expenses | 23,833 |
| Cost of equipment | 22,327 |
| | 82,757 |
| OPERATING EXPENSES | 55,296 |
| SALES AND MARKETING EXPENSES | 44,629 |
| PROVISION FOR DOUBTFUL ACCOUNTS | |
| DEPRECIATION AND AMORTIZATION | 60,072 |
| Net operating income | 145,794 |
| CURRENCY EXCHANGE AND TRANSLATION LOSSES | 1,757 |
| OTHER EXPENSES (INCOME) | |
| Interest income | (1,292) |
| Interest expenses, net of amounts capitalized | 10,635 |
| Other expenses | 13 |
| Total other expenses, net | 9,356 |
| Income before provision for income taxes and minority interest | 134,681 |
| PROVISION FOR INCOME TAXES | 40,146 |
| MINORITY INTEREST | 10,192 |
| | 84,343 |
| Cumulative effect of accounting principle | |
| NET INCOME | 84,343 |
| Weighted average number of shares outstanding | 1,983,399,507 |
| Earnings per share (basic and diluted): | |
| NET INCOME before cumulative effect of a change in accounting principle | 0.043 |
| Cumulative effect of a change in accounting principle | |
| Net income | 0.043 |

**MOBILE TELESYSTEMS (MTS) ANNOUNCES FINANCIAL RESULTS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30th 2002 AND
RESTATED FINANCIAL RESULTS FOR PREVIOUSLY REPORTED PERIODS**

MTS announces continued growth in revenues, EBITDA and net income. The number of subscribers has increased significantly, and for the first time the regional subscriber base exceeds that of Moscow.

Moscow, Russian Federation December 16, 2002 Mobile TeleSystems OJSC (MTS ; NYSE: MBT), the largest mobile cellular operator in Russia and Central and Eastern Europe(1), today announces its results for the third quarter and nine months ended September 30, 2002.

FINANCIAL HIGHLIGHTS(2)

| US\$million | Q3 2002 | Q3 2001 | Change | Q2 2002 as restated(3) | Change | Nine months ended Sep 30, 2002 | Nine months ended Sep 30, 2001 | Change |
|---------------|---------|---------|--------|------------------------|--------|--------------------------------|--------------------------------|--------|
| Net revenues | 388.5 | 262.6 | 48% | 316.3 | 23% | 952.5 | 634.8 | 50% |
| Net income | 81.3 | 78.4 | 4% | 64.8 | 25% | 191.9 | 144.6 | 33% |
| EBITDA | 205.9 | 142.0 | 45% | 162.0 | 27% | 491.4 | 304.3 | 61% |
| EBITDA margin | 53% | 54% | N/a | 51% | N/a | 52% | 48% | N/a |

Note: MTS net income for Q3 2001 was increased by \$22 million as the Company recognised a correspondent deferred tax benefit due to the reduction in the statutory income tax from 35% to 24% that became effective from January 1, 2002.

Net revenues in the third quarter 2002 were \$388.5 million, an increase of 48% from \$262.6 million reported for the same period last year and an increase of 23% from \$316.3 million reported for the second quarter of 2002.

(1) Measured in terms of number of subscribers.

(2) Earnings before provision for income tax, interest, depreciation and amortisation (EBITDA) should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP. We believe that EBITDA is a relevant measurement utilized by the cellular industry to assess performance that attempts to eliminate variances caused by the effects of differences in taxation, the amount and types of capital employed and depreciation and amortization policies.

(3) See Appendix 2.

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Net income for the third quarter 2002 was \$81.3 million an increase of 4% from the \$78.4 million reported for the third quarter 2001 and an increase of 25% from the \$64.8 million reported for the second quarter of 2002.

EBITDA in the third quarter 2002 was \$205.9 million, an increase of 45% from the \$142.0 million reported for the same period last year and an increase of 27% from the \$162.0 million in the second quarter of 2002.

EBITDA margin, or EBITDA divided by net revenues, for the third quarter 2002 was 53% compared to 54% for the third quarter 2001 and 51% for the second quarter of 2002.

