JSFC SISTEMA AND SUBSIDIARIES

Independent Accountants' Review Report

Consolidated Financial Statements
as of September 30, 2004 and
December 31, 2003 and
for the nine months ended
September 30, 2004 and 2003
(unaudited)

JSFC SISTEMA AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2004 AND DECEMBER 31, 2003 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited):	
Consolidated balance sheets as of September 30, 2004 (unaudited) and December 31, 2003	2
Consolidated statements of operations and comprehensive income for the nine months ended September 30, 2004 and 2003 (unaudited)	4
Consolidated statements of cash flows for the nine months ended September 30, 2004 and 2003 (unaudited)	6
Consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2004 and 2003 (unaudited)	8
Notes to consolidated financial statements for the nine months ended September 30, 2004 and 2003 (unaudited)	9-49

Deloitte

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (095) 787 0600
Fax: +7 (095) 787 0601
www.deloitte.ru

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of JSFC Sistema:

We have reviewed the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries (the "Group") as of September 30, 2004 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the nine months ended September 30, 2004 and 2003. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to accompanying financial statements for them to be 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 nine months ended September 30, 2004.

Deloitte & Touche

December 24, 2004

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2004 (unaudited) AND DECEMBER 31, 2003
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	September 2004	December 2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 308,547	$ 283,165
Short-term investments	6	178,964	278,850
Loans to customers and banks, net	7	291,629	364,982
Insurance-related receivables	8	95,230	69,855
Accounts receivable, net	9	292,956	182,251
Other receivables and prepaid expenses, net	10	540,328	567,125
Inventories	11	228,275	166,203
Deferred tax assets, current portion	24	68,334	53,964
Total current assets		2,004,263	1,966,395
Property, plant and equipment, net	12	3,990,929	3,368,121
Advance payments for non-current assets	31	161,782	52,969
Long-term receivables		1,208	1,223
Long-term investments	13	54,554	41,393
Investments in affiliated companies	14	194,643	150,936
Goodwill	2	114,630	71,998
Licenses, net	15	692,460	669,988
Other intangible assets, net	16	435,128	446,381
Debt issuance costs, net	2	24,025	17,251
Deferred tax assets	24	5,307	5,575
TOTAL ASSETS		$ 7,678,929	$ 6,792,230

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
SEPTEMBER 30, 2004 (unaudited) AND DECEMBER 31, 2003
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	September 2004	December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 331,752	$ 234,871
Bank deposits and notes issued	17	239,819	173,748
Insurance-related liabilities	18	240,613	180,986
Taxes payable		151,556	117,142
Deferred tax liabilities, current portion	24	5,252	508
Accrued expenses, subscriber prepayments and other current liabilities	19	643,323	607,083
Short-term notes payable	20	60,556	349,083
Current portion of long-term debt	22	497,654	844,106
Total current liabilities		2,170,525	2,507,527
LONG-TERM LIABILITIES:			
Capital lease obligations	21	2,138	4,943
Long-term debt	22	1,974,840	1,475,921
Subscriber prepayments, net of current portion	23	133,209	103,059
Deferred tax liabilities	24	223,761	230,986
Postretirement benefit obligation	25	14,349	8,590
Total long-term liabilities		2,348,297	1,823,499
Deferred revenue	26	121,878	115,363
TOTAL LIABILITIES		4,640,700	4,446,389
Minority interests in equity of subsidiaries		1,703,634	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 September 30, 2004 and December 31, 2003, respectively)	27	25,090	171
Additional paid-in capital	3,4	198,882	189,934
Retained earnings		1,089,898	783,258
Accumulated other comprehensive income		20,725	15,921
TOTAL SHAREHOLDERS' EQUITY		1,334,595	989,284
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 7,678,929	$ 6,792,230

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited)

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

	Notes	September 2004	September 2003
Sales		$ 3,914,312	$ 2,456,687
Revenues from financial services		221,608	151,910
TOTAL REVENUES		4,135,920	2,608,597
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,440,155)	(848,130)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(149,378)	(97,279)
TOTAL COST OF SALES		(1,589,533)	(945,409)
Selling, general and administrative expenses		(679,629)	(489,282)
Depreciation and amortization		(540,679)	(354,330)
Goodwill impairment		-	(19,251)
Other operating expenses, net		(30,614)	(39,296)
Equity in net income of investees		12,942	1,295
Loss on disposal of interests in subsidiaries		(1,862)	(941)
OPERATING INCOME		1,306,545	761,383
Interest income		17,370	14,743
Interest expense, net of amounts capitalized		(163,316)	(132,057)
Currency exchange and translation gain		9,496	3,671
Income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle		1,170,095	647,740
Income tax expense	24	(326,141)	(200,343)
Income from continuing operations before minority interests and cumulative effect of a change in accounting principle		$ 843,954	$ 447,397

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	September 2004	September 2003
Minority interests		$ (471,761)	$ (303,454)
Income from continuing operations before cumulative effect of a change in accounting principle		372,193	143,943
Gain from discontinued operations (net of income tax effect of $3,248)		-	9,952
Gain on disposal of discontinued operations (net of income tax effect of nil)		-	22,500
Cumulative effect of a change in accounting principle (net of income tax effect of nil)	2	(35,472)	-
NET INCOME		$ 336,721	$ 176,395
Other comprehensive income/(loss):			
Unrealized gain on securities available for sale, net of income tax effect of nil		(86)	2,095
Translation adjustment, net of minority interest of $3,168 and $12,032 and income tax effect of nil	2	4,890	18,568
Income tax effect of changes in the functional currency, net of minority interest of $17,184		-	(22,449)
Comprehensive income		$ 341,525	$ 174,609
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		$ 45.9	$ 17.8
Gain from discontinued operations		-	4.0
Cumulative effect of a change in accounting principle		(4.4)	-
Net income		41.6	21.8

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited)
(Amounts in thousands of U.S. dollars)

