JSFC SISTEMA AND SUBSIDIARIES

Independent Accountants' Review Report

Consolidated Financial Statements
as of June 30, 2007 (unaudited) and
December 31, 2006 and
for the six months ended
June 30, 2007 and 2006 (unaudited)

JSFC SISTEMA AND SUBSIDIARIES

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Deloitte.

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

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of JSFC Sistema:

We have reviewed the accompanying consolidated balance sheet of JSFC Sistema and subsidiaries (the "Group") as of June 30, 2007 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the six months ended June 30, 2007 and 2006. 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 for reviews of interim financial information. 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 the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

October 4, 2007

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2007	December 31, 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 832,389	$ 501,706
Short-term investments	6	1,052,468	554,157
Loans to customers and banks, net	7	1,766,278	1,290,082
Accounts receivable, net	8	1,152,795	1,069,706
Prepaid expenses, other receivables and other current assets, net	9	1,089,605	917,551
VAT receivable		411,357	450,703
Inventories and spare parts	10	930,059	661,568
Deferred tax assets, current portion	22	195,079	195,672
Assets of the discontinued operations	4	-	946,866
Total current assets		7,430,030	6,588,011
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	8,525,136	7,412,468
Advance payments for non-current assets		288,126	305,846
Goodwill	2	666,215	504,166
Licenses, net	12	461,075	452,372
Other intangible assets, net	13	1,155,231	1,222,676
Investments in affiliates	14	1,266,459	1,108,647
Investments in shares of Svyazinvest	15	1,390,302	1,390,302
Other investments	3	-	122,500
Loans to customers and banks, net of current portion	7	577,339	464,490
Debt issuance costs, net		74,519	80,220
Deferred tax assets, net of current portion	22	91,255	73,623
Other non-current assets	16	538,500	465,917
Total non-current assets		15,034,157	13,603,227
TOTAL ASSETS		$ 22,464,187	$ 20,191,238

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 992,549	$ 868,378
Bank deposits and notes issued, current portion	17	1,290,057	961,595
Taxes payable		205,365	148,849
Deferred tax liabilities, current portion	22	85,350	48,885
Subscriber prepayments, current portion	21	506,119	552,997
Derivative financial instruments		210,316	184,316
Accrued expenses and other current liabilities	18	1,696,764	999,398
Short-term loans payable	19	802,529	1,296,778
Current portion of long-term debt	20	941,169	280,427
Liabilities of the discontinued operations	4	-	869,534
Total current liabilities		6,730,218	6,211,157
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	20	5,297,593	5,296,017
Subscriber prepayments, net of current portion	21	129,054	136,861
Bank deposits and notes issued, net of current portion	17	69,294	65,200
Deferred tax liabilities, net of current portion	22	343,026	287,125
Postretirement benefits obligation	23	16,080	16,391
Deferred revenue	24	130,759	129,120
Total long-term liabilities		5,985,806	5,930,714
TOTAL LIABILITIES		12,716,024	12,141,871
Minority interests in equity of subsidiaries		3,965,108	3,455,029
Commitments and contingencies	31	-	-
Puttable shares of SITRONICS	25	80,000	80,000
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000 shares issued; 9,269,131 and 9,365,757 shares outstanding as of June 30, 2007 and December 31, 2006, respectively, with par value of 90 Russian Rubles)	26	30,057	30,057
Treasury stock (380,869 shares as of June 30, 2007 and 284,243 shares as of December 31, 2006 with par value of 90 Russian Rubles)	26	(483,303)	(347,068)
Additional paid-in capital	3,4	2,428,971	2,196,475
Retained earnings		3,352,090	2,492,930
Accumulated other comprehensive income		375,240	141,944
TOTAL SHAREHOLDERS' EQUITY		5,703,055	4,514,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 22,464,187	$ 20,191,238

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

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

	Notes	Six months ended June 30, 2007	Six months ended June 30, 2006
Sales		$ 5,740,793	$ 4,266,341
Revenues from financial services		165,156	73,712
TOTAL REVENUES		5,905,949	4,340,053
Cost of sales, exclusive of depreciation and amortization shown separately below		(2,564,770)	(1,869,615)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(68,641)	(40,203)
TOTAL COST OF SALES		(2,633,411)	(1,909,818)
Selling, general and administrative expenses		(1,075,628)	(822,455)
Depreciation and amortization		(751,489)	(612,259)
Provision for doubtful accounts		(52,763)	(59,923)
Other operating expenses, net		(87,123)	(93,761)
Equity in net income of investees		57,796	43,662
Gain on disposal of interests in subsidiaries and affiliates		64,570	121,600
OPERATING INCOME		1,427,901	1,007,099
Interest income		43,795	30,003
Change in fair value of derivative instruments		(26,500)	-
Interest expense, net of amounts capitalized		(217,675)	(165,511)
Currency exchange and translation gain		63,965	7,390
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		1,291,486	878,981
Income tax expense	22	(471,394)	(354,175)
Equity in net income of energy companies in the Republic of Bashkortostan		81,455	115,079
Income from continuing operations before minority interests		$ 901,547	$ 639,885

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	Six months ended June 30, 2007	Six months ended June 30, 2006
Minority interests		$ (547,368)	$ (336,808)
Income from continuing operations		354,179	303,077
Income from discontinued operations, net of income tax effect of $2,207 and $9,391, respectively	4	960	7,001
Gain from disposal of discontinued operations, net of income tax effect of $148,809	4	521,963	-
NET INCOME		$ 877,102	$ 310,078
Other comprehensive income:			
Unrealized gain on securities available for sale, net of income tax effect of $163		-	585
Change in fair value of interest rate swaps, net of income tax effect of $307 and $360, respectively		973	1,520
Effect of disposal of discontinued operations, net of minority interest of $11,586 and income tax effect of nil		(11,205)	-
Income tax effect of change in functional currency, net of minority interest of $38,750		(55,762)	-
Translation adjustment and effect of change in the functional currency, net of minority interests of $262,588 and $36,157, respectively	2	299,290	50,576
Comprehensive income		$ 1,110,398	$ 362,759
Weighted average number of common shares outstanding		9,358,307	9,626,856
Earnings per share, basic and diluted:			
Income from continuing operations		$ 37.85	$ 31.48
Income from discontinued operations		55.88	0.73
Net income		93.72	32.21

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. dollars)

	Six months ended June 30, 2007	Six months ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 877,102	$ 310,078
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	751,489	614,479
Loss on disposals of property, plant and equipment	2,922	1,516
Gain from disposal of discontinued operations	(521,963)	-
Income of discontinued operations	(960)	-
Currency exchange and translation gain from non-operating activities	(63,964)	(788)
Loss recognized on a real estate developed for sale	-	(34,935)
Gain on disposal of interests in subsidiaries and affiliates	(64,570)	(121,600)
Non-cash compensation to employees	97,966	90,778
Minority interests	547,369	344,095
Equity in net income of investees	(139,251)	(158,741)
Deferred income tax expense/(benefit)	2,883	(37,620)
Debt issuance cost amortization	14,167	13,518
Change in fair value of derivative financial instruments	26,500	-
Amortization of connection fees	(44,590)	(45,547)
Provision for doubtful accounts receivable	52,763	59,923
Allowance for loan losses	14,286	14,669
Inventory obsolescence expense	27,677	6,185
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(157,450)	(87,350)
Loans to banks	(136,610)	(356,816)
Accounts receivable	(69,897)	(253,447)
Insurance-related receivables	-	(62,295)
Prepaid expenses, other receivables and other current assets	(144,825)	(111,106)
VAT receivable	45,142	97,555
Inventories and spare parts	(99,447)	(34,912)
Accounts payable	(65,488)	110,640
Insurance-related liabilities	-	180,405
Taxes payable	(96,334)	50,472
Subscriber prepayments	(10,094)	68,338
Accrued expenses and other current liabilities	248,871	35,638
Postretirement benefits obligation	(311)	(2,592)
Net cash provided by operations	$ 1,093,383	$ 690,540
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(733,916)	(878,984)
Purchases of intangible assets	(129,886)	(120,667)
Purchases of businesses, net of cash acquired	(386,387)	(394,880)
Proceeds from disposals of interests in subsidiaries and affiliates, net of cash disposed	636,683	65,387
Purchases of long-term investments	(26,318)	(1,679)
Proceeds from sale of long-term investments	20,000	-
Purchases of other non-current assets	(121,006)	(60,878)
Proceeds from sale of other non-current assets	5,548	-
Return of cash deposited for acquisition of Intracom Telecom	44,452	-
Purchases of short-term investments	(411,338)	(410,336)
Proceeds from sale of short-term investments	47,946	124,910
Proceeds from sale of property, plant and equipment	12,361	2,281
Net increase in loans to customers	(466,288)	(303,966)
Net cash used in investing activities	$ (1,508,149)	$ (1,978,812)

SFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

		Six months ended June 30, 2007		Six months ended June 30, 2006
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on short-term borrowings, net		(546,549)		(451,171)
Net increase in deposits from customers		380,000		40,125
Net (decrease)/increase in bank promissory notes issued		(6,218)		36,471
Proceeds from long-term borrowings, net of debt issuance costs		928,457		1,689,676
Principal payments on long-term borrowings		(321,350)		(222,737)
Principal payments on capital lease obligations		(8,021)		(1,610)
Purchases of treasury stock		(136,235)		(50,892)
Proceeds from capital transactions of subsidiaries		356,463		979,343
Net cash provided by financing activities	$	646,547	$	2,019,205
Effects of foreign currency translation on cash and cash equivalents	$	2,227	$	788
INCREASE IN CASH AND CASH EQUIVALENTS	$	234,008	$	731,721
CASH AND CASH EQUIVALENTS, beginning of the period		598,381[1]		482,647
CASH AND CASH EQUIVALENTS, end of the period	$	832,389	$	1,214,368
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	(230,332)	$	(165,335)
Income taxes		(664,977)		(317,911)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	1,763		-
Equipment acquired through vendor financing		1,281	$	2,000
Equipment acquired under capital leases		6,454		5,214

[1] – including cash and cash equivalents of Rosno as of December 31, 2006 in the amount of $96.7 million.