Commenting on the result, Mikhail Smirnov, President of MTS said: The third quarter results of 2002 have once again highlighted MTS record of delivering growth in financial performance. We have continued to increase our net revenues while maintaining EBITDA margins. Our expansion into the regions continues and for the first time we have more subscribers in the regions than in the Moscow metropolitan area.

OPERATIONAL HIGHLIGHTS

| | Q3 2002 | Q2 2002 | Q1 2002 |
|---|---------|---------|---------|
| Total subscribers, end of period (mln) | 5.44 | 4.37 | 3.53 |
| Subscribers in Moscow area, end of period (mln) | 2.69 | 2.35 | 2.08 |
| Subscribers in Regions, end of period (mln) | 2.75 | 2.02 | 1.44 |
| ARPU (US\$) | 25.2 | 25.0 | 26.7 |
| MOU (minutes) | 175 | 167 | 142 |
| Churn rate (%) | 7.5 | 7.7 | 9.8 |
| SAC per gross addition (US\$) | 32 | 39 | 36 |

MTS subscriber base reached approximately 5.44 million active subscribers at the end of the third quarter of 2002, of which approximately 2.75 million live in the regions outside the Moscow license area. MTS had a 37.6% market share of the Russian mobile market at the end of September 30 according to AC&M-Consulting. MTS market share in Moscow was 43.3%, with approximately 2.69 million subscribers at September 30, 2002.

As of today, MTS services approximately 6.22 million subscribers of which 3.30 million live in the regions outside of the Moscow licence area.

The Company's subscriber base in the city of St. Petersburg and the Leningrad region exceeded half a million during the third quarter to reach 720,000, a significant achievement considering the fact that MTS launched operations in the region in December 2001. The Company's market share in the North West licence area (which includes the city of St. Petersburg) was at 26% at the end of the third quarter of 2002 according to AC&M-Consulting.

MTS monthly average revenue per user (ARPU) increased from \$25.0 in the second quarter to \$25.2 in the third quarter of 2002. The main driver for ARPU was an increase in average monthly minutes of usage per user (MOU) from 167 minutes in Q2 2002 to 175 minutes in Q3 2002 as well as increased revenues from roaming.

MTS subscriber churn rate in the third quarter 2002 was 7.5%, down from 7.7% in the second quarter of the year.

MTS capital expenditure during the nine months to September 30, 2002 amounted to \$351.9 million, of which \$117.8 million was invested during the third quarter of 2002. The Company's capital expenditure in the Moscow licence area amounted to \$165.7 million and \$27.7 million, respectively.

New Marketing Initiatives

In line with MTS strategy for further growth, the Company announced a new brand and tariff plan targeted at the mass-market during November 2002. The Jeans brand with a pre-paid tariff plan was launched by MTS in Moscow and thirty-seven Russian regions. While Jeans is the brand used to target the mass market, MTS plans to retain the MTS brand for marketing to middle heavy users as well as corporate clients.

MTS has also decided to introduce a different disconnection policy for its Jeans subscribers. A Jeans subscriber remains as a registered subscriber and is treated by the Company as an active subscriber if this individual or organisation has had a positive balance on its account at MTS at least once within the last 183 days. MTS management believes that the new disconnection policy for subscribers will help to increase customer loyalty and minimize the negative impact of a traditional seasonal outflow of customers after the summer period.

At the same time, MTS is retaining its standard disconnection policy for subscribers to MTS tariff plans. An active MTS customer is a registered customer who has had a positive balance on his account at MTS at least once within the last 61 days.

Expansion Strategy

During the second half of 2002, MTS continued its expansion into regional markets in Russia and other countries of the former Soviet Union. The Company has started new operations in five regions of Russia with a total population of 9.6 million and acquired 100% ownership in three local GSM operators, Dontelecom (the Rostov region) Mobicom Barnaul CJSC (the Altai region) and Bit LLC (the Republic of Tyva, Sakhalin, Chukotka, and Republic of Kalmykia). These new acquisitions extended the Company's footprint by 8.3 million people to 103.1 million, or approximately 72% of the country's population.

