

OPEN JOINT STOCK CO VIMPEL COMMUNICATIONS

Form 20-F

May 11, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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**FORM 20-F**

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.. **Registration Statement Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**  
OR

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**for the fiscal year ended December 31, 2006**

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**  
Commission File Number: 1-14522

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**OPEN JOINT STOCK COMPANY**  
**VIMPEL-COMMUNICATIONS**

(Exact name of registrant as specified in its charter)

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**Russian Federation**

(Jurisdiction of incorporation or organization)

**10 Ulitsa 8 Marta, Building 14, Moscow, Russian Federation 127083**

(Address of principal executive offices)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
American Depositary Shares, or ADSs, each representing one-quarter of one share of common stock	New York Stock Exchange
Common stock, 0.005 Russian rubles nominal value	New York Stock Exchange*

\* 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.

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

None

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

None

**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:**

51,281,022 shares of common stock, 0.005 Russian rubles nominal value.

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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

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):

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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

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\* Omitted because the item is inapplicable.

\*\* We have responded to Item 18 in lieu of this item.

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**EXPLANATORY NOTE**

This Annual Report on Form 20-F describes matters that relate generally to Open Joint Stock Company Vimpel-Communications, also referred to as VimpelCom or our company, an open joint stock company organized under the laws of the Russian Federation, and its consolidated subsidiaries. Thus, we use terms such as we, us, our and similar plural pronouns when describing the matters that relate generally to VimpelCom's consolidated group.

In addition, the discussion of our business and the wireless telecommunications industry contains references to numerous technical and industry terms. Specifically:

References to our operations in the Moscow license area are to our operations in the City of Moscow and the surrounding Moscow region.

References to our operations in the regions, the regions outside of Moscow and the regions outside of the Moscow license area are to our operations in the regions of the Russian Federation outside of the City of Moscow and the surrounding Moscow region.

References to our operations in the CIS are to our operations in the Commonwealth of Independent States outside of the Russian Federation.

References to the super-regions are to Russia's seven large geographical regions and the Moscow license area.

References to GSM-900/1800 are to dual band networks that provide wireless mobile telephone services using the Global System for Mobile Communications standard in the 900 MHz and 1800 MHz frequency ranges. References to GSM-1800 are to networks that provide wireless mobile telephone services using GSM in the 1800 MHz frequency range. References to GSM-900 are to networks that provide wireless mobile telephone services using GSM in the 900MHz frequency range. References to GSM are to both the GSM-900 and GSM-1800 standards.

References to 3G technologies are to third generation wireless technologies.

Certain amounts and percentages that appear in this Annual Report on Form 20-F have been subject to rounding adjustments.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 20-F contains forward-looking statements, as this phrase is defined in Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are not historical facts and can often be identified by the use of terms like estimates, projects, anticipates, expects, intends, believes, will, may, should or the negative of these terms. All forward-looking statements, including discussions of strategy, plans, objectives, goals and future events or performance, involve risks and uncertainties. Examples of forward-looking statements include:

our plans to expand or build networks, including our 3G network;

our expectation that the frequencies and other permissions that were previously held by Closed Joint Stock Company Sotovaya Company, or Sotovaya Company, Closed Joint Stock Company StavTeleSot, or StavTeleSot, Closed Joint Stock Company Vostok-Zapad Telecom, or Vostok-Zapad Telecom, Open Joint Stock Company Orensot, or Orensot, and Open Joint Stock Company Dal Telecom International, or DalTelecom, Closed Joint Stock Company Extel, or Extel, and Open Joint Stock Company Beeline-Samara, or Beeline-Samara, which we refer to collectively as the Merged Companies, will be re-issued to VimpelCom on the same terms as the existing frequencies and other permissions, or at all, in connection with the mergers of these companies into VimpelCom;

our ability to successfully challenge suits, including lawsuits by some of our shareholders, including Telenor's lawsuits in connection with our acquisition of Closed Joint Stock Company Ukrainian Radio Systems, or URS, and tax disputes involving the Russian tax inspectorate;

our ability to achieve the expected benefits from our acquisitions of Limited Liability Partnership KaR-Tel, or KaR-Tel, URS, Limited Liability Company Tacom, or Tacom, Limited Liability Company Bakrie Uzbekistan Telecom, or Buztel, Limited Liability Company Unitel, or Unitel, Limited Liability Company Mobitel, or Mobitel, and Closed Joint Stock Company Armenia Telephone Company, or Armentel;

our ability to successfully challenge claims brought against our subsidiary KaR-Tel by third parties;

expectations as to pricing for our products and services in the future, improving ARPU from existing subscribers and our future operating results;

our ability to meet license requirements and to obtain and maintain licenses, frequency allocations and regulatory approvals;

our plans to further develop and commercialize value added services and wireless Internet services;

our expectations regarding our brand name recognition and our ability to successfully promote our brand;

expectations as to the future of the telecommunications industry and the regulation of the telecommunications industry; and

other statements regarding matters that are not historical facts.

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While these statements are based on sources believed to be reliable and on our management's current knowledge and best belief, they are merely estimates or predictions and cannot be relied upon. We cannot assure you that future results will be achieved. The risks and uncertainties that may cause our actual results to differ materially from the results indicated, expressed or implied in the forward looking statements used in this Annual Report on Form 20-F include:

risks relating to changes in political, economic and social conditions in Russia and the CIS;

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risks relating to legislation, regulation and taxation in Russia and the CIS, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia and other countries where we operate and taxation legislation relating to entities in Russia and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia and the CIS;

risks that various courts or regulatory agencies in which we are involved in legal challenges or appeals may not find in our favor;

risks relating to our company, including demand for and market acceptance of our products and services, regulatory uncertainty regarding our licenses, frequency allocations and numbering capacity and migration, constraints on our spectrum capacity, availability of line capacity, competitive product and pricing pressures, and the re-issuance of the frequencies and permissions previously held by the Merged Companies;

risks associated with discrepancies in subscriber numbers and penetration rates caused by differences in the churn policies of wireless operators; and

other risks and uncertainties.

These factors and the other risk factors described in this Annual Report on Form 20-F (in the section entitled "Item 3 Key Information D. Risk Factors") are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward looking statements. Other unknown or unpredictable factors also could harm our future results. Under no circumstances should the inclusion of such forward looking statements in this Annual Report on Form 20-F be regarded as a representation or warranty by us with respect to the achievement of results set out in such statements or that the underlying assumptions used will in fact be the case. The forward looking statements included in this Annual Report on Form 20-F are made only as of the date of this Annual Report on Form 20-F and we cannot assure you that projected results or events will be achieved. Except to the extent required by law, we disclaim any obligation to update or revise any of these forward looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I****ITEM 1. Identity of Directors, Senior Management and Advisers**

Not required.

**ITEM 2. Offer Statistics and Expected Timetable**

Not required.

**ITEM 3. Key Information****A. Selected Financial Data**

The following selected consolidated statement of financial data and consolidated balance sheet data present a summary of our historical consolidated financial information at December 31, 2006, 2005, 2004, 2003 and 2002 and for the years then ended and are derived from our consolidated financial statements and related notes, which have been audited by Ernst & Young LLC. The selected financial data set forth below should be read in conjunction with our consolidated financial statements and their related notes and the section of this document entitled Item 5 Operating and Financial Review and Prospects.

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands of U.S. dollars, except per share and per ADS amounts)				
<b>Operating revenues:</b>					
Service revenues and connection fees	US\$ 4,847,661	US\$ 3,175,221	US\$ 2,070,720	US\$ 1,269,927	US\$ 728,729
Sales of handsets and accessories	19,265	30,478	38,711	55,765	49,073
Other revenues	2,931	5,419	3,571	3,961	1,842
<b>Total operating revenues</b>	<b>4,869,857</b>	<b>3,211,118</b>	<b>2,113,002</b>	<b>1,329,653</b>	<b>779,644</b>
Less revenue-based taxes	(1,879)				(11,148)
<b>Net operating revenues</b>	<b>4,867,978</b>	<b>3,211,118</b>	<b>2,113,002</b>	<b>1,329,653</b>	<b>768,496</b>
<b>Operating expenses:</b>					
Service costs	872,388	514,124	327,403	203,093	121,050
Cost of handsets and accessories sold	18,344	28,294	30,585	36,447	32,101
Selling, general and administrative expenses	1,503,615	1,085,807	720,127	467,655	271,963
Depreciation	874,618	451,152	281,129	162,769	90,172
Amortization	179,846	142,126	64,072	34,064	12,213
Impairment of long-lived assets			7,354		
Provision for doubtful accounts	21,848	11,583	8,166	9,228	21,173
<b>Total operating expenses</b>	<b>3,470,659</b>	<b>2,233,086</b>	<b>1,438,836</b>	<b>913,256</b>	<b>548,672</b>
<b>Operating income</b>	<b>1,397,319</b>	<b>978,032</b>	<b>674,166</b>	<b>416,397</b>	<b>219,824</b>
<b>Other income and expenses:</b>					
Interest income	15,471	8,658	5,712	8,378	7,169
Other income	9,768	18,647	7,412	6,296	3,903
Interest expense	(186,404)	(147,448)	(85,663)	(68,246)	(46,586)
Other expense	(48,612)	(24,500)	(19,565)	(3,251)	(2,142)
Net foreign exchange gain (loss)	24,596	7,041	3,563	(1,279)	(9,439)
<b>Total other income and expenses</b>	<b>(185,181)</b>	<b>(137,602)</b>	<b>(88,541)</b>	<b>(58,102)</b>	<b>(47,095)</b>