In addition, non-cash investing activities for the six months ended June 30, 2007 and 2006 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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)
(Amounts in thousands of U.S. dollars)

	Share capital	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2006	$ 30,057	$ -	$ 1,479,743	$ 1,696,276	$ 27,567	$ 3,233,643
Capital transactions of subsidiaries (Note 4)	-	-	406,825	-	-	406,825
Repurchase of common stock	-	(50,892)	-	-	-	(50,892)
Unrealized gain on securities available for sale, net of income tax effect of $163	-	-	-	-	585	585
Change in fair value of interest rate swaps, net of income tax effect of $360	-	-	-	-	1,520	1,520
Translation adjustment, net of minority interest of $36,157 and income tax of nil (Note 2)	-	-	-	-	50,576	50,576
Dividends declared (Note 26)	-	-	-	(9,978)	-	(9,978)
Net income	-	-	-	310,078	-	310,078
Balances at June 30, 2006	$ 30,057	$ (50,892)	$ 1,886,568	$ 1,996,376	$ 80,248	$ 3,942,357
Balances at January 1, 2007	$ 30,057	$ (347,068)	$ 2,196,475	$ 2,492,930	$ 141,944	$ 4,514,338
Capital transactions of subsidiaries (Note 4)	-		232,496	-	-	232,496
Repurchase of common stock (Note 26)	-	(136,235)	-	-	-	(136,235)
Early termination and change in fair value of interest rate swaps, net of income tax effect of $307	-	-	-	-	973	973
Income tax effect of change in the functional currency, net of minority interest of $38,750	-	-	-	-	(55,762)	(55,762)
Translation adjustment and effect of change in the functional currency, net of minority interest of $262,588 (Note 2)	-	-	-	-	299,290	299,290
Effect of disposal of discontinued operations, net of minority interests of $11,586	-	-	-	-	(11,205)	(11,205)
Dividends declared (Note 26)	-	-	-	(17,942)	-	(17,942)
Net income	-	-	-	877,102	-	877,102
		-				
Balances at June 30, 2007	$ 30,057	$ (483,303)	$ 2,428,971	$ 3,352,090	$ 375,240	$ 5,703,055

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

The financial statements of JSFC Sistema and subsidiaries ("the Group") reflect the consolidation of the separate financial statements of operating entities controlled by means of direct or indirect ownership of a majority voting interest 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 held by certain top executives and directors of the Group and 19.6% of outstanding shares of the Group are traded on the London Stock Exchange in the form of GDRs.

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

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Technology Segment:		
SITRONICS and subsidiaries	SITRONICS	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development, IT and systems integration, computer hardware and software distribution
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
East-West United Bank	EWUB	
Real Estate Segment:		
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects
Mass Media Segment:		
Sistema Mass Media and subsidiaries	Sistema Mass Media	Cable television, advertising, production and distribution of periodicals, movie production
Retail Segment:		
Detsky Mir and subsidiaries	Detsky Mir	Retail and wholesale trading
Detsky Mir-Center and subsidiaries	DM-Center	
Other businesses:		
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
Perm Motors Group	PMG	Development and production of aircraft engines
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Financial Fleurus Holdings S.A. and subsidiaries	Sistema International	Investing in real estate projects outside the CIS, 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 entities maintain accounting records in local currencies of the countries of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

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

The beneficial ownership interest and voting interest of JSFC Sistema in the significant subsidiaries as of June 30, 2007 and December 31, 2006 are as follows:

Significant entities	**Ownership interest**		**Voting interest**	
	June 30, 2007	**December, 31 2006**	**June 30, 2007**	**December, 31 2006**
MTS	53%(1)	53%(1)	53%	53%
Comstar UTS	59%(1)	59%(1)	59%	59%
SITRONICS	71%	85%	71%	85%
Rosno (Note 4)	Disposed	49%(1)	Disposed	51%
MBRD	95%(1)	95%(1)	99%	99%
EWUB	51%	51%	51%	51%
Sistema-Hals	80%(1)	80%(1)	80%	80%
Intourist	66%	66%	66%	66%
DM-Center	100%	100%	100%	100%
Detsky Mir	75%(1)	75%(1)	75%	75%
Concern RTI	100%	100%	100%	100%
Financial Fleurus	100%	100%	100%	100%
Medsi	66%	66%	66%	66%
Perm Motors Group	81%	-	81%	-
Binnofarm	100%	100%	100%	100%

(1) – Including indirect ownership

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

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

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

Concentration of Business Risk – The Group's principal business activities are within the Commonwealth of Independent States ("CIS"), primarily in the RF and Ukraine. Laws and regulations affecting businesses operating in the RF and Ukraine 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”.

Management has determined that the functional currencies of the Group’s significant subsidiaries for the six months ended June 30, 2007 are as follows:

MTS	Russian ruble (“RUB”)
UMC	Ukrainian Hryvna (“UAH”)
BCTI	Turkmenistan manat (“TMM”)
MGTS	RUB
SITRONICS’ Russian subsidiaries	RUB
SITRONICS Telecom Solutions Czech Republic(1)	Czech Krona (“CZK”)
Intracom Telecom	Euro (“EUR”)
Kvazar-Micro’s subsidiaries(2)	Local currencies of the countries of domicile
MBRD	RUB
Sistema Mass Media	RUB
Detsky Mir	RUB
DM-Center	RUB
Concern RTI	RUB
Perm Motors Group	RUB
Other subsidiaries of the Group(3)	U.S. dollar (“USD”)

(1) – Former STROM telecom
(2) – Except for Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, whose functional currency is the USD
(3) – Due to the pervasive use of the USD in their operations

Starting from January 1, 2007, MTS’s subsidiaries in the RF introduced RUB tariffs for settlements with the majority of their customers. As a result of the changes, MTS reevaluated the functional currency criteria under FAS No. 52 and determined that, beginning January 1, 2007, the functional currency of the MTS’s subsidiaries domiciled in the Russian Federation is the RUB. The change is adopted prospectively beginning January 1, 2007 in accordance with FAS No. 52.

The Group has selected the USD as its reporting currency and translated into USD 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 effects of translation gain and change in the functional currency in the amount of $299.3 million for the six months ended June 30, 2007 and $50.6 million for the six months ended June 30, 2006, net of minority interests of $262.6 million and $36.2 million, respectively, were recorded as a separate component of other comprehensive income.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Revenues, costs and expenses are recorded using average exchange rates prevailing during the reporting period.

Revenue Recognition – The Group's segments earn and record revenues as follows:

Telecommunications Segment

The Telecommunications Segment of the Group earns revenues from the provision of wireless and wireline telecommunication and data transmission services and usage of its 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 segment's network and (vii) equipment sales. The segment records revenues over the periods they are earned as follows:

(i) Revenues derived from wireless and wireline 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, as follows:

MTS' subscribers(1)	12-60 months
Comstar UTS residential wireline voice phone subscribers	15 years
Comstar UTS residential subscribers of broadband internet services	1 year
Other categories of Comstar UTS' subscribers	3-5 years

(1) – MTS calculates an average expected term of the subscriber relationship for each region in which it operates and amortizes regional connection fees accordingly

(iv) The Telecommunications segment recognizes revenues from prepaid phone cards in the period when the 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 card has expired. Revenues under prepaid service tariff plans, whereby a customer may purchase a package that allows a connection to a segment's wireless network and a predetermined allotment of wireless phone calls and/or other services offered by the segment, 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 segment charges roaming per-minute fees to other wireless operators for their subscribers utilizing segment's networks. Revenues derived from roaming services are recognized as services are provided.
(vii) The segment sells handsets and accessories to customers who enter into contracts for service and as separate distinct transactions. Revenues from the handsets and accessories are recognized when title passes to the customer. Estimated returns are recorded as a direct reduction of sales at the time the related sales are recorded. UMC also from time to time sells handsets at prices below cost. These subsidies are recognized in the cost of equipment when the sale is recorded.

Regulated tariff services, consisting of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by Comstar UTS, totaled approximately 6.7% and 4.2% of the consolidated revenues for the six months ended June 30, 2007 and 2006, respectively. Changes in rate structure are subject to the Federal Tariff Service approval.

Technology Segment

The Technology Segment recognizes revenues only when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectibility of the fee is reasonably assured.

Revenues under arrangements specific to respective divisions of the Technology Segment are recognized as follows:

Telecommunication Solutions division:

The division's arrangements for sale of software products are multiple-element arrangements, involving the provision of related services, including customization, implementation and integration services, as well as ongoing support and maintenance provided to customers.

If the services element of the arrangement is deemed essential to the functionality of the software, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; (c) the division can be expected to perform its contractual obligations. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages. At SITRONICS Telecom Solutions Czech Republic ("SITRONICS TS CR") the extent of progress is measured by the ratio of hours performed to date to estimated total hours at completion. Intracom Telecom calculates the extent of progress based on the ratio of costs incurred to total estimated costs. A contract is considered as substantially completed when (a) the product is delivered, and (b) the product is accepted by the customer.

If the services element of the arrangement is not deemed essential to the functionality of the software, the service revenues are accounted for separately from the software revenues. In such multiple-element arrangements, the software component is accounted for using the residual method.

In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, unless a history of collection, without providing concessions, has been established under comparable arrangements.

Information Technologies Solutions division:

Because of frequent sales price reductions and rapid technology obsolescence, revenues from the division's computer hardware sales to dealers under agreements allowing price protection are deferred until the dealers sell the merchandise.

The division's arrangements regarding systems integration services typically include multiple elements, such as equipment and software, installation services and post-contract support. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: i) the delivered items have value to the customer on a standalone basis; ii) there is objective and reliable evidence of the fair value of the undelivered items; iii) if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

If evidence of the fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue on a pro rata basis over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services divisions:

The products of these divisions are generally sold with a limited warranty of product quality. The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale. The divisions accrue for known warranty if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity.

The Electronics Manufacturing Services division enters into arrangements with certain manufacturers and distributors of consumer electronics products to assemble such products at its facilities. In those cases where the division's responsibility to the customer is limited solely to assembly services or where the division buys components from and subsequently sells the assembled devices to the same counterparty, the division records only the net amount retained as its revenues.

<u>Real Estate Segment</u>

The Real Estate Segment of the Group earns revenues from (i) real estate development, (ii) project and construction management, (iii) real estate asset management and (iv) facility management. The segment records revenues as follows:

(i) Revenues from real estate development activities are recognized in accordance with the provisions of FAS No. 66, "Accounting for Sales of Real Estate" and AICPA Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP No. 81-1"). When the segment undertakes real estate development projects at its own risk, it recognizes revenues from sales of real estate when a) a sale is consummated; b) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay; c) the segment's receivable is not subject to future subordination; d) the segment has transferred to the buyer the usual risks and rewards of ownership and does not have a substantial continuing involvement with the project. A sale is not considered consummated until (a) the parties are bound by the terms of a contract; (b) all consideration has been exchanged; (c) any permanent financing for which the segment is responsible has been arranged; and (d) all conditions precedent to closing have been performed. Revenues from development of office and residential buildings are recognized prior to consummation of sale by the percentage-of-completion method if (a) construction is beyond a preliminary stage; (b) the buyer is committed to the extent of being unable to require a refund except for non-delivery of the property; (c) sales prices are collectible; (d) aggregate sales proceeds and costs can be reasonably estimated.

    Investments in real estate developed for sale where the sale is not consummated are accounted for under the deposit method in accordance with FAS No. 66, except for those investments in development of office buildings, apartments, condominiums, shopping centers and similar structures, where criteria for revenue recognition have been met as of the balance sheet date. Such investments are accounted for by the percentage-of-completion method.