As part of its strategy to consolidate ownership in its subsidiary mobile phone operators, the Company has consolidated a 100% ownership in Telecom 900 CJSC, a holding company for equity stakes in three large regional mobile phone operators, Siberia Cellular Systems 900 CJSC (SCS 900), Uraltel CJSC, and Far East Cellular Systems 900 CJSC (FECS 900). MTS has also increased its ownership in Kuban GSM CJSC,

the largest regional GSM company in

Russia in terms of subscribers, from 51% to 60% through the purchase of a new share issue of the local operator. Kuban GSM currently services approximately 791,300 subscribers. Overall, in the second half of 2002 MTS spent approximately \$63.6 million on acquisitions and consolidation of ownership in its subsidiaries

The second half of 2002 was also marked by the expansion of MTS into neighbouring countries. The Company's joint venture in Belarus has commenced operations and today provides services to over 29,170 subscribers. In line with the Company's strategy to exploit growth opportunities beyond Russia's borders, MTS signed agreements in early December 2002 to purchase a majority ownership in UMC, a leading mobile phone operator in Ukraine that currently provides services to approximately 1.62 million people. Completion of the transaction is subject to a number of conditions, including approval by appropriate governmental authorities in Ukraine and the Russian Federation, as well as MTS corporate approvals.

Restatement of Financial Statements for Previously Reported Periods

MTS has restated its financial statements for the year and three months ended December 31, 2001 and for the first and second quarters of 2002 as a result of a review of its financial statements conducted by MTS management. The restatement relates to the allocation of the purchase price for MTS acquisitions of equity stakes in a number of local mobile phone operators in 2001 and in the first half of 2002. As a result of this review, MTS has restated approximately \$72 million previously allocated to licenses to property, plant and equipment and other intangible assets. This reallocation has resulted in restatements of property, plant and equipment, licenses, depreciation and amortization expense and certain related items of our balance sheet and statement of operations as of and for the year ended December 31, 2001 and the six-month period ended June 30, 2002. Please see Appendix 1 and Appendix 2 for further detail regarding the effect of the restatement on our 2001 and first half of 2002 financial results.

In addition, effective January 1, 2002 the Company adopted FAS 141, Business Combinations and FAS 142, Goodwill and Other Intangible Assets. As a result, MTS has reclassified \$22 million of goodwill relating to its acquisition of Rosico CJSC in August 1998 as licenses. This reclassification resulted in a restatement of amortization expenses and deferred taxes for the six-month period ended June 30, 2002.

The combined effect of the above changes is a decrease in the MTS reported net income of \$1.5 million for the year ended December 31, 2001 and a decrease in reported net income of \$3.0 million for the six months ended June 30, 2002.

MTS financial results for the years ended December 31, 2000 and 2001 have been audited by its new independent auditor, Deloitte & Touche. The firm was appointed as MTS new auditors after MTS dismissed ZAO Arthur Andersen. MTS financial statements for the three months ended March 31, 2002 and the three and six months ended June 30, 2002 have been reviewed by Deloitte & Touche.

Today, MTS will file with the Securities and Exchange Commission (US SEC) amended financial statements for the year and three months ended December 31, 2001 and the first and second quarters of 2002 on Forms 20-F/A, 6-K/A and 6-K.

Mobile TeleSystems OJSC (or MTS) is Russia's largest cellular operator serving over six million subscribers. MTS together with its subsidiaries is licensed to provide GSM 900/1800 services in 56 regions of Russia with a total population of 103.1 million or 72% of the nation's population. Today, MTS' network operates in 46 regions of Central (including Moscow and Moscow region), Northwestern (including St Petersburg and Leningrad region), Southern, Volga, Urals, Siberia and Far-Eastern federal districts. MTS operates a joint venture in the Republic of Belarus, which has a total population of ten million. Since June 2000, MTS' shares 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

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. These forward-looking statements may be affected by risks and uncertainties, including those that may arise in the event that we elect to have our 2002 quarterly financial statements audited. Any such audit may result in further adjustments to our financial results and such adjustments may be material. 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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MOBILE TELESYSTEMS

