JSFC SISTEMA AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

JSFC SISTEMA AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003:	
Consolidated balance sheets	2-3
Consolidated statements of operations and comprehensive income	4-5
Consolidated statements of cash flows	6-7
Consolidated statements of changes in shareholders' equity	8
Notes to consolidated financial statements	9-57

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSFC Sistema:

We have audited the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries (the "Group") as of December 31, 2004 and 2003, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2004, the Group adopted Financial Accounting Standards Board Interpretation "Consolidation of Variable Interest Entities" ("FIN 46R"). The adoption of FIN 46R resulted in recognition of a loss of $35.5 million, which was classified as a cumulative effect of a change in accounting principle for the year ended December 31, 2004.

May 23, 2005

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2004	2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 503,747	$ 283,165
Short-term investments	6	207,293	278,850
Loans to customers and banks, net	7	379,310	364,982
Insurance-related receivables	8	130,278	96,309
Accounts receivable, net	9	327,921	182,251
Other receivables and prepaid expenses, net	10	583,074	567,125
Inventories	11	276,832	166,203
Deferred tax assets, current portion	24	73,592	53,964
Total current assets		2,482,047	1,992,849
Property, plant and equipment, net	12	4,435,215	3,368,121
Advance payments for non-current assets		181,281	52,969
Long-term receivables		4,513	1,223
Long-term investments	13	45,911	41,393
Investments in affiliated companies	14	206,520	150,936
Goodwill	2	174,341	71,998
Licenses, net	15	750,933	669,988
Other intangible assets, net	16	467,160	446,381
Debt issuance costs, net	2	27,267	17,251
Deferred tax assets	24	3,482	5,575
TOTAL ASSETS		$ 8,778,670	$ 6,818,684

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 361,016	$ 234,871
Bank deposits and notes issued	17	326,861	173,748
Insurance-related liabilities	18	344,460	207,440
Taxes payable		117,888	117,142
Deferred tax liabilities, current portion	24	22,071	508
Accrued expenses, subscriber prepayments and other current liabilities	19	737,394	607,083
Short-term notes payable	20	221,103	349,083
Current portion of long-term debt	22	340,938	844,106
Total current liabilities		2,471,731	2,533,981
LONG-TERM LIABILITIES:			
Capital lease obligations	21	3,412	4,943
Long-term debt	22	2,494,522	1,475,921
Subscriber prepayments, net of current portion	23	156,233	103,059
Deferred tax liabilities	24	218,620	230,986
Postretirement benefit obligation	25	16,226	8,590
Total long-term liabilities		2,889,013	1,823,499
Deferred revenue	26	130,913	115,363
TOTAL LIABILITIES		5,491,657	4,472,843
Minority interests in equity of subsidiaries		1,851,027	1,356,557
Commitments and contingencies	30	-	-
SHAREHOLDERS' EQUITY:			
Share capital (68,325,000 shares authorized, 8,100,000 shares issued and outstanding with par value of 90 RUR and 0.1 RUR as of December 31, 2004 and 2003, respectively)	27	25,090	171
Additional paid-in capital	3,4	198,882	189,934
Retained earnings		1,164,404	783,258
Accumulated other comprehensive income		47,610	15,921
TOTAL SHAREHOLDERS' EQUITY		1,435,986	989,284
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 8,778,670	$ 6,818,684

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2004	2003
Sales		$ 5,392,827	$ 3,543,154
Revenues from financial services		318,459	216,761
TOTAL REVENUES		5,711,286	3,759,915
Cost of sales, exclusive of depreciation and amortization shown separately below		(2,020,124)	(1,256,494)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(201,631)	(131,533)
TOTAL COST OF SALES		(2,221,755)	(1,388,027)
Selling, general and administrative expenses		(1,009,716)	(689,057)
Depreciation and amortization		(799,885)	(520,976)
Goodwill impairment		-	(19,251)
Other operating expenses, net		(44,529)	(37,326)
Equity in net income of investees		27,121	465
Gain on disposal of interests in subsidiaries		2,184	-
OPERATING INCOME		1,664,706	1,105,743
Interest income		18,061	19,341
Interest expense, net of amounts capitalized		(213,943)	(198,346)
Currency exchange and translation gain/(loss)		12,620	(3,015)
Income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle		1,481,444	923,723
Income tax expense	24	(445,731)	(290,933)
Income from continuing operations before minority interests and cumulative effect of a change in accounting principle		$ 1,035,713	$ 632,790

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2004	2003
Minority interests		$ (589,014)	$ (402,120)
Income from continuing operations before cumulative effect of a change in accounting principle		446,699	230,670
Gain from discontinued operations (net of income tax effect of $3,248)		-	12,810
Gain on disposal of discontinued operations (net of income tax effect of nil)		-	143,567
Cumulative effect of a change in accounting principle (net of income tax effect of nil)	2	(35,472)	-
NET INCOME		$ 411,227	$ 387,047
Other comprehensive income/(loss):			
Unrealized gain on securities available for sale, net of income tax effect of nil		1,967	5,582
Change in fair value of interest rate swaps, net of taxes		(257)	-
Translation adjustment, net of minority interest of $28,582 and $24,426, respectively, and income tax effect of nil	2	29,979	35,321
Income tax effect of changes in the functional currency, net of minority interest of $17,184		-	(22,449)
Comprehensive income		$ 442,916	$ 405,501
Weighted average number of common shares outstanding		8,100,000	8,100,000
Earnings (loss) per share, basic and diluted:			
Income from continuing operations before cumulative effect of a change in accounting principle		$ 55.1	$ 28.5
Gain from discontinued operations		-	19.3
Cumulative effect of a change in accounting principle		(4.3)	-
Net income		50.8	47.8

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars)

	2004	2003
OPERATING ACTIVITIES:		
Net income	$ 411,227	$ 387,047
Adjustments to reconcile net income to net cash provided by operations:		
Gain from discontinued operations	-	(12,810)
Depreciation and amortization	799,885	520,976
Goodwill impairment	-	19,251
Loss on disposal of property, plant and equipment	1,551	15,048
Long-term investments impairment	3,070	-
Gain on disposal of discontinued operations	-	(143,567)
Loss on disposal of interests in subsidiaries	1,862	-
Cumulative effect of a change in accounting principle	35,472	-
Minority interests	589,014	402,120
Equity in net income of investees	(27,121)	(465)
Deferred income tax benefit	(58,903)	(42,601)
Provision for doubtful accounts receivable	29,809	9,972
Allowance for loan losses	13,810	9,902
Inventory obsolescence charge	5,868	(797)
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	27,142	(38,988)
Loans to banks	(25,661)	(121,444)
Insurance-related receivables	31,111	(19,715)
Accounts receivable	(101,567)	(47,005)
Other receivables and prepaid expenses	(3,929)	(101,632)
Inventories	(112,269)	(54,406)
Accounts payable	54,110	(1,600)
Insurance-related liabilities	51,985	43,877
Taxes payable	(1,997)	24,694
Accrued expenses, subscriber prepayments and other liabilities	171,966	136,567
Postretirement benefit obligation	7,636	1,978
Net cash provided by operations	1,904,071	986,402
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(1,498,098)	(1,024,870)
Purchase of intangible assets	(164,577)	(134,424)
Purchase of businesses, net of cash acquired	(338,906)	(1,005,451)
Proceeds from disposal of subsidiaries, net of cash disposed	649	71,417
Purchase of long-term investments	(76,217)	(88,281)
Proceeds from sale of long-term investments	-	6,538
Purchase of short-term investments	(142,696)	(102,165)
Proceeds from sale of short-term investments	187,500	312
Proceeds from sale of property, plant and equipment	7,807	4,384
Net increase in loans to customers	(39,898)	(92,696)
Net cash used in investing activities	(2,064,436)	(2,365,236)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars)

	2004	2003
FINANCING ACTIVITIES:		
(Principal payments on)/proceeds from short-term borrowings, net	(263,981)	120,772
Net increase/(decrease) in deposits from customers	150,876	(15,294)
Net increase in bank promissory notes issued	12,838	56,449
Proceeds from grants	3,285	7,390
Proceeds from capital transactions of subsidiaries	9,445	-
Proceeds from long-term borrowings, net of debt issuance costs	1,458,082	2,182,802
Principal payments on long-term borrowings	(868,347)	(758,784)
Principal payments on capital lease obligations	(7,924)	(25,534)
Payments to shareholders of subsidiaries	(108,165)	(63,069)
Dividends paid	(5,162)	-
Net cash provided by financing activities	$ 380,947	$ 1,504,732
INCREASE IN CASH AND CASH EQUIVALENTS	$ 220,582	$ 125,898
CASH AND CASH EQUIVALENTS, beginning of the year	283,165	157,267
CASH AND CASH EQUIVALENTS, end of the year	$ 503,747	$ 283,165
CASH PAID DURING THE YEAR FOR:		
Interest, net of amounts capitalized	$ (265,779)	$ (146,863)
Income taxes	(487,447)	(335,636)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment contributed free of charge	$ 13,597	$ 18,793
Equipment acquired through vendor financing	20,714	17,093
Equipment acquired under capital leases	6,393	17,709

In addition, non-cash investing activities during the years ended December 31, 2004 and 2003 included acquisitions and dispositions of subsidiaries and affiliates, as described in Notes 3 and 4.

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/ (loss)	Total
Balances at January 1, 2003	**$ 171**	**$ 200,931**	**$ 396,211**	**$ (2,533)**	**$ 594,780**
Capital transactions of subsidiaries	-	(10,997)	-	-	(10,997)
Unrealized gain on securities available for sale, net of income tax of nil	-	-	-	5,582	5,582
Translation adjustment, net of minority interest of $24,426 and income tax of nil (Note 2)	-	-	-	35,321	35,321
Income tax effect of changes in the functional currency, net of minority interest of $17,184	-	-	-	(22,449)	(22,449)
Net income	-	-	387,047	-	387,047
Balances at January 1, 2004	**$ 171**	**$ 189,934**	**$ 783,258**	**$ 15,921**	**$ 989,284**
Capital transactions of subsidiaries, net of minority interest of $2,628 and income tax of nil (Note 4)	-	8,948	-	-	8,948
Unrealized gain on securities available for sale, net of income tax of nil	-	-	-	1,967	1,967
Change in fair value of interest rate swaps, net of taxes	-	-	-	(257)	(257)
Translation adjustment, net of minority interest of $28,582 and income tax of nil (Note 2)	-	-	-	29,979	29,979
Dividends declared (Note 27)	-	-	(5,162)	-	(5,162)
Increase of par value of shares (Note 27)	24,919	-	(24,919)	-	-
Net income	-	-	411,227	-	411,227
Balances at December 31, 2004	**$ 25,090**	**$ 198,882**	**$ 1,164,404**	**$ 47,610**	**$ 1,435,986**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

The financial statements of JSFC Sistema and subsidiaries (the "Group") reflect the consolidation of separate financial statements of operating entities related by means of direct or indirect ownership of their voting stock by the Group's holding company, JSFC Sistema. Most of the consolidated entities and the parent company are incorporated in the Russian Federation ("RF").

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are owned by certain top executives and former top executives of the Group.

The principal activities of the significant entities of the Group are as follows:

Operating Entities	Short Name	Principal activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless and fixed line telecommunication services, data transmission and internet services
MGTS and subsidiaries	MGTS	
Comstar and subsidiary	Comstar	
MTU-Inform	MTU-Inform	
Telmos	Telmos	
MTU-Intel and subsidiary	MTU-Intel	
Technology Segment:		
CSC and subsidiaries	CSC	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development
Kvazar-Micro and subsidiaries	Kvazar-Micro	IT and systems integration, computer hardware and software distribution
Insurance Segment:		
Rosno and subsidiaries	Rosno	Medical, property, casualty, life and personal insurance and reinsurance, administration of state medical insurance programs
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
Other businesses:		
Detsky Mir and subsidiaries	Detsky Mir	Retail trading in Moscow and other Russian cities, rent of premises
Detsky Mir-Center and subsidiaries	DM-Center	
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad

Operating Entities	Short Name	Principal activity
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects in Moscow
Sistema Mass Media and subsidiaries	Sistema Mass Media	Production and distribution of periodicals, publishing activities, broadcasting, advertising
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
ECU GEST Holding S.A. and subsidiaries	ECU GEST	Investing in real estate projects, financing activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's Russian entities maintain accounting records in Russian Rubles in accordance with the requirements of Russian accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

Principles of Consolidation – The consolidated financial statements include the accounts of JSFC Sistema, as well as entities, where JSFC Sistema has operating and financial control through direct or indirect ownership of a majority voting interest. The consolidated financial statements also include accounts of variable interest entities where the Group is a primary beneficiary. All significant intercompany transactions, balances and unrealized gains (losses) on transactions have been eliminated.

The beneficial ownership interest of JSFC Sistema and proportion of voting power of the Group in the significant subsidiaries as of December 31, 2004 and 2003 are as follows:

Operating entities	Ownership interest		Proportion of voting power	
	2004	2003	2004	2003
MTS	51% (1)	51% (1)	51%	51%
Ukrainian Mobile Communications ("UMC"), subsidiary of MTS	51% (1)	51% (1)	100%	100%
Telecom XXI, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Kuban-GSM, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Telecom-900, subsidiary of MTS	51% (1)	51% (1)	100%	100%
SCS-900, subsidiary of MTS	50% (1)	45% (1)	100%	89%
FECS-900, subsidiary of MTS	51% (1)	30% (1)	100%	60%
Uraltel, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Recom, subsidiary of MTS	27% (1)	27% (1)	54%	54%
BM-Telecom, subsidiary of MTS	51% (1)	51% (1)	100%	100%
TAIF Telcom, subsidiary of MTS	51% (1)	27% (1)	100%	53%
Dontelecom, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Sibchallenge, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Tomsk Cellular Communications, subsidiary of MTS	51% (1)	51% (1)	100%	100%
Primtelefon, subsidiary of MTS	51% (1)	Affiliate	100%	Affiliate
Uzdunrobita, subsidiary of MTS	37% (1)	-	74%	-
Gorizont RT, subsidiary of MTS	39%	-	76%	-
Telesot-Alania, subsidiary of MTS	27%	-	53%	-

Operating entities	Ownership interest		Proportion of voting power	
	2004	2003	2004	2003
MGTS	56%	56%	56%	56%
Comstar	77% [(1)]	77% [(1)]	100%	100%
MTU-Inform	76% [(1)]	76% [(1)]	99%	99%
Telmos	62% [(1)]	62% [(1)]	80%	80%
MTU-Intel	87% [(1)]	87% [(1)]	100%	100%
Golden Line, subsidiary of MTU-Intel	87% [(1)]	87% [(1)]	100%	100%
Personal Communications ("P-Com")	Affiliate	63% [(1)]	Affiliate	83%
Rosno	49% [(1)]	47%	51%	51%
MBRD	82% [(1)]	59% [(1)]	86%	86%
Intourist	91%	91%	91%	91%
DM-Center	100%	100%	100%	100%
Detsky Mir	75% [(1)]	71%	75%	75%
CSC	78%	83%	78%	83%
NIIME and Micron ("Micron"), subsidiary of CSC	60% [(1)]	58% [(1)]	76%	71%
STROM telecom, subsidiary of CSC	52% [(1)]	81% [(1)]	67%	100%
Kvazar-Micro	50% [(1)]	-	51%	-
Sistema-Hals	100% [(1)]	99% [(1)]	100%	100%
Nasha Pressa	100% [(1)]	100% [(1)]	100%	100%
Concern RTI	100%	100%	100%	100%
ECU GEST	99%	99%	99%	99%

[(1)] – Including indirect ownership.