<b>Income before income taxes, minority interest and cumulative effect of change in accounting principle</b>	1,212,138	840,430	585,625	358,295	172,729
Income tax expense	390,663	221,901	155,000	105,879	48,747

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	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands of U.S. dollars, except per share and per ADS amounts)				
Minority interest in net earnings (losses) of subsidiaries, before cumulative effect of change in accounting principle	8,104	3,398	80,229	23,280	(2,820)
Income before cumulative effect of change in accounting principle	813,371	615,131	350,396	229,136	126,802
Cumulative effect of change in accounting principle net of tax of US\$120	(1,882)			(379)	
Minority interest in cumulative effect of change in accounting principle				52	
<b>Net income</b>	<b>US\$ 811,489</b>	<b>US\$ 615,131</b>	<b>US\$ 350,396</b>	<b>US\$ 228,809</b>	<b>US\$ 126,802</b>
Weighted average common shares outstanding	50,911	51,066	41,224	38,241	38,014
Income before cumulative effect of change in accounting principle per common share	US\$ 15.98	US\$ 12.05	US\$ 8.50	US\$ 5.99	US\$ 3.34
Income before cumulative effect of change in accounting principle per ADS equivalent <sup>(1)</sup>	US\$ 3.99	US\$ 3.01	US\$ 2.13	US\$ 1.50	US\$ 0.84
Net income per common share	US\$ 15.94	US\$ 12.05	US\$ 8.50	US\$ 5.98	US\$ 3.34
Net income per ADS equivalent <sup>(1)</sup>	US\$ 3.98	US\$ 3.01	US\$ 2.13	US\$ 1.50	US\$ 0.84
Weighted average diluted shares	50,947	51,085	41,272	40,344	38,063
Diluted income before cumulative effect of change in accounting principle per common share <sup>(2)</sup>	US\$ 15.97	US\$ 12.04	US\$ 8.49	US\$ 5.67	US\$ 3.33
Diluted income before cumulative effect of change in accounting principle per ADS equivalent <sup>(1)</sup>	US\$ 3.99	US\$ 3.01	US\$ 2.12	US\$ 1.42	US\$ 0.83
Diluted net income per common share <sup>(2)</sup>	US\$ 15.93	US\$ 12.04	US\$ 8.49	US\$ 5.67	US\$ 3.33
Diluted net income per ADS equivalent <sup>(2)</sup>	US\$ 3.98	US\$ 3.01	US\$ 2.12	US\$ 1.42	US\$ 0.83
Dividends per common share <sup>(3)</sup>					

- (1) Each ADS is equivalent to one-quarter of one share of common stock. On November 22, 2004, we changed the ratio of our ADSs traded on The New York Stock Exchange from four ADSs for three common shares to four ADSs for one common share. VimpelCom ADS holders as of record at the close of business on November 19, 2004 received two additional ADSs for every ADS held. All share information presented herein reflects the change in the ratio. There were no changes to our underlying common shares.
- (2) Diluted income before cumulative effect of change in accounting principle and diluted net income per common share and ADS equivalent includes dilution for our senior convertible notes and employee stock options for all periods presented.
- (3) On March 28, 2007, our board of directors recommended that our shareholders approve at the next annual general meeting of shareholders on June 29, 2007 annual dividends in the amount of 166.88 Russian rubles per common share (or approximately US\$1.60 per ADS) for the 2006 fiscal year, amounting to a total of 8.6 billion Russian rubles (or approximately US\$330.5 million), to be payable within 60 days of approval at the shareholders meeting.

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	2006	2005	As of December 31, 2004	2003	2002
	(In thousands of U.S. dollars)				
<b>Consolidated balance sheet data:</b>					
Cash, cash equivalents and short-term investments	US\$ 344,494	US\$ 363,646	US\$ 305,857	US\$ 157,611	US\$ 263,657
Working capital (deficit)	(487,420)	(457,927)	(127,903)	(167,409)	69,582
Property and equipment, net	4,615,675	3,211,112	2,314,405	1,439,758	948,325
Telecommunications licenses and allocations of frequencies, goodwill and other intangible assets, net	1,957,949	1,500,799	1,338,305	163,186	144,115
Total assets	8,436,546	6,307,036	4,780,241	2,281,448	1,683,467
Total debt, including current portion <sup>(1)</sup>	2,489,432	1,998,166	1,581,138	606,991	650,580
Total liabilities and minority interest	4,493,636	3,566,487	2,623,108	1,293,797	1,026,216
Total shareholders' equity	US\$ 3,942,910	US\$ 2,740,549	US\$ 2,157,133	US\$ 987,651	US\$ 657,251

- (1) Includes bank loans, equipment financing, capital lease obligations for all periods presented and Russian ruble denominated bonds as of December 31, 2005, 2004 and 2003. Subsequent to December 31, 2006, there have been a number of additional changes in certain of our outstanding indebtedness. For information regarding these changes, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Financing activities and Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Equipment Financing.

**Table of Contents****Selected Operating Data**

The following selected operating data for and as of the years ended December 31, 2006, 2005, 2004, 2003 and 2002 have been derived from internal company sources and from independent sources that we believe to be reliable. The selected operating data set forth below should be read in conjunction with our consolidated financial statements and their related notes and the section of this document entitled Item 5 Operating and Financial Review and Prospects. As of December 31, 2006, we did not have any commercial operations in Georgia. Accordingly, operating data for Georgia has not been included in this table.

	2006	2005	As of December 31, 2004	2003	2002
<b>Selected industry operating data:</b>					
Estimated population: <sup>(1)</sup>					
Russia	145,166,700	145,166,700	145,166,700	145,181,900	145,181,900
Kazakhstan	14,953,000	14,938,400	14,938,400		
Ukraine	48,457,000	48,457,000			
Tajikistan	6,919,900	6,780,400			
Uzbekistan	26,021,300				
Armenia	3,200,000				
Estimated mobile subscribers: <sup>(2)</sup>					
Russia	151,920,000	125,760,000	74,350,000	36,230,000	18,005,000
Kazakhstan	7,735,500	5,510,300	2,700,000		
Ukraine	49,219,900	30,205,100			
Tajikistan	821,500	275,000			
Uzbekistan	2,716,700				
Armenia	1,184,000				
Penetration rate: <sup>(3)</sup>					
Russia	104.7%	86.6%	51.2%	25.0%	12.4%
Kazakhstan	51.7%	36.9%	18.1%		
Ukraine	101.6%	62.3%			
Tajikistan	11.9%	4.1%			
Uzbekistan	10.4%				
Armenia	37.0%				
<b>Selected company operating data:</b>					
End of period mobile subscribers:					
Russia	48,141,200	43,096,700	25,724,600	11,436,900	5,153,100
Kazakhstan	3,826,500	2,050,300	859,000		
Ukraine	1,876,100	256,800			
Tajikistan	73,400	26,500			
Uzbekistan	766,500				
Armenia	452,000				
Total mobile subscribers	55,135,700	45,430,300	26,583,600	11,436,900	5,153,100
Percentage of active subscribers <sup>(4)</sup>	82.7%	83.6%			
Market share: <sup>(5)</sup>					
Russia	31.7%	34.3%	34.6%	31.6%	28.6%
Kazakhstan	49.5%	37.2%	31.8%		
Ukraine	3.8%	0.9%			
Tajikistan	8.9%	9.6%			
Uzbekistan	28.2%				
Armenia	38.2%				
Monthly average minutes of use per subscriber ( MOU <sup>(6)</sup> )					
Russia	117.9	101.4	96.5	97.9	N/A
Kazakhstan	120.1	103.6	98.0	97.9	N/A
Ukraine	56.8	51.3	69.3		
Tajikistan	121.8	34.6			
Uzbekistan	77.4				
Uzbekistan	279.5				

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Armenia	163.7		
Monthly average minutes of use per active subscriber ( MOU <sub>ACT</sub> <sup>(9)</sup> )	143.4	117.6	N/A
Russia	145.9	120.4	N/A
Kazakhstan	70.4	55.3	

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	As of December 31,				
	2006	2005	2004	2003	2002
Ukraine	149.7	36.2			
Tajikistan	121.1				
Uzbekistan	320.5				
Armenia	162.9				
Monthly average revenue per subscriber ( ARPU <sup>(7)</sup> )	US\$ 8.0	US\$ 7.5	US\$ 10.1	US\$ 13.6	US\$ 18.3
Russia	US\$ 7.9	US\$ 7.4	US\$ 10.1	US\$ 13.6	US\$ 18.3
Kazakhstan	US\$ 10.1	US\$ 10.5	US\$ 15.7		
Ukraine	US\$ 4.1	US\$ 4.1			
Tajikistan	US\$ 4.4				
Uzbekistan	US\$ 10.4				
Armenia	US\$ 15.7				
Monthly average revenue per active subscriber ( ARPU <sub>ACT</sub> <sup>(7)</sup> )	US\$ 9.7	US\$ 8.7			
Russia	US\$ 9.6	US\$ 8.5			
Kazakhstan	US\$ 12.6	US\$ 11.3			
Ukraine	US\$ 5.0	US\$ 4.3			
Tajikistan	US\$ 6.8				
Uzbekistan	US\$ 11.9				
Armenia	US\$ 15.6				
Churn rate (for the period ended) <sup>(8)</sup>	35.1%	30.4%	29.6%	39.3%	30.8%
Russia	35.4%	30.4%	29.3%	39.3%	30.8%
Kazakhstan	32.8%	30.3%	19.0%		
Ukraine	18.6%				
Tajikistan	95.1%				
Uzbekistan	44.9%				
Armenia	9.1%				
Number of GSM base stations:					
Russia	19,241	15,659	10,659	6,596	3,099
Kazakhstan	1,791	1,126	586		
Ukraine	1,653	596			
Tajikistan	107	6			
Uzbekistan	626				
Armenia	205				