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2001 AND SEPTEMBER 30, 2002

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

| | December 31 2001 | | September 30 2002 | |
|--|------------------|------------------|-------------------|------------------|
| | (as restated(4)) | | (unaudited) | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ | 219,629 | \$ | 107,625 |
| Short-term investments | | 85,304 | | |
| Trade receivables, net | | 24,258 | | 46,697 |
| Accounts receivable, related parties | | 2,377 | | 7,858 |
| Inventory, net | | 26,184 | | 43,240 |
| Prepaid expenses | | 22,712 | | 30,706 |
| VAT receivable | | 82,216 | | 149,369 |
| Deferred tax asset | | 12,040 | | 16,306 |
| Other current assets | | 8,374 | | 10,347 |
| Total current assets | | 483,094 | | 412,148 |
| PROPERTY, PLANT AND EQUIPMENT | | 856,056 | | 1,241,530 |
| OTHER INTANGIBLE ASSETS | | 84,245 | | 107,056 |
| LICENSES | | 276,949 | | 390,494 |
| GOODWILL | | 22,411 | | 533 |
| DEBT ISSUANCE COSTS | | 3,997 | | 3,338 |
| INVESTMENTS IN AND ADVANCES TO AFFILIATES | | 740 | | 22,212 |
| TOTAL ASSETS | \$ | 1,727,492 | \$ | 2,177,311 |

(4) See Appendix 1

MOBILE TELESYSTEMS

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2001 AND SEPTEMBER 30, 2002

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

| | December 31 2001 | | September 30 2002 | |
|---|------------------|----------|-------------------|----------|
| | (as restated(5)) | | (unaudited) | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable, related parties | \$ | 6,142 | \$ | 8,027 |
| Trade accounts payable | | 106,068 | | 105,147 |
| Deferred connection fees. | | 21,419 | | 22,082 |
| Subscriber prepayments and deposits | | 63,741 | | 100,889 |
| Debt, current portion | | 18,245 | | 32,801 |
| Promissory notes payable, current portion | | 580 | | |
| Capital lease obligation, current portion | | 14,401 | | 16,073 |
| Income tax payable | | 23,078 | | 21,250 |
| Accrued liabilities | | 51,626 | | 75,570 |
| Other payables | | 3,357 | | 6,492 |
| Total current liabilities | | 308,657 | | 388,331 |
| LONG-TERM LIABILITIES: | | | | |
| Notes payable, net of discount | | 248,976 | | 308,584 |
| Debt, net of current portion | | 30,150 | | 71,276 |
| Capital lease obligation, net of current portion | | 7,696 | | 9,487 |
| Promissory notes payable, net of current portion | | 5,792 | | |
| Deferred connection fees, net of current portion | | 25,993 | | 21,753 |
| Deferred taxes | | 67,505 | | 100,358 |
| Total long-term liabilities | | 386,112 | | 511,458 |
| Total liabilities | | 694,769 | | 899,789 |
| MINORITY INTEREST | | 14,444 | | 62,517 |
| SHAREHOLDERS EQUITY: | | | | |
| 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 December 31, 2001 and September 30, 2002 345,244,080 of which are in the form of ADS) | | 50,558 | | 50,558 |
| Treasury stock (9,966,631 common shares at cost) | | (10,206) | | (10,206) |
| Additional paid-in capital | | 555,794 | | 557,205 |

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| | | | |
|--|----|-----------|-----------|
| Shareholder receivable | | (38,958) | (35,587) |
| Retained earnings | | 461,091 | 653,035 |
| Total shareholders' equity | | 1,018,279 | 1,215,005 |
| Total liabilities and shareholders' equity | \$ | 1,727,492 | 2,177,311 |
| | | | |