Accounts of newly-acquired subsidiaries have been consolidated in the Group's financial statements from the beginning of the year, when control was acquired, with pre-acquisition earnings of an interest purchased during the year included in minority interest in the consolidated statement of operations.

Consolidation of Variable Interest Entities – In December 2003, Financial Accounting Standards Board ("FASB") issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003.

Following the adoption of FIN 46R, the Group reevaluated the relationships with its related parties: Promtorgcenter, Notris, Laminea, Finescort-M, Kuntsevo-Invest, Putney Assets and Mosdachtrest. Kuntsevo-Invest and Mosdachtrest are engaged in construction activities of the Group. Promtorgcenter, Notris, Laminea, Finescort-M and Putney Assets possess shareholdings in and provide financing through intercompany loans to other entities of the Group. Mosdachtrest was accounted for under the equity method for the periods prior to January 1, 2004. The Group determined that these entities were variable interest entities and that it was their primary beneficiary. Accordingly, the Group has consolidated these companies effective January 1, 2004. All intercompany balances have been eliminated in consolidation and the results of these VIEs have been included in the Group's

consolidated statement of operations and statement of cash flows for the year ended December 31, 2004. In accordance with the provisions of FIN 46R, the Group recorded a charge for the cumulative effect of this accounting change of $35.5 million, net of income tax of nil, in the year ended December 31, 2004. This charge reflects the cumulative impact to the Group's results of operations had these VIEs been consolidated since their inception.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of intangible assets and other long-lived assets, and valuation allowances on deferred tax assets.

Concentration of Business Risk – The Group's principal business activities are within the RF. Laws and regulations affecting businesses operating in the RF are subject to rapid changes, which could impact the Group's assets and operations.

Foreign Currency Translation – The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation". Due to a highly inflationary economy in the RF until the year 2003, the U.S. dollar (the Group's reporting currency) has been designated as the Group's functional currency. Accordingly, all foreign currency amounts were translated into U.S. dollars ("USD") using the remeasurement method.

Starting from January 1, 2003, the Russian economy ceased to be considered highly inflationary for accounting purposes. Management has determined that for the fiscal year beginning January 1, 2003 the functional currency of MGTS, Rosno, Kuban-GSM, CSC, Detsky Mir, DM-Center, Sistema Mass Media and Concern RTI is the Russian Ruble ("RUR"). Accordingly, the reporting currency amounts for these subsidiaries were translated into their functional currency at the exchange rate current at January 1, 2003. These amounts became the new accounting basis for the non-monetary assets and liabilities. The functional currency of UMC is the Ukrainian Hryvnia ("UAH") and the functional currency of STROM telecom is the Czech Krona. Management believes that USD is still the appropriate functional currency for the other subsidiaries of the Group due to the pervasive use of the U.S. dollar in their operations.

The Group has selected the USD as its reporting currency and translates financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation adjustments in the amounts of $30.0 million and $35.3 million, net of minority interest of $28.6 million and $24.4 million, were recorded as a separate component of other comprehensive income for the years ended December 31, 2004 and 2003, respectively.

The Ruble is not a fully convertible currency outside of the territory of the Russian Federation. The translation of RUR denominated assets and liabilities into USD for the purpose of these financial statements does not indicate that the Group could or will in the future convert the reported values of the assets and liabilities in USD.

Revenue Recognition – The Telecommunications Segment of the Group earns revenues from the provision of wireless telecommunication services, local telephone and data transmission services and usage of its local exchange networks and facilities. Segment revenues consist of (i) usage charges, (ii) monthly subscription fees, (iii) service activation and connection fees, (iv) revenues from use of prepaid phone cards, (v) charges for value-added telecommunication services, (vi) roaming fees charged to other operators for guest roamers utilizing the Group's network and (vii) equipment sales. The Group records revenues over the periods they are earned as follows:

(i) Revenues derived from wireless and local telephone usage and data transmission are recognized as the services are provided.

(ii) Monthly telephone and network service fees are recognized in the month during which the telephone services are provided to customers.

(iii) Upfront fees received for installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the expected subscriber relationship period. Prior to December 31, 2003, MTS estimated that the average expected term of the subscriber relationship ranged from 39 to 47 months. Commencing January 1, 2004, MTS calculates an average expected term of the subscriber relationship for each region and amortizes regional connection fees accordingly. Average expected subscriber life is ranging from 20 to 76 months. The effect of this change in estimate in the year ended December 31, 2004 was an increase in net income of approximately $4.3 million, or $0.5 per share. The customer relationship period for residential wireline voice phone subscribers is 15 years. For all other categories of subscribers the customer relationship period is estimated at 3 to 5 years.

(iv) The Group recognizes revenues from the prepaid phone cards in the period when customer uses time under the phone card. Unused time on sold cards is not recognized as revenues until the related services have been provided to the customer or the prepaid phone card has expired. Revenues under prepaid service tariff plans, whereby a customer may purchase a package that allows a connection to the Group's wireless network and a predetermined allotment of wireless phone calls and/or other services offered by the Group, are allocated between connection fees and service fees based on their relative fair values.

(v) Revenues derived from value-added telecommunication services are recognized in the period when the services are provided to customers.

(vi) The Group charges roaming per-minute fees to other wireless operators for their subscribers utilizing the Group's networks. Revenues derived from roaming services are recognized as the services are provided.

(vii) The Group sells handsets and accessories to customers who are entering into contracts for service and as separate distinct transactions. The Group recognizes revenues from the handsets and accessories when title passes to the customer. Estimated returns are recorded as a direct reduction of sales at the time the related sales are recorded. In Ukraine, the Group also from time to time sells handsets at prices below cost. The Group recognizes these subsidies in cost of equipment when sale is recorded.

Local telephone services, provided by MGTS, totaling approximately 5% and 6% of the consolidated revenues for the years ended December 31, 2004 and 2003, respectively, are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service approval.

MGTS is required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and is entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounts for such revenues upon collection.

STROM telecom's arrangements with its customers typically include multiple elements, such as equipment and software development, installation services and post-contract customer support. In accordance with Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", the aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each element of an arrangement are recognized as revenue when the following criteria have been met: (i) a written contract for the delivery of an element has been executed, (ii) the Group has delivered the product to the customer, (iii) the fee receivable is fixed or determinable, and (iv) collectibility of the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract customer support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Premiums on written non-life insurance of the Insurance Segment are recognized on a pro-rata basis over the term of the related policy coverage, normally not exceeding 1 year. The unearned premium provision represents that portion of premiums written relating to the unexpired term of the policy. Premiums from traditional life and annuity policies with life contingencies are recognized as revenue when due from the policyholder.

Interest income of the Banking Segment is recognized on accrual basis. Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful. Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral.

Revenues on construction contracts are recognized under the completed-contract method.

The other Group's entities recognize revenues when products are shipped or when services are rendered to customers.

In arrangements where the Group acts as an agent, including travel agency arrangements and arrangements to administer construction projects, only the net agency fee is recognized as revenue.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks, cash invested temporarily in various instruments with maturities of three months or less at time of purchase and minimum reserve deposits with the Central Bank of the Russian Federation. Short-term interbank loans originated by MBRD with original maturities of three months or less are included in loans to customers and banks.

Financial Instruments – The Group's financial instruments include cash, short-term and long-term investments, receivables, payables and debt. Except as described below, the estimated fair value of such financial instruments as of December 31, 2004 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of December 31, 2004 ranged from 100.9% to 106.0% of the principal amount. As of December 31, 2004, fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, in December 2004, the Group entered into two variable-to-fixed interest rate swap agreements to manage its exposure to changes in fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate fluctuations. The Group does not use derivatives for trading purposes.

The Group accounts for derivative instruments in accordance with FAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and FAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". All derivatives, including some embedded derivatives, are measured at fair value and recognized as either assets or liabilities on balance sheets. The Group's interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense when the hedged debt affects the interest expense. Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges.

At the inception of the hedge and on a quarterly basis, the Group performs an analysis to assess whether changes in cash flows of its interest rate swap agreements are deemed highly effective in offsetting changes in cash flows of the hedged debt. If at any time the correlation assessment will indicate that the interest rate swap agreements are no longer effective as a hedge, the Group will discontinue hedge accounting and all subsequent changes in fair value will be recorded in net income.

MBRD also enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets. During the years ended December 31, 2004 and 2003, the Group did not enter into material repo or reverse repo agreements.

Accounts Receivable – Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases of delinquencies or defaults or estimates based on evidence of collectibility.

Loans to Customers and Banks – Loans to customers and banks arise out of operations of the Banking Segment. The determination of the allowance for losses in respect of loans provided by MBRD is based on an analysis of the loan portfolio and reflects the amount, which, in the judgment of management of the Group, is adequate to provide for losses inherent in the loan portfolio. A specific provision is made as a result of a detailed appraisal of risk assets. In addition, a general provision is carried to cover risks, which although not specifically identified, are present in any portfolio of banking assets.

Management’s evaluation of the allowance is based on MBRD’s past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral and current economic conditions. It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods MBRD may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Insurance-related Receivables – Insurance-related receivables include receivables arising from insurance operations and advances to health care providers under voluntary and obligatory medical insurance programs. Receivables arising from insurance operations consist of outstanding direct premiums due from policyholders, outstanding assumed premiums due from ceding companies and receivables due from claims ceded.

Policy Acquisition Costs – Policy acquisition costs represent costs of the acquisition or renewal of insurance policies by Rosno. They are deferred as an asset and are amortized over the period for which costs are expected to be recoverable out of associated revenues. Deferred acquisition costs are included in other receivables and prepaid expenses, net of the unexpired risk provision, that is recognized when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year.

Subscriber Acquisition Costs – Subscriber acquisition costs represent the direct costs paid for each new subscriber. The Group expenses these costs as incurred.

Inventories – Inventories are stated at the lower of cost or market. The cost of MGTS’s inventories (including mostly spare parts) is computed on an average cost basis. Cost of goods for resale held by retail businesses of the Group is determined using the retail method. Other subsidiaries of the Group account for their inventories using the first-in-first-out (“FIFO”) cost method.

Cost of raw materials includes cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads. Project costs include the accumulated costs of projects contracted with third parties, net of related progress billings. The entities of the Group periodically assess their inventories for obsolete or slow moving stock.

Value-Added Taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not reclaimable as of the balance sheet dates are recorded in other receivables and prepaid expenses.

Property, Plant and Equipment – For subsidiaries acquired by the Group through business combinations accounted for by the purchase method, property, plant and equipment ("PP&E") were assigned their fair values at the acquisition date. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent additions to PP&E have been recorded at cost.

Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of operations as incurred.

Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments.

Depreciation is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Switches and transmission devices	17-31 years
Network and base station equipment	5-12 years
Other plant, machinery and equipment	3-15 years

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of consolidated net income.

Construction-in-progress and equipment for installation are not depreciated until an asset is placed into service.

Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

As a result of recent financial statement restatements by numerous U.S. public companies and publication of a letter by the Chief Accountant of the SEC regarding the interpretation of longstanding lease accounting principles, MTS has corrected its accounting practices for the leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements.

These corrections resulted in a cumulative, net charge to net income of $17.7 million in the fourth quarter of 2004, of which $10.9 million relates to the years 1998 through 2003. The net cumulative charge is comprised of a $44.5 million increase in depreciation expense related primarily to depreciation of capitalized leasehold improvements for base stations; a decrease of $1.4 million in the equity net income from the MTS-Belarus also related to depreciation of capitalized leasehold improvements expenses for base stations positions; increase of $11.0 million related to additional deferred tax benefit due to the change in accounting base for property, plant and equipment; and decrease in minority interest of $17.2 million.

All components of the net charge are non-cash and do not impact historical or future cash flows or the timing of payments under the related leases.

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group have a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under FAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2004 the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

License Costs – Costs of licenses for providing telecommunications services are capitalized as a result of (a) purchase price allocated to licenses acquired in business combinations (Note 3) and (b) licenses purchased directly from government organizations, which require license payments.

Current operating licenses of the Group do not provide for automatic renewal upon expiration. As the Group and the telecommunications industry do not have sufficient experience with the renewal of licenses, license costs are being amortized, subject to periodic review for impairment, on the straight-line basis over the initial term of the license without consideration of possible future renewals commencing from the date such license area becomes commercially operational.

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed annually for impairment or whenever it is determined that the impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142 "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No material impairment of goodwill was identified in the year ended December 31, 2004.

The carrying amount of goodwill attributable to each reportable operating segment with goodwill balances and changes therein, are as follows:

	(000's)			
	Telecom-munications	**Insurance**	**Corporate and Other**	**Total**
Balance as of January 1, 2003	$ 19,347	$ -	$ 635	$ 19,982
Purchase price allocation	71,267	-	-	71,267
Impairment charge	(19,251)	-	-	(19,251)
Balance as of December 31, 2003	71,363	-	635	71,998
Purchase price allocation	101,002	1,341	-	102,343
Balance as of December 31, 2004	**$ 172,365**	**$ 1,341**	**$ 635**	**$ 174,341**

Other intangible assets represent acquired customer bases, trademarks, roaming contracts with other telecommunications operators, telephone numbering capacity, rights to use premises and various purchased software costs. Trademarks and telephone numbering capacity with unlimited contractual life are not amortized, but are reviewed, at least annually, for impairment in accordance with the provisions of FAS No. 142.

Acquired customer bases are amortized over the estimated average subscriber life from 20 to 76 months. Deferred telephone numbering capacity costs with limited contractual life and the rights to use premises are being amortized over their contractual lives, which vary from five to twenty years. Software costs and other intangible assets are being amortized over three to ten years. All finite-life intangible assets are being amortized using the straight-line method.

Investments – The Group's share in net assets and net income of certain entities, where the Group holds 20 to 50% of voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") is included in the consolidated net assets and operating results using the equity method of accounting. Due to the Group's day-to-day involvement in the affiliates' business activities, the Group's share of their income is recorded within the operating income.

Investments in corporate shares where the Group owns more than 20% of voting shares, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, including investments in NIIDAR, a Research and Development Institute of Long-Distance Radio Communications, operating under governmentally imposed restrictions, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition. Management periodically assesses realizability of the carrying values of such investments and records impairment charges, if required.

Trading securities held by the Group are stated at market value. Unrealized holding gains and losses for trading securities are included in earnings.

The Group also purchases promissory notes for investing purposes. These notes are carried at cost and the discount against the nominal value is accrued over the period to maturity. A provision is made, based on management assessment, for notes that are considered uncollectible.

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans. Debt issuance costs amounted to $27.3 million and $17.3 million, net of accumulated amortization of $11.7 million and $5.8 million as of December 31, 2004 and 2003, respectively.

Impairment of Long-lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. For the year ended December 31, 2004, no significant impairments have been identified.