- (1) Estimated population statistics for Russia were published by the Federal State Statistics Service, or Goskomstat, of Russia. Estimated population statistics for Kazakhstan were published by the Statistics Agency of Kazakhstan. Estimated population statistics for Ukraine were published by Goskomstat of Ukraine. Estimated population statistics for Tajikistan were provided by the State Committee of Statistics. Estimated population statistics for Uzbekistan and Armenia were provided by our company.
- (2) Estimated subscriber statistics for Russia for all periods presented and for Ukraine as of December 31, 2006 and 2005 were published by AC&M Consulting, a management consulting and research agency specializing in the telecommunications industry in Russia and the CIS. Estimated subscriber statistics for Kazakhstan, Uzbekistan, Tajikistan and Armenia were provided by our company.
- (3) Penetration rate is calculated by dividing the total estimated number of subscribers in each relevant area by the total estimated population in such area as of the end of the relevant period.
- (4) In May 2005, we announced the introduction of an active subscriber definition as an additional characteristic of our subscriber base. Pursuant to the new definition, a subscriber is considered active if the subscriber's activity resulted in income to our company during the most recent three months. Such activity includes all incoming and outgoing calls, subscriber fee accruals, debits related to service, outgoing SMS and MMS and data transmission and receipt sessions, but does not include incoming SMS and MMS sent by our company or abandoned calls. In 2006, we began calculating MOU and ARPU on the basis of subscriber data using the active subscriber definition.

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See footnotes 6 and 7 below.

- (5) Market share of subscribers for each relevant area is calculated by dividing the estimated number of our subscribers in Russia, Kazakhstan, Ukraine, Tajikistan, Uzbekistan and Armenia, respectively, by the total estimated number of subscribers in Russia, Kazakhstan, Ukraine, Tajikistan, Uzbekistan and Armenia, respectively.
- (6) Monthly MOU is calculated for each month of the relevant period by dividing the total number of minutes of usage (including both billable minutes of usage and free minutes of usage) for incoming and outgoing calls during that month (excluding guest roamers) by the average number of subscribers during the month. Beginning with the first quarter of 2004, we decided to introduce a new definition of MOU based on total minutes of usage (including both billable minutes of usage and free minutes of usage) instead of only billable minutes used in the previous definition. The MOU figures presented for the years ended December 31, 2006, 2005 and 2004 in the above table and throughout this document have been calculated under the new definition.  $MOU_{ACT}$  is MOU calculated on the basis of our active subscribers only.
- (7) Monthly ARPU is a non-U.S. GAAP financial measure. Monthly ARPU is used to measure the average monthly services revenue on a per subscriber basis. Monthly ARPU is calculated for each month in the relevant period as our service revenue generated by subscribers during that month, including roaming and interconnect revenues, but excluding revenue from connection fees, sales of handsets and accessories and other

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non-service revenues, divided by the average number of our subscribers during the month. See Item 5 Operating and Financial Review and Prospects Additional Reconciliations of Non-U.S. GAAP Financial Measures (Unaudited) for calculation of our ARPU and for more information regarding our use of ARPU as a non-U.S. GAAP financial measure. ARPU<sub>ACT</sub> is ARPU calculated on the basis of our active subscribers only.

- (8) We define our churn rate as the total number of subscribers disconnected from our network within a given period expressed as a percentage of the midpoint of subscribers in our network at the beginning and end of that period. Contract subscribers are disconnected if they have not paid their bills for two months and prepaid subscribers are disconnected six months after their services have been blocked. We typically block a prepaid subscriber's service in two cases: (1) their balance drops to US\$0 or below, or (2) an account shows no chargeable activity within six months. Migration of subscribers from our D-AMPS network to our GSM network, as well as migration between prepaid and contract forms of payment, is technically recorded as churn, which contributes to our churn rate even though we do not lose those subscribers. Similarly, a large proportion of prepaid customers who change tariff plans by purchasing a new SIM card with our company are also counted as churn.

### **B. Capitalization and Indebtedness**

Not required.

### **C. Reasons for the Offer and Use of Proceeds**

Not required.

### **D. Risk Factors**

*The risk factors below are associated with our company and our ADSs. Before purchasing our ADSs, you should carefully consider all of the information set forth in this Annual Report on Form 20-F and, in particular, the risks described below. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed. In that case, the trading price of our ADSs could decline and you could lose all or part of your investment.*

*The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware and these risks could have the effects set forth above.*

### **Risks Related to Our Business**

**Telenor and Alfa Group each beneficially owns a significant portion of our equity that allows each of them to block shareholder decisions requiring a 75.0% vote, and their nominees to our board of directors can block board decisions requiring a supermajority vote.**

Two of our beneficial shareholders, Telenor and Eco Telecom Limited, part of the Alfa Group of companies, or the Alfa Group, each beneficially owns enough voting stock to block shareholder decisions that require at least a 75.0% majority vote. Telenor recently reported that it beneficially owned 26.6% of our voting capital stock and Alfa Group recently reported that it beneficially owned 42.4% of our voting capital stock. There is a risk that either of them could use its greater than 25.0% beneficial ownership of our voting stock to block certain shareholder decisions in a manner that may not be in our best interest or in the best interest of our minority shareholders or other security holders. For more information regarding each of Telenor's and Alfa Group's beneficial ownership of our shares, see the section of this Annual Report on Form 20-F entitled Item 7 Major Shareholders and Related Party Transactions.

Furthermore, each of Telenor and Alfa Group has sufficient votes to elect at least two candidates to our board of directors. Several important decisions of our board may require the approval of at least eight out of nine directors, including: the approval of the business priorities and strategic orientations of our company; acquisitions or sales of shareholdings in other enterprises; approval and amendment of the annual budget and business plan (and approving any agreements beyond the limits of the approved budget and business plan); approval, amendment or termination of internal documents of our company (except those requiring shareholder approval); and appointment, dismissal and early termination of the authority of the general director. Therefore, there is a risk that Telenor's and Alfa Group's respective nominees to our board of directors could use their positions to block board decisions requiring an eight out of nine vote of the board in a manner that may not be in our best interest or the best interest of our minority shareholders or other security holders. For more information regarding certain disagreements

among our board members in connection with our acquisition, operation and funding of URS, please see the immediately following risk factors.

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For more information regarding our board of directors and each of Telenor's and Alfa Group's right to nominate directors, see the section of this Annual Report on Form 20-F entitled "Item 6 Directors, Senior Management and Employees."

**We have a limited non-compete agreement with our strategic shareholders and our strategic shareholders may pursue different development strategies from us and one another in Russia, the CIS or other regions, which may hinder our company's ability to expand and/or compete in such regions and may lead to a further deterioration in the relationship between our two strategic shareholders.**

The agreements currently in place among Telenor, Alfa Group and our company include a noncompete provision, but it is limited to Russia and does not extend to the CIS or any other country. In 2003, after receiving a waiver of this non-compete provision from our board (which waiver was approved by our three independent, disinterested directors as such terms are defined under Russian law), Alfa Group acquired a stake in Open Joint Stock Company MegaFon, or MegaFon, one of our main competitors. Alfa Group confirmed that following its acquisition of a stake in MegaFon, our company continues to be its primary investment vehicle in the Russian telecommunications industry. However, if Alfa Group's investment focus shifts in favor of MegaFon, our company may be deprived of the important benefits and resources that it derives from Alfa Group's current telecommunications investment policy. Additionally, a shift in Alfa Group's focus in favor of MegaFon may hinder our activities and operations and may prevent our further expansion.

Telenor and/or Alfa Group may have different strategies in pursuing regional development in Russia, the CIS or other regions outside of the CIS than we do, and they may have different strategies from one another. We cannot assure you that we, Telenor and Alfa Group may not wish to pursue different strategies, including in countries where one or both of our strategic shareholders have a presence.

For instance, Telenor Mobile Communications AS, which is a sister company of Telenor East Invest AS, and Storm LLC, a member of the Alfa Group of companies, reportedly own 56.5% and 43.5%, respectively, of Joint Stock Company Kyivstar GSM, or Kyivstar, a wireless telecommunications operator in Ukraine. When our company pursued expansion into Ukraine through the acquisition of URS our board failed to approve such expansion or acquisition by the requisite approval of eight out of nine members of the board on several occasions. The three Telenor nominated directors on our board at the time who were also officers of Telenor or its affiliates, referred to herein as the Telenor Nominees, voted against the approval of the proposed acquisition on each occasion, whereas the three Alfa Group nominees on our board at the time who were also officers or directors of Alfa Group entities, referred to herein as the Alfa Group Nominees, voted in favor of the proposed acquisition on each occasion. The acquisition was ultimately approved as an interested party transaction by our shareholders at the extraordinary general shareholders meeting held on September 14, 2005, which we refer to in this Annual Report on Form 20-F as the September 2005 EGM.