In those instances, when the segment acts as a contractor under construction contracts with third parties, it applies the percentage-of-completion method to the respective contracts where and as soon as it is able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at completion for each contract (the "cost-to-cost" method). On most of its contracts, the segment is not able to reliably estimate costs to complete the project and contractual revenues until the project is at least 30% complete. Until the 30% completion point, the segment carries the projects at cost. The segment does not recognize revenue on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made.

(ii) The segment provides project and construction management services to municipal governments on certain socially important infrastructure projects. The segment's remuneration under the majority of those arrangements is determined as a percentage of project costs incurred by third parties and approved by the municipal government. Based upon the guidance in Emerging Issues Task Force Consensus No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), management has concluded that the segment's services under such contracts do not transfer to the segment full risks and rewards associated with the projects. Therefore, the segment recognizes as revenues only its fees from project management services. Fees are recognized as the project costs are incurred and approved by the municipal government when the segment acts as a general contractor.

(iii) Revenues from real estate asset management include rental revenues, revenues from sale or assignment of rights to land plots and residential units. Rental revenues are recognized over the lease term on a straight-line basis. Revenues from sale or assignment of rights over real estate are recognized when substantially all the risks and rewards of ownership have been passed to the buyer.

(iv) Revenues from service contracts for facilities management are recognized on the accrual basis over the periods when services are provided.

Banking Segment

Interest income of the Banking Segment is recognized on the 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 the allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral.

Other Segments

Concern RTI and Perm Motors Group recognize revenues from development and production of radiotechnical equipment and construction of aircraft engines, respectively, in accordance with the provisions of SOP No. 81-1. They apply the percentage-of-completion method to the respective contracts where and as soon as they are able to reliably estimate the stage of progress to completion of the project, costs to complete the project and contractual revenues. Progress towards completion is measured by the percentage of costs incurred to date to the estimated total costs at completion for each contract (the "cost-to-cost" method).

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

In travel agency arrangements where the Group acts as an agent, 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 the time of purchase and minimum reserve deposits with the Central Bank of the Russian Federation. Short-term interbank loans originated by MBRD with original maturities of three months or less are included in loans to customers and banks.

Financial Instruments – The Group's financial instruments include cash, short-term and long-term investments, receivables, derivative financial instruments, payables and debt. Except as described below, the estimated fair value of such financial instruments as of June 30, 2007 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 June 30, 2007 ranged from 99.7% to 104.7% of the principal amount.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, the Group entered into several variable-to-fixed interest rate and cross currency interest rate swap agreements to manage its exposure to changes in the fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate and currency fluctuations (Note 30). The Group also entered into several short-term USD forward agreements to hedge the fair value of its investments in RUB-denominated financial instruments and accounts receivable. The Group does not use derivatives for trading purposes.

The Group accounts for derivative instruments in accordance with FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", FAS No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment to FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and FAS No. 156, "Accounting for Servicing of Financial Assets". All derivatives are measured at fair value and recognized as either assets or liabilities in the consolidated balance sheet. MTS's interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense in the same period that the related cash flows of the hedged transaction affect the interest expense. Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges.

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

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

Loans to Customers and Banks – Loans to customers and banks arise out of operations of the Banking Segment. The determination of the allowance for losses in respect of loans provided by MBRD and EWUB 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 the segment'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, the Banking segment 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.

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

Inventories and Spare Parts – Inventories, including spare parts, are stated at the lower of cost or market value.

The cost of inventories of SITRONICS' entities is computed on a weighted average cost basis, except for its Information Technologies Solutions division, which accounts for its inventories using the first-in, first-out ("FIFO") cost method.

The cost of MTS's and Comstar UTS's inventories (including mostly spare parts) is computed on a weighted average cost basis.

Other subsidiaries of the Group account for their inventories using the FIFO method.

The cost of raw materials includes the 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. Costs and estimated earnings in excess of billings on uncompleted contracts 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.

Vendor Programs – Funds received by SITRONICS from its vendors for price protection, vendor rebates, marketing, training, product returns and promotion programs are recorded when earned as adjustments to product costs, revenue, or selling, general and administrative expenses according to the nature of the program.

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 as VAT receivable in the accompanying financial statements.

Assets held for sale – In 2006, MTS decided to discontinue using certain telecommunication equipment in Russian regions with a net book value of approximately $65.4 million as of June 30, 2007, in accordance with MTS's network development strategy. MTS has negotiated with a third party to sell this equipment during the year ended December 31, 2007, at net book value. Accordingly, this equipment has been classified as a current asset in the Group's balance sheet as of June 30, 2007.

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.

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	7-31 years
Network and base station equipment	5-12 years
Other plant, machinery and equipment	3-15 years

Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments. The discount rate used in determining the present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to determine the implicit rate computed by the lessor and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used.

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.

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under FAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of June 30, 2007, the estimated asset retirement obligations were not significant to the Group's consolidated financial position and results of operations.

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

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of a 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 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. Management believes that there was no impairment of goodwill for the six months ended June 30, 2007 and 2006.

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

	Telecom-munications	Mass Media	Corporate and Other	Total
Balance as of January 1, 2006	$ 328,956	$ -	$ 635	$ 329,591
Purchase price allocation	755	104,499	-	105,254
Balance as of June 30, 2006	$ 329,711	$ 104,499	$ 635	$ 434,845
Balance as of January 1, 2007	$ 377,738	$ 125,500	$ 928	$ 504,166
Purchase price allocation	157,057	-	4,992	162,049
Balance as of June 30, 2007	**$ 534,795**	**$ 125,500**	**$ 5,920**	**$ 666,215**

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

Acquired customer bases are amortized over the estimated average subscriber life from 12 to 96 months. Deferred telephone numbering capacity costs with limited contractual life are being amortized over their contractual lives, which vary from 5 to 20 years. Software costs and other intangible assets are being amortized over 3 to 10 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. The Group's share in net income of the affiliates where the Group has day-to-day involvement in business activities and which are integral to the Group's business is recorded within operating income. In other cases, the Group's share in net income is shown after the income tax provision.

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, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition.

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

Investments in marketable securities classified as available-for-sale are stated at fair value based on market quotes. Unrealized gains/(losses), net of deferred taxes, are recorded as a component of other comprehensive income. For the six months ended June 30, 2007 and 2006, unrealized gains/(losses) on marketable securities available-for-sale were not significant.

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.

Management periodically assesses the realizability of the carrying values of the investments and if necessary records impairment losses to write the investments down to fair value.

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 $74.5 million and $80.2 million, net of accumulated amortization of $69.4 million and $55.6 million as of June 30, 2007 and December 31, 2006, 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. Management is not aware of any indicators of impairment relating to the Group's investments in long-lived assets during the six months ended June 30, 2007.

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.

Deferred Revenue – Telecommunication equipment and transmission devices, installed at 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 and is amortized as a reduction of the depreciation charge in the consolidated statement of operations over the contributed assets' life.

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF equals 24%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. As of June 30, 2007, the corporate income tax rate in Ukraine was 25%.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", of FAS No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

The Group adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation the Group recognized liability of $10.6 million for the unrecognized tax benefits as of January 1, 2007. The changes in unrecognized tax benefits during the six months ended June 30, 2007, were as follows:

		000's
Balance at January 1, 2007	$	10,576
Additions based on tax positions related to the current year		4,583
Balance at June 30, 2007	$	15,159

The Group recognized approximately $1.4 million in interest and penalties for the six months ended June 30, 2007.The Group recognized interest accrued related to unrecognized tax benefits in interest expense and penalties in other operating expenses.

As of the date of these financial statements, the tax years ended 31 December 2004, 2005 and 2006 remained subject to examination by the Russian tax authorities.

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

Treasury Stock – Shares of common stock of JSFC Sistema repurchased by the Group are recorded at cost as treasury stock and result in a reduction of shareholders' equity in the Group's consolidated financial statements.

Stock-based Compensation – The Group accounts for stock-based compensation plans in accordance with provisions of FAS No. 123R "Share Based Payment". Under FAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the statement of operations and comprehensive income. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments.

MTS did not issue any new stock option plans during the six months ended June 30, 2007 (Note 29).

In September 2006, Comstar UTS approved a stock-based compensation plan (Note 29).

In April 2007, SITRONICS Board of Directors approved a stock-option plan for selected officers and key employees (Note 29).

In May 2007, the Board of Directors of Sistema-Hals approved a stock option and stock bonus program for senior management of Sistema-Hals. In June 2007, the General Meeting of shareholders approved a stock bonus program for the Board of Directors of Sistema-Hals (Note 29).

In June 2007, the Board of Directors of MTS approved an executive management retention and motivation program in the form of cash payments of $104.1 million to be paid in installments up to December 2008 and a phantom shares based employee motivation program to be launched in July 2007.

Retirement and Post-Retirement Benefits – The Group accounts for pension plans following the requirements of FAS No. 87, "Employers' Accounting for Pensions", as amended by FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and FAS No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106".

Subsidiaries of the Group contribute to the local state pension funds and social funds, on behalf of all their employees.

In Russia, all social contributions, including contributions to the pension fund, are substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 26% 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 20% to 2% depending on the annual gross salary of each employee. The contributions are expensed as incurred.

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

In addition, Intracom Telecom and MGTS have defined benefit plans to provide their employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 23).

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are 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 six months ended June 30, 2007 and 2006 amounted to $56.9 million and $32.0 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the six months ended June 30, 2007 and 2006 were $150.6 million and $161.0 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Research and Development Costs – Research and development ("R&D") costs are fully charged to the consolidated statements of operations when incurred and for the six months ended June 30, 2007 and 2006, equaled $19.7 million and $20.9 million, respectively. Such costs were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Costs of producing software incurred between the date on which technological feasibility is established and when the related software product is available for general release to customers are capitalized.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the six months ended June 30, 2007 and 2006.

Diluted EPS reflect the potential dilution related to MTS and Comstar UTS stock options granted to employees.

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

Comprehensive Income – Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Recent Accounting Pronouncements – In June 2006, the Emerging Issues Task Force reached a consensus on EITF Issue No. 06-03 ("EITF No. 06-03"), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)". EITF No. 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF No. 06-03 became effective for fiscal years beginning after December 15, 2006. From January 1, 2007 the Group continues to present revenue and costs on a net basis.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements". FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group is currently assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" – including an amendment of FAS No. 115, which permits an entity to measure certain financial assets and financial liabilities at fair value. FAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or "FVO"). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. FAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements, and (3) elects to apply the provisions of FAS No. 157, Fair Value Measurements. The Group is currently evaluating the provisions of FAS No. 159 to determine the potential impact its adoption will have on the Group's financial statements, if the Group decides to adopt the FVO.

Reclassifications – Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for the six months ended June 30, 2007.

3. ACQUISITIONS

The Perm Motors Group

In August 2006, the Group acquired 81% of voting shares of CJSC Sahles for $122.5 million in cash. Sahles owns controlling stakes in the entities constituting the Perm Motors Group ("PMG") which produces aircraft engines. The Group consolidated the results of PMG starting from January 1, 2007 following the acquisition of control over PMG by the Group.