Bank Deposits and Notes Issued – Bank deposits and notes issued arise out of operations of the Banking Segment and include deposits from banks and customers and promissory notes issued.

Insurance-related Liabilities – Insurance-related liabilities arise out of the operations of the Insurance Segment and include the unearned premium provision, loss provision for outstanding claims, undisbursed funds of the Moscow Government Fund for Obligatory Medical Insurance ("MGFOMS"), accumulated under an obligatory medical insurance program, prepaid insurance and reinsurance premiums and liabilities under deposit type insurance contracts (policies in force under which the Group does not assume insurance risk).

Rosno provides for losses on outstanding claims on an individual case basis for the estimated cost of claims notified but not settled as at the balance sheet date. Provision is also made for the ultimate cost of claims, including claims incurred but not reported, or not fully reported. This provision is actuarially determined by line of business, and includes assumptions based on prior years claims experience. The loss provision for life insurance is actuarially determined based upon mortality, morbidity and interest rate assumptions applied to all life insurance policies in force as at year-end.

Unexpired risk provision is recognized when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. The Group does not consider anticipated investment income in making determination whether a premium deficiency exist.

MGFOMS carries out an obligatory medical insurance program to provide RF citizens with free of charge medical services via certain appointed insurers, including Rosno. Rosno has contracted with MGFOMS to administer a portion of this plan. Rosno receives advances from MGFOMS and makes payments to medical centers in respect of services provided by them to policyholders. Any funds received from MGFOMS by Rosno, which are not paid out for medical services, are retained and recorded as a liability. These funds may be spent by the Group only on the provision of the medical facilities and care, as presently defined under the program.

Deferred Revenue – Telecommunication equipment and transmission devices, installed at the newly constructed properties in Moscow, have been historically transferred to MGTS free of charge. These assets are capitalized by the Group at their market value at the date of transfer. Simultaneously deferred revenue is recorded in the same amount, which is amortized as a reduction of the depreciation charge in the consolidated statement of operations over the contributed assets' life.

Deferred grant revenue represents funds contributed to the Group, which usage is restricted. Deferred grants are released to income when the conditions of the grant are substantially met.

Income Taxes – Income taxes have been computed in accordance with RF laws. Income tax rate in the RF equals 24%. In July 2004, amendments to Russian income tax legislation were enacted to increase, effective January 1, 2005, the income tax rate on dividends paid within Russia to 9% (previously 6%). The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. Income tax rate in the Ukraine and in the Czech Republic equals 25% and 26%, respectively.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax bases of assets and liabilities and their reported amounts in the accompanying consolidated financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Group will be able to realize the benefit, or the future deductibility is uncertain.

Stock-Based Compensation – The Group accounts for stock options issued to employees, non-employee directors and consultants of MTS following the requirements of FAS No. 123, "Accounting for Stock-Based Compensation" and FAS No. 148 "Accounting for Stock Based Compensation – Transition and Disclosure, an amendment to FASB Statement No. 123." Under the requirements of these statements, the Group elected to use the intrinsic method to value options on the measurement date as a method for accounting for compensation to employees and non-employee directors. Compensation to consultants is measured based on the fair value of options on the measurement date as determined using a binomial option-pricing model.

During the years ended December 31, 2004, 2003 and 2002, MTS made several grants pursuant to its stock option plan to its employees and directors. These options generally vest over a two year period from the date of the grant, contingent on continued employment of the grantee with MTS.

A summary of the status of MTS' option plan for the years ended December 31, 2004 and 2003 is presented below:

	MTS shares	**Weighted average exercise price**
Outstanding at January 1, 2003	4,648,421	$ 1.42
Granted	1,952,632	2.43
Exercised	(37,557)	1.31
Exchanged for cash award	(1,746,310)	1.31
Forfeited	(19,776)	1.31
Outstanding at December 31, 2003	4,797,410	1.87
Granted	1,665,256	5.95
Exercised	(2,726,966)	1.49
Forfeited	(204,730)	1.92
Outstanding at December 31, 2004	**3,530,970**	**$ 4.09**

As of December 31, 2004, MTS had the following stock options outstanding:

Number of MTS' shares	Exercise prices	Remaining weighted average life (years)
1,868,214	$ 2.43	0.54
1,662,756	5.95	1.54
3,530,970		

None of the options outstanding as of December 31, 2004 and 2003 were exercisable.

According to the terms of the option plan, the exercise price of the options equals the average market share price during the hundred day period preceding the grant date. The difference in the exercise price of the option and the market price at the date of the grant is shown as unearned compensation in the consolidated statements of changes in shareholders' equity and is amortized to expense over the vesting period of 2 years. This amount historically had been insignificant to the consolidated financial statements.

MTS' option plan does not routinely allow a grantee to receive cash in lieu of shares, however due to the lack of liquidity for MTS' stock in the Russian market, 1,746,310 options were cancelled by MTS in 2003 and exchanged for a cash award of $2.9 million.

The fair value of options granted by MTS during the years ended December 31, 2004 and 2003 were estimated using the binomial option pricing model using the following assumptions:

	2004	2003
Risk free rate	4.5%	5.2%
Expected dividend yield	3%	3%
Expected volatility	48.8%	40.0%
Expected life (years)	2	2
Fair value of options (per share)	$ 2.36	$ 1.02

If the Group had elected to recognize compensation costs based on the fair values of options at the date of the grant, net income and earnings per share amounts for the years ended December 31, 2004 and 2003 would have been as follows:

	2004	2003
Net income as reported	$ 411,227	$ 387,047
Pro forma effect of the application of fair value method of accounting for stock options	(545)	(371)
Pro forma net income	410,682	386,676
Earnings per share, basic and diluted		
As reported	$ 50.8	$ 47.8
Pro forma	$ 50.7	$ 47.7

Retirement and Post-Retirement Benefits – Subsidiaries of the Group contribute to the local state pension fund and social fund, on behalf of all their employees.

In Russia, all social contributions, including contributions to the pension fund, are substituted with a unified social tax (''UST'') calculated by the application of a regressive rate from 35.6% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 28% to 2% depending on the annual gross salary of each employee. The contributions are expensed as incurred.

In Ukraine, the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to pension fund, unemployment fund and social security fund. The contributions are expensed as incurred.

During the years ended December 31, 2004 and 2003, the Group managed a defined contribution plan to provide eligible employees with additional income upon retirement. The Group's contributions to the plan totaled $0.8 million and $1.7 million for the years ended December 31, 2004 and 2003, respectively.

In addition, MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 25).

The Group accounts for pension plans following the requirements of FAS No. 87 "Employers' Accounting for Pensions."

In December 2003, FASB issued a revision to FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106" ("FAS No. 132R"). FAS No. 132R revised employers' disclosure about pension plans and other postretirement benefit plans. It requires additional disclosures about the plan assets, benefit obligations, cash flows and net periodic benefit cost of defined benefit plans and other defined postretirement plans. It does not change the measurement or recognition of those plans required by previous Financial Accounting Board Standards. Following the adoption of FAS No. 132R, the Group included the required disclosures in its consolidated financial statements as of December 31, 2004 (Note 25).

Borrowing Costs – Borrowing costs were recognized as an expense in the period in which they were incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2004 and 2003 amounted to $34.0 million and $1.2 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2004 and 2003 were $168.5 million and $120.0 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the years ended December 31, 2004 and 2003. Diluted EPS reflect the potential dilution of MTS' stock options, granted to employees.

Distributions to Shareholders – Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may significantly differ from amounts calculated on the basis of U.S. GAAP.

New Accounting Pronouncements – In November 2003, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 03-10, "Application of EITF Issue No. 02-16, 'Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor', by Resellers to Sales Incentives Offered to Consumers by Manufacturers." The consensus was reached that consideration received by a reseller from the vendor in exchange for vendor sales incentives tendered by consumers should not be reported as a reduction of the cost of the reseller's purchases from the vendor but instead should be shown as revenue. EITF Issue No. 03-10 is effective for reporting periods beginning after November 25, 2003. The adoption of Issue No. 03-10 did not have a material impact on the Group's results of operations or financial position.

In March 2004, the EITF reached a consensus on Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share". This Issue defines participating security and clarifies some practical issues related to including participating securities in the calculation of EPS. EITF Issue No. 03-6 is effective for reporting periods beginning after March 31, 2004. The adoption of Issue No. 03-6 did not have a material impact on the Group's financial position or results of operations.

In July 2004, the EITF issued EITF No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." A consensus was reached regarding an investor that has the ability to exercise significant influence over the operating and financial policies of the investee. This type of investor should apply the equity method of accounting only when it has an investment(s) in common stock and/or an investment that is in-substance common stock. The Task Force also reached a consensus on the definition of in-substance common stock and related guidance. EITF No. 02-14 is effective for reporting periods beginning after September 15, 2004. The Group does not anticipate that the adoption of EITF Issue No. 02-14 will have a material impact on its financial position or results of operations.

In September 2004, the U.S. Securities and Exchange Commission ("SEC") staff issued the EITF Topic D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill", which requires the companies to use the direct value method to determine the fair value of their intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing, must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004.

As of December 31, 2004, the Group performed the annual impairment test to measure the fair value of its 900 and 1800 MHz licenses in its national footprint using the residual value approach. Under this new accounting guidance, the Group performed an impairment test to measure the fair value of its 900 and 1800 MHz licenses as of January 1, 2005 using the direct value method. Based on the assessment no impairment charge as of December 31, 2004 is required.

In September 2004, the EITF issued a final consensus on EITF Issue No. 04-1, "Accounting for Preexisting Relationships between the Parties to a Business Combination". In this issue the EITF reached a consensus that a business combination between two parties having a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This Issue requires certain additional disclosures for business combinations between parties with a preexisting relationship. EITF Issue No. 04-1 is effective for reporting periods beginning after October 13, 2004. The Group does not anticipate that the adoption of EITF Issue No. 04-1 will have a material impact on its financial position or results of operations.

In October 2004, the EITF reached a consensus on EITF Issue No. 04-10, "Determining Whether to Aggregate Operating Segments that Do Not Meet the Quantitative Thresholds". EITF No. 04-10 provided additional guidance on when operating segments that are below the 10% threshold can be aggregated. EITF Issue No. 04-10 states that segments can only be aggregated if they have similar economic characteristics and if they are similar in areas such as production processes, types of customers, distribution channels and the products themselves are similar. The consensus reached by EITF No. 04-10 is effective for fiscal years ending after October 13, 2004. The adoption of Issue No. 04-10 did not have a material impact on the Group's results of operations or financial position.

In November 2004, the Financial Accounting Standards Board ("FASB") issued FAS No. 151, "Inventory Costs", an amendment of ARB No. 43, Chapter 4. FAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facility. FAS No. 151 is effective prospectively

for inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not anticipate the adoption of FAS No. 151 to have a material impact on its results of operations or financial position.

In December 2004, the FASB issued FAS No. 123R, "Share-Based Payment" ("FAS No. 123R"), a revision of FAS No. 123, "Accounting for Stock-Based Compensation". FAS No. 123R supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and requires all entities to recognize compensation cost in an amount equal to the fair value of share-based payments granted to employees. That cost will be recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. FAS No. 123R is effective as of the beginning of the first fiscal year beginning after June 15, 2005, at which time companies can select whether they will apply the standard retroactively by restating their historical financial statements or prospectively for new stock-based compensation arrangements and the unvested portion of existing arrangements. The Group does not anticipate the adoption of FAS No. 123R will have a material impact on its financial position, cash flows and results of operations.

In December 2004, the FASB issued FAS No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions". FAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. FAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS No. 153 is effective prospectively for nonmonetary exchanges occurring after June 15, 2005. The Group does not anticipate the adoption of FAS No. 153 to have a material impact on its results of operations or financial position.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 is effective for the Group beginning January 1, 2006. The Group is currently in the process of assessing the impact of Interpretation No. 47 on its consolidated financial position and result of operations.

In March 2005, the SEC released Staff Accounting Bulletin 107, "Share-Based Payments", or SAB 107. The interpretations in SAB 107 express views of the SEC staff regarding the interaction between FAS No. 123R and certain SEC rules and regulations, and provide the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS No. 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS No. 123R, the modification of employee share options prior to adoption of FAS No. 123R.

Reclassifications – Certain other reclassifications of prior years' amounts have been made to conform to the presentation adopted for the year ended December 31, 2004.

3. ACQUISITIONS

Acquisition of MTS

In March 2003, the Group entered into a call option agreement to acquire 199,332,614 shares of MTS, representing 10% of its outstanding share capital. In connection with the call option, the Group also entered into an agreement with T-Mobile, a shareholder of MTS. Under the shareholders' agreement, T-Mobile undertakes to vote when necessary to ensure (in so far that it is able) that the Group will have a majority of the members of the MTS board of directors. However, certain actions will require T-Mobile's approval, including new issuances of MTS shares, actions which would dilute T-Mobile's shareholding in MTS and acquisitions by MTS with a value between 25% and 50% of the balance sheet value of MTS' total assets, in accordance with Russian accounting standards. Under the agreement, both the Group and T-Mobile have a right of first refusal with respect to sales of MTS shares by the other party to third parties, subject to certain exceptions. The Group and T-Mobile agreed to consult each other with respect to any dividend policy of MTS, with the expectation that annual distributions of not less than the equivalent of 25% of OJSC MTS' net profits (as determined under Russian accounting standards) will be made as dividends, including dividends with respect to MTS' fiscal year 2002.

In April 2003, the Group exercised its option with T-Mobile to purchase an additional 6% of the outstanding common stock of MTS and T-Mobile's 49% interest in Invest-Svyaz-Holding, a subsidiary of the Group holding 8% of the outstanding common stock of MTS, for $370.0 million in cash. Additionally $0.8 million was paid in legal fees. As a result of this transaction, the Group's share in MTS increased to 50.6%.

The acquisition was accounted for using the purchase method. Purchase price allocation was as follows:

		(000's)
Current assets	$	687,587
Non-current assets		1,983,412
License costs		497,738
Acquired customer base		113,979
Goodwill		67,615
Trademarks		41,780
Roaming contracts		35,220
Current liabilities		(588,374)
Non-current liabilities		(874,238)
Deferred taxes		(164,726)
Minority interest		(900,423)
Carrying value of the Group's investment in MTS as of the date of acquisition		(528,810)
Purchase price allocation	**$**	**370,760**

In accordance with FAS No. 141 "Business Combinations," the Group recognized $67.6 million of goodwill primarily relating to workforce-in-place and expectation of MTS, due to its established status on the telecommunications market, being able to prolong its operating licenses beyond their current terms for a consideration lower than their market value.

Acquisition of UMC

In March 2003, MTS acquired 58% of the outstanding voting interest of UMC, a provider of wireless telecommunication services in Ukraine, for the cash consideration of $199.0 million. In connection with the acquisition, MTS also assumed debt of UMC with face value of approximately $65.0 million, with the fair value of approximately $62.0 million. The purchase price allocation was as follows:

		(000's)
Current assets	$	82,293
Non-current assets		272,721
License costs		82,200
Acquired customer base		30,927
Current liabilities		(63,551)
Non-current liabilities		(78,580)
Deferred taxes		(27,425)
Minority interest		(99,581)
Purchase price allocation	**$**	**199,004**

MTS paid $171.5 million of the purchase price in cash and agreed to pay the balance of the purchase price of $27.5 million within one year. The amount payable accrued interest of 9% per annum and was paid in April 2004.