Russian law permits shareholders to convene extraordinary general shareholders meetings, or EGMs, under certain circumstances, including if the board of directors of a joint stock company fails to address within five business days a request to convene an EGM by a shareholder holding more than 10.0% of the company's shares. We believe the URS acquisition qualified as an interested party transaction because one of the Alfa Group Nominees, Pavel Kulikov, also served on the board of one of the sellers of URS. After our board failed to convene an EGM upon a request by Eco Telecom Limited (on behalf of BNY Clearing International Nominees), Eco Telecom Limited (on behalf of BNY Clearing International Nominees) attempted to convene an EGM in August 2005. This EGM did not take place because it did not have a quorum, in part due to the fact that Eco Telecom Limited (on behalf of BNY Clearing International Nominees) did not attend the EGM. Eco Telecom Limited (on behalf of BNY Clearing International Nominees) subsequently rescheduled the EGM for September 2005. The aborted EGM in August and the September 2005 EGM involved a proxy contest between Telenor and Alfa Group. Telenor publicly stated that it was not in favor of the URS acquisition while Alfa Group publicly stated that it was in favor of the URS acquisition. Subsequent to the September 2005 EGM, although not required, our board affirmed as legally valid the decision of the September 2005 EGM by a simple majority but failed to approve by a simple majority a proposed resolution specifically instructing management to enter into the URS acquisition and a proposed resolution instructing management not to enter into the URS acquisition without the approval of eight out of nine members of the board.

Following the September 2005 EGM and prior to the consummation of the URS acquisition, our general director notified Telenor of our company's plans to acquire URS pursuant to the decision of the September 2005 EGM and suggested that Telenor seek an injunction or take other appropriate legal action to prevent the consummation of the acquisition prior to its actual consummation if it believed that the URS transaction was not validly authorized. However, Telenor brought a claim against our company only following the consummation of the acquisition of URS. In

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late January 2006, Telenor filed lawsuits in Russia that, among other things, challenge the validity of the September 2005 EGM, the adequacy of corporate approvals for the URS acquisition and the decision to complete the URS acquisition, and seek to unwind the URS acquisition. For more information regarding the Telenor challenges to the URS acquisition and the risks associated therewith, please see the risk factor below entitled "Our acquisition of URS is being challenged by Telenor and may be challenged by other parties" and the section of this Annual Report on Form 20-F entitled "Item 4 Information on the Company Legal Proceedings."

To date, the Telenor Nominees continue to question the legality of the URS acquisition and have disagreed with us as to the requisite number of votes of our board members needed to approve certain funding of and other transactions by URS. Furthermore, our board has been unable to approve budgets for 2006 and 2007 for our company primarily due to the continuing disagreement regarding the budget for URS. Under our charter, approval of the budget requires the approval of eight out of nine of our directors. The Telenor Nominees have indicated in correspondence to our company and during the relevant board meetings regarding the 2006 and 2007 budgets that they would not approve the consolidated budgets presented by management because they are opposed to the proposed budget for Ukraine. The Telenor Nominees have indicated that they would approve a budget that did not include Ukraine, but proposals by the Telenor Nominees to approve a budget for each of 2006 and 2007 excluding Ukraine did not receive the requisite approval of eight out of nine of our directors. The Alfa Group Nominees have opposed these proposals at the relevant board meetings and have instead voted to approve a consolidated budget for the entire VimpelCom group. In addition, the proposals for approving a budget excluding Ukraine did not receive the support of the directors who were not affiliated with either Telenor or Alfa Group, whereas the proposals for a consolidated budget, including Ukraine, did receive their support.

Until a budget is approved by the board, our company's management will continue to operate VimpelCom and its subsidiaries without an approved budget and there can be no assurance that our shareholders (including Telenor) or other parties will not challenge the actions of management with respect to the operations of our company and/or any of its subsidiaries, including any transactions, during the period when there is no board-approved budget. For more information regarding our interpretation of our charter and Russian law in this regard, please see the section of this Annual Report on Form 20-F entitled, "Item 10 Additional Information B. Memorandum and Articles of Association Board of Directors."

Although our board has approved an overall strategy for expansion into the CIS, each acquisition is subject to review on a case-by-case basis by our board, and there can be no assurance that our board will approve other acquisitions in Russia, the CIS or other regions. The directors affiliated with Telenor and Alfa Group, respectively, have the ability to block such decisions to the extent board approval is required for an acquisition. Even if such acquisitions are approved by our board, if shareholder approval is required for the acquisition, either or both of our strategic shareholders may vote against such approval at the relevant shareholders meeting.

In addition to their disagreements relating to our acquisition, operation and funding of URS, according to public reports, Telenor and Alfa Group have been involved in various disputes and litigations regarding their ownership and control over Kyivstar. If and to the extent that our strategic shareholders have different expansion strategies, as is apparently the case in Ukraine, it could lead to a further deterioration in their relationship which could have a material adverse effect on our business and prospects. For instance, on June 8, 2006, Standard & Poor's Governance Services announced that VimpelCom's corporate governance score has been lowered from CGS 7.4 to CGS 6.4, citing the ongoing disagreements between Telenor and Alfa Group that led to, among other things, the board's failure to approve our 2006 budget and its concern that the continuing disagreements threaten to affect our company's operations and shareholder value.

### **Our acquisition of URS is being challenged by Telenor and may be challenged by other parties.**

Both before and after our acquisition of URS, Telenor and the Telenor Nominees have consistently objected to the acquisition. Among other things, prior to the September 2005 EGM, Telenor in correspondence to our company raised certain issues related to the proposed acquisition, among these, that the purchase price for the proposed acquisition of URS was inflated and that there was a lack of transparency related to Eco Telecom Limited's role in the negotiations with sellers of URS. In addition, prior to the closing of the URS acquisition, Telenor further stated in correspondence to our company that the September 2005 EGM was not validly convened and that our chief executive officer had no authority to complete the acquisition. Telenor also asserted that the acquisition of URS required the prior approval by not less than 80.0% of the board, that our company's management should not attempt to complete the acquisition prior to receipt of such board approval and that it would use all rights, powers, privileges and remedies to protect and defend itself in relation to the September 2005 EGM and the proposed acquisition of URS. In December 2005, following the URS acquisition, Telenor publicly disclosed a letter that had been sent by the Telenor Nominees to our board chairman on December 12, 2005. In this letter, the Telenor Nominees questioned, among other things, (i) the legality of our management's decision to complete the URS acquisition, (ii) the legality of the URS acquisition, and (iii) the adequacy of VimpelCom's disclosure about the URS transaction and VimpelCom's plans for URS. In late January 2006, Telenor filed three lawsuits in Moscow that, among other things, challenge the validity of the September 2005 EGM and seek to unwind the acquisition of URS. To date, we have prevailed in each stage of the court proceedings in each of the three



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lawsuits and in fact one of the lawsuits is no longer subject to further appeal by Telenor. The remaining two lawsuits are subject to further appeal by Telenor. In one of the two remaining cases that are subject to further appeal - the lawsuit challenging the validity of the September 2005 EGM - Telenor has requested that the Supreme Arbitration Court of Russia consider their appeal. In this case, we have been informed that the Review Panel of the Supreme Arbitration Court has decided to transfer the lower courts' decisions to be reviewed by the Presidium of the Supreme Arbitration Court because certain aspects of the lower court rulings were based on, what the Review Panel apparently believes to be, incorrect interpretations of Russian law. The interpretations of Russian law of the Review Panel are not binding on the Presidium of the Supreme Arbitration Court. The hearing of the Presidium of the Supreme Arbitration Court has been set for June 5, 2007. For more information about our company's acquisition of URS and the litigation with Telenor, please see the immediately preceding and following risk factors and the sections of this Annual Report on Form 20-F entitled "Item 4 Information on the Company Legal Proceedings" and "Item 5 Operating and Financial Review and Prospects Mergers and Recently Completed Acquisitions."

We believe that the September 2005 EGM was properly convened and the acquisition of URS was properly consummated in accordance with the September 2005 EGM approval, applicable law and our charter. However, the provisions of Russian law and our charter applicable to the convocation of the September 2005 EGM, the effectiveness of the decision of the September 2005 EGM and our implementation of that decision are subject to possible different interpretations and a Russian court could disagree with our interpretation. There can be no assurance that we will prevail at any stage of the litigation relating to these lawsuits or that other claims by Telenor or other third parties regarding our acquisition, operation or funding of URS, challenging our ownership interest in URS or other matters will not be made. It is also possible that third parties may seek monetary damages from us or challenge our ownership interest in URS in connection with their claims against the parties that sold URS to our company. In early 2006, both URS and three Cyprus entities that we acquired in the URS transaction that now are our subsidiaries and which directly hold shares in URS received inquiries and document requests from local police authorities. Based on the limited information available to us, it appears that these inquiries related to a then ongoing criminal investigation by Ukrainian authorities into a dispute regarding the transfer of interests in URS by former shareholders of URS, which dispute did not involve any acts or failures to act by our company. In May 2007, the three Cyprus entities mentioned above plus a fourth Cyprus entity that we acquired in the URS transaction received another information request from the local police authority which we believe to be related to the same matter. At this stage, we are not sure of the impact, if any, these inquiries and document requests may have on our company. There can also be no assurance that this investigation, our litigation with Telenor or any future claims by Telenor or third parties will not result in the unwinding of the URS acquisition, deprive us of a portion of our ownership interest in URS, or limit or prohibit our operation or funding of URS or result in our having to pay monetary damages. Furthermore, our company may not be able to recover the purchase price that it paid to the sellers of URS, any portion of the funds that our company invested in URS during the period prior to the unwinding of the URS acquisition or any other monetary losses that our company will have incurred in connection with our ownership of URS. In the event that a decision unfavorable to us in any lawsuit filed by Telenor to date or any lawsuit that Telenor or other parties may file in the future becomes binding, it could have a material adverse effect on our company, its business, its expansion strategy and its financial results, including an event of default under our outstanding indebtedness.

