

MOBILE TELESYSTEMS OJSC
Form 20-F
July 05, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

- Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
- or
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005
- or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
- or
- Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of event requiring this shell company report

Commission file number 333-12032

MOBILE TELESYSTEMS OJSC

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

4 Marksistskaya Street, Moscow 109147 Russian Federation

(Address of Principal Executive Offices)

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

Title of Each Class
AMERICAN DEPOSITARY SHARES,
EACH REPRESENTING 5 SHARES OF COMMON STOCK
COMMON STOCK, PAR VALUE 0.10 RUSSIAN
RUBLES PER SHARE

Name of Each Exchange on which
Registered
NEW YORK STOCK EXCHANGE
NEW YORK STOCK EXCHANGE(1)

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

Edgar Filing: MOBILE TELESYSTEMS OJSC - Form 20-F

NONE

(Title of Class)

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

NONE

(Title of Class)

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

1,987,925,652 ordinary shares, par value 0.10 Russian rubles each and 152,710,974 American Depositary Shares, as of December 31, 2005.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

TABLE OF CONTENTS

<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>		1
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	2
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>	2
<u>A.</u>	<u>SELECTED FINANCIAL DATA</u>	2
<u>B.</u>	<u>CAPITALIZATION AND INDEBTEDNESS</u>	5
<u>C.</u>	<u>REASONS FOR THE OFFER AND USE OF PROCEEDS</u>	5
<u>D.</u>	<u>RISK FACTORS</u>	5
<u>ITEM 4.</u>	<u>INFORMATION ON OUR COMPANY</u>	35
<u>A.</u>	<u>HISTORY AND DEVELOPMENT</u>	35
<u>B.</u>	<u>BUSINESS OVERVIEW</u>	37
<u>C.</u>	<u>ORGANIZATIONAL STRUCTURE</u>	67
<u>D.</u>	<u>PROPERTY, PLANT AND EQUIPMENT</u>	68
<u>ITEM 4A.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	68
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	68
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	123
<u>A.</u>	<u>DIRECTORS AND SENIOR MANAGEMENT</u>	123
<u>B.</u>	<u>COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT</u>	125
<u>C.</u>	<u>BOARD PRACTICES</u>	127
<u>D.</u>	<u>EMPLOYEES</u>	129
<u>E.</u>	<u>SHARE OWNERSHIP</u>	130
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	130
<u>A.</u>	<u>MAJOR SHAREHOLDERS</u>	130
<u>B.</u>	<u>RELATED PARTY TRANSACTIONS</u>	131
<u>C.</u>	<u>INTERESTS OF EXPERTS AND COUNSEL</u>	134
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	134
<u>A.</u>	<u>CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u>	134
<u>B.</u>	<u>SIGNIFICANT CHANGES</u>	135
<u>ITEM 9.</u>	<u>OFFER AND LISTING DETAILS</u>	136
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	137
<u>A.</u>	<u>SHARE CAPITAL</u>	137
<u>B.</u>	<u>CHARTER AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION</u>	138
<u>C.</u>	<u>MATERIAL CONTRACTS</u>	152
<u>D.</u>	<u>EXCHANGE CONTROLS</u>	156
<u>E.</u>	<u>TAXATION</u>	158
<u>F.</u>	<u>DIVIDENDS AND PAYING AGENTS</u>	163
<u>G.</u>	<u>STATEMENT BY EXPERTS</u>	163
<u>H.</u>	<u>DOCUMENTS ON DISPLAY</u>	163
<u>I.</u>	<u>SUBSIDIARY INFORMATION</u>	163
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	163
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	167
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	168
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	168
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	168
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	168
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	168
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	168
<u>ITEM 16D.</u>	<u>EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	169
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	169
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	170
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	170
<u>ITEM 19.</u>	<u>EXHIBITS</u>	170

Edgar Filing: MOBILE TELESYSTEMS OJSC - Form 20-F

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

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

ii

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

PART I

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

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

A. Selected Financial Data

The selected consolidated financial data for the years ended December 31, 2003, 2004 and 2005, and as of December 31, 2004 and 2005, are derived from the audited consolidated financial statements, prepared in accordance with U.S. GAAP included elsewhere in this document. In addition, the following table presents selected consolidated financial data for the years ended December 31, 2001 and 2002, and as of December 31, 2001, 2002 and 2003, derived from our audited consolidated financial statements not included in this document. Our results of operations are affected by acquisitions. Results of operations of acquired businesses are included in our audited consolidated financial statements from their respective dates of acquisition. The summary financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, D. Risk Factors and Item 5. Operating and Financial Review and Prospects. Certain industry and operating data are also provided below.