MTS also had an option agreement with Ukrtelecom to purchase its remaining 26% stake in UMC, exercisable from February 5, 2003 to November 5, 2005, with an exercise price of $87.6 million.

In June 2003, MTS exercised this call option. As a result of the transaction, the Group's voting power in UMC has increased from 58% to 84%. The allocation of purchase price increased recorded license cost by $10.2 million, increased customer base cost by $13.9 million, and decreased minority interest by $66.4 million.

In addition, MTS entered into a put and call option agreement for the purchase of remaining 16% stake in UMC. The exercise period of the call option was from May 5, 2003 to November 5, 2004, and the put option was exercisable from August 5, 2003 to November 5, 2004. The call option price was $85.0 million plus interest accrued from November 5, 2002 to the date of the exercise at 11% per annum; the price of the put option was calculated based on reported earnings of UMC prior to the exercise and was subject to a minimum amount of $55.0 million. In July 2003, the Group exercised its rights under the put and call option agreement for a cash consideration of approximately $91.7 million. The allocation of purchase price increased recorded license cost by $52.7 million, increased customer base cost by $8.7 million, and decreased minority interest by $43.8 million.

The UMC license costs are amortized over the remaining contractual terms of the licenses of approximately 9 to 13 years at the date of the acquisition, acquired customer base is amortized over the average remaining subscriber's life of approximately 32 months. Other acquired intangible assets, represented mostly by software, are amortized over their respective useful lives of 3 to 10 years. In accordance with SFAS No. 141 "Business Combinations", the Group recognized $8.0 million of goodwill relating to workforce-in-place.

UMC is one of the two leading operators in Ukraine, operating under nationwide GSM-900/1800 and NMT-450 licenses.

Acquisition of Minority Interest in Kuban-GSM

In September 2003, MTS acquired 100% of Kubtelesot for cash consideration of $107.0 million. Kubtelesot owned 47.3% of Kuban-GSM, and the Group's purchase of this stake increased its voting power in Kuban-GSM to 100%. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by $57.5 million, increased customer base cost by $8.4 million, and decreased minority interest by $59.0 million.

License costs are amortized over the remaining contractual term of the license of approximately 5 years at the date of the acquisition. Acquired customer base is amortized over the average remaining subscribers' life of approximately 48 months.

Kuban-GSM operates in thirteen major cities throughout the south of the European part of RF, including Sochi, Krasnodar and Novorossiisk.

Acquisition of TAIF-Telcom

In April 2003, the Group acquired 51% of the common shares of TAIF-Telcom, a provider of mobile telecommunication services in the Republic of Tatarstan, RF and in the Volga region of Russia, for cash consideration of $51.0 million and 50% of the preferred shares of TAIF-Telcom for cash consideration of $10.0 million. In May 2003, the Group acquired an additional 2% of the common shares of TAIF-Telcom for cash consideration of $2.3 million. In connection with the acquisitions, the Group also assumed indebtedness of approximately $16.6 million that is collateralized by telecom equipment. As a result of these transactions, the Group acquired 53% voting interest in TAIF- Telcom.

The Group also entered into call and put option agreements with the existing shareholders of TAIF-Telcom to acquire the remaining 47% of common shares and 50% of preferred shares of TAIF-Telcom. The exercise period for the call option on common shares was 48 months from the acquisition date and for the put option on common shares was 36 months following an 18 month period after the date of acquisition. The call and put option agreements for the common shares stipulated a minimum purchase price of $49.0 million plus 8% per annum commencing from the acquisition date. The exercise period for the call option on preferred shares was 48 months following a 24 month period after the date of acquisition and for the put option on preferred shares it was a 24 month period after the date of acquisition. The call and put option agreements for the preferred shares stipulated a minimum purchase price of $10.0 million plus 8% per annum commencing from the acquisition date.

The purchase price allocation was as follows:

		(000's)
Current assets	$	3,870
Non-current assets		48,391
License costs		68,407
Current liabilities		(26,099)
Non-current liabilities		(5,550)
Deferred taxes		(16,814)
Minority interest		(8,965)
Purchase price allocation	**$**	**63,240**

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 4 years and customer base is amortized over the average remaining subscribers' life of approximately 38 months.

In September 2004, MTS exercised its option to acquire the remaining 47.3% of common shares and 50% of preferred shares in TAIF Telcom for cash consideration of $63.0 million, increasing its ownership to 100.0%. The Group received title to the acquired shares in October 2004. The purchase price allocation increased recorded license cost by $35.8 million, increased acquired customer base by $4.2 million; goodwill was recorded in the amount of $21.2 million. Goodwill is mainly attributable to economic potential of the market.

Acquisition of Sibchallenge

In August 2003, MTS completed the purchase of 100% of Sibchallenge, a cellular operator in the Krasnoyarsk region, for cash consideration of $45.5 million, paid a finder's fee of $2.0 million and assumed net debt of approximately $6.6 million. Sibchallenge provides mobile telecommunication services in the Krasnoyarsk region of Siberia, the Republic of Khakasiya, and in the Taimyr Autonomous region.

The purchase price allocation was as follows:

		(000's)
Current assets	$	4,078
Non-current assets		16,678
License costs		52,625
Current liabilities		(6,405)
Non-current liabilities		(6,628)
Deferred taxes		(12,894)
Purchase price allocation	**$**	**47,454**

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers' life of approximately 36 months.

Acquisition of Tomsk Cellular Communications

In September 2003, MTS purchased 100% of Tomsk Cellular Communications ("TSS") for cash consideration of $47.0 million. TSS holds licenses to provide mobile telecommunication services in the Tomsk region.

The purchase price allocation was as follows:

		(000's)
Current assets	$	3,299
Non-current assets		11,412
License costs		49,282
Current liabilities		(4,543)
Non-current liabilities		(105)
Deferred taxes		(12,345)
Purchase price allocation	**$**	**47,000**

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers' life of approximately 76 months.

Acquisition of Comstar and Kosmos-TV

In September and October 2002, the Group acquired senior discounted notes of Metromedia International Group, a U.S.-based company with interests in telecommunications and mass media businesses in RF, for $34.3 million. The par value of the notes acquired by the Group equaled $56.7 million. In April 2003, the Group disposed of the notes to a third party as an advance for acquisition of 50% of the voting shares of Comstar, an affiliate of the Group, and 50% of the voting shares and debt of $23.3 million (including accrued interest of $4.8 million) of Kosmos-TV, a provider of satellite television services, operating in Moscow.

In December 2003, the Group acquired 50% of voting shares of Comstar, 50% of voting shares of Kosmos-TV and debt of $23.3 million in exchange for the notes with the fair value of $20.8 million, $7.2 million and $6.3 million, respectively. This transaction increased the Group's voting power in Comstar to 100% and resulted in obtaining control over Comstar operations by the Group.

The purchase price allocation was as follows:

		(000's)
Current assets	$	23,645
Non-current assets		53,165
Current liabilities		(16,983)
Non-current liabilities		(6,540)
Carrying value of the Group's investment in Comstar as of the date of acquisition		(32,495)
Purchase price allocation	**$**	**20,792**

Acquisition of Primtelefon

In August 2003, the Group reached an agreement to acquire, in a series of related transactions, equity interests in five Russian regional mobile phone operators from MCT Corporation for a total of $71.0 million. The Group agreed to purchase a 44% stake in Uraltel and 100% of Vostok Mobile BV, which holds a 50% stake in Primtelefon.

In August 2003, the Group completed the acquisition of Vostok Mobile BV and recorded a 50% stake investment in Primtelefon using the equity method of accounting.

In June 2004, MTS purchased 50.0% of Far Eastern mobile operator Primtelefon ("Primtelefon") for cash consideration of $31.0 million, increasing the Group's voting power in Primtelefon to 100%. Primtelefon holds licenses to provide GSM-900/1800 mobile cellular communications in the Far East region. Primtelefon's subscriber base as at the date of acquisition was approximately 216,000.

The acquisition was accounted for using the purchase method. The purchase price allocation was as follows:

		(000's)
Current assets	$	11,041
Non-current assets		16,809
License costs		21,891
Current liabilities		(7,488)
Non-current liabilities		(5,671)
Deferred taxes		(5,582)
Purchase price allocation	**$**	**31,000**

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 7 years and customer base is amortized over the average remaining subscribers' life of approximately 41 months.

Acquisition of Uzdunrobita

In July 2004, MTS entered into an agreement to acquire 74.0% of Uzbekistan mobile operator JV Uzdunrobita ("Uzdunrobita") for a cash consideration of $121.2 million, including transaction costs of $0.2 million. The acquisition was completed on August 1, 2004. Uzdunrobita holds licenses to provide GSM-1800 mobile communication services in the whole territory of Uzbekistan, which has a population of approximately 25.2 million. Uzdunrobita's subscriber base as of the date of acquisition was approximately 230,000 people.

MTS also entered into call and put option agreements with the existing shareholders of Uzdunrobita to acquire the remaining 26.0% of common shares of the company. The exercise period for the call and put option is 48 months from the acquisition date. The call and put option agreements stipulate a minimum purchase price of $37.7 million plus 5% per annum commencing from the acquisition date. Fair value of the option was $3.6 million at December 31, 2004.

The acquisition was accounted for using the purchase method. The purchase price allocation for the acquisition was as follows:

		(000's)
Current assets	$	5,950
Non-current assets		67,293
License costs		40,861
Customer base		958
Trademark		3,622
Goodwill		41,290
Current liabilities		(14,705)
Non-current liabilities		(1,356)
Deferred taxes		(6,384)
Minority interest		(16,308)
Purchase price allocation	**$**	**121,221**

Goodwill is mainly attributable to economic potential of the market assuming low penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 12 years and customer base is amortized over the average remaining subscribers' life of approximately 39 months.

Acquisition of Kvazar-Micro Corporation B.V.

In July 2004, the Group purchased 51.0% of Kvazar-Micro Corporation B.V. for a cash consideration of $28.0 million, including a contribution to the share capital of Kvazar-Micro of $18.0 million. Kvazar-Micro business is based in Ukraine and includes distribution of computer hardware and software, IT and systems integration. Through acquisition of Kvazar-Micro, the Group added IT and systems integration business division to its Technology segment.

The acquisition was accounted for using the purchase method. The purchase price allocation was as follows:

		(000's)
Current assets	$	58,933
Non-current assets		3,083
Trademark		3,211
Customer base and distribution agreements		9,796
Current liabilities		(43,485)
Non-current liabilities		(3,538)
Purchase price allocation	**$**	**28,000**

Customer base and distribution agreements acquired are amortized over the remaining contractual terms of approximately 12 months. The purchase price allocation for Kvazar-Micro acquisition has not been yet finalized at the date of these statements.

Acquisition of Sibintertelecom

In November 2004, MTS acquired a 93.53% stake in Sibintertelecom, mobile phone operator in Chita region and Aginsk-Buryatsk District in the Far-East of Russia, for cash consideration of $37.4 million. Sibintertelecom holds license to provide 900 MHz services in Chita region and Aginsk-Buryatsk District in the Far-East of Russia. Sibintertelecom is the sole mobile service provider in two regions with a total population of 1.23 million. The company's customer base as at the date of acquisition was approximately 100,000 subscribers.

The acquisition was accounted for using the purchase method of accounting. The purchase price allocation was as follows:

		(000's)
Current assets	$	5,939
Non-current assets		6,966
License costs		29,555
Customer base		1,488
Trademark		465
Goodwill		10,376
Current liabilities		(9,523)
Deferred taxes		(7,668)
Minority interest		(190)
Purchase price	**$**	**37,408**

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 9 years for Chita region and one year for Aginsk-Buryatsk District and customer base is amortized over the average subscribers' life of approximately 44 months.

Acquisition of Telesot Alania

In December 2004, MTS purchased a 52.5% stake in Telesot Alania, a GSM mobile phone operator in the Republic of North Osetia in the Southern part of Russia, for cash consideration of $6.2 million. Telesot Alania holds license to provide 900/1800 MHz services in the Republic of North Osetia in the Southern part of Russia. Telesot Alania's customer base as at the date of acquisition was approximately 54,000 subscribers.

The acquisition was accounted for using the purchase method of accounting. The purchase price allocation was as follows:

		(000's)
Current assets	$	2,229
Non-current assets		5,085
License costs		3,606
Customer base		90
Current liabilities		(767)
Deferred taxes		(887)
Minority interest		(3,110)
Purchase price allocation	**$**	**6,246**

License costs are amortized over the remaining contractual terms of the licenses of approximately 2 years and customer base is amortized over the average subscriber's life of approximately 2 years.

Acquisition of Gorizont–RT

In December 2004, MTS completed transaction to acquire a 76.0% stake in Gorizont-RT, a GSM mobile phone operator in the Republic of Sakha (Yakutia) in the Far East of Russia, for cash consideration of $53.2 million. Gorizont-RT holds licenses to provide GSM-900/1800 services in the Republic of Sakha (Yakutia). The Gorizont-RT's customer base as at the date of acquisition was approximately 100,000 subscribers.

The acquisition was accounted for using the purchase method. The purchase price allocation was as follows:

		(000's)
Current assets	$	3,820
Non-current asset		17,501
License costs		26,362
Customer base cost		1,050
Trademark		153
Goodwill		20,214
Current liabilities		(4,949)
Non-current liabilities		(529)
Deferred taxes		(6,814)
Minority interest		(3,604)
Purchase price allocation	**$**	**53,204**

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 6 months and customer base is amortized over the average subscribers' life of approximately 60 months.

Other Acquisitions

In October 2003, the Group completed the purchase of Vostok Mobile South and thus acquired a 50% stake in Volgograd Mobile and Astrakhan Mobile and an 80% stake in Mar Mobile GSM. Also, in a separate transaction the Group completed the acquisition of the remaining 20% stake in Mar Mobile GSM from existing shareholders unrelated to MCT Corporation, thus consolidating a 100% ownership in the company.

During the year ended December 31, 2003, the Group increased its ownership interests in MBRD from 52% to 59%, in DM-Center from 53% to 100% and in Bolshaya Ordynka from 0% to 70% by acquiring their shares from related parties for an aggregate cash consideration of less than $0.1 million. The aggregate effect of such transactions on the Group's equity amounted to a net decrease of $2.7 million, which was charged to additional paid-in capital.

In March 2004, the Group acquired 11% stake in SCS-900 for cash consideration of $8.5 million, increasing the Group's voting power in SCS-900 to 99.5%. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by $2.6 million. In April 2004, the Group acquired 40% stake in FECS-900 for cash consideration of $8.3 million, increasing the Group's voting power in FECS-900 to 100%. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by $4.1 million. License costs are amortized over the remaining contractual terms of the respective license, ranging from 6 to 10 years at the date of the first acquisition.

In April 2004, the Group acquired additional 7.5% stake in MSS, a mobile operator in the Omsk region, for $2.2 million in cash. This acquisition increased the Group's voting power in MSS to 91%. The acquisition was accounted for using the purchase method of accounting. The allocation of purchase price increased recorded license cost by $1.1 million.