**The Telenor Nominees have alleged possible conflicts of interest arising from possible business relationships between the Alfa Group Nominees and the sellers of URS.**

On April 6, 2006, the Telenor Nominees sent a letter to the chairman of our board. Telenor also filed this letter as an attachment to its Schedule 13D/A filed with the SEC on April 6, 2006. We refer you to Exhibit 15.1 to our Annual Report on Form 20-F for the year ended December 31, 2005 where we attached the full content of the letter.

In this letter, the Telenor Nominees repeated their prior request that an independent investigation be undertaken to investigate and report to the board concerning any conflicts of interest arising from possible business relationships between the Alfa Group Nominees and the sellers of URS. In this letter, the Telenor Nominees presented certain information that they maintain confirms their belief that such investigation is absolutely essential. At the suggestion of one of the Telenor Nominees following our April 7, 2006 board meeting, outside counsel for Telenor was contacted to provide our company with any information that outside counsel or its clients have that would explain, support or would be responsive to certain questions and ambiguities raised by the April 6, 2006 letter. In general, outside counsel for Telenor indicated that it would not provide any new information because it believed that it would be inappropriate to do so in light of the pending proceedings between Telenor and our company and Telenor and Alfa Group as well as for reasons of attorney/client privilege. Thus, despite due demand therefor, up to the date of this Annual Report on Form 20-F, we still have not received any information from any of the Telenor Nominees or their counsel that explains, supports, or is responsive to the questions and ambiguities raised by the April 6, 2006 letter. Alfa Group has previously

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publicly denied any financial interest in the sellers of URS, and following the statements made by the Telenor Nominees in their April 6, 2006 letter, we requested and received from the Alfa Group Nominees letters confirming that neither they nor to the best of their knowledge and belief after reasonable inquiry any of their related parties or any member of the Alfa Group of companies had any financial interest in the URS sellers or the URS transaction. However, if it is proven that any Alfa Group Nominees or any other member of the Alfa Group or their affiliates had an undisclosed interest in the URS acquisition, it could harm our company's reputation, lead to further deterioration of the relationship between our two strategic shareholders, result in further shareholder or third party lawsuits, and/or in, certain situations, call into question the adequacy of our corporate approvals, including in connection with the URS acquisition.

**The Telenor Nominees have alleged that our prior disclosure with respect to the URS acquisition and other matters has been, and our current disclosure with respect to the URS acquisition and other matters is, inadequate, and the Telenor Nominees voted against approval of this Annual Report on Form 20-F, our Annual Report on Form 20-F for the year ended December 31, 2005, our U.S. GAAP financial statements for 2005 and 2006 and our U.S. GAAP financial statements for each quarter since the first quarter of 2006.**

In the April 6, 2006 letter, the Telenor Nominees repeated their prior claims that our disclosure with respect to the URS acquisition was inadequate and their request that we make public various information and documentation previously requested by the Telenor Nominees in their December 12, 2005 letter to the chairman of our board. Telenor attached a copy of this letter to its Schedule 13D/A that it filed with the SEC on December 12, 2005. At the December 14, 2005 meeting of our board, our chief executive officer replied orally to the questions posed by the Telenor Nominees in their December 12, 2005 letter. Among other things, our chief executive officer stated that our company believed that the URS acquisition (including the price paid) was consummated in accordance with the September 2005 EGM approval, applicable law and our charter; stated that management conducted standard legal and accounting due diligence in connection with the URS acquisition and was not aware that any entity connected with the Alfa Group received any proceeds from the acquisition; and stated that our company paid customary fees for its investment banking, legal and accounting advisors in connection with the URS acquisition. In addition, the Telenor Nominees have been informed by the chairman of our board that all directors, including them, have access to all information on the URS transaction in our possession subject to the execution of a confidentiality letter consistent with directors' duty of confidentiality.

Although our U.S. GAAP financial statements for 2005 and 2006 and our U.S. GAAP financial statements for each quarter since the first quarter of 2006 were approved by the requisite majority of our board, the Telenor Nominees have voted against approval of these financial statements indicating that their vote against approval was due to the lack of a board approved budget, specifically with respect to URS expenditures made during the relevant periods.

In addition, although this Annual Report on Form 20-F and our Annual Report on Form 20-F for the year ended December 31, 2005 were approved by the requisite majority of our board, the Telenor Nominees voted against approval of the reports because not all of their requested disclosures were made. We refer you to Exhibit 15.4 to this Annual Report on Form 20-F and Exhibit 15.2 to our Annual Report on Form 20-F for the year ended December 31, 2005, where we have attached the Telenor Nominees' requested disclosures. The disclosures contained in these exhibits should not be considered as being made by our company. We believe the comments from the Telenor Nominees should be viewed in light of the fact that Telenor is currently suing our company. We believe that the Telenor Nominees' requested disclosures are either redundant and already adequately and properly disclosed or are immaterial and not required to be disclosed.

Although we maintain that both our prior disclosures regarding the URS acquisition and our disclosure in the Annual Reports on Form 20-F for the years ended December 31, 2006 and 2005 have been made in compliance with our relevant disclosure obligations to our board and shareholders, there can be no assurance that the adequacy of our disclosure regarding the URS acquisition, the operation and funding of URS, the operation of our company without a board approved budget in 2006 and 2007, the consequences of any challenges thereto, or any other matters will not be successfully challenged by our current or former shareholders or government regulators. Further developments in respect of any or all of the matters discussed in this or the preceding risk factors may ultimately have a material adverse effect on our company, its prospects, its expansion strategy and reputation and result in a default under our existing indebtedness.

**A disposition by one or both of our strategic shareholders of their respective stakes in our company or a change in control of our company could harm our business.**

Under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Telenor reduces its stake in our company to less than 25.0% or certain parties

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(generally other than Telenor ASA or its subsidiaries, Alfa Group or its subsidiaries or reputable international telecommunications operators with at least a minimum specified debt rating) take a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment which leads to an event of default, could trigger cross default/cross acceleration provisions under certain of our other debt agreements, including our loans from UBS (Luxembourg) S.A. (funded by the issuance of loan participation notes by UBS (Luxembourg) S.A.). In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders' equity.

In November 2006 and throughout March 2007, Alfa Group disclosed that it acquired additional ADSs of our company, thereby increasing its voting interest in our company to 42.4%. On March 14, 2007, Alfa Group disclosed that it has pledged 9,349,999 of our common shares, or the Pledged Shares, to an affiliate of Deutsche Bank AG, as security for US\$1.5 billion of bonds issued by Eco Telecom Limited, and deposited 15,209,134 of our ADSs, an additional 3,213,783 of our common shares and 6,426,600 of our preferred shares, referred to collectively as the Escrowed Shares, with The Bank of New York, as escrow agent. According to its disclosure, Eco Telecom Limited will be entitled to exercise all voting and other rights attaching to the Escrowed Shares and, unless an early maturity has occurred or an event of default (each as set forth in the agreement governing the Pledged Shares) has occurred and is continuing, the Pledged Shares. In its disclosure regarding the March 2007 acquisitions, Alfa Group reported that it was increasing its ownership of VimpelCom's common shares to increase its influence over the corporate actions to be taken by VimpelCom, but that Alfa Group may, from time to time, and reserves the right to, change its plans or intentions and take any and all actions that it deems appropriate to maximize the value of its investment in VimpelCom.

If Telenor or Alfa Group were to dispose of their stakes in VimpelCom, or if Alfa Group's shares in VimpelCom subject to such pledge and/or escrow arrangement were to be disposed of, our company may be deprived of the benefits and resources that it derives from Telenor and Alfa Group, respectively, which could harm our business. Please see the risk factor entitled "If we invest in or acquire other companies, particularly outside of Russia, we may face certain risks inherent in such transactions."

**Five out of our seven super-regional GSM licenses in Russia, including our GSM license for the Moscow license area, will expire in 2008 and any failure on our part to extend existing licenses or procure new licenses to replace our existing licenses may have a material adverse effect on our business and results of operations.**

Five out of our seven GSM licenses in Russia, including our GSM license for the Moscow license area, expire on April 28, 2008. We can give you no assurance that these licenses will be renewed upon expiration. For example, the law On Communications, or the Communications Law, states that an application to renew a license may be rejected if, among other things, there are any uncured violations on the date of the renewal application, and we cannot assure you that we will not have any uncured violations when we apply for license renewals. Governmental officials have broad discretion in deciding whether to renew a license, and may not renew our licenses after expiration. Furthermore, if our licenses are renewed, they may contain different terms or additional obligations, including payment obligations, or may cover reduced service areas or a reduced scope of service. If our GSM license for the Moscow license area or our other super-regional licenses in Russia that expire in 2008 are not renewed, we may be required, among other things, to suspend service and our business would be materially adversely affected. Because our licenses are integral to our operations, our inability to extend our existing licenses or obtain a new license on substantially the same terms would have an adverse effect on our financial condition.