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

Current assets	$	320,298
Property, plant and equipment		97,973
Other intangible assets		70,694
Other non-current assets		9,533
Current liabilities		(234,699)
Non-current liabilities		(116,020)
Minority interest		(25,279)
Purchase price	**$**	**122,500**

The purchase price allocation for this acquisition has not been yet finalized as of the date of these financial statements.

Additional Interest in Uzdunrobita

In June 2007, MTS has purchased an additional 26% stake in Uzdunrobita, the leading mobile operator in Uzbekistan, from a private investor for $250.0 million in cash. Previously MTS owned 74% of Uzdunrobita. As a result of this transaction, MTS's ownership has increased to a full 100%. The transaction was accounted for using the purchase method. The preliminary allocation of purchase price increased the recorded license cost by $60.8 million and $131.2 million was recognized as goodwill. Goodwill is mainly attributable to the economic potential of the markets where Uzdunrobita is operating. The purchase price allocation for this acquisition has not been yet finalized as of the date of these financial statements.

Other

Below is the list of other acquisitions for the six months ended June 30, 2007:

Acquiree	Principal activity	Date of acquisition	Ownership interest Before acquisition	Ownership interest After acquisition	Acquiring segment	Purchase price (in millions USD)
SITRONICS	Holding company of the Group's Technology Segment	January 2007	84.5%	87.6%	SITRONICS	36.0
Medexpress	Voluntary medical insurance services provider	May and June 2007	0.0%	100.0%	Medical Services	10.0
Digital TV Broadcasting	Digital TV provider	March 2007	74.0%	100.0%	Mass Media	3.0
VZPP-Micron	Producer of electronic power supply components for customers in the RF	March 2007	97.0%	100.0%	SITRONICS	0.5

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES AND AFFILIATES

In March 2007, Comstar UTS sold a 45.0% equity stake in Metrocom, an alternative fixed-line telecommunications operator in St. Petersburg, for a cash consideration of $20.0 million. The transaction resulted in a gain from disposal of $4.4 million.

In February 2007, the Group sold its stake in Rosno for a cash consideration of $750.0 million to Allianz AG. The transaction resulted in a gain from disposal of approximately $522.0 million. After the transaction, the Group purchased a minority interest in ROSNO of 2.8% from Rosno managers for a cash consideration of $42.6 million.

Assets and liabilities of discontinued operations as of December 31, 2006 consisted of the following:

		December 31, 2006
Current assets	$	871,659
Non-current assets		75,207
Total assets of discontinued operations	**$**	**946,866**
Current liabilities	$	779,014
Non-current liabilities		90,520
Total liabilities of discontinued operations	**$**	**869,534**

In February 2007, SITRONICS completed its initial public offering of 1,675,000,000 common shares, with a par value of 1 RUB per share, comprising 125,160,800 ordinary shares and 30,996,784 global depositary receipts (“GDRs”), with each GDR representing 50 shares of common stock. Proceeds from the offering, net of the underwriters’ discount and other direct costs, comprised of $356.4 million. As a result of the IPO, the Group’s effective ownership in SITRONICS decreased from 87.6% to 71.4%.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $211.5 million and $121.4 million as of June 30, 2007 and December 31, 2006, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities of less than 90 days.

Also included in cash as of June 30, 2007 and December 31, 2006, are $51.7 million and $56.0 million, respectively, which represent the MBRD’s minimum reserve deposit, required by the Central Bank of the RF.

6. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Trading securities:		
RF Eurobonds	$ 7,251	$ 7,392
Corporate bonds	321,266	166,147
Government and municipal bonds	64,954	45,754
Corporate shares	18,149	18,201
Other trading securities	55,297	564
	466,917	238,058
Other short-term investments:		
Promissory notes and deposit certificates from third parties	301,487	151,078
Promissory notes from and loans to related parties	62,701	95,046
Bank deposits with original maturities exceeding 90 days	188,051	60,338
Other short-term investments	33,312	9,637
	585,551	316,099
Total	**$ 1,052,468**	**$ 554,157**

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

Promissory notes from third parties, mostly denominated in RUB, bear interest rates varying from 5% to 13% as of June 30, 2007. The promissory notes from related parties denominated in RUB bear a 13% interest rate, while USD denominated notes bear an interest rate of 5% as of June 30, 2007.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of June 30, 2007 are 7%-11% for RUB denominated deposits and 8% on deposits in USD and Euros. As of December 31, 2006, the effective interest rates on bank deposits with original maturities exceeding 90 days were 6% for RUB denominated deposits and 7% on deposits in USD.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Loans to customers	$ 1,854,961	$ 1,388,923
Loans to banks	640,065	503,455
	2,495,026	1,892,378
Less: allowance for loan losses	(151,409)	(137,806)
Less: amounts maturing after one year	(577,339)	(464,490)
Loans to customers and banks, current portion	**$ 1,766,278**	**$ 1,290,082**

Loans to customers as of June 30, 2007 and December 31, 2006 included loans to affiliates and other related parties of $35.9 million and $35.8 million, respectively. Management anticipates no losses in respect of these amounts.

The following table presents the effective average interest rates by categories of loans as of June 30, 2007 and December 31, 2006:

	June 30, 2007			December 31, 2006		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Loans to customers						
- corporate customers	13.7%	13.2%	12.7%	13.7%	13.2%	13.1%
- individuals	18.4%	14.0%	14.4%	18.0%	12.3%	19.3%
Loans to banks	6.0%	6.3%	-	5.8%	5.8%	3.5%

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Trade receivables	$ 1,269,036	$ 1,156,756
Less: provision for doubtful accounts	(116,241)	(87,050)
Total	**$ 1,152,795**	**$ 1,069,706**

Trade receivables as of June 30, 2007 and December 31, 2006 include receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $50.3 million and $48.4 million, respectively. Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

9. PREPAID EXPENSES, OTHER RECEIVABLES AND OTHER CURRENT ASSETS, NET

Prepaid expenses, other receivables and other current assets, net of provision for doubtful accounts, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Prepaid expenses and advances to suppliers	$ 722,320	$ 534,588
Prepaid taxes	108,893	66,566
Receivables for sale of Glorerly shares	79,078	79,078
Assets held for sale	65,300	63,209
Dividends receivable from energy companies in the Republic of Bashkortostan	-	83,215
Receivables for sale of WaveCrest shares	-	40,674
Other	130,493	62,768
Less: provision for doubtful accounts	(16,479)	(12,547)
Total	**$ 1,089,605**	**$ 917,551**

10. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Raw materials and spare parts	$ 380,378	$ 329,118
Work-in-progress	240,748	74,077
Costs and estimated earnings in excess of billings on uncompleted contracts	34,411	27,802
Finished goods and goods for resale	274,522	230,571
Total	**$ 930,059**	**$ 661,568**

11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Land	$ 87,717	$ 48,305
Buildings and leasehold improvements	1,199,716	1,041,966
Switches, transmission devices, network and base station equipment	6,575,634	5,406,574
Other plant, machinery and equipment	1,288,593	995,040
Construction in-progress and equipment for installation	2,765,967	2,224,749
	11,917,627	9,716,634
Less: accumulated depreciation	(3,392,491)	(2,304,166)
Total	**$ 8,525,136**	**$ 7,412,468**

Depreciation expense for the six months ended June 30, 2007 and 2006 amounted to $530.1 million and $402.0 million, respectively.

12. LICENSES, NET

Licenses, net of accumulated amortization, as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Operating licenses	$ 1,331,541	$ 1,042,164
Less: accumulated amortization	(870,466)	(589,792)
Total	**$ 461,075**	**$ 452,372**

Amortization expense for licenses for the six months ended June 30, 2007 and 2006 amounted to $107.4 million and $103.7 million, respectively.

The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended June 30,		
2008	$	156,787
2009		122,862
2010		77,353
2011		32,751
2012		28,968
Thereafter		42,354
	$	**461,075**

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.

13. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007			**December 31, 2006**		
	Gross carrying value	**Accumu-lated amorti-zation**	**Net carrying value**	**Gross carrying value**	**Accumu-lated amorti-zation**	**Net carrying value**
Amortized intangible assets:						
Acquired customer base	$ 275,433	(183,420)	92,013	$ 266,305	(164,969)	101,336
Radio frequencies	166,100	(64,858)	101,242	163,963	(52,882)	111,081
Numbering capacity with finite contractual life, software and other	1,482,237	(693,139)	789,098	1,339,843	(505,265)	834,578
	1,923,770	(941,417)	982,353	1,770,111	(723,116)	1,046,995
Unamortized intangible assets:						
Trademarks	144,646	-	144,646	147,449	-	147,449
Numbering capacity with indefinite contractual life	28,232	-	28,232	28,232	-	28,232
Total intangible assets	**$ 2,096,648**	**(941,417)**	**1,155,231**	**$ 1,945,792**	**(723,116)**	**1,222,676**

Amortization expense recorded on other intangible assets for the six months ended June 30, 2007 and 2006 amounted to $113.9 million and $105.3 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended June 30,		
2008	$	273,255
2009		245,684
2010		202,815
2011		130,092
2012		38,626
Thereafter		91,881
	$	**982,353**

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.

14. INVESTMENTS IN AFFILIATES

Investments in affiliates as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007			December 31, 2006		
	Voting power, %		**Carrying Value**	**Voting power, %**		**Carrying Value**
Shares of energy companies in the Republic of Bashkortostan	Various	$	901,805	Various	$	826,960
MTT	50%		128,466	50%		108,851
MTS Belarus	49%		155,593	49%		119,802
Metrocom (Note 4)	Disposed		-	45%		15,635
Loans to MTS Belarus	-		21,341	-		21,341
Loans to SkyLink	-		34,108	-		5,354
Other investments and loans to investees	Various		25,146	Various		10,704
Total		**$**	**1,266,459**		**$**	**1,108,647**

Investments in shares of energy companies in the Republic of Bashkortostan represent investments in several oil and oil-refining companies. As of June 30, 2007 and December 31, 2006, these investments included:

	Ownership interest
ANK Bashneft	25.8%
Novoil	29.6%
Ufimsky NPZ	27.7%
Ufaneftekhim	28.5%
Ufaorgsintez	26.3%
Bashnefteproduct	27.5%

The aggregate financial position and results of operations of the energy companies in the Republic Bashkortostan as of and for the six months ended June 30, 2007 are as follows:

As of June 30, 2007

Current assets	$	1,748,683
Non-current assets	$	3,277,670
Current liabilities	$	(543,158)
Non-current liabilities	$	(576,149)

For the six months ended June 30, 2007

Revenues	$	2,706,640
Operating income	$	477,597
Net income	$	298,266

The aggregate financial position and results of operations of MTT, MTS Belarus and SkyLink as of and for the six months ended June 30, 2007 are as follows:

As of June 30, 2007

Current assets	$	298,675
Non-current assets	$	1,172,438
Current liabilities	$	582,103
Non-current liabilities	$	580,328

For the six months ended June 30, 2007

Revenues	$	803,944
Operating income	$	160,820
Net income	$	116,252

15. INVESTMENTS IN SHARES OF SVYAZINVEST

The Group continues its evaluation of whether the acquisition of 25% plus one share of Svyazinvest allows the Group to exercise significant influence over this entity, in which case the Group will account for its investment in Svyazinvest under the equity method. In the accompanying consolidated financial statements for the six months ended June 30, 2007, the Group's investment in Svyazinvest is stated at cost of acquisition. Due to a lack of consolidated financial statements of Svyazinvest prepared in accordance with US GAAP as of June 30, 2007 or earlier date, the Group is unable to present summarized information as to assets, liabilities and results of operations of Svyazinvest.