In April and May of 2004, the Group acquired the remaining stakes in the following subsidiaries:

- 35% of MTS-NN (a service provider in Nizhny Novgorod) for $0.5 million, and
- 49% of Novitel (handsets dealer in Moscow) for $1.3 million.

Both acquisitions increased the Group's voting power in the respective companies to 100%. The acquisitions were accounted for using the purchase method of accounting. The allocation of purchase price increased recorded goodwill by $1.8 million.

In August 2004, the Group acquired the remaining stakes in Astrakhan Mobile and Volgograd Mobile, increasing the Group's voting power in these subsidiaries to 100%. The acquisition price was $1.1 million and $2.9 million, respectively. Astrakhan Mobile holds a AMPS/DAMPS-800 and GSM-1800 licenses covering Astrakhan region (population of approximately 1.0 million) and Volgograd Mobile holds a AMPS/DAMPS-800 and GSM-1800 licenses covering Volgograd region (population of approximately 2.7 million). As of July 31, 2004, the two companies provided AMPS/DAMPS services to around 10 thousand subscribers. As the result of the allocation of purchase price for the first and second stakes in both companies, the Group recorded license cost of $16.5 million.

In August 2004, the Group acquired the remaining 49% stake in UDN-900 for $6.4 million in cash. This acquisition increased the Group's voting power in UDN-900 to 100%. The allocation of purchase price increased recorded license cost by $0.3 million. UDN-900 provides GSM-900 services under the MTS brand in Udmurtia Republic (population of 1.6 million). UDN's subscriber base as of July 31, 2004 was 219,760.

In September 2004, the Group acquired 29.8% stake in Mezhregionalny Transit Telecom ("MTT"), operator of a nation-wide transit network providing telecommunications services and network interconnection for mobile and fixed network operators throughout Russia, for cash consideration of $39.8 million, increasing its ownership interest in MTT to 44.8%. In October 2004, the Group purchased an additional 0.2% stake in MTT for cash consideration of $0.1 million. As a result, by December 31, 2004, the Group's ownership interest in MTT increased to 45.0%.

During the year ended December 31, 2004, Rosno repurchased 3.4% of its outstanding shares from a director of the Group for cash consideration of $5.6 million. The transaction resulted in a reduction of additional paid-in capital of the Group by $1.3 million, net of minority interest of $2.6 million. Later in the same period the Group acquired from Rosno 1.75% of its shares for $2.8 million in cash. The remaining treasury shares were sold by Rosno to an affiliate of Allianz AG. In December 2004, Rosno issued 10.9 million new shares, 5.6 million of which were purchased by the Group for a cash payment of $9.8 million. The rest of the newly issued shares were sold to Allianz AG. As a consequence of these transactions, the Group's ownership interest in Rosno reached 49.0%.

In October 2004, Rosno acquired from RAO UES 100% stake in Leader. The value of consideration equaled $3.0 million. Leader is an insurance company, selling primarily property insurance to energy companies. During 2002-2004, the Group assumed reinsurance from Leader and performed operational management of this company.

In October 2004, Rosno acquired 100% stake in Deutsche Investment Trust for cash consideration of $2.4 million. The allocation of purchase price increased goodwill by $1.3 million.

During the first nine months 2004, the Group acquired 5% share in East-West United Bank for cash consideration of $1.7 million. In November 2004, the Group acquired from Vneshtorgbank 14% stake in East West United Bank, increasing its ownership to 49%. The value of consideration equaled $5.3 million. East West United Bank is a bank incorporated in Luxembourg.

Pro forma results of operations (unaudited)

The following unaudited pro forma financial data for the years ended December 31, 2004 and 2003 give effect to the acquisitions of Primtelefon, SCS-900, FECS-900, Kvazar-Micro, Uzdunrobita, Sibintertelecom, Telesot Alania, Gorizont-RT and acquisitions made during the year ended December 31, 2003, including MTS, UMC, Kuban-GSM, TAIF Telcom, Sibchallenge, TSS and Comstar, as if they had occurred as of January 1, 2003:

	(000's) 2004	2003
Net revenues	$ 5,711,286	$ 4,085,607
Income from continuing operations before cumulative effect of a change in accounting principle	453,025	215,905
Net income	417,553	372,282
Earnings per share, basic and diluted:	$ 51.5	$ 46.0

The pro forma information is based on various assumptions and estimates. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Group's acquisitions had been consummated at the beginning of the respective period, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions.

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES

In July 2004, the Group sold 33.0% of common shares of its subsidiary STROM telecom to a third party for a cash consideration of $2.0 million. The transaction resulted in recognition of loss from disposal of $1.2 million.

In August 2004, the Group sold 83.5% of common shares of its subsidiary P-Com to Sky Link, the Group's affiliate, for promissory notes of $16.0 million. The transaction resulted in recognition of loss from disposal of $1.9 million. Revenues of P-Com were excluded from the Group's consolidated revenues effective January 1, 2004, and the Group's share in P-Com's earnings for the year ended December 31, 2004 was recorded using the equity method of accounting.

In October 2004, the Group disposed of its 24% shareholding in MCC to Sky Link, the Group's affiliate, for cash consideration of $0.7 million.

In August 2004, the Group sold its interest in Sofora, a subsidiary operating in media business, to a third party for cash consideration of $1.1 million. The transaction resulted in recognition of gain from disposal of $1.3 million. Sofora's assets and operations were not material for the Group.

During the year ended December 31, 2004, the Group sold its interests in Petrovskoye Podvorye and Ordynka to related parties. These transactions resulted in an increase of additional paid-in capital by approximately $10.3 million, net of minority interests of $2.6 million.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $113.6 million and $56.1 million as of December 31, 2004 and 2003, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities less than 90 days. Within this amount, $3.8 million and $44.3 million, respectively, represent the Group's deposits with East-West United Bank, an affiliate of the Group. As of December 31, 2004, the Group had $5.6 million in current accounts with East-West United Bank.

Also included in cash as of December 31, 2004 and 2003 are $10.9 million and $45.7 million, respectively, which represent the MBRD's minimum reserve deposit, required by the Central Bank of Russian Federation.

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2004 and 2003 consisted of the following:

	(000's)	
	2004	**2003**
Trading securities:		
RF Eurobonds	-	$ 54,394
Corporate bonds	$ 36,669	19,696
Municipal bonds	12,622	4,012
Corporate shares	11,541	2,250
Other trading securities	9,141	10,998
	69,973	91,350
Other short-term investments:		
Credit linked notes	-	38,170
Promissory notes and deposit certificates from third parties	35,546	95,881
Promissory notes from related parties	13,028	20,946
Bank deposits with original maturities exceeding 90 days	80,743	24,040
Other short-term investments	8,003	8,463
	137,320	187,500
Total	**$ 207,293**	**$ 278,850**

Corporate bonds denominated in RUR represent bonds issued by major Russian companies with maturity dates from 2004 to 2009 and coupon rates of 7-20% per annum.

Corporate shares are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on last traded prices obtained from Moscow Interbank Currency Exchange ("MICEX").

The weighted average interest rate on promissory notes from third parties as of December 31, 2004 and 2003, was 8% and 8%, respectively, while promissory notes from related parties are mostly interest-free. Deposit certificates bear an interest rate of 5% as compared to 7% in 2003. Most of the notes and certificates mature within 1 year from the latest balance sheet date.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2004 were 4% for RUR-denominated deposits and 7% on deposits in USD. Included in bank deposits as of December 31, 2004, are deposits with East-West United Bank of $53.0 million bearing interest of 2%.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Loans to customers	$ 227,668	$ 231,918
Loans to banks	173,179	147,518
	400,847	379,436
Less allowance for loan losses	(21,537)	(14,454)
Total	**$ 379,310**	**$ 364,982**

Loans to customers as of December 31, 2004 and 2003 include loans to related parties of $93.3 million and $151.6 million, respectively.

8. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Receivables from insurance operations	$ 104,834	$ 71,066
Advances to health care providers	25,444	25,243
Total	**$ 130,278**	**$ 96,309**

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Trade receivables	$ 370,988	$ 211,333
Less: provision for doubtful accounts	(43,067)	(29,082)
Total	**$ 327,921**	**$ 182,251**

Included in trade receivables as of December 31, 2004 and 2003 are receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $42.2 million and $4.3 million, respectively. Management anticipates no losses in respect of receivables from related parties.

10. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2004 and 2003 consisted of the following:

	(000's)	
	2004	**2003**
Recoverable VAT	$ 345,999	$ 278,441
Receivables for sale of oil assets	-	153,500
Advances to suppliers	111,505	58,266
Prepaid expenses	22,582	15,897
Deferred policy acquisition costs	26,203	9,410
Other taxes prepaid	22,746	11,728
Receivables for sale of Micron shares	5,052	4,759
Receivables for sale of STROM telecom shares	1,606	-
Other	51,445	39,406
Less: provision for doubtful accounts	(4,064)	(4,282)
Total	**$ 583,074**	**$ 567,125**

Policy acquisition costs' amortization charge for the years ended December 31, 2004 and 2003 was $42.7 million and $22.5 million, respectively.

11. INVENTORIES

Inventories as of December 31, 2004 and 2003 consisted of the following:

	(000's)	
	2004	**2003**
Raw materials and spare parts	$ 97,427	$ 51,216
Work-in-progress	34,888	15,643
Finished goods and goods for resale	89,123	62,693
Project costs – construction, net of progress billings	55,394	36,651
Total	**$ 276,832**	**$ 166,203**

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2004 and 2003 consisted of the following:

	(000's)	
	2004	**2003**
Land	$ 37,944	$ 3,894
Buildings and leasehold improvements	547,629	439,838
Switches, transmission devices, network and base station equipment	3,284,977	2,223,603
Other plant, machinery and equipment	431,030	412,519
Construction in-progress and equipment for installation	1,080,900	764,178
	5,382,480	3,844,032
Less: accumulated depreciation	(947,265)	(475,911)
Total	**$ 4,435,215**	**$ 3,368,121**

Depreciation expense for the years ended December 31, 2004 and 2003 amounted to $509.5 million and $335.3 million, respectively.

13. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Loans, promissory notes and deposits with related parties	$ 20,309	$ 14,279
Loans, promissory notes and deposits with third parties	8,513	6,836
Mutual investment funds	9,942	9,616
Other	7,147	10,662
Total	**$ 45,911**	**$ 41,393**

Loans and promissory notes from related parties are mostly RUR denominated and interest-free. Majority of such loans and promissory notes mature in 2006.

14. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004		2003	
	Voting power, %	**Carrying value**	**Voting power, %**	**Carrying value**
Primtelefon	Consolidated		50%	$ 31,174
Astrakhan Mobile and Volgograd Mobile	Consolidated		50%	5,806
Mosdachtrest	Consolidated		44%	4,024
MTT (Note 3)	45%	$ 49,205	15%	30
MTS Belarus	49%	27,699	49%	5,884
Sky Link (Note 4)	50%	16,011	50%	-
East-West United Bank	49%	16,518	30%	8,382
ZETA Telecom	49%	6,699	49%	7,390
Cosmos TV	50%	4,100	50%	7,239
MCC (Note 4)	-	-	24%	4,862
Loans to MTS Belarus	-	51,894	-	51,481
Loans to Sky Link	-	19,316	-	-
Acquired debt of Cosmos TV	-	1,000	-	6,333
Loans to Astrakhan Mobile and Volgograd Mobile	-	-	-	6,850
Other investments and loans to investees	Various	14,078	Various	11,481
Total		**$ 206,520**		**$ 150,936**

Investments in affiliates include $51.9 million in loans to MTS Belarus bearing interest at 3% to 11% per annum. Based on projected cash flows of MTS Belarus, the Group has concluded that no impairment of the Group's investments in MTS Belarus is required as of December 31, 2004.

15. LICENSES, NET

Licenses, net of accumulated amortization, as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Operating licenses	$ 1,007,369	$ 773,073
Less: accumulated amortization	(256,436)	(103,085)
Total	$ **750,933**	$ **669,988**

Amortization expense for licenses for the years ended December 31, 2004 and 2003 amounted to $160.5 million and $103.1 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
2005	$ 187,733
2006	140,799
2007	105,601
2008	79,200
2009	59,398
Thereafter	178,202
	$ **750,933**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new licenses acquisitions, changes in useful lives and other relevant factors.

16. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses, net of accumulated amortization, as of December 31, 2004 and 2003 consisted of the following:

	2004			2003		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Acquired customer base	$ 152,060	$ (78,491)	$ 73,569	$ 137,747	$ (28,877)	$ 108,870
Numbering capacity with finite contractual life, rights to use premises, software and other	474,377	(148,398)	325,979	319,498	(53,007)	266,491
	626,437	(226,889)	399,548	457,245	(81,884)	375,361
Unamortized intangible assets:						
Numbering capacity with indefinite contractual life	22,237	-	22,237	28,855	-	28,855
Trademarks	45,375	-	45,375	42,165	-	42,165
Total intangible assets	$ **694,049**	$ **(226,889)**	$ **467,160**	$ **528,265**	$ **(81,884)**	$ **446,381**

Amortization expense recorded on other intangible assets for the years ended December 31, 2004 and 2003 amounted to $129.9 million and $82.6 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

		(000's)
2005	$	161,795
2006		104,099
2007		59,642
2008		42,942
2009		8,142
Thereafter		22,928
	$	**399,548**

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

17. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of December 31, 2004 and 2003 consisted of the following:

		(000's)		
		2004		**2003**
Deposits repayable on demand	$	133,008	$	57,981
Term deposits		132,694		67,446
Promissory notes issued		61,159		48,321
Total	**$**	**326,861**	**$**	**173,748**

Bank deposits and notes issued as of December 31, 2004 and 2003 include deposits from and promissory notes issued to related parties for $8.4 million and $30.2 million, respectively.

18. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of December 31, 2004 and 2003 consisted of the following:

		(000's)		
		2004		**2003**
Unearned premium provision, net of reinsurance	$	164,589	$	88,244
Loss provision, net of reinsurance		76,641		50,070
Undisbursed MGFOMS funds		45,719		38,140
Other insurance-related liabilities		57,511		30,986
Total	**$**	**344,460**	**$**	**207,440**

Usage of MGFOMS funds, in the amount of $45.7 million, accumulated and undisbursed by Rosno as of December 31, 2004, is limited to payments for medical facilities and care provided to RF citizens by medical centers under MGFOMS's obligatory medical insurance program.