**We could be subject to claims by the Russian tax inspectorate that could have a material adverse effect on our business.**

We have been subject to substantial claims by the Russian tax inspectorate in the past, which have resulted in additional payments, including fines and penalties payable by our company to the tax authorities. Most recently, in July 2006, the tax inspectorate issued a final decision stating that we owe an additional 1,804 million Russian rubles (approximately US\$68.5 million at the exchange rate as of December 31, 2006) as tax arrears and fines and penalties for the years 2003 and 2004. Our company does not agree with many of the findings of the tax inspectorate and accordingly filed a lawsuit against the tax inspectorate challenging this decision. In November 2006, the Moscow City Arbitration Court ruled to partially grant our claim of a refund in the amount of 490 million Russian rubles (approximately US\$18.6 million at the exchange rate as of December 31, 2006). We appealed this decision, but in February 2007, the Court of Appeals affirmed the decision of the Moscow City Arbitration Court. Both the tax inspectorate and we continue to disagree with the courts' rulings and have filed appeals with the Federal Arbitration Court of the Moscow District. The hearing in the Federal Arbitration Court of the Moscow District is scheduled for May 25, 2007.

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Notwithstanding our objection to the tax inspectorate's decision, we have offset or paid the taxes and penalties for 2003 and 2004 in the amount claimed by the tax inspectorate. In 2006, we established additional tax reserves to cover the potential future claims by the tax authorities in respect of the 2003 and 2004 contested areas that were already reflected in our 2005 tax returns. For more information regarding prior tax claims and their effects on our financial statements, see the sections of this Annual Report on Form 20-F entitled "Item 4 Information on the Company Legal Proceedings Disputes with the Russian Tax Authorities" and "Item 5 Operating and Financial Review and Prospects" and Note 20 in our consolidated financial statements included elsewhere in this Annual Report on Form 20-F. In addition, for more information concerning tax risks faced by us, see the risk factor entitled "Risks Related to the Legal and Regulatory Environment in Russia and the CIS Unpredictable tax systems give rise to significant uncertainties and risks that complicate our tax planning and business decisions."

There can be no assurance that we will prevail at any stage of our litigation with the tax inspectorate. In addition, there can be no assurance that the tax authorities will not claim on the basis of the same asserted tax principles they have claimed against us for prior tax years or different tax principles that additional taxes are owed by VimpelCom or its subsidiaries for prior or future tax years or that the Ministry of Internal Affairs will not decide to initiate a criminal investigation in connection with claims for prior tax years. The adverse resolution of these or other tax matters that may arise could have a material adverse effect on our business, financial condition and results of operations.

### **MegaFon, a national telecommunications operator, may receive preferential treatment from the regulatory authorities and benefit from the resources of its shareholders, potentially giving it a substantial competitive advantage over us.**

One of our national competitors is MegaFon. MegaFon is the only wireless service provider to hold licenses to provide GSM 900/1800 cellular communications service in all 88 administrative regions of the Russian Federation. In addition, MegaFon has instituted unified intra-network roaming tariffs within its group of companies and may introduce unified tariffs in each of the regions in which it operates. These factors may give MegaFon a competitive advantage over us, restrict our ability to expand into all of the regions of Russia and diminish the competitive advantage we hope to enjoy from our creation of a single, integrated national network. According to independent estimates, MegaFon's nationwide market share of subscribers was approximately 19.5% as of December 31, 2006.

MegaFon is reportedly owned by Open Joint Stock Company Telecominvest (31.3%), Sonera Holding B.V. (26.0%), Limited Liability Company CT Mobile (25.1%), Telia International AB (6.37%), Telia International Management AB (1.73%), IPOC International Growth Fund Limited (8.0%) and Limited Liability Company Contact-C (1.5%). It has been reported that Open Joint Stock Company Telecominvest is, in turn, owned 59.0% by FNH, S.A., which has been linked in the press to IPOC International Growth Fund Limited, 26.0% by TeliaSonera and 15.0% by Open Joint Stock Company North West Telecom, a subsidiary of Svyazinvest (which is effectively controlled by the Russian Government). Alfa Group acquired Limited Liability Company CT Mobile in 2003 following the approval of our board of directors to the granting of consent by our company to Alfa Group's acquisition. The consent contemplates that the parties will explore the possibility of a business combination between MegaFon and our company. According to press reports, the acquisition by Alfa Group is being disputed by some of MegaFon's shareholders. Press reports have noted that in the past MegaFon received preferential treatment in regulatory matters and have pointed to the previous involvement of some government officials in entities related to MegaFon as potential reasons for such treatment. Furthermore, despite the fact that we recently were awarded a nationwide 3G license, previous press reports have noted that our difficulties in obtaining frequencies in the Far East super-region may be similarly related. If MegaFon receives favorable treatment from government officials in the future or if our company is singled out for unfavorable treatment by government officials as a result of disputes between third parties, our business could be adversely affected. For more information concerning the difficulties we have faced in obtaining Far East frequencies, please see the risk factor entitled "We face uncertainty regarding our frequency allocations and may experience limited spectrum capacity for providing wireless services."

Furthermore, our competitors have established and will continue to establish relationships with each other and with third parties. Current or future relationships among our competitors and third parties may restrict our access to critical systems and resources. New competitors or alliances among competitors could rapidly acquire significant market share. We cannot assure you that we will be able to forge similar relationships or successfully compete against them.

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### **Increased competition and a more diverse subscriber base have resulted in historically lower average monthly service revenues per subscriber, which may have a material adverse effect on our results of operations.**

While our subscribers and revenues have grown during the past few years, our average monthly service revenues per subscriber, or ARPU, steadily declined during 2000-2005 and only slightly increased in 2006. Our ARPU declined from US\$13.6 in 2003 to US\$10.1 in 2004 and to US\$7.5 in 2005. We believe that the decline in ARPU during this period was due to an increase in the number of new mass market subscribers as a proportion of the total number of our subscribers as a result of accelerated growth of our subscriber base in the regions of Russia and a gradual reduction in our tariffs. Mass market subscribers typically spend less time on their cell phones and utilize value added services less frequently than more established subscribers and corporate and business subscribers. Although our ARPU increased from US\$7.5 in 2005 to US\$8.0 in 2006 and we believe that our ARPU will continue to slightly increase in the near future, we cannot assure you that our ARPU will not decline. As subscriber growth rates slow, we are increasingly reliant on revenue growth for our operations to continue to expand and flourish. Our business strategy contemplates such growth and we are expending significant resources to increase our revenues, particularly by marketing new products and value added services to both our existing subscribers and new corporate and business subscribers. If we are unsuccessful in our marketing campaigns, our ARPU may decline, which may materially adversely affect our business and results of operations.

In addition, as the penetration rate in Russia continues to increase and the market matures, wireless service providers, including our company, have been forced in the past to utilize more aggressive marketing schemes to retain existing subscribers and attract new ones. If this were to occur in the future, our company may choose to adopt lower tariffs, offer handset subsidies or increase dealer commissions, any or all of which could materially adversely affect our business and results of operations.

### **If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, leading to loss of market share and revenues.**

We have expended significant time and resources building our brand image. Our ability to attract new subscribers and retain existing subscribers depends in part on our ability to maintain what we believe to be our favorable brand image. Negative rumors or various claims by Russian or foreign governmental authorities, individual subscribers and third parties against our company could materially adversely affect this brand image. In addition, consumer preferences change and our failure to anticipate, identify or react to these changes by providing attractive services at competitive prices could negatively affect our market share. We cannot assure you that we will continue to maintain a favorable brand image in the future. Any loss of market share resulting from any or all of these factors could negatively affect our results of operations.

### **If we cannot attract, train, retain and motivate qualified personnel, then we may be unable to successfully manage our business or otherwise compete effectively in the mobile telecommunications industry, which could have a material adverse effect on our business.**

To successfully manage our business, we depend in large part upon our ability to attract, train, retain and motivate highly skilled employees and management. There is significant competition for such employees. In the future, it may be increasingly difficult for us to hire qualified personnel. Further, we may lose some of our most talented personnel to our competitors.

Our current Chief Executive Officer, Alexander Izosimov, is under contract with our company until October 2008. Our charter states that the appointment, dismissal or early termination of our Chief Executive Officer requires the approval of at least 80.0% of all our board members. Mr. Izosimov was initially appointed by the requisite 80.0% vote of the board in June 2003 and Mr. Izosimov and our company subsequently signed an employment agreement that was to expire in October 2006. At the end of this term, the board failed to either reappoint or dismiss Mr. Izosimov by an 80.0% vote. In such circumstance, under our interpretation of Russian law, Mr. Izosimov continues his authority as Chief Executive Officer pursuant to his June 2003 appointment until such time as he is either dismissed by the required 80.0% vote of the board or he resigns. Consistent with our interpretation of its authority under our charter, a simple majority of our board did vote to approve a new two-year employment agreement with Mr. Izosimov until October 2008. Certain members of our board, certain of our shareholders or other parties may disagree with and challenge our interpretation of Russian law and our Chief Executive Officer's authority or actions taken and transactions consummated after October 1, 2006 due to the fact that the continuation of Mr. Izosimov as Chief Executive Officer after October 1, 2006 did not receive the approval of at least 80.0% of our board. Furthermore, the Procedural Regulations of our board provide that the affirmative vote of at least 80.0% of our board is required to confirm our Chief Executive Officer on an annual basis. Although 80.0% of our board failed to so confirm Mr. Izosimov in 2006, our view is that the lack of such annual confirmation under the Procedural Regulations does not have a legal effect on

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our Chief Executive Officer's status and authority under Russian law. While we intend to vigorously contest any challenges, there can be no assurance that a Russian court would agree with our interpretation of Russian law. If any challenges against our company or management are successful, including if they were to lead to the possible unwinding of transactions concluded after October 1, 2006, such challenges could have a material adverse effect on our company, its operations and its financial condition.