As of the date of these financial statements, the Group has not performed any purchase price allocation in respect of this acquisition.

16. OTHER NON-CURRENT ASSETS

Other non-current assets as of June 30, 2007 and December 31, 2006 consisted of the following:

		June 30, 2007		December 31, 2006
Loans, promissory notes and deposits with third parties	$	160,558	$	121,206
Net investments in leases		95,279		76,034
Long-term receivables		94,218		79,435
Loans, promissory notes and deposits with related parties		51,358		69,282
Investments in shares of Rosno (Note 4)		42,623		-
Restricted cash		34,879		79,331
Mutual investment funds		-		17,035
Other		59,585		23,594
Total	**$**	**538,500**	**$**	**465,917**

Loans and promissory notes from related parties are mostly RUB denominated and interest-free. The majority of such loans and promissory notes mature in the second half of 2008.

Restricted cash as of June 30, 2007 includes cash in the amount of $23.7 million deposited by Uzdunrobita, a subsidiary of MTS, in a special bank account. The cash will be further converted from Uzbek som into USD and used for settlements with suppliers of equipment and software.

Long-term receivables carry interest varying from 0.0% to EURIBOR+1.5%-2.5% per annum and mature from 2008 to 2013.

17. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Term deposits	$ 846,625	$ 670,734
Promissory notes issued	80,665	86,883
Deposits repayable on demand	432,061	269,178
	1,359,351	1,026,795
Less: amounts maturing after one year	(69,294)	(65,200)
Total	**$ 1,290,057**	**$ 961,595**

Bank deposits and notes issued as of June 30, 2007 and December 31, 2006 include deposits from and promissory notes issued to affiliates and other related parties for $15.8 million and $4.5 million, respectively.

The following table presents the effective average interest rates by categories of bank deposits and notes issued as of June 30, 2007 and December 31, 2006:

	June 30, 2007			December 31, 2006		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Term deposits:						
- corporate customers	5.9%	7.5%	6.5%	5.9%	6.6%	5.9%
- individuals	10.1%	8.8%	7.0%	10.3%	8.8%	7.0%
Promissory notes issued	8.8%	9.4%	6.0%	8.3%	9.4%	6.0%
Deposits repayable on demand:						
- corporate customers	2.3%	4.5%	-	2.4%	4.9%	-
- individuals	0.1%	0.1%	0.1%	2.0%	0.5%	0.5%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Dividends payable	$ 418,720	$ 3,468
Payroll and other accrued expenses	406,675	453,753
Customers' advances	377,010	96,679
Bitel liability	170,000	170,000
Accrued interest on loans	109,293	121,951
Tax and legal provisions	24,622	40,344
Payable for purchase of Intracom Telecom shares	-	46,122
Other	190,444	67,081
Total	**$ 1,696,764**	**$ 999,398**

19. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of June 30, 2007 and December 31, 2006 consisted of the following:

	Interest rate (Actual at June 30, 2007)	June 30, 2007	December 31, 2006
USD-denominated:			
Deutsche Bank	8.7%	$ 140,000	$ 140,000
Nomura International	8.5%	100,000	100,000
ABN Amro Bank	LIBOR+1.2% (6.6%)	-	675,000
UBS AG	8.7%	100,000	100,000
Other	Various	20,195	44,359
		360,195	1,059,359
EUR-denominated:			
Societe Generale – Geniki Bank	EURIBOR+1.2% (5.4%)	26,188	25,662
Eurobank	EURIBOR+1.2% (5.4%)	10,758	10,937
Other	Various	16,256	34,279
		53,202	70,878
Borrowings in other currencies:			
Troika Dialog	7.85%	100,712	-
HSBC	PRIBOR+0.5%	46,178	25,900
Sberbank	8.0-12%	40,421	-
ABN Czech	PRIBOR+0.9%	28,930	31,895
Comercni Banca	PRIBOR+0.75%	27,002	3,429
Other	Various	140,709	101,202
		383,952	162,426
Loans from related parties	Various	5,180	4,115
Total		**$ 802,529**	**$ 1,296,778**

Short-term loans and notes payable mature in 2007-2008. The loan from Sberbank is collaterised by fixed assets and finished goods costing $12.1 million.

20. LONG-TERM DEBT

Long-term debt as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Notes and corporate bonds	$ 2,379,230	$ 2,497,838
Loans from banks and financial institutions	3,719,540	3,005,509
Loans from related parties	16,732	23,162
Capital leases	21,125	15,874
Vendor financing	2,334	6,001
Other borrowings	99,801	28,060
	6,238,762	5,576,444
Less amounts maturing within one year	(941,169)	(280,427)
Total	**$ 5,297,593**	**$ 5,296,017**

Notes and corporate bonds as of June 30, 2007 and December 31, 2006 consisted of the following:

	Currency	Interest rate	June 30, 2007	December 31, 2006
Sistema Capital Notes due 2011	USD	8.9%	$ 345,000	$ 350,000
Sistema Finance Notes due 2008	USD	10.3%	310,380	312,471
MTS Finance Notes due 2012	USD	8.0%	400,000	400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
MTS Finance Notes due 2008	USD	9.8%	400,000	400,000
MBRD Loan Participation Notes due 2016	USD	8.9%	60,000	60,000
MBRD Loan Participation Notes due 2008	USD	8.6%	150,000	150,000
MBRD Capital Notes due 2009	USD	8.8%	100,000	100,000
MGTS Bonds due 2010	RUB	8.3%	56,956	55,842
MGTS Bonds due 2009	RUB	7.1%	27,894	27,533
Perm Motors Bonds due 2009	RUB	9.7-9.9%	46,482	-
DMC Bonds due 2015	RUB	8.5%	44,545	43,654
Intourist Bonds due 2010	RUB	9.0%	38,728	-
SITRONICS Finance Bonds due 2009	USD	7.8%	-	200,000
			2,379,985	2,499,500
Less: unamortized discount			(755)	(1,662)
Total notes and corporate bonds			**$ 2,379, 230**	**$ 2,497,838**

Sistema Capital Notes are listed on the London Stock Exchange and Sistema Finance Notes are listed on the Luxembourg Stock Exchange. JSFC Sistema is a guarantor of the notes. The 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 the Group to redeem all of the notes outstanding at 101.0% of the principal amount of the notes plus accrued interest upon any change in control.

Sistema Finance Notes are secured by 193,473,900 shares of common stock of MTS.

MTS Finance Notes are fully and unconditionally guaranteed by MTS. The notes are listed on the Luxembourg Stock Exchange. Subject to certain exceptions and qualifications, the indentures governing MTS's notes contain covenants limiting MTS's ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person or convey its properties and assets to another person; and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101.0% of their principal amount, plus accrued interest. MTS is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by JSFC Sistema. If MTS fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate debt to be immediately due and payable.

MBRD Loan Participation Notes and MBRD Capital Notes are traded on the Luxembourg Stock Exchange. MBRD's notes are subject to certain restrictive covenants including, but not limited to, limitations on mergers, liens and dispositions of assets and transactions with MBRD's subsidiaries and affiliates.

MGTS and DMC bonds are listed on MICEX. The principal of DMC bonds is fully and unconditionally guaranteed by the Moscow City Government. Concurrently, JSFC Sistema has pledged to the Moscow City Government real estate and shareholdings for the amount of approximately $62.8 million. Intourist bonds are listed at MICEX. Perm Motors bonds are listed at MICEX.

Management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of June 30, 2007.

Loans from banks and financial institutions as of June 30, 2007 and December 31, 2006 consisted of the following:

	Maturity	Interest rate (Actual at June 30, 2007)	June 30, 2007	December 31, 2006
USD-denominated:				
Syndicated Loan Facility to MTS	2008-2011	LIBOR+0.8% (6.2%)	$ 860,000	$ 860,000
VTB	2010	8.5%	600,000	600,000
EBRD	2011	LIBOR+3.1% (8.5%)	233,333	250,000
Citibank International plc and ING Bank N.V.	2007-2014	LIBOR+0.3% (5.7%)	140,338	150,208
HSBC Bank plc and ING BHF Bank AG	2007-2013	LIBOR+0.4% (5.8%)	139,085	149,984
Commerzbank AG, ING Bank AG and HSBC Bank plc	2007-2014	LIBOR+0.3% (5.7%)	110,929	118,324
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2007-2014	LIBOR+0.3% (5.7%)	102,621	117,109
Barclays Bank plc	2007-2014	LIBOR+0.2% (5.6%)	92,093	98,672
Vnesheconombank	2008-2009	LIBOR+3.0% (8.4%)	71,132	71,213
Dresdner Bank	2008	LIBOR+1.3% (6.7%)	100,000	50,000
ABN AMRO Bank	2007-2013	LIBOR+0.4% (5.8%)	40,865	44,009
Commerzbank (Eurasia)	2007-2010	LIBOR+3.5% (8.9%)	37,752	42,516
Other	2007-2015	Various	66,579	76,249
			$ 2,594,727	$ 2,628,284
EUR-denominated:				
Syndicated Loan to Intracom Telecom	2007	EURIBOR+1.6% (5.9%)	121,200	121,200
Deutsche Bank AG	2009	EURIBOR+4.0% (8.3%)	107,576	105,360
ING BHF Bank and Commerzbank AG	2007-2009	EURIBOR+0.7% (4.0%)	28,051	34,360
ABN AMRO Bank	2007-2013	EURIBOR+0.4% (3.7%)	30,248	31,921
VTB	2010-2012	EURIBOR+3.8%-5.4% (8.12%-9.7%)	20,189	21,428
Other	2007-2010	Various	30,927	35,417
			$ 338,191	$ 349,686
RUB-denominated:				
Sberbank	2012	7.6%	683,555	-
Raiffeisen	2009	Mosprime+2.75% (6.88%), 9.08%	61,271	-
Alfa- bank	2007-2009	8.5%-15.8%	19,628	-
Other	Various	Various	16,829	5,209
			$ 781,283	$ 5,209
Other currencies	2007-2018	Various	$ 5,339	$ 22,330
Total			**$ 3,719,540**	**$ 3,005,509**

The syndicated Loan Facility to MTS provided by a group of international financial institutions, including The Bank of Tokyo-Mitsubishi UFJ Ltd., Bayerische Landesbank, HSBC Bank plc., ING Bank N.V., Raiffeisen Zentralbank Oesterreich AG and Sumitomo Mitsui Banking Corporation Europe Ltd., is subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with the Group.