	September 2004	September 2003
OPERATING ACTIVITIES:		
Net income	$ 336,721	$ 176,395
Adjustments to reconcile net income to net cash provided by operations:		
Gain from discontinued operations	-	(9,952)
Depreciation and amortization	540,679	354,330
Goodwill impairment	-	19,251
Loss on disposal of property, plant and equipment	1,219	12,299
Gain on disposal of discontinued operations	-	(22,500)
Loss on disposal of interests in subsidiaries	1,862	941
Cumulative effect of a change in accounting principle	35,472	-
Minority interests	471,761	303,454
Equity in net income of investees	(12,942)	(1,295)
Provision for deferred income taxes	(31,410)	(41,206)
Provision for doubtful accounts receivable	15,179	30,313
(Recovery of allowance)/Allowance for loan losses	(1,452)	7,569
Inventory obsolescence charge	4,874	976
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	22,503	(10,732)
Loans to banks	54,626	(73,133)
Insurance-related receivables	(25,497)	(12,037)
Accounts receivable	(54,598)	(98,432)
Other receivables and prepaid expenses	46,019	(82,982)
Inventories	(64,259)	(42,017)
Accounts payable	37,045	7,996
Insurance-related liabilities	59,627	39,254
Taxes payable	33,390	(43,880)
Accrued expenses, subscriber prepayments and other liabilities	19,552	171,754
Postretirement benefit obligation	5,759	1,432
Net cash provided by operations	1,496,130	687,798
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(978,732)	(685,011)
Purchase of intangible assets	(84,594)	(81,913)
Purchase of businesses, net of cash acquired	(196,860)	(1,019,439)
Proceeds from disposal of subsidiaries, net of cash disposed	649	32,929
Purchase of long-term investments	(68,394)	(44,797)
Purchase of short-term investments	(40,926)	(60,790)
Proceeds from sale of short-term investments	107,266	131
Proceeds from sale of property, plant and equipment	5,050	3,597
Net increase in loans to customers	(30,615)	(40,579)
Net cash used in investing activities	(1,287,156)	(1,895,872)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited)
(Amounts in thousands of U.S. dollars)

	September 2004	September 2003
FINANCING ACTIVITIES:		
(Principal payments on)/proceeds from short-term borrowings, net	(282,226)	602,824
Net increase/(decrease) in deposits from customers	80,009	(39,795)
Net (decrease)/increase in bank promissory notes issued	(14,947)	50,357
Proceeds from grants	2,913	2,840
Proceeds from long-term borrowings, net of debt issuance costs	623,774	887,197
Principal payments on long-term borrowings	(513,319)	(211,915)
Principal payments on capital lease obligations	(5,953)	(15,668)
Payments to shareholders of subsidiaries	(68,681)	(51,290)
Dividends paid	(5,162)	-
Net cash (used in) / provided by financing activities	$ (183,592)	$ 1,224,550
INCREASE IN CASH AND CASH EQUIVALENTS	$ 25,382	$ 16,476
CASH AND CASH EQUIVALENTS, beginning of period	283,165	157,267
CASH AND CASH EQUIVALENTS, end of period	$ 308,547	$ 173,743
CASH PAID DURING THE PERIOD FOR:		
Interest, net of amounts capitalized	$ 189,909	$ 106,340
Income taxes	262,353	165,342
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment contributed free of charge	$ 9,134	$ 14,298
Equipment acquired through vendor financing	10,711	15,911
Equipment acquired under capital leases	3,148	8,411

In addition, non-cash investing activities during the nine months ended September 30, 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 NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (unaudited)
(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	-	(10,943)	-	-	(10,943)
Unrealized gain on securities available for sale, net of income tax of nil	-	-	-	2,095	2,095
Translation adjustment, net of minority interest of $12,032 and income tax of nil (Note 2)	-	-	-	18,568	18,568
Income tax effect of changes in the functional currency, net of minority interest of $17,184	-	-	-	(22,449)	(22,449)
Net income	-	-	176,395	-	176,395
Balances at September 30, 2003	**$ 171**	**$ 189,988**	**$ 572,606**	**$ (4,319)**	**$ 758,446**
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	-	-	-	(86)	(86)
Translation adjustment, net of minority interest of $3,168 and income tax of nil (Note 2)	-	-	-	4,890	4,890
Dividends declared (Note 27)	-	-	(5,162)	-	(5,162)
Increase of par value of shares (Note 27)	24,919	-	(24,919)	-	-
Net income	-	-	336,721	-	336,721
Balances at September 30, 2004	**$ 25,090**	**$ 198,882**	**$ 1,089,898**	**$ 20,725**	**$ 1,334,595**

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 subsidiaries	Comstar	
MTU-Inform and subsidiaries	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

Operating Entities	Short Name	Principal activity
Other businesses:		
Detsky Mir and subsidiaries	Detsky Mir	Retail trading in Moscow and other Russian cities
Detsky Mir-Center	DM-Center	
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad
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 HSA 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.

These interim consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring adjustments, which the Group's management considers necessary for a fair presentation of the financial position as of interim dates, operating results and cash flows for the interim periods. The results of operations for the interim periods shown are not necessarily indicative of the results for any future interim period or for the entire fiscal year.

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 September 30, 2004 and December 31, 2003 are as follows:

Operating entities	**Ownership interest**		**Proportion of voting power**	
	September 30, 2004	**December 31, 2003**	**September 30, 2004**	**December 31, 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	27%[1]	27%[1]	53%	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%	-
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%
Detsky Mir	75%[1]	71%	75%	75%
DM-Center	100%	100%	100%	100%
NIIME and Plant Micron ("Micron"), subsidiary of CSC	59%[1]	58%[1]	75%	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, Holdbestfinance, Putney Assets and Mosdachtrest. Kuntsevo-Invest and Mosdachtrest are engaged in construction activities of the Group; Promtorgcenter, Notris, Laminea, Finescort-M, Holdbestfinance and Putney Assets possess shareholdings and provide financing through intercompany loans to other entities of the Group. Mosdachtrest was accounted for under equity method for the periods prior to January 1, 2004. The Group determined 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 nine months ended September 30, 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 nine months ended September 30, 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.

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 in 2002, 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, Micron, 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 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 adjustment in amount of $4.9 million and $18.6 million, net of minority interest of $3.2 million and $12.0 million, was recorded as a separate component of other comprehensive income for the nine months ended September 30, 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 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.