19. ACCRUED EXPENSES, SUBSCRIBER PREPAYMENTS AND OTHER CURRENT LIABILITIES

Accrued expenses, subscriber prepayments and other current liabilities as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Subscriber prepayments, current portion (Note 23)	$ 391,880	$ 255,988
Payables for purchase of oil assets	-	96,530
Payroll and other accrued expenses	112,878	39,836
Accrued interest on loans	63,809	50,726
Customers' advances	59,146	38,586
Payables for purchase of UMC shares	-	27,500
Current portion of capital lease obligations (Note 21)	4,926	11,387
Dividends payable	6,237	10,841
Tax and legal contingencies	23,633	27,179
Other	74,885	48,510
Total	**$ 737,394**	**$ 607,083**

20. SHORT-TERM NOTES PAYABLE

Short-term notes payable as of December 31, 2004 and 2003 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2004)	(000's) 2004	2003
Credit Suisse First Boston	USD	LIBOR+2.2% (4.8%)	$ 140,000	35,000
Commerzbank Eurasia	USD	LIBOR+5.0% (7.4%)	20,000	$ 10,000
Sberbank	RUR	10.0%-15.0%	10,248	3,828
Vneshtorgbank	EUR	11%	7,501	-
West LB	USD	LIBOR+6.8% (9.4%)	5,000	-
Credit Linked Notes	USD	-	-	100,000
Trust Bank	USD	-	-	25,000
Deutsche Bank	USD	-	-	15,280
AVAL Bank	UAH	-	-	10,890
Loans and promissory notes payable to related parties	Various	Various	21,422	134,574
Other	Various	Various	16,932	14,511
Total			**$ 221,103**	**$ 349,083**

Credit Suisse First Boston – In October 2004, MTS entered into a short-term loan facility with Credit Suisse First Boston for a total amount of $140.0 million. Amounts outstanding under the loan agreement bear interest of LIBOR+2.2% (4.8% as of December 31, 2004). The short-term loan facility matures in April of 2005. As of December 31, 2004, the balance outstanding under the loan was $140.0 million. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. As of December 31, 2004, the MTS is in compliance with all existing covenants.

Commerzbank Eurasia – In November 2003, Sistema-Hals entered into a loan agreement with Commerzbank Eurasia for the amount of $20.0 million. The loan bears interest at LIBOR+5% (7.4% as of December 31, 2004) and is due in March 2005. The loan is guaranteed by JSFC Sistema.

Sberbank – The Group has entered into several short-term loans with Sberbank. The outstanding balance under the loans as of December 31, 2004 was $10.2 million. The loans bear interest of 10%-15%. The Sberbank loans are secured by pledge of PP&E with the carrying value of approximately $8.2 million as of December 31, 2004.

Vneshtorgbank – In December 2004, Kamov-Holding entered into a loan agreement with Vneshtorgbank for the amount of EUR 5.5 million. The loan bears interest at 11% and is due in June 2005.

West LB – In December 2004, Sistema-Hals entered into a loan agreement with West LB for the amount of $5.0 million. The loan bears interest of LIBOR + 6.8% per annum (approx. 9.4% as of December 31, 2004) and matures in 2005.

21. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of December 31, 2004 and 2003 consisted of the following:

	(000's)	
	2004	**2003**
Capital lease obligations	$ 8,338	$ 16,330
Less: current portion of capital lease obligations (Note 19)	(4,926)	(11,387)
Total	**$ 3,412**	**$ 4,943**

During 2001-2004, the Group entered into several lease agreements for telecommunications equipment and vehicles. Most of the agreements expire in 2005-2006 and assume transfer of ownership for leased assets to the Group at the end of the lease term.

The net book value of leased assets comprised $20.3 million and $23.2 million as of December 31, 2004 and 2003, respectively. Interest expense, recorded within income from continuing operations, was $1.9 million and $4.2 million for the years ended December 31, 2004 and 2003, respectively. Future minimum payments under the lease agreements are disclosed in Note 30.

22. LONG-TERM DEBT

Long-term debt as of December 31, 2004 and 2003 consisted of the following:

	Currency	**Annual interest rate (Actual at December 31, 2004)**	**(000's) 2004**	**(000's) 2003**
Sistema Finance Notes	USD	10.3%	$ 348,808	$ 348,561
Sistema Capital Notes	USD	8.9%	350,000	-
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
MTS Finance Notes due 2008	USD	9.8%	400,000	400,000
MGTS Bonds	RUR	10%-12.3%	90,094	52,643
MTS Finance Notes due 2004	USD	-	-	299,640
Floating Rate Notes due 2004	USD	-	-	298,196
Sistema Finance Investments Bonds	RUR	-	-	40,747
Micron Bonds	RUR	15.0%	6,293	7,541
TAIF Telcom Bonds	RUR	-	-	4,074
Total Corporate Bonds			**1,595,195**	**1,851,402**

	Currency	Annual interest rate (Actual at December 31, 2004)	(000's) 2004	2003
Syndicated Loan	USD	LIBOR+2.5% (5.3%)	600,000	-
EBRD	USD	LIBOR+3.1% (5.9%)	150,000	-
HSBC Bank plc and ING-BHF-Bank	USD	LIBOR+0.4% (3.2%)	77,003	-
Hermes Credit Facility	EUR	EURIBOR+0.7% (2.9%)	63,851	55,550
ING-Bank (Eurasia)	USD	LIBOR+2.3%-4.2% (4.8%-6.7%)	46,667	60,000
Vendor Financing	Various	Various	33,181	25,033
Commerzbank (Eurasia)	USD	LIBOR+1.4%-3.5% (4.0%-6.1%)	27,213	19,958
Raiffeisenbank	USD	LIBOR+5.0%-7.0% (7.6%-9.6%)	19,684	33,036
HSBC	USD	LIBOR+2.8% (5.2%)	17,500	25,000
Ericsson Project Finance	USD	LIBOR+4.0% (6.6%)	14,850	23,400
Sberbank	RUR	11.0%-20.3%	17,299	34,732
Vneshtorgbank	USD, EUR	LIBOR+4.9% (7.3%), EURIBOR+5.6% (7.8%), 13%	16,981	17,297
Citibank	USD	LIBOR+1.6% (4.2%)	15,144	18,616
Nordea Bank Sweden	USD	LIBOR+0.4% (3.0%)	6,500	-
WestLB	EUR	EURIBOR+2% (4.2%)	4,000	-
Dresdner Bank	USD	-	-	15,400
Deutsche Telecom	USD	-	-	57,981
International Moscow Bank	RUR	-	-	10,864
TDC Mobile International	USD	-	-	6,838
Loans from related parties	Various	Various	86,432	31,898
Other	Various	Various	43,960	33,022
			2,835,460	2,320,027
Less amounts maturing within one year			(340,938)	(844,106)
Total			**$ 2,494,522**	**$ 1,475,921**

Corporate Bonds – In January 2004, Sistema Capital, a wholly-owned subsidiary of the Group domiciled in Luxembourg, issued $350.0 million of 8.875% notes, due in January 2011. The notes are fully and unconditionally guaranteed by JSFC Sistema. Interest payments on the notes are due semi-annually in January and July of each year, commencing July 2004. On or prior to January 2007, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 108.9% of the principal amount. The notes are listed on the London Stock Exchange. In January 2007, the holders of the notes may require Sistema Capital to redeem their notes at 100% of the principal amount thereof, together with accrued interest. In addition, these notes provide the holders with a right to require Sistema Capital to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control.

In April 2003, Sistema Finance, a wholly-owned subsidiary of the Group, issued $350.0 million 10.25% notes, due in April 2008, at 99.52% of par. These notes are secured by 193,473,900 shares of common stock of MTS. The notes are listed on the Luxembourg Stock Exchange. JSFC Sistema is a guarantor of the notes. Interest on the notes is payable semi-annually in arrears. On or prior to April 14, 2006, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 110.25% of par. These notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. In addition, these notes provide the holders with a right to require Sistema Finance to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control.

In October 2003, MTS Finance ("MTS Finance"), a wholly-owned subsidiary of the Group, issued $400.0 million notes bearing interest at 8.375% at par. The cash proceeds, net of issuance costs of approximately $4.6 million, amounted to $395.4 million. These notes are fully and unconditionally guaranteed by MTS and will mature in October 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears in April and October of each year, commencing April 2004. The notes are listed on the Luxembourg Stock Exchange.

In January 2003, MTS Finance issued $400.0 million 9.75% notes at par. These notes are fully and unconditionally guaranteed by MTS and mature in January 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears in January and July, commencing July 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were $400.0 million and related debt issuance costs of $3.9 million were capitalized.

In August 2003, MTS Finance issued $300.0 million notes bearing interest at a rate of 3 months LIBOR+4% at the price of 99%. These notes were fully and unconditionally guaranteed by MTS and matured in August 2004. MTS Finance was required to make interest payments on the notes quarterly, commencing November 2003. The notes were listed on the Luxembourg Stock Exchange. Proceeds received from the notes, net of underwriting discount, were $297.0 million and related debt issuance costs of $1.8 million were capitalized. In May 2004, the Group redeemed all outstanding floating rate notes, mentioned above, in the principal amount plus accrued interest thereon to the date of redemption.

In December 2001, MTS Finance issued $250.0 million 10.95% (effective interest rate of 11.25%) notes at the price of 99.254%. Proceeds received from the notes, net of underwriting discount, were $248.1 million. Related debt issuance costs in the amount of $3.9 million were capitalized.
In March 2002, MTS Finance issued additional $50.0 million 10.95% (effective interest rate of 10.25%) notes at a price of 101.616%. Proceeds received from these notes, including the offering premium, were $50.8 million. Related debt issuance costs in the amount of $0.6 million were capitalized. All the notes were fully and unconditionally guaranteed by MTS and were fully repaid in December 2004.

Subject to certain exceptions and qualifications, the indentures governing the MTS' notes contain covenants limiting MTS' ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person or convey its properties and assets to another person; and sell or transfer any of its GSM licenses for Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101% of their principal amount, plus accrued interest. MTS is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by the JSFC Sistema. If MTS fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate debt to be immediately due and payable. The Group believes that MTS is in compliance with all restrictive provisions as of December 31, 2004.

In November 2002, Sistema Finance Investments, a wholly-owned subsidiary of the Group, issued RUR denominated bonds with face value of 1,200.0 million RUR (equivalent of $43.2 million as of December 31, 2004). The bonds were traded on MICEX and carried a coupon rate of 17.75% during the first year of trading and of 15% during the second year. The notes were fully repaid in November 2004.

In July 2004, Sistema Finance Investments issued RUR denominated bonds with face value of 2,000.0 million RUR (equivalent of $72.1 million as of December 31, 2004). The bonds carried a coupon rate of 11%. As of December 31, 2004, the Group had repurchased 100% of the second issue of Sistema Finance Investments bonds.

In February 2003, MGTS issued 2-year RUR denominated bonds in the amount of 1,000 million RUR (equivalent of $36.0 million as of December 31, 2004). The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year. In February 2005, MGTS fully repaid the bonds.

In April 2004, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $54.1 million as of December 31, 2004). The bonds carry a coupon of 10% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006.

In July 2003, Micron issued RUR denominated bonds with face value of RUR 300.0 million (equivalent of $10.8 million as of December 31, 2004) due in January 2005. Interest is payable semi-annually. The interest rate was set at 15% per annum, and two-thirds of the interest payments were covered by the municipal government. The Group fully repaid the bonds in January 2005.

Syndicated Loan – In July 2004, MTS entered into a $500.0 million syndicated loan agreement with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank PLC, Raiffeisen Zentralbank Oesterreich AG, Bank Austria Creditanstalt AG, Commerzbank AG and others. The credit facility bears interest LIBOR+2.5% per annum (5.3% as of December 31, 2004) and matures in 3 years. The proceeds were used by MTS for corporate purposes, including refinancing of its existing indebtedness. In September 2004, MTS extended total amount available under the syndicated loan facility for an additional $100.0 million to total amount of $600.0 million. Commitment fee for the syndicated loan facility amounted to $0.5 million. Debt issuance costs of $10.2 million related to the syndicated loan facility have been capitalized. As of December 31, 2004, $600.0 million was outstanding under this credit facility. The loan facility is subject to certain restrictive covenants including, but not limited to, certain financial ratios of MTS. As of December 31, 2004, MTS is in compliance with all existing covenants.

EBRD – In December 2004, MTS entered into a credit line with the European Bank for Reconstruction and Development (“EBRD”) limited to $150.0 million. The facility bears interest at LIBOR+3.1% (5.9% as of December 31, 2004). Commitment fee of 0.5% per annum should be paid in accordance with the credit agreement. The final maturity of this agreement is in December 2011. As of December 31, 2004, the balance outstanding under the loan was $150.0 million. The loan is subject to restrictive covenants including, but not limited to, certain financial ratios of MTS. As of December 31, 2004, the MTS is in compliance with all existing covenants.

HSBC Bank and ING BHF Bank – In October 2004, MTS entered into two credit facility agreements with HSBC Bank and ING BHF Bank for the total amount of $122.3 million. The funds were used to purchase telecommunication equipment and software from Siemens AG and Alcatel SEL AG for the technical upgrade and expansion of network. Euler Hermes Kreditversicherung AG, the German credit export agency, is providing export credit cover in respect to both facilities. The facilities bear interest at LIBOR+0.4% (3.2% as of December 31, 2004). A commitment fee of 0.2% per annum and an agreement fee of 0.25% should be paid in accordance with the loan agreement. The principal and interest amounts are to be repaid in seventeen equal semi-annual installments, starting July 2005 for the first agreement and September 2005 for the second one. As of December 31, 2004, the outstanding balance under these agreements was $77.0 million. The final maturity of these agreements is in July and September 2013. The loan facility is subject to certain restrictive covenants applying to MTS. As of December 31, 2004, MTS is in compliance with all existing covenants.

Hermes Credit Facility – In December 2003, UMC entered into Hermes Credit Facility with ING-BHF Bank and Commerzbank to finance the acquisition of GSM equipment from Siemens AG. The aggregate amount available under this credit facility is EUR 47.4 million (equivalent of $64.5 million as of December 31, 2004). In 2004, the agreement was amended to increase the amount available under the facility by EUR 9.2 million (equivalent of $12.5 million as of December 31, 2004). The loan is fully and unconditionally guaranteed by MTS and bears interest at EURIBOR+0.7% (2.9% as of December 31, 2004). The amount outstanding is redeemable in 10 equal semi-annual installments, commencing July 2004. The balance outstanding as of December 31, 2004 was $63.9 million.

ING Bank (Eurasia) – In September 2003, UMC entered into a $60.0 million syndicated credit facility with ING Bank (Eurasia), Standard Bank and Commerzbank AG with an interest rate of LIBOR+2.3%-4.2% (4.8%-6.7% as of December 31, 2004). The loan is fully and unconditionally guaranteed by MTS. The proceeds were used by UMC to refinance its existing indebtedness. The loan is payable in 8 equal quarterly installments starting from September 2004. As of December 31, 2004, the balance outstanding under this credit facility was $46.7 million.

Vendor Financing – Foreign suppliers of telecommunications equipment provide non-collateralized commercial credit (vendor financing) to the Group denominated in various currencies on short-term and long-term bases, mostly interest free.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered into a number of credit facilities with Commerzbank (Eurasia) for a total amount of $27.2 million. The facilities bear interest of LIBOR+1.4%-3.5% per annum (4.0%-6.1% as of December 31, 2004). As of December 31, 2004, approximately $27.2 million was outstanding under these facilities. The facilities are fully and unconditionally guaranteed by MTS.

Raiffeisenbank – In September 2002, MGTS entered into a credit line with Raiffeisenbank limited to $15.0 million. The equipment with fair value of $23.9 million was pledged under this credit line as of December 31, 2004. In addition, MGTS is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The credit line bears interest of LIBOR+5% (7.6% as of December 31, 2004) and matures in 2007. As of December 31, 2004, approximately $3.8 million was outstanding under this credit line.