The loan facility of $600.0 million from VTB is collateralized by the pledge of 19.9% of the shares of each of Novoil, Ufimsky NPZ, Ufaneftekhim, ANK Bashneft and Ufaorgsintez and 18.6% of Bashnefteproduct. The facility is subject to certain restrictive covenants, including, but not limited to, any merger, consolidation or disposition of assets, which can deteriorate Sistema-Invest's solvency.

The loan facility of $683.6 million from Sberbank is collateralized by the pledge of 25.0% plus one share of Svyazinvest. The facility is subject to certain restrictive covenants, including, but not limited to certain financial ratios, requirements to maintain ownership of Comstar UTS in MGTS above 50% plus one share of voting shares and requirements to maintain ownership of JSFC Sistema in Comstar UTS above 50% plus one share of voting shares.

Other credit facilities provided to MTS by international financial institutions, including (i) EBRD, (ii) Citibank International plc and ING Bank N.V., (iii) HSBC Bank plc and ING BHF Bank AG, (iv) Commerzbank AG, ING Bank AG and HSBC Bank plc, (v) HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank, (vi) Barclays Bank plc and (vii) ABN AMRO Bank, are subject to certain restrictive covenants, including, but not limited to, certain financial ratios and covenants restricting MTS's ability to convey or dispose its properties and assets to another person and limitations on transactions with the Group**.**

The loan from Dresdner Bank is subject to certain covenants, including, but not limited to, covenants restricting JSFC Sistema's ability to convey or dispose its properties and assets to another person.

The Intracom Telecom Syndicated Loan is guaranteed by Intracom Holding S.A. and contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios.

Equipment with approximate carrying value of $41.0 million is pledged to collateralize some of the other loan facilities provided to the Group.

Management believes that the Group is in compliance with all restrictive provisions of loans and credit facilities as of June 30, 2007.

Loans from related parties and vendor financing are denominated in various currencies and primarily are interest free.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on June 30, 2007 is as follows:

Year ended June 30,		
2008	$	941,169
2009		1,607,834
2010		435,226
2011		1,290,717
2012		1,559,536
Thereafter		404,280
Total	**$**	**6,238,762**

***Hedging Transactions* –** In January 2006, MTS entered into a variable-to-fixed interest rate swap agreement with HSBC Bank Plc to hedge MTS's exposure to variability of future cash flows caused by the change in EURIBOR related to the ABN AMRO Bank. MTS agreed with HSBC Bank plc to pay a fixed rate of 3.3% and receive a variable interest of EURIBOR on EUR 26.0 million for the period from April 2006 up to October 2013. As of June 30, 2007, the Group recorded an asset of $1.0 million in relation to the hedge contract in the accompanying consolidated balance sheet and an income of $0.4 million, net of minority interest of $0.4 million and tax of $0.1 million, as other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements.

In 2002, Intracom Holdings S.A. had entered into a swap agreement with Alpha Bank to eliminate the foreign currency exposure risk and to effectively convert a syndicated loan of $121.2 million at a rate of three months LIBOR+1.50% to EUR 118.0 million ($158.7 million as of June 30, 2007) bearing three months EURIBOR+1.59% interest rate. The terms of the swap matched the terms of the underlying debt. The arrangement did not qualify for hedge accounting. In 2005, the loan and the swap were transferred to Intracom Telecom. As of June 30, 2007, the Group recorded a liability of $37.9 million in relation to this instrument in the accompanying consolidated balance sheet and a loss of $6.7 million for the six months ended of June 30, 2007, which was offset by the foreign exchange gain resulted from underlying debt.

In 2006 SITRONICS TS CR entered into several currency swap agreements with ABN-AMRO bank. These arrangements were used to hedge the fair value of the USD and EUR denominated accounts receivable against the effect on earnings of changes in exchange rates until these receivables are settled. The loss from change in fair values of those instruments comprised $1.7 million and is recognized in the income statement for the six months ended of June 30, 2007.

21. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Current portion		
Advances and customers' deposits	$ 430,786	$ 463,134
Connection fees	75,333	89,863
	506,119	552,997
Non-current portion		
Connection fees	129,054	136,861
Total	**$ 635,173**	**$ 689,858**

22. INCOME TAX

The Group's provision for income taxes for the six months ended June 30, 2007 and 2006 was:

	June 30, 2007	June 30, 2006
Current provision	$ 468,511	$ 396,212
Deferred income tax expense/(benefit)	2,883	(42,037)
Total income tax expense	**$ 471,394**	**$ 354,175**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate of 24% to income from continuing operations before income tax and minority interests. The items causing this difference are as follows:

	June 30, 2007	June 30, 2006
Income tax provision computed on income before taxes at statutory rate	$ 329,507	$ 238,574
Adjustments due to:		
Change in valuation allowance	(6,872)	(372)
Other non-deductible items	106,302	64,368
Stock-based compensation non-deductible for tax purposes	23,512	21,787
Non-taxable items	(7,914)	(6,033)
Taxable losses not carried forward	26,622	6,607
Currency exchange and translation differences	680	26,314
Effect of rates different from standard	(443)	2,930
Income tax expense	**$ 471,394**	**$ 354,175**

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

	June 30, 2007	December 31, 2006
Deferred tax assets:		
Property, plant and equipment	$ 163,758	$ 148,439
Accrued expenses	122,592	121,159
Intangible assets	55,893	46,991
Subscriber and customer prepayments	53,836	85,517
Allowance for doubtful accounts and loans receivable	52,143	36,411
Deferred revenues	27,609	27,205
Tax losses carried forward	24,147	6,193
Other	13,452	14,523
	513,430	486,438
Less: valuation allowance	(40,016)	(33,144)
Total deferred tax assets	**$ 473,414**	**$ 453,294**
Deferred tax liabilities:		
Property, plant and equipment	(237,883)	(203,065)
Intangible assets	(188,582)	(198,898)
Undistributed earnings of subsidiaries and affiliates	(102,866)	(59,115)
Debt issuance costs	(17,885)	(19,253)
Other	(68,240)	(39,678)
Total deferred tax liabilities	**$ (615,456)**	**$ (520,009)**
Net deferred tax assets, current	$ 195,079	$ 195,672
Net deferred tax assets, long-term	$ 91,255	$ 73,623
Net deferred tax liabilities, current	$ (85,350)	$ (48,885)
Net deferred tax liabilities, long-term	$ (343,026)	$ (287,125)

Deferred tax assets relating to tax losses carried forward in the amount of $3.1 million as of June 30, 2007, expiring in 2011, are attributable to Intracom Telecom. Deferred tax assets relating to tax losses carried forward in the amount of $11.0 million as of June 30, 2007, expiring in 2017, are attributable to SITRONICS TS CR, the Group made a 100% valuation allowance for it, the remaining amount of deferred tax assets relating to tax losses carried forward is mainly attributable to other companies of the Technology segment, and fully expires by 2017.

The Group does not record a deferred tax liability related to undistributed earnings of its subsidiaries, except for MTS, as it intends to permanently reinvest these earnings. The deferred tax liability on future distributions of MTS is recorded in accordance with MTS dividend policy.

23. POSTRETIREMENT BENEFITS

Intracom Telecom

Intracom Telecom's postretirement benefit obligations relate to a defined benefit plan in accordance with the Greek labor legislation, based on the employees are entitled to indemnity in the event of termination of employment upon dismissal or retirement.

The amount of compensation is based on the number of years of service and the amount of remuneration at the date of dismissal or retirement. If the employees remain in the employment of the Group until normal retirement age, they are entitled to retirement compensation which is equal to 40% of the compensation amount that would be payable if they were dismissed at that time. In addition, Intracom Telecom is required to pay a lump-sum payment equivalent to 14 up to 28 monthly salaries, payable upon death of an employee depending on past service.

Intracom Telecom's postretirement benefit liability is unfunded. The following are the key assumptions used in determining the projected benefit obligation and net periodic benefit cost:

	Six months ended	
	June 30, 2007	**June 30, 2006**
Discount rate	4.1%	4.6%
Future salary increases	4.5%	4.5%

The change in the projected benefit obligation for the six months ended June 30, 2007 and 2006 are presented in the following table:

	June 30, 2007	**June 30, 2006**
Projected benefit obligation, beginning of the period	$ 6,790	$ 4,066
Service cost	341	523
Interest cost	133	253
Plan amendments	(53)	787
Actuarial losses	-	1,085
Benefit payments	(659)	(512)
Currency translation effect	(1,063)	588
Projected benefit obligation, end of the period	**$ 5,489**	**$ 6,790**

The components of the net periodic benefit cost for the six months ended June 30, 2007 and 2006 are as follows:

	June 30, 2007	**June 30, 2006**
Service cost	$ 341	$ 523
Interest cost	133	253
Net periodic benefit cost	**$ 474**	**$ 776**

The future payments to employees under the plan are expected as follows:

Year ended June 30,	
2008	$ 592
2009	645
2010	713
2011	780
2012-2016	2,759
Total	**$ 5,489**

As of June 30, 2007, the long-term portion of post-retirement benefit liabilities amounted to $5.0 million.

MGTS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently the main features under the defined benefit pension program include the following:

Monthly Regular Pension – Employees retiring with at least fifteen years of service receive lifetime payments varying from RUB 3,600 (equivalent of USD 139 as of June 30, 2007) to RUB 50,400 (equivalent of USD 1,952 as of June 30, 2007) per year depending on the employee's actual years of service and qualification;

Death-in-Service – Lump-sum payment of RUB 15,000 (equivalent of USD 581 as of June 30, 2007), payable upon death of an employee, irrespective of past service;

Lump-sum upon Retirement – Lump-sum payment upon retirement of employees with at least five years of service varying from RUB 3,700 (equivalent of USD 143 as of June 30, 2007) to RUB 22,200 (equivalent of USD 860 as of June 30, 2007) depending on the employee's actual years of service;

Monthly Telephone Subsidy – Qualifying pensioners (those who served more than 30 years at MGTS) get 50% subsidy (approximately USD 3.5 per month as of June 30, 2007) for their monthly telephone bills from MGTS;

Death-while-pensioner – MGTS pays lump-sum benefits to relatives of deceased pensioners of up to RUB 10,000 (equivalent of USD 387 as of June 30, 2007).