Effective January 1, 2004, MTS has changed its estimates of average subscriber lives. The effect of this change in estimate in the nine months ended September 30, 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 MTS 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 nine months ended September 30, 2004 and 2003 respectively, are regulated tariff services, and changes in rate structure is subject to Ministry of Antimonopoly Policy 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 developing, installation services and post-contract customer support. In accordance with the 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: a) a written contract for the delivery of an element has been executed, b) the Group has delivered the product to the customer, c) the fee receivable is fixed or determinable, and d) 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 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 September 30, 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 September 30, 2004 ranged from 94.0% to 106.0% of the principal amount. As of September 30, 2004, fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

The Group accounts for derivative instruments in accordance with FAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". This statement requires that all derivatives, including some embedded derivatives, be measured at fair value and recognized as either assets or liabilities on balance sheets. Changes are recorded in comprehensive income, depending on the designated use of the instruments. During the nine months ended September 30, 2004 and 2003 the Group did not enter into significant derivative contracts.

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 nine months ended September 30, 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 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.

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 impairment of goodwill was identified in the nine months ended September 30, 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	**Corporate and Other**	**Total**
Balance as of January 1, 2003	$ 19,347	$ 635	$ 19,982
Purchase price allocation	70,267	-	70,267
Impairment charge	(19,251)	-	(19,251)
Balance as of September 30, 2003	70,363	635	70,998
Purchase price allocation	1,000	-	1,000
Balance as of December 31, 2003	71,363	635	71,998
Purchase price allocation	42,632	-	42,632
Balance as of September 30, 2004	**$ 113,995**	**$ 635**	**$ 114,630**

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

Other intangible assets represent acquired customer base, 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 base is amortized over the estimated average subscriber life. 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 five 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 $24.0 million and $17.3 million, net of accumulated amortization of $10.2 million and $5.8 million as of September 30, 2004 and December 31, 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 nine months ended September 30, 2004, no such 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 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 expense 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 31%, respectively.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis 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 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. Starting January 1, 2004, the Group uses the binomial model to calculate the pro-forma effect of the application of the fair value method of accounting for stock options. The effect of the change of the method of calculation from the Black-Scholes model to the binomial model did not have a material effect on the pro forma numbers.

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 nine months ended September 30, 2004 and 2003 would have been as follows:

	September 30, 2004	**September 30, 2003**
Net income as reported	$ 336,721	$ 176,395
Pro forma effect of the application of fair value method of accounting for stock options	(359)	(394)
Pro forma net income	336,362	176,001
Earnings per share, basic and diluted		
As reported	$ 41.6	$ 21.8
Pro forma	$ 41.5	$ 21.7

Retirement and Post-Retirement Benefits – 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%, respectively, 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 nine months ended September 30, 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 $0.6 million and $1.0 million for the nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2004 and 2003 amounted to $23.2 million and $3.1 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the nine months ended September 30, 2004 and 2003 were $111.4 million and $78.7 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 nine months ended September 30, 2004 and 2003. Diluted EPS reflect the potential dilution of MTS' stock options, granted to employees. There are 3,615,985 MTS' stock options outstanding as at September 30, 2004.

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 December 2004, the Financial Accounting Standards Board ("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 for interim periods 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 November 2004, the 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 September 2004, the Emerging Issues Task Force ("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 November 2003, the 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 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.

Historically, the Group used residual method to determine the fair value of the telecommunication licenses acquired in business combinations, except for purchase of Uzdunrobita, where the fair value of licenses acquired was determined using the direct method. Under the new accounting guidance,

the Group will use the direct method to measure the fair value of licenses acquired in the future business combinations. The Group does not anticipate impact from adoption of the above SEC guidance to be material to its consolidated results of operations or financial position.

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 is evaluating whether the adoption of EITF No. 02-14 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 Group is evaluating whether the adoption of EITF No. 04-10 will have a material impact on its financial statements disclosures.

Reclassifications – Certain other reclassifications of prior years’ amounts have been made to conform to the presentation adopted for the nine months ended September 30, 2004.

3. ACQUISITIONS

Acquisition of Primtelefon

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	**$**	11,041
Non-current assets		16,809
License costs		21,891
Current liabilities		(7,488)
Non-current liabilities		(5,671)
Deferred taxes		(5,582)
Purchase price	**$**	**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 subscriber’s 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 September 30, 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	**$**	**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 subscriber's life of approximately 39 months. Trademark will be amortized based on the estimated useful life of approximately 53 months.

Acquisition of Kvazar-Micro Corporation B.V.

In July 2004, the Group purchased 51.0% of Kvazar-Micro Corporation B.V. ("Kvazar-Micro") 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 preliminary 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	**$ 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.

Other Acquisitions

In March 2004, MTS 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, MTS 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, MTS 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, MTS 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, MTS 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, MTS acquired from 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%.

During the nine months ended September 30, 2004, Rosno repurchased 3.4% of its outstanding shares from a director of the Group for the total cash consideration of $5.6 million. The transaction resulted

in a reduction of additional paid-in capital 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 Allianz AG.

Pro forma results of operations

The following pro forma financial data for the nine months ended September 30, 2004 and 2003 give effect to the acquisitions of Primtelefon, SCS-900, FECS-900, Kvazar-Micro, Uzdunrobita 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)	
	Nine months ended September 30, 2004	**Nine months ended September 30, 2003**
Net revenues	$ 4,135,920	$ 2,866,671
Income from continuing operations before cumulative effect of a change in accounting principle	376,099	141,539
Net income	340,627	173,991
Earnings per share, basic and diluted:	$ 42.1	$ 21.5

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 the earnings of P-Com for the nine months ended September 30, 2004 was recorded using the equity method of accounting. P-Com's revenues for the nine months ended September 30, 2003 were $38.0 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 nine months ended September 30, 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 $38.2 million and $56.1 million as of September 30, 2004 and December 31, 2003, respectively, are comprised primarily of term deposits with banks and bank

promissory notes with original maturities less than 90 days. Within this amount, $9.5 million and $44.3 million, respectively, represent the Group's deposits with East-West United Bank, an affiliate of the Group.