### **The public switched telephone networks have reached capacity limits and need modernization, which may inconvenience our subscribers and will require us to make additional capital expenditures.**

Due to the growth in fixed and mobile telephone use, long distance and local lines have, from time to time, become overtaxed and caused incoming and outgoing calls to have lower completion rates. Additional investment is required to increase line capacity. In addition, continued growth in local, long-distance and international traffic, including that generated by our subscribers, may require substantial investment in public switched telephone networks. Although the operators of public switched telephone networks are normally responsible for these investments, their weak financial condition may prevent them from making these investments. Since we are financially strong relative to these public network operators, we may be compelled to make investments on their behalf, placing an additional burden on our financial and human resources. Additionally, assuming we do make investments, we may not own the assets resulting from such investments. While we cannot estimate the financial and operating burdens associated with such investments, they may be substantial and may have a material adverse effect on our business and results of operations.

### **Substantial leverage and debt service obligations may materially adversely affect our cash flow.**

We have substantial amounts of outstanding indebtedness. As of December 31, 2006, the aggregate principal on our total outstanding indebtedness was approximately US\$2,489.4 million. Our consolidated subsidiaries were the primary or sole obligors on US\$339.8 million, or approximately 13.6% of our actual total indebtedness as of December 31, 2006. Furthermore, certain of our subsidiaries are in discussions to obtain additional debt financing, some of which may be secured or guaranteed by VimpelCom. In addition, US\$169.3 million of our total outstanding indebtedness was secured by our equipment and securities as of December 31, 2006. For more information regarding our outstanding indebtedness, see the sections of this Annual Report on Form 20-F entitled "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Financing activities" and "Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Equipment Financing." We currently contemplate that we will need to raise approximately US\$800.0 million in debt financing in the Russian and/or international capital markets and/or in bank financing to meet our projected capital expenditures, scheduled debt repayment and possible acquisitions through 2007. The actual amount of debt financing that we will need to raise will be influenced by the actual pace of subscriber growth over the period, network construction, our acquisition plans and our ability to continue revenue and ARPU growth. In addition, we are currently actively pursuing further opportunities for expansion. For more information on the risks associated with acquisitions, please see the risk factor entitled "If we invest in or acquire other companies, particularly outside of Russia, we may face certain risks inherent in such transactions." We cannot, however, give you any assurance of the exact amount that we will invest in acquiring wireless operators or that we will be able to complete any such acquisitions successfully. If we make any further significant acquisitions beyond what is currently contemplated, we will need to increase the amount of additional debt financing over this period above the amount currently projected. If we incur additional indebtedness, the related risks that we now face could increase. Specifically, we may not be able to generate enough cash to pay the principal, interest and other amounts due under our indebtedness.

Our substantial leverage and the limits imposed by our debt obligations could have significant negative consequences, including:

limiting our ability to obtain additional financing or to refinance existing indebtedness;

requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes, including dividends, capital expenditures and marketing efforts;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and



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placing us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

We must generate sufficient net cash flow in order to meet our debt service obligations, and we cannot assure you that we will be able to meet such obligations. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we would be in default under the terms of our indebtedness and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness and could cause defaults under our other indebtedness.

If we do not generate sufficient cash flow from operations in order to meet our debt service obligations, we may have to undertake alternative financing plans to alleviate liquidity constraints, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital expenditures or seeking additional capital. We cannot assure you that any refinancing or additional financing would be available on acceptable terms, or that assets could be sold, or if sold, of the timing of the sales and whether the proceeds realized from those sales would be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and business prospects.

### **We may not be able to recover, or realize the value of, the debt investments that we make in our subsidiaries.**

We lend funds to, and make further debt investments in, one or more of our subsidiaries under intercompany loan agreements and other types of contractual agreements. KaR-Tel and URS are also parties to third-party financing arrangements that restrict our ability to recover our investments in these subsidiaries through the repayment of loans or dividends. For more information regarding our subsidiaries' indebtedness and related payment restrictions, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Financing activities.

The restrictions on our subsidiaries to repay debt may make it difficult for us to meet our debt service obligations.

### **Our revenues are often unpredictable and our revenue sources are short-term in nature.**

Future revenues from our prepaid and contract subscribers, our two primary sources of revenues, are unpredictable. We do not require our prepaid subscribers to enter into service contracts and cannot be certain that they will continue to use our services in the future. We require our contract subscribers to enter into service contracts. However, many of our service contracts can be cancelled by the subscriber with limited advance notice and without significant penalty. Our churn rate, which is the number of subscribers disconnected from our network within a given period expressed as a percentage of the midpoint of the number of subscribers at the beginning and end of that period, fluctuates significantly and is difficult to predict. Our churn rate was 35.1%, 30.4% and 29.6% in 2006, 2005 and 2004, respectively. The loss of a larger number of subscribers than anticipated could result in a loss of a significant amount of expected revenues. Because we incur costs based on our expectations of future revenues, our failure to accurately predict revenues could put our business in jeopardy.

### **Covenants in our debt agreements restrict our ability to borrow and invest, which could impair our ability to expand or finance our future operations.**

The loan agreements and vendor financing agreements under which we borrow funds (as set forth in further detail in Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Financing activities ) contain a number of different covenants that impose on us certain operating and financial restrictions. These restrictions limit the ability of, and in some cases prohibit, among other things, our company and certain of our subsidiaries from incurring additional indebtedness, creating liens on assets, entering into business combinations or engaging in certain activities with companies within our group. A failure to comply with these restrictions would constitute a default under the relevant loan and vendor financing agreements discussed above and could trigger cross payment default/cross acceleration provisions under some or all of these agreements discussed above. In the event of such a default, the debtor's obligations under one or more of these agreements could, under certain circumstances, become immediately due and payable, which would have a material adverse effect on our business, our liquidity and our shareholders' equity.

### **We anticipate that we will need additional capital and we may not be able to raise it.**

We anticipate that we will need additional capital for a variety of reasons, such as:

financing our strategy to develop our regional GSM licenses, including possible acquisitions of existing operators or any payments required in connection with new licenses or frequencies granted to us;



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financing our growth strategy;

financing the development of our acquisitions in Kazakhstan, Ukraine, Uzbekistan, Tajikistan, Georgia and Armenia, as well as possible acquisitions of operators and licenses;

improving our debt portfolio structure;

taking advantage of new business opportunities;

financing the implementation of new technologies, including 3G services;

refinancing existing indebtedness;

responding to unexpected increases in the pace of network development;

complying with regulatory requirements or developments; and

implementing changes in our business strategy.

We currently contemplate that we will need to raise approximately US\$800.0 million in debt financing in the Russian and/or international capital markets and/or in bank financing to meet our projected capital expenditures, scheduled debt repayment and possible acquisitions through 2007. The actual amount of debt financing that we will need to raise will be influenced by the actual pace of subscriber growth over the period, network construction, our acquisition plans and our ability to continue revenue growth and stabilize ARPU. In addition, we are currently actively pursuing further opportunities for expansion. For more information on the risks associated with acquisitions, please see the risk factor entitled "If we invest in or acquire other companies, particularly outside of Russia, we may face certain risks inherent in such transactions." We cannot, however, give you any assurance of the exact amount that we will invest in acquiring wireless operators or that we will be able to complete any such acquisitions successfully. If we make any further significant acquisitions beyond what is currently contemplated, we will need to increase the amount of additional debt financing over this period above the amount currently projected.

Due to a variety of factors, including perceived risks related to our legal and regulatory developments, our subsidiary, KaR-Tel, our acquisition of URS, operational performance, deterioration in the Russian economy or unfavorable conditions in the Russian or international capital markets, we may not be able to raise additional capital on acceptable terms. In addition, a significant rise in interest rates in the United States or the European Union may make it less attractive for us to borrow money within the international capital markets. If we cannot obtain adequate financing on acceptable terms, we may be unable to make desired capital expenditures, take advantage of opportunities, refinance existing indebtedness or meet unexpected financial requirements, and our growth strategy may be negatively affected. This could cause us to delay or abandon anticipated expenditures or otherwise limit operations, which could materially adversely affect our business.

**We may not realize the anticipated benefits from our acquisitions and we may assume unexpected or unforeseen liabilities and obligations or incur greater than expected liabilities in connection with our acquisitions.**

The actual outcome of our recent acquisitions, including, without limitation, our acquisition of URS, and their effect on our company and the results of operations may differ materially from our expectations as a result of the following factors, among others:

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past and future compliance with the terms of the telecommunications license and permissions, ability to get additional frequencies and past and future compliance with applicable laws, rules and regulations (including, without limitation, tax and customs legislation);

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unexpected or unforeseen liabilities or obligations or greater than expected liabilities incurred prior to or after the acquisition, including tax, customs, indebtedness and other liabilities of our subsidiaries or their parent company;

their ability to comply with the terms of their debt and other contractual obligations;

their ability to obtain or maintain favorable interconnection terms as the interconnection provider in each jurisdiction may not be subject to government regulation with respect to tariffs notwithstanding that there may not be viable alternatives to the current provider for interconnection;

exposure to foreign exchange risks that are difficult or expensive to hedge;

their ability to protect their trademarks and intellectual property in each jurisdiction and to register trademarks and other intellectual property used by them in the past;

developments in competition within each jurisdiction, including the entry of new competitors or an increase in aggressive competitive measures by our competitors;

governmental regulation of the wireless telecommunications industry in each jurisdiction;

political economic, social, legal and regulatory developments and uncertainties in each jurisdiction; and

claims by third parties challenging our ownership or otherwise.