The Group's contributions to MGTS's plan assets are managed by Pension Fund Sistema, a subsidiary of JSFC Sistema. The following are the key assumptions used in determining the projected benefit obligation and net periodic benefit cost:

	Six months ended	
	June 30, 2007	**June 30, 2006**
Discount rate	6.6%	6.5%
Future salary increases	6.6%	6.5%
Future pension increases	0.0%	0.0%
Average life expectancy of members from date of retirement	17 years	17 years

The change in the projected benefit obligation and the change in plan assets for the six months ended June 30, 2007 and 2006 are presented in the following table:

	June 30, 2007	**June 30, 2006**
Projected benefit obligation, beginning of the period	$ 15,942	$ 16,217
Service cost	(321)	1,315
Interest cost	525	684
Actuarial losses/(gains)	1,550	(1,051)
Benefit payments	(219)	(668)
Currency translation effect	(318)	(487)
Projected benefit obligation, end of the period	17,159	16,010
Fair value of plan assets, beginning of the period	5,760	3,554
Actual return on plan assets	122	(703)
Employer contributions	905	1,639
Benefits paid	(219)	(171)
Fair value of plan assets, end of the period	6,568	4,319
Unfunded status of the plan, end of the period	**$ 10,591**	**$ 11,691**

The accumulated benefit obligation as of June 30, 2007 and December 31, 2006 was $17.2 million and $15.9 million, respectively. The components of the net periodic benefit cost for the six months ended June 30, 2007 and 2006 are as follows:

	June 30, 2007	June 30, 2006
Service cost	$ (321)	$ 1,315
Interest cost	525	684
Net periodic benefit cost	**$ 204**	**$ 1,999**

The Group's management expects contributions to the plan during the year ended June 30, 2008 to amount to $0.4 million.

The future benefit payments to retirees under the defined benefit plan are expected as follows:

Year ended June 30,	
2008	$ 2,351
2009	987
2010	953
2011	923
2012	895
2013-2017	4,482
Total	**$ 10,591**

24. DEFERRED REVENUE

Deferred revenue is comprised of plant and equipment contributions and grants received by the Group as of June 30, 2007 and December 31, 2006 were as follows:

	June 30, 2007	December 31, 2006
Deferred revenue at the beginning of the period	$ 129,120	$ 125,700
Contributions received during the period	1,780	5,616
Currency translation effect	2,566	11,442
	133,466	142,758
Deferred revenue amortized	(2,205)	(3,996)
Effect of acquisitions	(502)	(9,642)
Deferred revenue at the end of the period	**$ 130,759**	**$ 129,120**

25. PUTTABLE SHARES OF SITRONICS

In September 2006, SITRONICS entered into a subscription agreement with European Bank for Reconstruction and Development ("EBRD") pursuant to which SITRONICS issued 293,476,990 new common shares which were acquired by EBRD for a total cash consideration of $80.0 million. As a result, EBRD became a holder of a 3.67% stake in SITRONICS. In addition, JSFC Sistema and EBRD entered into a shareholders' agreement pursuant to which JSFC Sistema agreed, for the duration of the agreement, not to reduce its ownership interest in SITRONICS to less than 50.0%+1 share without the prior consent of EBRD. Furthermore, if JSFC Sistema decides to sell its controlling interest in SITRONICS, it must offer EBRD the opportunity to sell its shares on the same terms.

In addition, if JSFC Sistema contemplates a purchase of additional shares in SITRONICS, either existing or newly issued, EBRD must be given the opportunity to participate in such a purchase on a pro rata basis, unless such purchase is necessary or desirable for the success of an initial public offering of SITRONICS' shares. The Group has the right of first refusal if EBRD decides to divest its interests in

SITRONICS. EBRD also agreed not to sell any of its shares for 180 days following the initial public offering of SITRONICS' shares. The term of the agreement extends up to two years after the date of the offering, except in certain circumstances.

In addition, simultaneously with the subscription agreement and the shareholders' agreement, JSFC Sistema entered into a put option agreement with EBRD pursuant to which EBRD has the right to sell to JSFC Sistema all of its shares in SITRONICS under certain circumstances during the period of up to two years after the date of the public offering. If EBRD exercises its put option, Sistema will pay EBRD approximately $80.0 million plus (1) interest at a rate of 10.0% per annum if the value of SITRONICS' shares is between $1.6 billion and $2.1 billion upon the completion of the offering or; (2) interest at the LIBOR+2.5% (7.9% as of June 30, 2007) per annum if the value of SITRONICS' shares is less than $1.6 billion or more than $2.1 billion upon the completion of the offering.

26. SHARE CAPITAL

At January 1, 2006, JSFC Sistema had 9,650,000 voting common shares issued and outstanding with a par value of RUB 90.0.

In March and October 2006, and May and June 2007, the Group purchased 5.0% of its own outstanding common stock for a total cash consideration of $497.1 million. The acquired shares are intended for the funding of a share option program for Sistema's top management, the terms of which have not been finalized yet, and may also be used in connection with certain future acquisition activities.

In June 2007, JSFC Sistema declared dividends for the year ended December 31, 2006, amounting to $17.9 million.

In June 2007, the Group sold 0.1% of the shares of JSFC Sistema to the Group's top manager for a total cash consideration of $0.03 million. The fair value of the shares amounted to approximately $13.7 million. The Group has recorded compensation costs of $13.7 million as a component of selling, general and administrative expenses.

27. SEGMENT INFORMATION

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

The Group's operating segments are: Telecommunications, Technology, Banking, Real Estate, Mass Media, Retail and Corporate and Other. The Group's management evaluates the performance of the segments based on both operating income and income from continuing operations.

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the six months ended June 30, 2007 and 2006 is as follows:

For the six months ended June 30, 2007	**Telecom-munications**	**Technology**	**Banking**	**Mass Media**	**Real Estate**	**Retail**	**Corporate and Other**	**Total**
Net sales to external customers [a]	4,380,876	551,525	165,156	42,980	71,349	192,368	501,695	5,905,949
Intersegment sales	4,511	86,794	8,763	11,198	58,422	15	9,237	178,940
Equity in net income of investees	58,154	16	-	6,715	(74)	-	81,355	146,166
Interest income	23,701	10,744	-	610	12,524	24	35,876	83,479
Interest expense	(101,929)	(28,484)	-	(1,532)	(3,200)	(6,144)	(87,368)	(228,657)
Net interest revenue [b]	-	-	17,152	-	-	-	-	17,152
Depreciation and amortization	(691,223)	(27,147)	(2,632)	(6,758)	(6,054)	(3,763)	(13,912)	(751,489)
Operating income/(loss)	1,584,013	(65,716)	14,520	1,158	(97,057)	(16,076)	(8,535)	1,412,307
Income tax (expense)/benefit	(405,369)	(2,070)	(5,539)	(387)	(10,241)	334	(24,765)	(448,037)
Income/(loss) from continuing operations before minority interests	1,131,923	(75,897)	8,981	(933)	(93,607)	(20,386)	12,407	962,488
Investments in affiliates	339,508	239	-	13,454	2,403	-	924,309	1,279,913
Segment assets	14,224,350	1,709,113	3,289,492	382,345	1,013,538	343,746	4,885,751	25,848,335
Indebtedness [c]	3,808,409	424,120	446,892	32,396	363,849	176,160	1,789,465	7,041,291
Capital expenditures	564,406	55,657	59,308	17,963	99,278	43,925	32,763	873,300

For the six months ended June 30, 2006	**Telecom-munications**	**Technology**	**Banking**	**Mass Media**	**Real Estate**	**Retail**	**Corporate and Other**	**Total**
Net sales to external customers [a]	3,292,847	547,520	73,120	33,397	102,765	117,903	167,865	4,335,417
Intersegment sales	4,505	149,084	14,708	12,181	3,771	19	26,631	210,899
Equity in net income of investees	43,686	16	-	-	-	-	115,039	131,123
Interest income	29,766	3,828	-	97	841	771	10,119	45,422
Interest expense	(100,807)	(16,382)	-	(1,422)	(2,599)	(3,104)	(50,538)	(174,852)
Net interest revenue [b]	-	-	13,181	-	-	-	-	13,181
Depreciation and amortization	(575,994)	(18,192)	(1,130)	(7,099)	(1,735)	(891)	(7,218)	(612,259)
Operating income/(loss)	975,077	62,405	8,620	2,823	42,692	(8,321)	37,792	1,121,088
Income tax (expense)/benefit	(279,658)	(13,515)	(4,894)	(1,728)	(5,294)	274	(29,391)	(334,206)
Income/(loss) from continuing operations before minority interests	628,216	37,064	3,726	(239)	30,662	(9,654)	72,518	762,293
Investments in affiliates	258,019	-	17,749	5,100	-	-	771,289	1,052,157
Segment assets	11,742,137	1,580,357	1,904,791	303,460	393,009	164,693	2,701,704	18,790,151
Indebtedness [c]	(3,417,379)	(519,737)	(350,938)	(30,956)	(42,017)	(55,089)	(1,286,861)	(5,702,977)
Capital expenditures	881,182	41,266	3,354	20,642	42,540	8,953	8,928	1,006,865

(a) – Interest income and expenses of the Banking segment 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.

The reconciliation of segment operating income to the consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests and reconciliation of assets to the consolidated segment assets are as follows:

	Six months ended June 30, 2007	**Six months ended June 30, 2006**
Total segment operating income	$ 1,412,307	$ 1,121,088
Intersegment eliminations	15,594	(113,989)
Interest income	43,795	30,003
Change in fair value of derivative financial instruments	(26,500)	-
Interest expense	(217,675)	(165,511)
Currency exchange and translation gain	63,965	7,390
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$ 1,291,486**	**$ 878,981**

	June 30, 2007	June 30, 2006
Total segment assets	$ 25,848,335	$ 18,790,151
Intersegment eliminations	(3,384,148)	(1,497,420)
Consolidated assets	**$ 22,464,187**	**$ 17,292,731**

For the six months ended June 30, 2007 and 2006, the Group's revenues outside of the RF were as follows:

	June 30, 2007	June 30, 2006
Ukraine	$ 1,069,605	$ 914,153
Greece	187,260	217,875
Central and Eastern Europe	102,413	149,210
Other	126,408	53,262
Total	**$ 1,485,686**	**$ 1,334,500**

As of June 30, 2007 and December 31, 2006, the Group's long-lived assets located outside of the RF were as follows:

	June 30, 2007	December 31, 2006
Ukraine	$ 1,937,287	$ 1,805,084
Greece	253,092	129,392
Central and Eastern Europe	167,609	81,290
Other	23,676	274,711
Total	**$ 2,381,664**	**$ 2,290,477**

For the six months ended June 30, 2007 and 2006, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

28. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the six months ended June 30, 2007 and 2006, the Group entered into transactions with related parties as follows:

	June 30, 2007	June 30, 2006
Sale of goods and services	$ (93,150)	$ (39,587)
Telecommunication services provided	(53,574)	(7,873)
Revenues from financial services	(2,851)	(3,534)
Telecommunication services purchased	66,448	73,878
Insurance premiums received	-	(862)
Purchases of goods for resale	56,680	1,878
Other	6,457	12,992

Related party balances as of June 30, 2007 and December 31, 2006 are disclosed in the corresponding notes to the financial statements.