Also included in cash as of September 30, 2004 and December 31, 2003 are $12.5 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 September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Trading securities:		
RF Eurobonds	-	$ 54,394
Corporate bonds	$ 40,601	19,696
Municipal bonds	-	4,012
Corporate shares	13,003	2,250
Other trading securities	15,243	10,998
	68,847	91,350
Other short-term investments:		
Credit linked notes	-	38,170
Promissory notes from third parties	30,402	95,881
Promissory notes from related parties	19,695	20,946
Bank deposits with original maturities exceeding 90 days	58,337	24,040
Other short-term investments	1,683	8,463
	110,117	187,500
Total	**$ 178,964**	**$ 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 8-17% 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 September 30, 2004 and December 31, 2003 was 12% and 8%, respectively, while promissory notes from related parties are mostly interest-free. Most of the notes 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 September 30, 2004 were 4% for RUR-denominated deposits and 7% on deposits in USD. Included in bank deposits as of September 30, 2004 are deposits with East-West United Bank, a related party, of $25.8 million bearing interest of 7%.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's) September 30, 2004	(000's) December 31, 2003
Loans to customers	$ 211,617	$ 231,918
Loans to banks	92,892	147,518
	304,509	379,436
Less allowance for loan losses	(12,880)	(14,454)
Total	**$ 291,629**	**$ 364,982**

Loans to customers as of September 30, 2004 and December 31, 2003 include loans to related parties of $38.6 million and $151.6 million, respectively.

8. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's) September 30, 2004	(000's) December 31, 2003
Receivables from insurance operations	$ 72,292	$ 44,612
Advances to health care providers	22,938	25,243
Total	**$ 95,230**	**$ 69,855**

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's) September 30, 2004	(000's) December 31, 2003
Trade receivables	$ 338,355	$ 211,333
Less: provision for doubtful accounts	(45,399)	(29,082)
Total	**$ 292,956**	**$ 182,251**

Included in trade receivables as of September 30, 2004 and December 31, 2003 are receivables for services provided to the Group's affiliates in the amounts of $52.5 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 September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Recoverable VAT	$ 258,668	$ 278,441
Receivables for sale of oil assets	-	153,500
Advances to suppliers	110,811	58,266
Prepaid expenses	64,953	15,897
Deferred policy acquisition costs	24,303	9,410
Other taxes prepaid	28,518	11,728
Receivables for sale of Micron shares	4,798	4,759
Receivables for sale of STROM telecom shares	2,000	-
Other	51,229	39,406
Less: provision for doubtful accounts	(4,952)	(4,282)
Total	$ **540,328**	$ **567,125**

Policy acquisition costs' amortization charge for the nine months ended September 30, 2004 and 2003 were $30.0 million and $17.3 million, respectively.

11. INVENTORIES

Inventories as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Raw materials and spare parts	$ 45,940	$ 53,421
Work-in-progress	44,602	15,643
Finished goods and goods for resale	100,765	60,488
Project costs – construction, net of progress billings	36,968	36,651
Total	$ **228,275**	$ **166,203**

Inventories with book value of $2.8 million and $1.9 million as of September 30, 2004 and December 31, 2003, respectively, were pledged as collateral in respect of loans from banks.

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Land	$ 28,587	$ 3,894
Buildings and leasehold improvements	531,644	439,838
Switches, transmission devices, network and base station equipment	2,850,804	2,223,603

Other plant, machinery and equipment	434,865	412,519
Construction in-progress and equipment for installation	905,435	764,178
	4,751,335	3,844,032
Less: accumulated depreciation	(760,406)	(475,911)
Total	**$ 3,990,929**	**$ 3,368,121**

Depreciation expense for the nine months ended September 30, 2004 and 2003 amounted to $327.9 million and $227.5 million, respectively.

13. LONG-TERM INVESTMENTS

Long-term investments as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Loans, promissory notes and deposits with related parties	$ 23,154	$ 14,279
Loans, promissory notes and deposits with third parties	15,397	6,836
Mutual investment funds	10,160	9,616
Other	5,843	10,662
Total	**$ 54,554**	**$ 41,393**

Loans and promissory notes from related parties are mostly RUR denominated and interest-free. Majority of such loans and promissory notes mature from 2004 to 2006.

14. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)			
	September 30, 2004		**December 31, 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%	$ 39,778	15%	30
MTS Belarus	49%	21,597	49%	5,884
Sky Link (Note 4)	50%	16,011	50%	-
East-West United Bank	35%	11,118	30%	8,382
Kosmos TV	50%	7,170	50%	7,239
ZETA Telecom	49%	6,924	49%	7,390
MCC	24%	650	24%	4,862
Loans to MTS Belarus	-	53,718	-	51,481
Loans to Sky Link	-	19,108	-	-
Loans to Astrakhan Mobile and Volgograd Mobile	-	-	-	6,850
Acquired debt of Kosmos TV	-	6,336	-	6,333
Other investments and loans to investees	Various	12,233	Various	11,481

Total	**$ 194,643**	**$ 150,936**

Investments in affiliates include $53.7 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 September 30, 2004.

During the nine months ended September 30, 2004, the Group acquired 5% share in East-West United Bank for cash consideration of $1.7 million. This transaction increased the Group's voting power in East-West United Bank to 35%.

15. LICENSES, NET

Licenses, net of accumulated amortization, as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Operating licenses	$ 905,220	$ 773,073
Less: accumulated amortization	(212,760)	(103,085)
Total	**$ 692,460**	**$ 669,988**

Amortization expense for licenses for the nine months ended September 30, 2004 and 2003 amounted to $109.7 million and $74.4 million, respectively. Based on the licenses existing at September 30, 2004, the estimated amortization expense for the remainder of the year ending December 31, 2004 is $40.1 million. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
2005	$ 145,237
2006	140,792
2007	113,096
2008	76,269
2009	39,152
Thereafter	137,785
	$ 652,331

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 September 30, 2004 and December 31, 2003 consisted of the following:

	September 30, 2004			**December 31, 2003**		
	Gross carrying value	**Accumu-lated amor-tization**	**Net carrying value**	**Gross carrying value**	**Accumu-lated amor-tization**	**Net carrying value**

Amortized intangible assets:						
Acquired customer base	$ 144,250	$ (65,531)	$ 78,719	$ 137,747	$ (28,877)	$ 108,870
Numbering capacity with finite contractual life, rights to use premises, software and other	401,941	(119,437)	282,504	319,498	(52,007)	266,491
	546,191	(184,968)	361,223	457,245	(81,884)	375,361
Unamortized intangible assets:						
Numbering capacity with indefinite contractual life	28,561	-	28,561	28,855	-	28,855
Trademarks	45,344	-	45,344	42,165	-	42,165
Total intangible assets	**$ 620,096**	**$ (184,968)**	**$ 435,128**	**$ 528,265**	**$ (81,884)**	**$ 446,381**

Amortization expense recorded on other intangible assets for the nine months ended September 30, 2004 and 2003 amounted to $103.1 million and $52.4 million, respectively. Based on the amortizable intangible assets (excluding licenses) existing at September 30, 2004, the estimated amortization expense for the remainder of the year ending December 31, 2004 is $36.8 million. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
2005	$ 139,057
2006	87,495
2007	46,590
2008	27,637
2009	4,870
Thereafter	18,727
	$ 324,376

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 September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Deposits repayable on demand	$ 89,899	$ 57,981
Term deposits	116,546	67,446
Promissory notes issued	33,374	48,321
Total	**$ 239,819**	**$ 173,748**

Bank deposits and notes issued as of September 30, 2004 and December 31, 2003 include deposits from and promissory notes issued to related parties for $22.8 million and $30.2 million, respectively.

18. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Unearned premium provision, net of reinsurance	$ 117,630	$ 72,511
Loss provision, net of reinsurance	66,733	39,349
Undisbursed MGFOMS funds	30,754	38,140
Other insurance-related liabilities	25,496	30,986
Total	**$ 240,613**	**$ 180,986**

Usage of MGFOMS funds, in the amount of $30.8 million, accumulated and undisbursed by Rosno as of September 30, 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, SUBSCRIBERS PREPAYMENTS AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Subscriber prepayments, current portion (Note 23)	$ 290,733	$ 255,988
Payables for purchase of oil assets	-	96,530
Payroll and other accrued expenses	118,167	39,836
Accrued interest on loans	63,623	50,726
Customers' advances	54,552	38,586
Payables for purchase of UMC shares	-	27,500
Current portion of capital lease obligations (Note 21)	4,789	11,387
Dividends payable	51,985	10,841
Tax and legal contingencies	21,843	27,179
Other	37,631	48,510
Total	**$ 643,323**	**$ 607,083**

20. SHORT-TERM NOTES PAYABLE

Short-term notes payable as of September 30, 2004 and December 31, 2003 consisted of the following:

			(000's)	
	Currency	**Annual interest rate (Actual at September 30, 2004)**	**September 30, 2004**	**December 31, 2003**
Commerzbank Eurasia	USD	LIBOR+5.0% (7.4%)	$ 20,000	$ 10,000
Sberbank	RUR	10.0%-15.0%	8,422	3,828
Credit Linked Notes	USD	-	-	100,000
Credit Suisse First Boston	USD	-	-	35,000
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	15,985	134,574
Other	Various	Various	16,149	14,511
Total			**$ 60,556**	**$ 349,083**

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 September 30, 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 September 30, 2004 was $8.4 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 September 30, 2004.

21. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of September 30, 2004 and December 31, 2003 consisted of the following:

	(000's)	
	September 30, 2004	**December 31, 2003**
Capital lease obligations	$ 6,927	$ 16,330
Less: current portion of capital lease obligations (Note 19)	(4,789)	(11,387)
Total	**$ 2,138**	**$ 4,943**

During 2001-2003 the Group entered several lease agreements for telecommunications equipment and vehicles. Most of the agreements expire in 2004-2006 and assume transfer of ownership for leased assets to the Group at the end of the lease term. JSFC Sistema guaranteed $5.3 million under the lease agreements entered by the Group's subsidiaries.

The net book value of leased assets comprised $20.3 million and $23.2 million as of September 30, 2004 and December 31, 2003, respectively. Interest expense, recorded within income from continuing operations, was $1.4 million and $3.3 million for the nine months ended September 30, 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 September 30, 2004 and December 31, 2003 consisted of the following:

	Currency	Annual interest rate (Actual at September 30, 2004)	(000's) September 30, 2004	(000's) December 31, 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%	398,883	400,000
MTS Finance Notes due 2004	USD	11.0%	299,928	299,640
Floating Rate Notes due 2004	USD	-	-	298,196
Sistema Finance Investments Bonds	RUR	15.0%	41,076	40,747
MGTS Bonds	RUR	10%-12.3%	84,479	52,643
Micron Bonds	RUR	15.0%	6,002	7,541
TAIF Telcom Bonds	RUR	-	-	4,074
Total Corporate Bonds			**1,929,176**	**1,851,402**
Syndicated Loan	USD	LIBOR+2.5% (4.7%)	200,000	-
Hermes Credit Facility	EUR	EURIBOR+0.7% (2.9%)	56,578	55,550
ING-Bank (Eurasia)	USD	LIBOR+2.3%-4.2% (4.3%-6.2%)	53,333	60,000
Vendor Financing	Various	Various	26,547	25,033
Raiffeisenbank	USD	LIBOR+5.0%-7.0% (7.4%-9.4%)	23,966	33,036
Commerzbank (Eurasia)	USD	LIBOR+1.4%-3.5% (3.8-5.9%)	21,367	19,958
HSBC	USD	LIBOR+2.8% (4.7%)	20,000	25,000
Vneshtorgbank	USD, EUR	LIBOR+4.9% (7.1%), EURIBOR+5.6% (7.5%), 13%	19,882	17,297
Sberbank	RUR	11.0%-12.0%	18,033	34,732
Ericsson Project Finance	USD	LIBOR+4.0% (6.0%)	17,100	23,400
Citibank	USD	LIBOR+1.6% (4.0%)	13,160	18,616
Dresdner Bank	USD	LIBOR+3.4% (5.6%)	10,000	15,400
Nordea Bank Sweden	USD	LIBOR+0.4% (2.6%)	8,124	-
Deutsche Telecom	USD	-	-	57,981
International Moscow Bank	RUR	-	-	10,864
TDC Mobile International	USD	-	-	6,838
Loans from related parties	Various	Various	14,853	31,898
Other	Various	Various	40,375	33,022
			2,472,494	2,320,027
Less amounts maturing within one year			(497,654)	(844,106)
Total			**$ 1,974,840**	**$ 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. These notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, limitations on MTS's ability to enter into sale leaseback transactions, restriction on any merger, consolidation or disposition of assets, restrictions on the sales of any licenses. In addition, these notes provide the holders a right to require MTS 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 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 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. MTS Finance made interest payments on the notes semi-annually in arrears in June and December of each year, commencing in June 2002. The notes were listed on the Luxembourg Stock Exchange. In May 2002 these notes were registered with the SEC under the Securities Act of 1933. All the notes were fully and unconditionally guaranteed by MTS and were fully repaid in December 2004.