(5) See Appendix 1

MOBILE TELESYSTEMS

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 and 2002, and

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 and 2002

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

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---------------------------------|---------|---------|---------|--------------------------------|----------|------|---------|
| | 2001 | | 2002(1) | | 2001 | | 2002 | |
| NET REVENUES: | | | | | | | | |
| Service revenues | \$ | 246,055 | \$ | 368,800 | \$ | 592,024 | | 891,186 |
| Connection fees | | 5,911 | | 6,492 | | 15,026 | | 18,720 |
| Equipment sales | | 10,597 | | 13,256 | | 27,706 | | 42,544 |
| | | 262,563 | | 388,548 | | 634,756 | | 952,450 |
| COST OF SERVICES AND PRODUCTS | | | | | | | | |
| Interconnection and line rental | | 25,506 | | 36,597 | | 57,370 | | 91,678 |
| Roaming expenses | | 23,453 | | 23,833 | | 50,566 | | 52,546 |
| Cost of equipment | | 9,221 | | 22,327 | | 26,314 | | 60,446 |
| | | 58,180 | | 82,757 | | 134,250 | | 204,670 |
| OPERATING EXPENSES | | 30,984 | | 55,296 | | 85,423 | | 146,968 |
| SALES AND MARKETING EXPENSES | | 29,559 | | 44,629 | | 80,580 | | 109,424 |
| PROVISION FOR DOUBTFUL ACCOUNTS | | 1,884 | | | | 2,565 | | |
| DEPRECIATION AND AMORTIZATION | | 34,982 | | 57,966 | | 93,547 | | 150,750 |
| Net operating income | | 106,974 | | 147,900 | | 238,391 | | 340,638 |
| CURRENCY EXCHANGE AND TRANSLATION LOSSES | | 586 | | 1,757 | | 1,181 | | 2,447 |
| OTHER EXPENSES (INCOME) | | | | | | | | |
| Interest income | | (2,906) | | (1,292) | | (10,466) | | (6,789) |
| Interest expenses, net of amounts capitalized | | 3,569 | | 10,635 | | 5,959 | | 31,322 |
| Other expenses (income) | | 1,101 | | 13 | | 3,238 | | 2,734 |
| Total other (income)/expenses, net | | 1,764 | | 9,356 | | (1,269) | | 27,267 |
| Income before provision for income taxes and minority interest | | 104,624 | | 136,787 | | 238,479 | | 310,924 |
| PROVISION FOR INCOME TAXES | | 24,529 | | 40,274 | | 74,619 | | 94,100 |
| MINORITY INTEREST | | 1,726 | | 15,189 | | 1,329 | | 24,880 |
| NET INCOME before cumulative effect of accounting principle | | 78,369 | | 81,324 | | 162,531 | | 191,944 |
| Cumulative effect of a change in accounting principle | | | | | | (17,909) | | |

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| | | | | | | | | | |
|---|----|----------------------|--|----------------------|----|----------------------|--|----|----------------------|
| NET INCOME | \$ | 78,369 | | 81,324 | \$ | 144,622 | | \$ | 191,944 |
| Weighted average number of shares outstanding | | 1,993,326,138 | | 1,983,399,507 | | 1,993,326,138 | | | 1,983,399,507 |
| Earnings per share (basic and diluted): | | | | | | | | | |
| NET INCOME before cumulative effect of a change in accounting principle | | 0.039 | | 0.041 | | 0.082 | | | 0.097 |
| Cumulative effect of a change in accounting principle | | | | | | (0.009) | | | |
| Net income | | 0.039 | | 0.041 | | 0.073 | | | 0.097 |

(1) The consolidated statement of operations data for the three months ended September 30, 2002 has been superseded by revised consolidated statement of operations data included elsewhere in this Form 6-K.

APPENDIX 1

The restatement of MTS' financial statements for the year ended December 31, 2001 relates primarily to a change in the allocation of the purchase price for the Company's acquisitions of: an additional 4% stake in ReCom CJSC in April 2001; a 100% stake in Telecom XXI OJSC in May 2001; and an 81% stake in Telecom 900 CJSC in August 2001. As a result of a review of its financial statements by MTS management, MTS has restated approximately \$21 million previously allocated to licenses to property, plant and equipment and other intangible assets. This reallocation has resulted in restatements of property, plant and equipment, licenses, depreciation and amortization expense and certain related items of our balance sheet and statement of operations as of and for the year ended December 31, 2001. Additionally, the Company has reclassified an impairment charge related to its investment in a joint venture with the government of Belarus from other expenses to impairment of investment, which is deducted in determining our net operating income in order to conform to the US GAAP presentation requirements.