**Claims by the Former Shareholders and/or the Fund or others may prevent us from realizing the expected benefits of our acquisition of KaR-Tel, result in increased liabilities and obligations, including possible defaults under our outstanding indebtedness, and deprive us of the value of our ownership interest.**

Prior to our acquisition of KaR-Tel, in November 2003, KaR-Tel redeemed for an aggregate of 450,000 Kazakhstani tenge (or approximately US\$3,100 based on the Kazakhstani tenge to U.S. dollar exchange rate as of December 31, 2003) the equity interests of Turkish companies, Rumeli Telecom A.S. and Telsim Mobil Telekomunikasyon Hizmetleri A.S., owning an aggregate of 60.0% of the equity interests in KaR-Tel, referred to herein as the Former Shareholders, in accordance with an October 30, 2003 decision of the Review Panel of the Supreme Court of Kazakhstan. The decision was based on the finding that the Former Shareholders inflicted material damage on KaR-Tel by causing KaR-Tel to lose a valuable government tax concession and selling KaR-Tel obsolete and over-priced telecommunications equipment. The redemption process was initiated on April 15, 2002 by a repeated extraordinary general meeting of KaR-Tel shareholders reconvened by a shareholder owning 40.0% of the equity interests in KaR-Tel. In late August 2004, prior to our acquisition, we received letters from the Former Shareholders claiming that they continue to own such interests and stating that, without their approval, all KaR-Tel deals are illegal and invalid. The Former Shareholders stated in these letters that subsequent to such redemption, their respective managements were taken over by The Savings Deposit Insurance Fund, a Turkish state agency responsible for collecting state claims arising from bank insolvencies, referred to in this Annual Report on Form 20-F as the Fund. The Former Shareholders indicated in their letters that they were preparing to put their case before the International Center for the Solution of Investment Disputes, or ICSID, an independent organization with links to the World Bank. Based on information disclosed by ICSID, an action by the Former Shareholders against the Republic of Kazakhstan, the subject matter of which is telecommunications enterprise, has been pending since August 30, 2005. While we understand that this action does pertain to the Former Shareholders and their former interests in KaR-Tel, neither VimpelCom nor KaR-Tel is a party to this action. We cannot assure you that the Former Shareholders or other parties will not pursue any action against VimpelCom or KaR-Tel in any forum or jurisdiction. If the Former Shareholders or other parties were to prevail in any such action, we could lose ownership of up to 60.0% of our interest in KaR-Tel, be required to reimburse the Former Shareholders for the value of their interests or otherwise suffer monetary and reputational or other damages that cannot currently be quantified.

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In July 2004, KaR-Tel and its affiliate obtained a default judgment in the Almaty City Court against the Former Shareholders for approximately US\$41.0 million in the aggregate. The Almaty City Court relied on its ruling in the mandatory redemption case in which it found that the Former Shareholders inflicted material damage on KaR-Tel. KaR-Tel has offset, with effect prior to our acquisition, part of this judgment against the approximately US\$23.3 million

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recorded on KaR-Tel's books as owing to the Former Shareholders as of August 31, 2004 (of which approximately US\$17.5 million may have been due and payable as of June 30, 2004 but for the offset) and any other debts or amounts owing to the Former Shareholders. Consequently, this US\$23.3 million amount was not included by us in our calculation of the approximately US\$75.0 million total outstanding indebtedness assumed by us at the time of our acquisition of KaR-Tel. We cannot assure you that the decision of the court will not be overturned or that the amount of the default judgment will not be reduced or that additional amounts will not be owed to the Former Shareholders or their successors, thereby resulting in an increase in the amount of KaR-Tel's indebtedness. Furthermore, the Former Shareholders or their successors may bring actions either inside or outside Kazakhstan challenging the Kazakh court judgment or such offset and claiming that amounts owing to the Former Shareholders or their successors by KaR-Tel have become due and payable. If the Former Shareholders or their successors were to prevail in any such claims, they could claim that an event of default has occurred under certain of the Former Shareholders' debt and supply agreements, which, if not cured within any applicable grace periods, could trigger cross payment default/cross acceleration provisions under certain of our debt agreements. If any creditor or trustee were to bring a claim for a cross payment default/cross acceleration in these circumstances, KaR-Tel or our company may be required to pay any amounts outstanding under the debt and supply agreements between KaR-Tel and the Former Shareholders or their successors in order to avoid any such cross payment default/cross acceleration. We believe that the maximum amount we would be required to pay under these debt and supply agreements in order to avoid any such cross payment default/cross acceleration would be approximately US\$18.1 million, excluding any penalties and interest. If we are unable to pay such amount within any applicable grace periods, the obligations under certain of our debt agreements may become immediately due and payable, which could have a material adverse effect on our business, our liquidity and our shareholders' equity. We cannot assure you that future investigations, claims or events will not show that KaR-Tel's indebtedness to the Former Shareholders exceeded the approximately US\$23.3 million mentioned above, that KaR-Tel's overall indebtedness exceeded approximately US\$75.0 million, that assets were pledged to secure any such indebtedness, or that the prior shareholders of KaR-Tel pledged or otherwise encumbered their interests in KaR-Tel as security for any such indebtedness.

On January 10, 2005, KaR-Tel received an order to pay issued by the Fund in the amount of approximately US\$5.5 billion (stated as approximately Turkish Lira 7.6 quadrillion and issued prior to the introduction of the New Turkish Lira, which became effective as of January 1, 2005). The order, dated as of October 7, 2004, was delivered to KaR-Tel by the Bostandykski Regional Court of Almaty. The order did not provide any information regarding the nature of, or basis for, the asserted debt, other than to state that it is a debt to the Turkish Treasury and the term for payment was May 6, 2004. On January 17, 2005, KaR-Tel delivered to the Turkish consulate in Almaty a petition to the Turkish court objecting to the propriety of the order. KaR-Tel received the Fund's response to the petition in June 2006. In its response to KaR-Tel's petition, the Fund asserts, among other things, that the order to pay was issued in furtherance of its collection of approximately US\$5.5 billion in claims against the Uzan group of companies that were affiliated with the Uzan family in connection with the failure of T. Imar Bankasi, T.A.S. The Fund's response to KaR-Tel's petition asserts that the Uzan group of companies includes the Former Shareholders and KaR-Tel. KaR-Tel submitted a response to the Fund's defense in which KaR-Tel denied in material part the factual and legal assertions made by the Fund in support of the order to pay. Our company believes that the order to pay is without merit, in part due to the fact that the Former Shareholders have not owned any interest in KaR-Tel since November 2003, when their interests were redeemed in accordance with a decision of the Review Panel of the Supreme Court of Kazakhstan, and that any attempted enforcement of the order to pay in relevant jurisdictions outside of Turkey is subject to procedural and substantive hurdles. However, there can be no assurance that KaR-Tel will prevail in its petition for the cancellation of the order to pay (either on substantive or procedural grounds), that claims targeting VimpelCom's ownership of KaR-Tel will not be brought by the Fund directly against VimpelCom or its other subsidiaries or that KaR-Tel and/or VimpelCom or its other subsidiaries will not be required to pay amounts claimed to be owed in connection with the order or on the basis of other claims made by the Fund. The adverse resolution of this matter, and any others that may arise in connection with the order by the Fund or any other claims made by the Fund, could have a material adverse effect on our business, financial condition and results of operations, including an event of default under some or all of our outstanding indebtedness.

**If we invest in or acquire other companies, we may face certain risks inherent in such transactions.**

We may acquire or invest in other companies in business areas that are complementary to our current operations. Any such future acquisitions or investments could be significant and in any case would involve risks inherent in assessing the value, strengths and weaknesses of such opportunities, particularly if we are unable to conduct thorough due diligence prior to the acquisition, as well as in integrating and managing their operations. Such acquisitions or investments may divert our resources and management time. We cannot assure you that any acquisition or investment could be made in a timely manner or on terms and conditions acceptable to us. We also cannot assure you that we will be successful in completing and financing any such acquisition or investment.

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Our company is actively pursuing a strategy that includes additional expansion. Laws and corporate practices in potential expansion areas vary and generally are not well developed. Companies that we acquire may have engaged in business practices that were not in compliance with local law, international business practices, or our internal policies. It is our intention that upon each acquisition by our company, we will promptly institute internal controls consistent with controls throughout our group to attempt to ensure compliance with all laws, good business practices, and our internal policies. However, there can be no assurance that there will not be any material adverse effect on the acquired company or our company arising from any acts committed prior to the acquisition.

### **Our wireless licenses may be suspended or revoked, which could materially adversely affect our business.**

We are required to meet certain terms and conditions under our licenses, including meeting certain conditions established by the legislation regulating the communications area. These conditions include:

commencing service by a certain date;

providing telecommunications services only after obtaining permits for operation of equipment and use of frequencies;

meeting the requirements set forth in the course of radio frequency band allocation and radio frequency or channel designation;

complying with the rules for interconnection of telecommunication networks and interaction thereof;

complying with the new Russian plan and system of federal telephone numbering;

complying with the requirements relating to communications network construction; and/or

complying with the requirements of the normative acts in the communications area.

For more information on our GSM licenses and their related requirements, please see the section of this Annual Report on Form 20-F entitled **Item 4 Information on the Company GSM Licenses**.

If we fail to comply with the conditions of our GSM licenses or with the requirements established by the legislation regulating the communications area, or if we do not obtain permits for operation of our equipment or use of frequencies, or if extensions requested are not granted and/or action is taken against our company or our subsidiaries, our business could be materially adversely affected.

If we fail to meet the requirements in our licenses or if we do not com