In August 5, 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 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 $41.1 million as of September 30, 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 $68.5 million as of September 30, 2004). The bonds carried a coupon rate of 11%. As of September 30, 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 $34.2 million as of September 30, 2004). The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year.

In April 2004, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $51.3 million as of September 30, 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 $10.3 million as of September 30, 2004) due in January 2005. Interest is payable semi-annually. The interest rate is set at 15% per annum, and two-thirds of the interest payments are covered by the municipal government. As of September 30, 2004 the Group had repurchased on the open market approximately 42% of the Micron bonds issued.

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 (4.7% as of September 30, 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. Issuance costs of $10.2 million related to the syndicated loan facility have been capitalized. As of September 30, 2004, $200.0 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 September 30, 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 $58.4 million as of September 30, 2004). The loan is fully and unconditionally guaranteed by MTS and bears interest at EURIBOR+0.7% (2.9% as of September 30, 2004). The amount outstanding is redeemable in 10 equal semi-annual installments, commencing July 2004. The balance outstanding as of September 30, 2004 was $56.6 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% (4.3%-6.2% as of September 30, 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 September 30, 2004, the balance outstanding under this credit facility was $53.3 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.

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 September 30, 2004. In addition, MGTS is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The loan bears interest of LIBOR+5% (7.4% as of September 30, 2004) and matures in 2007. As of September 30, 2004, approximately $7.5 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 $22.7 million was pledged under this credit line as of September 30, 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 (9.4% as of September 30, 2004) and matures in 2007. As of September 30, 2004, approximately $16.5 million was outstanding under this credit line.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered into a number of credit line facilities with Commerzbank (Eurasia) for a total amount of $21.6 million. The loan bears interest of LIBOR+1.4%-3.5% per annum (3.8%-5.9% as of September 30, 2004). As of September 30, 2004, approximately $21.4 million was outstanding under these credit line facilities. The facilities are fully and unconditionally guaranteed by MTS.

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% (4.7% as of September 30, 2004) and is redeemable in ten equal quarterly installments commencing June 2004. As of September 30, 2004, the outstanding balance of the facility was $20.0 million.

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. Loans bear fixed interest rates and the weighted average interest rate on the loans outstanding as of September 30, 2004 was 8.2% per annum. The loans mature in 2005-2010.

Sberbank – In September 2004, MGTS received a loan from Sberbank in the amount of $10.3 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 September 30, 2004. The total balance outstanding under several other loans the Group received from Sberbank was $7.7 million as of September 30, 2004.

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 (6.0% as of September 30, 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 September 30, 2004, the loan balance was $17.1 million.

Citibank – In July 2003, MGTS received loan from Citibank for the purchase of equipment in the amount of $7.1 million. In addition, in May and August 2004, MGTS received loans from Citibank for the purchase of equipment in the total amount of $6.1 million. All loans bear interest of LIBOR+1.6% (4.0% as of September 30, 2004). The loans are collateralized by pledged equipment with fair value of $9.5 million and by deposit in Citibank and guaranteed by Export Guarantee and Insurance Corporation, Czech Republic. As of September 30, 2004, approximately $13.2 million was outstanding under these loans.

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. As of September 30, 2004, $10.0 million was outstanding under this agreement. Borrowings under this agreement bear interest of

LIBOR+3.2%-3.4% (5.4%-5.6% as of September 30, 2004) per annum. The loan was fully and unconditionally guaranteed by MTS. In October 2004 the loan was fully repaid.

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% and mature in October 2006. The loan is fully and unconditionally guaranteed by MTS. As of September 30, 2004, the amount outstanding under the loan was $8.1 million.

International Moscow Bank – As of September 30, 2004, Kuban-GSM had an open credit facility with International Moscow Bank for $12.0 million.

The schedule of repayments of long-term debt over the five-year period beginning on September 30, 2004 is as follows:

		(000's)
Year ended September 30,		
2005	$	497,654
2006		88,888
2007		625,064
2008		418,862
2009		415,353
Thereafter		426,673
Total	**$**	**2,472,494**

23. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of September 30, 2004 and December 31, 2003 consisted of the following:

		(000's)		
		September 30, 2004		**December 31, 2003**
Current portion (Note 19)				
Connection fees	$	68,983	$	60,609
Advances and customers' deposits		221,750		195,379
		290,733		255,988
Non-current portion				
Connection fees		133,209		103,059
Total	**$**	**423,942**	**$**	**359,047**

24. INCOME TAX

The Group's provision for income taxes is as follows for the nine months ended September 30, 2004 and 2003:

		(000's)		
		September 30, 2004		**September 30, 2003**
Current provision	$	357,551	$	241,549
Deferred benefit		(31,410)		(41,206)
Total income tax expense	**$**	**326,141**	**$**	**200,343**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate (24% in 2003 and 2002) 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)	
	September 30, 2004	**September 30, 2003**
Income tax provision computed on income from continuing operations before taxes at statutory rate	$ 280,817	$ 155,458
Adjustments due to:		
Change in valuation allowance	158	944
Non-deductible items	24,085	35,238
Taxable losses not carried forward	24,550	21,553
Currency exchange and translation differences	2,683	(4,238)
Effect of rates different from standard	(6,152)	(8,612)
Income tax expense	**$ 326,141**	**$ 200,343**

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

	(000's)	
	September 30, 2004	**December 31, 2003**
Deferred tax assets		
Subscriber and customer prepayments	$ 71,230	$ 40,014
Property, plant and equipment	30,155	21,191
Deferred revenues	23,094	19,070
Allowance for doubtful accounts	13,911	20,338
Accrued expenses	23,608	3,434
Tax losses carried forward	7,694	8,795
Other	7,757	3,362
	177,449	116,204
Less: valuation allowance	(8,984)	(9,142)
Total deferred tax assets	**168,465**	**107,062**
Deferred tax liabilities		
Intangible assets	(199,031)	(191,249)
Property, plant and equipment	(110,204)	(71,357)
Undistributed earnings of affiliates	(6,314)	(4,462)
Other	(8,288)	(11,949)
Total deferred tax liabilities	**$ (323,837)**	**$ (279,017)**
Net deferred tax assets, current	$ 68,334	$ 53,964
Net deferred tax assets, long-term	5,307	5,575
Net deferred tax liabilities, current	(5,252)	(508)
Net deferred tax liabilities, long-term	(223,761)	(230,986)

The Group does not record a deferred tax liability related to undistributed earnings of its subsidiaries, as it intends to permanently reinvest these earnings.