In November 2002, JSFC Sistema entered into a credit line with Raiffeisenbank (Austria) limited to $20.0 million. The building with fair value of $16.8 million was pledged under this credit line as of December 31, 2004. In addition, the Group is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The loan bears interest of LIBOR+7% per annum (9.6% as of December 31, 2004) and matures in 2007. As of December 31, 2004, approximately $15.9 million was outstanding under this credit line.

HSBC – In October 2003, TAIF Telcom entered into a $25.0 million credit facility with HSBC Bank LLC, which is fully and unconditionally guaranteed by MTS. The facility bears interest at LIBOR+2.8% (5.2% as of December 31, 2004) and is redeemable in ten equal quarterly installments commencing June 2004. The funds were used to purchase telecommunication equipment and for general corporate purposes. As of December 31, 2004, the outstanding balance of the facility was $17.5 million.

Sberbank – In September 2004, MGTS received a loan from Sberbank of $12.6 million. The loan bears interest of 11% and matures in March 2007. Equipment with fair value of $29.0 million was pledged to collateralize the outstanding balance under the loan as of December 30, 2004. The total balance outstanding under several other loans the Group received from Sberbank was $4.7 million as of December 31, 2004.

Vneshtorgbank – The loans provided by Vneshtorgbank are collateralized by pledge of equipment with fair value of $9.5 million and by a pledge of 4% of MGTS common shares. The weighted average interest rate on the loans outstanding as of December 31, 2004 was 8.2% per annum. The loans mature in 2005-2010.

Citibank – In July 2003, MGTS received a loan from Citibank for purchase of equipment in the amount of $7.1 million. In addition, in May and August 2004, MGTS received loans from Citibank for purchase of equipment and software in the total amount of $8.0 million. All loans bear interest of LIBOR+1.6% (4.2% as of December 31, 2004). The loans are collateralized by pledged equipment with fair value of $9.5 million and by deposit in Citibank of $1.0 million and guaranteed by Export Guarantee and Insurance Corporation, Czech Republic. As of December 31, 2004, approximately $15.1 million was outstanding under these loans. Based on the restrictive covenants of the agreements, the Debt to Equity ratio and Debt Service to Earnings Before Interest and Taxes ("EBIT") ratio of MGTS should not exceed 3:1. MGTS is not allowed to obtain borrowings individually $30.0 million

(apart from the Sberbank loan, Raiffeisenbank loan and the issues of MGTS bonds) or alienate more than 10% of its assets without the written approval of Citibank and its aggregate debt may not exceed $250.0 million.

Ericsson Project Finance – In December 1996, Rosico entered into a credit agreement with Ericsson Project Finance AB, which provided for a credit facility with an aggregate principal amount of $60.0 million. The loan bears interest of LIBOR+4% per annum (6.6% as of December 31, 2004). The loan is collateralized by a pledge of 16.8% of MGTS voting shares held by the Group. In February 2003, Ericsson Project Finance AB assigned all of its rights and obligations under the loan to Salomon Brothers Holding Company, Inc. As of December 31, 2004, the loan balance was $14.9 million.

Nordea Bank Sweden – In September 2003, Primtelefon entered into a long-term loan facility with Nordea Bank Sweden for the total amount of $9.8 million. Amounts outstanding under the loan agreement bear interest at LIBOR+0.4% (3.0% as of December 31, 2004) and mature in October 2006. The loan is fully and unconditionally guaranteed by MTS. As of December 31, 2004, the amount outstanding under the loan was $6.5 million.

West LB – In July 2002, MTS-P, a subsidiary of MTS, entered into a credit facility agreement with West LB International S.A. Amounts outstanding under this agreement bear interest of EURIBOR+2.0% (4.2% as of December 31, 2004) per annum for the first two years for each advance and EURIBOR+4.0% (6.2% as of December 31, 2004) per annum for the remaining interest periods for each advance until maturity. The final maturity of this agreement is in December 2006. The loan is fully and unconditionally guaranteed by MTS. As of December 31, 2004, the amount outstanding under the loan agreement was $4.0 million.

Dresdner Bank – In October 2002, MSS, a subsidiary of MTS, entered into a credit agreement with Dresdner Bank to borrow up to $10.0 million. Borrowings under this agreement bear interest of LIBOR+3.2%-3.4% (5.8%-6.0% as of December 31, 2004) per annum. The loan was fully and unconditionally guaranteed by MTS. In October 2004 the loan was fully repaid.

Deutsche Telecom and TDC Mobile International – The credit facilities with Deutsche Telecom AG and TDC Mobile International A/C bear interest at LIBOR+5.0%-7.0% (7.6%-9.6% as of December 31, 2004) and were redeemable in five quarterly installments commencing April 2003. The debt was fully repaid in April 2004.

The schedule of repayments of long-term debt over the five-year period beginning on December 31, 2004 is as follows:

		(000's)
Year ended December 31,		
2005	**$**	340,938
2006		432,315
2007		333,029
2008		799,834
2009		97,943
Thereafter		831,401
Total	**$**	**2,835,460**

In December 2004, MTS entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank PLC to hedge MTS' exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan. MTS agreed with ABN AMRO to pay a fixed rate of 3.27% and receive a variable interest of LIBOR on $100.0 million for the period from October 7, 2004 up to July 27, 2007. MTS agreed with HSBC Bank PLC to pay a fixed rate of 3.25% and receive a variable interest of LIBOR on $150.0 million for the period from October 7, 2004 up to July 27, 2007. These instruments qualify as cash flow hedges under the requirements of

SFAS No. 133 as amended by SFAS No. 149. As of December 31, 2004, the Group recorded a liability of $0.6 million in relation to these contracts in the accompanying balance sheet and a loss of $0.5 million, net of tax of $0.1 million as other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements. In 2004 there were no amounts reclassified from other comprehensive income to income due to hedge ineffectiveness.

23. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of December 31, 2004 and 2003 consisted of the following:

	(000's) 2004	2003
Current portion (Note 19)		
Connection fees	$ 83,021	$ 60,609
Advances and customers' deposits	308,859	195,379
	391,880	255,988
Non-current portion		
Connection fees	156,233	103,059
Total	**$ 548,113**	**$ 359,047**

24. INCOME TAX

The Group's provision for income taxes is as follows for the years ended December 31, 2004 and 2003:

	(000's) December 31, 2004	December 31, 2003
Current provision	$ 504,634	$ 333,534
Deferred benefit	(58,903)	(42,601)
Total income tax expense	**$ 445,731**	**$ 290,933**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate (24% in 2004 and 2003) to net income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle. The items causing this difference are as follows:

	(000's) December 31, 2004	December 31, 2003
Income tax provision computed on income from continuing operations before taxes at statutory rate	$ 355,546	$ 221,694
Adjustments due to:		
Change in valuation allowance	234	91
Non-deductible items	50,951	42,366
Non-taxable items	(7,584)	-
Taxable losses not carried forward	32,007	7,566
Currency exchange and translation differences	21,496	18,083
Effect of rates different from standard	(6,919)	1,133
Income tax expense	**$ 445,731**	**$ 290,933**

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented below:

		(000's) December 31, 2004		December 31, 2003
Deferred tax assets				
Subscriber and customer prepayments	$	76,364	$	40,014
Property, plant and equipment		60,963		21,191
Deferred revenues		24,581		19,070
Allowance for doubtful accounts		14,559		20,338
Accrued expenses		27,293		3,434
Tax losses carried forward		8,930		8,795
Other		16,101		3,362
		228,791		116,204
Less: valuation allowance		(8,908)		(9,142)
Total deferred tax assets	$	**219,883**	$	**107,062**
Deferred tax liabilities				
Intangible assets		(224,522)		(191,249)
Property, plant and equipment		(111,930)		(71,357)
Undistributed earnings of affiliates		(25,220)		(4,462)
Other		(21,828)		(11,949)
Total deferred tax liabilities	$	**(383,500)**	$	**(279,017)**
Net deferred tax assets, current	$	73,592	$	53,964
Net deferred tax assets, long-term	$	3,482	$	5,575
Net deferred tax liabilities, current	$	(22,071)	$	(508)
Net deferred tax liabilities, long-term	$	(218,620)	$	(230,986)

Deferred tax assets relating to tax losses carried forward in amount of $8.9 million as of December 31, 2004 expire in 2008 and are attributable to MSS and Rosico, subsidiaries of MTS.

25. POSTRETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently such benefits include bonus payments of a fixed amount to retiring employees with at least five years of service (RUR 12,300 or RUR 24,600 ($443 or $887 at the exchange rate current as of December 31, 2004), depending on actual years of service); lifetime payments of a fixed amount to employees retiring with at least fifteen years of service (RUR 4000 per year, per employee, or approximately $144 at the exchange rate as of for the year ended December 31, 2004); and discounted telephone service to employees retiring with at least thirty years of service. An employee is withdrawn from the benefit plan if his/her employment with MGTS is discontinued prior to retirement.

The assumed discount rate used in determining net periodic cost is 8% per annum. The future benefit payments to retirees under the defined benefit plan are expected as follows:

			(000's)
Year ended December 31,			
2005		$	2,958
2006			1,075
2007			1,023
2008			977
2009			936
	2010 – 2014		3,422
Thereafter			1,122
Total		$	**11,513**

MGTS's defined benefit plan is unfunded. For the years ended December 31, 2004 and 2003 the net periodic benefit costs recognized and the contributions paid by MGTS under the plan were not material.

26. DEFERRED REVENUE

Deferred revenue is comprised of property, plant and equipment contributions and grants received by the Group and as of December 31, 2004 and 2003 was as follows:

		(000's)		
		2004		**2003**
Deferred revenue at the beginning of the year	$	115,363	$	89,894
Contributions received during the year		21,530		26,183
Currency translation effect		1,044		9,705
		137,937		125,782
Deferred revenue amortized		(7,024)		(10,419)
Deferred revenue at the end of the year	**$**	**130,913**	**$**	**115,363**

In 2000 the Group was awarded a grant for construction of a manufacturing facility for production of medicines (vaccines and infusion dissolvents) in the Moscow region. The grant facility of $20.1 million was received in full during 2001 and 2000. The grant is repayable to the grantor (state organization) during the period to 2010. These contributions are accounted for as deferred revenues.

27. SHARE CAPITAL

At January 1, 2004, JSFC Sistema had 68,325,000 voting common shares authorized and 8,100,000 shares issued and outstanding with a par value of 0.1 RUR.

In June 2004, JSFC Sistema declared dividends for the year ended December 31, 2003, amounting to $5.2 million.

In July 2004, JSFC Sistema increased the par value of its shares to 90.0 RUR. As a result of this transaction, the share capital of the Group increased and retained earnings decreased by $24.9 million.

28. SEGMENT INFORMATION

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group's operating segments are: Telecommunications, Technology, Insurance, Banking and Other. The Group's management evaluates performance of the segments based on both operating income and net income before minority interests and cumulative effect of a change in accounting principle.

Intercompany eliminations presented below consist primarily of the following items: intercompany sales transactions, elimination of gross margin in inventory and other intercompany transactions conducted under the normal course of operations.

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2004 and 2003 is as follows:

For the year ended December 31, 2004						
	Tele-communi-cations	Techno-logy	Insurance	Banking	Corporate and Other	Total
Net sales to external customers [a]	4,615,846	396,912	275,510	42,950	380,068	5,711,286
Intersegment sales	856	101,515	24,684	22,788	5,191	155,034
Income/(loss) from equity affiliates	27,324	-	191	1,097	(1,491)	27,121
Interest income	30,202	197	-	-	4,977	35,376
Interest expense	(134,816)	(6,876)	-	-	(91,467)	(233,159)
Net interest revenue [b]	-	-	-	11,713	-	11,713
Depreciation and amortization	(783,668)	(3,484)	(3,378)	(1,119)	(8,236)	(799,885)
Operating income/(loss)	1,630,305	45,918	30,168	11,691	(32,600)	1,685,482
Income tax expense	(405,772)	(10,594)	(8,646)	(1,338)	(19,381)	(445,731)
Investments in affiliated companies	165,724	-	-	16,519	24,277	206,520
Segment assets	6,926,288	284,330	420,964	519,756	643,789	8,795,127
Cash and cash equivalents	227,414	32,636	127,590	84,404	31,703	503,747
Indebtedness [c]	(2,138,661)	(27,481)	(522)	(7,316)	(890,921)	(3,064,901)
Capital expenditures	1,538,321	11,882	14,079	3,032	59,672	1,626,986

[a] – Interest income and expenses of the Insurance and Banking segments are presented as revenues from financial services in the Group's consolidated financial statements.

[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

[c] – Represents the sum of short-term and long-term debt and capital lease obligations

For the year ended December 31, 2003						
	Tele-communi-cations	Technology	Insurance	Banking	Corporate and Other	Total
Net sales to external customers [a]	3,246,813	57,609	169,569	47,192	238,732	3,759,915
Intersegment sales	755	28,333	18,360	10,321	10,926	68,695
Income/(loss) from equity affiliates	439	-	(509)	490	45	465
Interest income	22,834	-	-	-	6,634	29,468
Interest expense	(161,911)	(2,772)	-	-	(41,719)	(206,402)
Net interest revenue [b]	-	-	-	2,697	-	2,697
Depreciation and amortization	(506,644)	(2,862)	(3,115)	(620)	(7,735)	(520,976)
Goodwill impairment	(19,251)	-	-	-	-	(19,251)
Operating income/(loss)	1,103,282	(3,348)	17,111	2,567	(16,131)	1,103,481
Income tax expense	(293,983)	1,571	(3,858)	(3,116)	8,453	(290,933)
Investments in affiliated companies	56,298	666	-	3,875	21,665	82,504
Segment assets	5,204,668	103,568	265,727	595,516	651,718	6,821,197
Cash and cash equivalents	82,548	1,562	48,154	94,652	56,249	283,165
Indebtedness [c]	(1,845,847)	(33,768)	(3,235)	-	(802,590)	(2,685,440)
Capital expenditures	1,152,216	9,209	7,310	2,994	41,160	1,212,889

[a] – Interest income and expenses of the Insurance and Banking segments are presented as revenues from financial services in the Group's consolidated financial statements.

[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

[c] – Represents the sum of short-term and long-term debt and capital lease obligations

The reconciliation of segment operating income to the consolidated income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle and reconciliation of segment assets to the consolidated segment assets are as follows:

	(000's) 2004	2003
Total segment operating income	$ 1,685,482	$ 1,103,481
Inter-segment eliminations	(20,776)	2,262
Interest income	18,061	19,341
Interest expense	(213,943)	(198,346)
Currency exchange and translation gain	12,620	(3,015)
Consolidated income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle:	**$ 1,481,444**	**$ 923,723**
Total segment assets	$ 8,795,127	$ 6,821,197
Inter-segment eliminations	(16,457)	(2,513)
Consolidated assets	**$ 8,778,670**	**$ 6,818,684**

For the years ended December 31, 2004 and 2003 the Group's revenues derived from Ukraine were $1,115.3 million and $307.7 million. Long-lived assets of the Group's entities domiciled in Ukraine were $849.4 million and $648.8 million as of December 31, 2004 and 2003, respectively.