The effects of this restatement on our financial statements for the year ended December 31, 2001 were as follows (in thousands except per share amounts):

| | As previously reported | Adjustments | As restated |
|--|------------------------|-------------|-------------|
| At December 31, 2001: | | | |
| Property plant and equipment, net | 841,308 | 14,748 | 856,056 |
| Licenses, net | 297,490 | (20,541) | 276,949 |
| Other intangible assets, net | 83,507 | 738 | 84,245 |
| Total assets | 1,732,547 | (5,055) | 1,727,492 |
| Deferred taxes | 72,192 | (4,687) | 67,505 |
| Minority interest | 12,999 | 1,445 | 14,444 |
| Retained earnings | 462,628 | (1,537) | 461,091 |
| Total liabilities and shareholder's equity | 1,732,547 | (5,055) | 1,727,492 |
| For the year ended December 31, 2001: | | | |
| Depreciation and Amortization | 133,143 | 175 | 133,318 |
| Net operating income | 334,284 | (10,175) | 324,109 |
| Total other expense (income), net | 5,223 | (10,000) | (4,777) |
| Income before provision for income taxes and minority interest | 327,190 | (568) | 326,622 |
| Provision for Income Taxes | 97,414 | 47 | 97,461 |
| Minority Interest | 6,614 | 922 | 7,536 |
| Net income | 207,366 | (1,537) | 205,829 |
| Earnings per share - net income (basic and diluted) | 0.105 | (0.001) | 0.104 |

APPENDIX 2

In addition to the restatement of the Company's financial statement for the year and three months ended December 31, 2002, MTS has restated its financial statements for the six months ended June 30, 2002. The restatement results primarily from a change in the purchase price allocation for the Company's acquisitions of: an additional a 51% stake in Kuban GSM CJSC in March 2002; and a 100% stake in BM Telecom CJSC in May 2002. As a result of a review of its financial statements by MTS management, MTS has restated approximately \$76 million previously allocated to licenses to property, plant and equipment and other intangible assets. This reallocation has resulted in restatements of property, plant and equipment, licenses, depreciation and amortization expense and certain related items of our balance sheet and statement of operations as of and for the six-month period ended June 30, 2002.

In addition, effective January 1, 2002 the Company adopted FAS 141, Business Combination and FAS 142, Goodwill and Other Intangible Assets. As a result MTS has reclassified \$22 million of goodwill relating to the Company's acquisition of Rosico CJSC in August 1998 as licenses. Beginning January 1, 2002 goodwill was no longer amortized into income, this reclassification resulted in a restatement of amortization expenses for the six-month period ended June 30, 2002. The reclassification also resulted in restatement of the related deferred taxes balances for the period ended June 30, 2002.

The effects of this restatement on financial statements for six months ended June 30, 2002 were as follows (in thousands except per share amounts):

| | As previously reported | Adjustment | As restated |
|---|------------------------|------------|-------------|
| Six months ended June 30, 2002: | | | |
| Property plant and equipment, net | 1,069,743 | 72,456 | 1,142,199 |
| Licenses, net | 465,326 | (75,669) | 389,657 |
| Goodwill, net | 22,411 | (21,878) | 533 |
| Other intangible assets, net | 81,344 | 9,340 | 90,684 |
| Total assets | 2,031,430 | (15,751) | 2,015,679 |
| Deferred connection fees | 47,339 | (329) | 47,010 |
| Deferred tax liability | 116,290 | (16,785) | 99,505 |
| Total long-term liabilities | 521,637 | (17,114) | 504,523 |
| Minority interest | 43,015 | 5,919 | 48,034 |
| Retained earnings | 572,944 | (4,556) | 568,388 |
| Total liabilities and shareholders equity | 2,031,430 | (15,751) | 2,015,679 |
| Depreciation and Amortization | 92,784 | (2,106) | 90,678 |
| Net operating income | 192,738 | 2,106 | 194,844 |

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| | | | | |
|----------------------------|--|---------|---------|---------|
| Provision for Income taxes | | 53,826 | 128 | 53,954 |
| Minority Interest | | 9,691 | 4,997 | 14,668 |
| Net income | | 110,620 | (3,019) | 107,601 |

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: /s/ Mikhail Smirnov
Name: Mikhail Smirnov
Title: President

Date: **December 17, 2002**