Deferred tax assets relating to tax losses carried forward in amount of $7.7 million as of September 30, 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 ($421 or $842 at the exchange rate current as of September 30, 2004), depending on actual years of service); lifetime payments of a fixed amount to employees retiring with at least fifteen years of service (RUR 3,900 per year, per employee, or approximately $134 at the exchange rate as of for the nine months ended September 30, 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 September 30,		
2005	$	5,580
2006		560
2007		515
2008		475
2009		438
2010 – 2014		1,206
Thereafter		1,155
Total	**$**	**9,929**

MGTS's defined benefit plan is unfunded. For the nine months ended September 30, 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 September 30, 2004 and December 31, 2003 was as follows:

		(000's)		
		September 30, 2004		**December 31, 2003**
Deferred revenue at the beginning of the period	$	115,363	$	89,894
Contributions received during the period		12,047		26,183
Currency translation effect		685		9,705
		128,095		125,782
Deferred revenue amortized		(6,217)		(10,419)
Deferred revenue at the end of the period	**$**	**121,878**	**$**	**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 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.

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

28. SEGMENT INFORMATION

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.

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the nine months ended September 30, 2004 and 2003 is as follows:

	For the nine months ended September 30, 2004					
	Tele-communi-cations	**Technology**	**Insurance**	**Banking**	**Corporate and Other**	**Total**
Net sales to external customers [a]	3,350,379	282,291	186,660	34,948	281,642	4,135,920
Intersegment sales	-	37,525	14,500	14,272	1,454	67,751
Income/(loss) from equity affiliates	12,129	-	203	1,028	(418)	12,942
Interest income	25,055	96	-	-	5,252	30,403
Interest expense	(124,392)	(4,485)	-	-	(44,657)	(173,534)
Net interest revenue [b]	-	-	-	14,498	-	14,498
Depreciation and amortization	(529,710)	(2,249)	(2,903)	(839)	(4,978)	(540,679)
Operating income/(loss)	1,291,462	13,913	14,372	14,687	(11,263)	1,323,171
Income tax expense	(308,725)	(5,638)	(4,276)	(4,393)	(3,109)	(326,141)
Investments in affiliated companies	167,571	586	232	4,820	21,434	194,643
Segment assets	6,134,456	251,829	308,737	376,960	625,856	7,697,838
Cash and cash equivalents	170,819	28,501	38,293	35,526	35,408	308,547
Indebtedness [c]	(1,666,304)	(36,882)	(2,239)	-	(834,552)	(2,539,977)
Capital expenditures	1,030,684	6,789	6,223	4,414	38,209	1,086,319

[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 nine months ended September 30, 2003					
	Tele-communi-cations	**Technology**	**Insurance**	**Banking**	**Corporate and Other**	**Total**
Net sales to external customers [a]	2,272,764	38,986	118,159	33,752	144,937	2,608,598
Intersegment sales	-	24,696	15,019	6,311	8,202	54,228
Income/(loss) from equity affiliates	1,204	-	(235)	428	(102)	1,295
Interest income	14,976	-	-	-	5,310	20,286
Interest expense	(106,829)	(2,326)	-	-	(28,318)	(137,473)
Net interest revenue [b]	-	-	-	6,211	-	6,211
Depreciation and amortization	(345,861)	(2,084)	(2,148)	(465)	(3,772)	(354,330)
Goodwill impairment	(19,251)	-	-	-	-	(19,251)
Operating income/(loss)	769,408	(351)	10,479	6,174	(19,767)	765,943
Income tax expense	(197,693)	14	(1,788)	(1,160)	284	(200,343)
Investments in affiliated companies	132,321	640	253	8,612	12,347	154,173
Segment assets	4,923,164	91,419	208,232	401,224	493,372	6,117,411
Cash and cash equivalents	83,537	2,050	16,721	48,797	22,638	173,743
Indebtedness [c]	(1,589,599)	(33,768)	(3,235)	-	(776,595)	(2,403,197)
Capital expenditures	773,992	6,029	5,802	2,124	17,597	805,544

[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:

	September 30 (000's)	
	2004	**2004**
Total segment operating income	$ 1,323,171	$ 765,943
Intersegment eliminations	(16,626)	(4,560)
Interest income	17,370	14,743
Interest expense	(163,316)	(132,057)
Currency exchange and translation gain	9,496	3,671
Consolidated income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle:	**$ 1,170,095**	**$ 647,740**
Total segment assets	$ 7,697,838	$ 6,117,411
Intersegment eliminations	(18,909)	(9,117)
Consolidated segment assets	**$ 7,678,929**	**$ 6,108,294**

For the nine months ended September 30, 2004 and 2003 the Group's revenues derived from Ukraine were $792.8 million and $307.7 million. Long-lived assets of the Group's entities domiciled in Ukraine were $763.1 million and $648.8 million as of September 30, 2004 and December 31, 2003, respectively.

For the nine months ended September 30, 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 nine months ended September 30, 2004 and 2003, the Group entered into transactions with related parties as follows:

	(000's) September 30 2004	(000's) September 30 2003
Sale of goods	$ (104,545)	-
Insurance premium received	(57,557)	$ (31,671)
Telecommunication services provided	(21,452)	(6,414)
Revenues from financial services	(6,632)	(8,474)
Consulting services provided	(1,361)	(9,932)
Claims paid	11,026	10,296
Interest expense	4,199	1,128
Finance services related costs	1,510	-
Purchase of goods for resale	2,612	-
Telecommunication services purchased	-	3,500
Other	2,166	1,051

Related party balances as of September 30, 2004 and December 31, 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 September 30, 2004, are as follows:

	(000's) Capital leases	(000's) Operating leases
Year ended September 30,		
2005	$ 4,937	$ 47,616
2006	1,805	27,546
2007	479	22,009
2008	67	17,222
2009	66	11,247
Thereafter	262	24,997
Less: amount representing interest	(689)	-
Total	**$ 6,927**	**$ 150,637**

Capital Commitments – As of September 30, 2004, MTS had executed non-binding purchase agreements in the amount of approximately $331.0 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 66.8 million (equivalent of $82.2 million as of September 30, 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 ($1,832.1 million as of September 30, 2004).