For the years ended December 31, 2004 and 2003, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

29. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the years ended December 31, 2004 and 2003, the Group entered into transactions with related parties as follows:

	(000's) 2004	2003
Sale of computer spare parts and other equipment	$ (131,820)	-
Insurance premium received	64	$ (4,659)
Telecommunication services provided	(10,497)	-
Revenues from financial services	(2,052)	(11,730)
Consulting services provided	(1,799)	(10,768)
Claims paid	-	9,201
Interest expense	4,998	1,457
Finance services related costs	1,510	-
Purchase of goods for resale	2,612	-
Telecommunication services purchased	15,751	-
Other	2,238	16,831

Related party balances as of December 31, 2004 and 2003 are disclosed in the corresponding notes to the financial statements.

30. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts, which expire in various years through 2049.

Future minimum rental payments under capital and operating leases in effect as of December 31, 2004, are as follows:

	(000's)	
	Capital leases	**Operating leases**
Year ended December 31,		
2005	$ 5,289	$ 54,074
2006	2,228	26,625
2007	746	22,597
2008	171	18,626
2009	169	14,812
Thereafter	451	59,037
Less: amount representing interest	(716)	-
Total	**$ 8,338**	**$ 195,771**

Capital Commitments – As of December 31, 2004, MTS had executed non-binding purchase agreements in the amount of approximately $164.7 million to subsequently acquire property, plant and equipment.

In December 2003, MGTS announced its long-term investment program for the period from 2004 till 2012 providing for extensive capital expenditures including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government in December 2003. Capital expenditures under the investment program are currently estimated to be approximately $1.6 billion during the years 2004-2012 and include reconstruction of 350 local telephone stations and installation of 4.3 million of new phone numbers. The Group expects to finance approximately 50% of the capital expenditures under the investment program.

In July 2003, Sistema-Hals entered into an agreement with Siemens Real Estate to develop an office building in Moscow, which will become Siemens AG headquarters in Russia. Under this agreement Sistema-Hals is responsible for obtaining all necessary permits, planning and overall control of the construction process. The building is expected to be completed in late 2005. The cost of the project is estimated at approximately Euro 85.8 million (equivalent of $117.0 million as of December 31, 2004).

During 2004, Organizator, a subsidiary of Sistema-Hals, signed an agreement with Government of Moscow to administrate construction of a tunnel in the City of Moscow. Under the agreements signed by Organizator in relation to this project it is responsible for obtaining all permits, planning and oversight of design and construction work. The construction is financed by the City of Moscow and expected to be completed in 2007. The cost of the project is estimated at RUR 53,528.4 million ($1,929.6 million as of December 31, 2004).

Additionally, Sistema-Hals entered into construction agreements with various third party subcontractors for a total amount of $34.6 million.

Operating Licenses – Since the commencement of MTS' operations in 1994, a number of telecommunication licenses for the Russian Federation were issued to MTS and its now consolidated subsidiaries. These license agreements stipulate that certain fixed "contributions" be made to a fund for the development of telecommunication networks in the Russian Federation. Most of MTS' current licenses provide for the payment of such fees, which in the aggregate could total approximately $103.0 million, as at December 31, 2004. According to the terms of licenses, such contributions are to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators (the "Association"). The Association is a nongovernmental, not-for-profit association, and their Board of Directors comprises representatives of the major cellular communications companies, including MTS.

The Association has not adopted any procedures enforcing such payments and no such procedures have been established by Russian legislation. To date, MTS has not made any such payments pursuant to any of the current operating licenses issued to MTS and its consolidated subsidiaries. Further, the management of MTS believes that MTS will not be required to make any such payments in the future. In relation to these uncertainties, MTS has not recorded a contingent liability in the accompanying consolidated financial statements.

Each of the Group's telecommunication licenses, except the licenses covering the Moscow license area, contains a requirement for service to be commenced and for subscriber number and territorial coverage targets to be achieved by a specified date. The Group has met these targets or received extensions to these dates in those regional license areas in which the Group has not commenced operations. The management believes that the Group is in compliance with all material terms of its licenses.

The Group's telecommunication licenses do not provide for automatic renewal. The Group has limited experience with the renewal of its existing licenses. However, management believes that the licenses required for the Group's operations will be renewed upon expiration.

Issued Guarantees – As of December 31, 2004, MTS has issued guarantees for MTS-Belarus, an equity investee, for the total amount of $25.0 million. Under these guarantees the Group could be potentially liable for a maximum amount of $25.0 million in case of the borrower's default under the obligations. The guarantees expire by April 2007.

In December 2002, MTU-Inform and Alfabank signed a guarantee agreement. According to the agreement MTU-Inform guaranteed a loan of $4.0 million provided to Golden Line by Alfabank. The loan matures in November, 2005. In addition, MTU-Inform pledged equipment with a fair value of $4.7 million.

In July 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky Link for the total amount of $21.1 million.

Additionally, MBRD guaranteed loans for several companies, including related parties, which totalled $7.4 million as of December 31, 2004.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. Under these guarantees the Group could be potentially liable for a maximum amount of $57.5 million in case of the borrower's default under the obligations. As of December 31, 2004, no event of default has occurred under any of the guarantees issued by the Group.

Legal Proceedings – In the ordinary course of business, the Group may be party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

In June 2004, the General Prosecutor of Ukraine filed a claim against MTS and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to MTS. The complaint also seeks an order that would prohibit MTS from alienating 51% of its stake in UMC until the claim is resolved. In August 2004, the Kiev Commercial Court rejected a claim of General Prosecutor of Ukraine against MTS. No appellation was filed to the Court by the office of General Prosecutor of Ukraine within an established period. As of the date of these statements an office of General Prosecutor of Ukraine filed a request to the Constitutional Court of Ukraine to clear out terms of the State Privatization Plan for 2000-2002 and respond whether Ukrtelecom had a right to sell 51% stake in UMC. The Group believes that it acquired a stake in UMC in full compliance with Ukrainian law and, if required, intends to vigorously defend its acquisition of UMC.

Minimum Capital Requirements – The Law on insurance in Russia sets minimum share capital requirements for insurance organizations, depending on the type of insurance premiums they are writing. The minimum capital requirement for insurance organizations conducting reinsurance operations is set at 120.0 million RUR (equivalent of $4.3 million as of December 31, 2004). As of December 31, 2004, Rosno's statutory share capital amounted to 1,069.0 million RUR (equivalent of $38.5 million as of December 31, 2004).

The Central Bank of Russia sets minimum share capital requirements for banks. Effective December 1, 2003, the minimum capital requirement is set at Euro 5.0 million for each newly-founded bank. As of December 31, 2004, MBRD's share capital amounted to 400.0 million RUR (equivalent of $14.4 million as of December 31, 2004). In November 2004, shareholders of MBRD approved an additional issue of 130,000 shares of common stock in a closed subscription. The shares of the new issue will be acquired by the existing shareholders for a price of RUR 4,600 per share (equivalent of $166 as of December 31, 2004).

Contingencies – The Russian economy, while deemed to be of market status from 2002, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be subject to the government's continued actions with regard to legal, and economic reforms.

On January 1, 2004, a new Law on Telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector.

According to the new Law on Telecommunications, and effective as of January 1, 2005, all MGTS' subscribers will be required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

The Law on Telecommunications introduces a Universal Service Fund ("USF") which will result in higher costs for all operators, including the Group. Under the Law on Telecommunications, all telecom operators must contribute to the USF. The USF is designed to fund socially important but economically unviable projects. In April 2005, Russian government approved several provisions clarifying how the USF will be collected and administered. Starting July 1, 2005 the amount of the universal service charge will be 1.2% of the total revenues received from the usage of public telecommunication network less connection fees and revenues received from interconnection services provided to other operators.

The Russian government has also issued several implementing acts under the Law on Telecommunications, such as Resolution No. 87, dated February 18, 2005, approving the list of the types of licensed telecommunication activities, and Resolution No. 68, dated February 11, 2005, regarding the rules applicable to the state registration of telecommunication infrastructure such as real property. However, it is presently not yet clear how these regulations would be implemented. Thus, the uncertainty related to the Law on Telecommunications continues.

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted and effective January 1, 2002 new regulations, relating to federal income tax were enacted. The new tax system is generally intended to reduce the number of taxes, the overall tax burden on businesses, and to simplify the tax laws.

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (income tax), and payroll (social) taxes, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review

and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that is more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2004, tax declarations of the Group for the preceding three fiscal years were open to further review.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Importation of Goods – The Group utilizes third parties to import goods into the CIS countries. This results in significant savings of customs duties and related taxes for certain subsidiaries of the Group. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position can not be quantified at this stage due to the lack of precedent for such determinations and uncertainty in the calculations of penalties and interest. No contingent liabilities have been recorded in the Group's financial statements in relation to these transactions.

31. SUBSEQUENT EVENTS

Initial Public Offering

On February 11, 2005, JSFC Sistema completed an initial public offering of 1,550,000 common shares, with a nominal value of 90 rubles per share in the form of 77,500,000 global depositary receipts ("GDRs"), with 50 GDRs representing one share. On February 14, 2005, JSFC Sistema's GDRs were admitted to trade on the London Stock Exchange. Proceeds from the offering, net of underwriting discount and other direct costs, were $1,284.6 million.

Simultaneously, certain shareholders of the Group sold 42,663 common shares in the form of 2,133,150 GDRs. In addition, shareholders exercised their option to sell additional 238,900 shares in the form of 11,945,000 GDRs.

Additional Debt Issuance

In January 2005, MTS Finance issued $400.0 million 8.0% unsecured notes at 99.736%. These notes are fully and unconditionally guaranteed by OJSC MTS and mature on January 28, 2012. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 28 and July 28, commencing on July 28, 2005. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were $398.9 million.

In February 2005, MBRD entered into a loan facility with Standard Bank London and Standard Bank Moscow, pursuant to which the banks agreed to make available to MBRD a loan facility in the amount of $16.0 million, secured by a pledge of MBRD's rights under its loan to Sky-Link. The loan was guaranteed by MTU-Inform.

In March 2005, MBRD entered into a loan agreement with Dresdner Bank AG for the amount of $150.0 million. The loans bears interest of 8.625% and is due in March 2008. To finance the loan to MBRD, Dresdner Bank AG issued Loan Participation Notes that were admitted to trade on the Luxembourg Stock Exchange. Interest payments on the loan are due semi-annually in March and September of each year, commencing in September 2005. Loan agreement contains certain restrictive covenants including, but not limited to, limitations on mergers, liens and dispositions of assets and transactions with the Group's subsidiaries and affiliates.

Acquisitions

In February 2005, the Group acquired an additional 20% equity stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing the Group's voting power in the company to 100%.

In February 2005, the Group acquired an additional 74% stake in MTS-Komi Republic, increasing its voting power in the company to 100%. The value of consideration paid equaled $1.2 million. MTS-Komi Republic provides mobile telecommunication services in the Komi Republic of the Russian Federation.

In February 2005, the Group signed an agreement to acquire a 74.9% stake in Sweet-Com LLC, a holder of 3.5GHz radio frequency allocation for Moscow region, for a cash consideration of $2.0 million. The Company is providing wide-range radio access services for the "last mile" based on the Radio-Ethernet technology.

In February 2005, the Group acquired an additional 5% equity stake in MTT for a cash consideration of $6.4 million, increasing its interest in MTT to 50%.

In February 2005, the Group completed acquisition of 13.33% stake in MBRD. The total consideration amounted to $10.0 million, including cash payment of $2.1 million and promissory notes in the amount of $7.9 million. As a result of this transaction, the Group's voting power in MBRD increased to 98.9%.

In April 2005, the Group acquired an additional 53% stake in Kvant, a personal computers and components manufacturer located in Zelenograd, for a total consideration of $6.0 million, increasing the Group's voting power to 88%. The Group plans to utilize Kvant's facilities to enhance its home-appliance and computer assembling activity and integrate it into Technology business segment.

The purchase price allocation for these acquisitions has not been yet finalized at the date of these statements.

Other

In December 2004, MTS announced that it will be changing its current ADS ratio effective January 3, 2005, the first trading day in 2005. The ratio has changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares.

In January 2005, Intourist announced issue of new stock to its existing shareholders. Moscow Government purchased the first tranche of 3,120,516,875 shares in exchange for a 40% stake in Cosmos Hotel, a 1000-room hotel complex situated in Moscow. In April 2005, Sistema paid RUR 1,322.6 million (equivalent of $47.7 million as of December 31, 2004) for the remaining 6,961,052,632 newly-issued shares of Intourist. Upon completion of this transaction, Sistema's ownership interest in Intourist decreased to 71%.

In March 2005, the Russian tax authorities audited OJSC MTS's compliance with tax legislation for the year ended December 31, 2002. Based on the results of this audit, the Russian tax authorities assessed that 372,152 thousand roubles (approximately $13.4 million as at December 31, 2004) of additional taxes, penalties and fines were payable by the Group. The Group has prepared and filed with the Arbitrary Court of Moscow a petition to recognize the tax authorities' resolution as partially invalid. The amount of disputed taxes and fines equals 281,504 thousand roubles (approximately $10.1 million as at December 31, 2004).

In March 2005, MGTS's Board of directors approved issue of RUR-denominated bonds (fifth issue) with the face value of RUR 1,500 million (equivalent of $54.1 million as of December 31, 2004) and final maturity date in 2010.

In April 2004, Sistema and Sabre Capital Worldwide Inc. updated their non-binding "Term Sheet for acquisition by Sabre Group Investors of shares in Moscow Bank for Reconstruction and Development", containing the principal terms of a share purchase agreement between Sistema and Sabre Capital Group's investors, a shareholders agreement between Sistema, MBRD and Sabre Capital Group's investors, and a management agreement between Sistema, MBRD and Sabre Capital. Sabre Capital is a London-based private equity firm, whose principals have expertise in developing retail banking in emerging markets. Principal terms of planned transaction assume that Sabre Capital's investors will own 25% plus one share of the outstanding share capital of MBRD upon the completion of the deal and will take part in governance of MBRD's operations.

In May 2005, MTS's Board of directors recommended to the shareholders to approve cash dividends of RUR 5.75 (equivalent of $0.21 as of the announcement date) per share for the year 2004. The dividends, if approved by the Annual Shareholders Meeting, will amount to $409.5 million.

In May 2005, MGTS's Board of directors recommended to the shareholders to approve cash dividends of RUR 1.82 (equivalent of $0.06 as of the announcement date) per common share and approximately RUR 11.78 (equivalent of $0.42 as of the announcement date) per preferred share for the year 2004. The dividends, if approved by the Annual Shareholders Meeting, will amount to $34.6 million.

In May 2005, JSFC Sistema's Board of directors recommended to the shareholders to approve cash dividends of RUR 26.0 (equivalent of $0.93 as of the announcement date) per share for the year 2004. Payment of the dividend is subject to approval at the Annual Shareholders Meeting, which will be held on June 2005. The dividends, if approved by the Annual Shareholders Meeting, will amount to $9.0 million.

In May 2005, CSC and Giesecke & Devrient GmbH ("G&D") concluded a Shareholders' agreement outlining the terms and conditions for the foundation and operation of a joint-venture ("JV") for production and distribution of smart cards and chips. The principal terms of the agreement stipulate that the JV will be established in the form of a limited liability company, 65% of which will be owned by CSC and 35% by G&D, respectively. The production facility will be located in Zelenograd, Moscow.