Additionally, Sistema-Hals entered into construction agreements with various third party subcontractors for a total amount of $25.2 million.

Operating Licenses – When MTS commenced its operations in 1994, licenses generally contained certain provisions for unspecified fees to be paid for utilization of frequencies. Most of MTS current licenses now provide for payments to be made for finance telecommunication infrastructure improvements, which in the aggregate could total approximately $103.6 million, as of September 30, 2004. However, a decision on the terms and conditions of such payments has not been finalized. Accordingly, MTS has not made any payments to date pursuant to any of current operating licenses. Furthermore, management believes that MTS will not be required to make any such payments. Should such payments be required in the future, management believes that it would be limited to purchasing certain equipment for its own use in the related license area. In relation to these uncertainties, the Group has not recorded a contingent liability in the 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 September 30, 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 $46.6 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 totaled $1.4 million as of September 30, 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 $49.9 million in case of the borrower's default under the obligations. As of September 30, 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 $4.0 million as of December 31, 2003). As of December 31, 2003, Rosno's statutory share capital amounted to 432.0 million RUR (equivalent of $14.7 million as of December 31, 2003).

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, 2003, MBRD's share capital amounted to 400.0 million RUR (equivalent of $13.6 million as of December 31, 2003).

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. The Group cannot predict with any certainty how the new law will affect it. The new law creates a new interconnect pricing regime in 2004, which should be more transparent and unified and it creates a universal service charge calculated as a percentage of revenue which will be introduced from 2005. The new law may increase the regulation of the Group's operations and until such time as appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

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 September 30, 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

Additional Debt Issuance

In October 2004 MTS obtained two committed credit facilities in an aggregate amount of approximately $121.0 million to finance further expansion of the Group's network. These funds will be used to purchase telecommunication equipment and software from Siemens AG and Alcatel SEL AG for the technical upgrade and expansion of the network. The arrangers and lenders of the credit facility are HSBC Bank plc and ING BHF-BANK AG. Euler Hermes Kreditversicherungs-AG, the German credit export agency, is providing export credit cover in respect to both facilities. The facilities mature in approximately 9 years and have cost of financing of LIBOR plus 1.9% per annum.

In December 2004, MTS signed an agreement with EBRD for $150.0 million loan. The loan has a term of 7 years repayable starting from December 2005 on a biannual basis in equal installments. Interest rate is 3.1% over LIBOR. The proceeds of the loan will be used by MTS to finance regional expansion in Russia.

In November 2004, MTS signed a loan agreement with ABN AMRO Bank N.V. (Stockholm branch) for $56.6 million and EUR 8.4 million. These funds will be used to purchase telecommunication equipment from Ericsson AB for expansion of the network. The loan is repayable on a biannual basis in equal installments over 9 years and has an interest rate of USD LIBOR/EURIBOR plus 0.35% per annum.

In October 2004, MTS Finance signed a loan agreement with Credit Suisse First Boston (London branch) for $140.0 million loan facility. These funds will be used for general corporate purposes. The

loan is payable in two instalments of $70 million each due in three and six months after the draw date *i.e.*, in January and April 2005, respectively. Loan bears an interest rate at LIBOR plus 2.20% (4.44% at September 30, 2004). The loan is fully and unconditionally guaranteed by MTS.

Interest rate swap agreements

In December 2004, MTS signed two interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank PLC. 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 are used to hedge MTS' exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan described in Note 22.

Acquisitions

In October 2004, MTS completed transaction to exercise its call option in respect of a 47.3% stake in common shares and 50% of preferred shares of TAIF Telcom, increasing the Group's voting power in TAIF Telcom to 100%. The value of consideration equaled $63.0 million. TAIF Telcom provides GSM 900/1800 services under the MTS brand in the Republic of Tatarstan (population 3.8 million), located in the Volga region of Russia. As of September 30, 2004, the prepayment for TAIF Telcom's shares in amount of $63.0 million is recorded within advance payments for non-current assets.

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 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.

In November 2004, MTS won a government tender to acquire 76% stake in Gorizont RT, a cellular operator in the Republic of Saha (Yakutia) in the Far-East region of Russia, for a cash consideration of $52.2 million. Gorizont RT is the sole mobile services provider in the region with a population of 949.3 thousands. The company's subscriber base is approximately 100 thousands.

In November 2004, MTS signed an agreement to acquire 100% in US-based MCT Sibi Corp., which owns a 93.5% stake in Sibintertelecom, mobile phone operator in the Chita region and Aginsk-Buryatsk Autonomous District in the Far-East region of Russia, for a cash consideration of $37.3 million. Sibintertelecom is the sole mobile services provider in two regions with a total population of 1.23 million. The company's subscriber base is approximately 100 thousands.

In December 2004, MTS acquired a 52.5% stake in Telesot-Alania. The value of consideration equaled $6.2 million. Telesot-Alania is a GSM 900/1800 mobile phone operator in the Republic of North Ossetia with a total population of 710 thousand. The company's subscriber base is approximately 54 thousands.

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

Other

In October 2004, common shares of JSFC Sistema were listed on Russian Trading System (RTS) Stock Exchange and Moscow Stock Exchange. Trading in the shares will commence within six months from the listing date.

In November 2004, shareholders of Intourist approved an issue of 35,258,088,110 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 0.19 per share (approximately $0.007).

In November 2004, shareholders of MBRD approved an 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 (approximately $160).

In December 2004, T-Mobile, a shareholder of MTS, disposed of 15.1% of common shares of MTS in the open market. As a result of the sale, the Group received a right to cancel, with a prior written notice to T-Mobile, the shareholders' agreement between the Group and T-Mobile signed in 2003. Under the shareholders' agreement, certain actions of MTS 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.

The Group and T-Mobile agreed that until the earlier of 180 calendar days after completion date of an initial public offering by the Group or August 15, 2005, T-Mobile will not sell, offer to sell, pledge, or enter into any other agreements involving its remaining 10.1% stake in MTS, without the Group's prior written consent.