29. STOCK BONUS AND STOCK OPTION PLANS

Comstar UTS

In September 2006, Comstar UTS approved a stock option and stock bonus program for the Board of Directors and top management of Comstar UTS. In order to fund the program, in September 2006, Comstar UTS approved the share buyback of up to 4.5% of the total number of shares issued in the form of GDRs to be completed by December 31, 2009.

From the launch of the program on October 30, 2006 to June 30, 2007 Comstar UTS acquired 10,746,761 shares issued in the form of GDRs, or 2.6% of its total issued shares, for a total cash consideration of approximately $73.9 million.

In November 2006, Comstar UTS approved the grant of options to certain members of its Board of Directors and top management. The exercise price for these options is RUB 122 (approximately $4.7 as of June 30, 2007) per share. These stock options vest in November 2008.

The following table summarizes information about non-vested common stock options during the six months ended June 30, 2007:

	Shares	Exercise price (per share), USD	Fair value of options (per share), USD
Outstanding as of January 30, 2007	3,343,525	4.7	3.16
Granted	-	-	-
Exercised	-	-	-
Forfeited	(835,881)	4.7	-
Outstanding as of June 30, 2007	**2,507,644**	**4.7**	**3.16**

The fair value of options granted during the six months ended June 30, 2007 was estimated using the binomial option pricing model using the following assumptions:

Risk-free rate	4.82%
Expected dividend yield	-
Expected volatility	38.1%
Expected life (years)	2

MTS

In 2000, MTS established a stock bonus plan and stock option plan for selected officers, key employees and key advisors. During its initial public offering in 2000, MTS allotted 9,966,631 shares of it’s common stock to fund its option plan.

Since 2002, MTS made grants pursuant to its stock option plan to employees and directors of MTS. These options generally vest over a two year period from the date of the grant, contingent upon the continued employment of the grantee with MTS. A summary of the status of MTS's option plan is presented below:

	Shares	Weighted average exercise price (per share), USD	Weighted average fair value of options (per share), USD	Aggregate intrinsic value, thousands of USD
Outstanding as of January 1, 2006	3,187,240	6.47	2.02 $	2,455
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(212,193)	6.60	1.93	(146)
Outstanding as of June 30, 2006	2,975,047	6.46	2.02 $	2,309
Granted	-	-	-	-
Exercised	(639,357)	5,95	2,36	(695)
Forfeited	(900,689)	6.15	2.23	(871)
Outstanding as of January 1, 2007	1,435,001	6.89	1.74 $	743
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(287,590)	6.89	1.74	(158)
Outstanding at June 30, 2007	1,147,411	6.89	1.74 $	585

As of June 30, 2007, the Group had the following stock options outstanding:

Exercise price, USD	Number of shares	Remaining weighted average life (years)
6.89	1,147,411	0.04

All options outstanding as of June 30, 2007 vested at July 15, 2007.

The fair value of MTS options was estimated using the binomial option pricing model using the following assumptions:

Risk-free rate	4.7%
Expected dividend yield	3%
Expected volatility	40.0%
Expected life (years)	2

Sistema Hals

In June 2007, Sistema-Hals granted stock bonuses of 403,815 shares (3.6% of total issued shares) to senior management (280,427 shares – 2.5% of total issued shares), and directors (123,388 shares – 1.1% of total issued shares). The fair value of the awards as of the grant date was $68.0 million and $29.9 million, respectively, and was included in operating expenses for the six months ended June 30, 2007.

Stock options entitle participants to acquire a specific number of shares of Sistema-Hals, at a price determined and agreed in advance. Sistema-Hals reserved 235,560 shares (2.1% of total issued shares) for the stock option and stock bonus program. Options will be granted to the participants during the following 4 years in equal amounts each year. The vesting period of the options is one year.

In July 2007, Sistema-Hals granted stock options for 47,672 shares (0.325% of total issued shares) to certain members of senior management. The exercise price for these options is 205 US Dollars per share. These stock options vest in July 2008.

SITRONICS

In April 2007, the Board of Directors of SITRONICS established a stock option plan for 23 selected officers and key employees of SITRONICS, where they can buy up to 747,742,688 shares, representing 7.83% of the share capital, from SITRONICS, contingent upon the continued employment of the grantees with SITRONICS or, in some cases, with the Group. According to the terms of the plan, grantees are entitled to buy option shares in four instalments, representing 1/6 of the total amount due to each person during the years 2007, 2008 and 2009, and the remaining 1/2 of the total amount in 2010. The exercise price is 1 RUB per share. All the participants of this plan are restricted from selling their shares until 2010.

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 operating leases in effect as of June 30, 2007, are as follows:

Year ended June 30,		
2008	$	67,345
2009		60,862
2010		55,614
2011		44,060
2012		43,616
Thereafter		10,296
Total	**$**	**281,793**

Operating Licenses – In connection with the provision of telecommunication services, the Group has been issued various operating licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group was granted access to various telecommunication licenses through acquisitions. Licenses to the foreign subsidiaries of the Group are granted by the local communication authorities.

Each of the MTS' licenses, except for the licenses covering the Moscow license area and Uzbekistan, contains a requirement for service to be commenced and for subscriber number and territorial coverage targets to be achieved by a specified date. MTS has met these targets or received extensions to these dates in those regional license areas in which MTS has not commenced operations.

The Group’s operating licenses do not provide for automatic renewal. However, licenses that expired during the six months ended June 30, 2007 were renewed. The Group has limited experience with the renewal of its existing licenses. Management believes that licenses required for the Group’s operations will be renewed upon expiration.

Management believes that the Group is in compliance with all material terms of its licenses.

Capital Commitments – As of June 30, 2007, MTS had executed non-binding purchase agreements in the amount of approximately $311.4 million to subsequently acquire property, plant and equipment.

Sistema-Hals has contracted for construction works and other general construction expenditures under its development projects. Aggregate commitments under these contracts amounted to $78.5 million as of June 30, 2007. In addition, in connection with one of these projects, Sistema-Hals undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 sq.m. of residential housing.

Sistema-Hals has obligations to manage a number of construction projects which will be completed subsequent to the balance sheet date. The Moscow City Government has the obligation to finance these construction projects, Sistema-Hals generating commissions based on the agreed upon budget cost of the project.

As of June 30, 2007, Intracom Telecom had executed non-binding purchase agreements in the amounts of approximately EUR 81.2 million (equivalent of $108.9 million) to subsequently acquire inventories and services.

Other Commitments – MBRD guaranteed loans for several companies, including related parties, which totaled $43.6 million as of June 30, 2007. EWUB issued guarantees to several companies and individuals, which totaled $7.5 million as of June 30, 2007.

The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of June 30, 2007, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of $6.7 million as of June 30, 2007) for each newly-founded bank. As of June 30, 2007, MBRD's share capital amounted to 998.0 million RUB (equivalent to $38.5 million as of June 30, 2007)

Operating Environment – The Russian and Ukrainian economies, while deemed to be of market status, continue to display certain traits consistent with that of emerging markets. 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 currencies to be illiquid outside of Russia and Ukraine. The continued success and stability of the Russian and Ukrainian economies will be subject to the respective governments' continued actions with regard to supervisory, legal, and economic reforms.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with the local regulatory environment including, but not limited to, hard currency sale on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is represented by a loss from currency translation transactions in Turkmenistan in the amount of $24.3 million which is recognized as other non-operating expense in the Group's consolidated statement of operations for the six months ended June 30, 2007.

Industry Regulations – The new Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. The Group has incurred approximately $45.1 million and $30.3 million in USF charges for the six months ended June 30, 2007 and 2006, respectively, which are recorded in other operating expenses.

Construction and development of real estate in Russia is primarily governed by the Civil Code, the Federal Land Code, the City Construction Code, the Federal Law on the State Registration of Rights to Immovable Property and Transactions Therewith, construction norms and regulations approved by the Ministry of Industry and Energy, and others. Construction and development involves compliance with burdensome regulatory requirements, and authorizations from a large number of authorities at the federal, regional and local levels. In particular, the Federal Agency on Construction, Housing and the Communal Sector, or Rosstroi, the Federal Service for Supervision in the Sphere of Use of Natural Resources, the Federal Service on Ecological, Technologic and Nuclear Supervision and regional bodies of the state architectural and construction supervision are involved in the process of authorizing and supervising real estate development. In addition, construction is subject to all applicable environmental, fire safety and sanitary norms and regulations.

Sistema-Hals is constructing a number of cottages without obtaining the necessary construction permits. However, management is in the process of addressing this issue and does not foresee that this will adversely affect the Group's financial position or results of operations.

Taxation – Russia and Ukraine currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), UST, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's 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 are 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 June 30, 2007, tax declarations of the Group for the preceding three fiscal years were open for further review.

There are regulatory uncertainties in Ukrainian legislation related to treatment for VAT purposes of contributions payable to the Ukrainian State Pension Fund ("Pension Fund") in respect of the cash paid for the consumption of telecommunication services by customers. The additional VAT charges (including penalties) calculated on the Pension Fund contributions could be up to $13.4 million. UMC has litigated this in a court and has received favorable rulings from the courts of three instances.

Also, there are risks of mutual clearing in the sphere of FEA (foreign economic activity) (net – mutual clearing of international roaming with roaming partners). Mutual clearing of counter-obligations with non-residents is considered as a barter transaction according to recently published comments of the Ukrainian State Tax Authority. Furthermore, according to the Law of Ukraine "State Budget 2006" the VAT amount paid (calculated) for goods derived or services provided should not be included in the amount of VAT receivable, but should be treated as gross expense in the case of a barter transaction.

In January 2007, the U.S. Internal Revenue Services ("IRS") started auditing BCTI's compliance with U.S. Federal tax legislation for the year ended December 31, 2004. As of the date of these statements, the audit has not been finalized and no official assessment has been issued by the IRS. Based on the preliminary findings of the audit, the Group's consultants have assessed that the potential income tax exposure for the years 2003-2006 could be up to $28.3 million. The Group's management has assessed its maximum potential liability equals up to $3.3 million and that amount was recognized in the Group's balance sheet as of June 30, 2007 and December 31, 2006.

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 differing positions with regard to interpretive issues and the effect could be significant.

Other Contingencies -In the ordinary course of business, the Group may be party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Group operates. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

31. SUBSEQUENT EVENTS

Acquisitions

In September 2007, the Group has acquired a 10% stake in Shyam Telelink Ltd., an Indian telecommunications operator, for a cash consideration of $11.4 million. Shyam Telelink Ltd. obtained a unified license to provide fixed-line and wireless services to corporate and residential customers in the Indian state of Rajasthan, with a population of approximately 62 million people. The Company also controls 100% of the local internet service provider.

In September 2007, MTS has acquired an 80% stake in International Cell Holding Ltd, 100% indirect owner of CJSC K-Telecom, Armenia's largest mobile phone operator, and signed a call and put option agreement for the remaining 20% stake to be exercised no earlier than July 2010. CJSC K-Telecom operates under the VivaCell brand in the GSM-900/1800 standard covering the entire territory of Armenia.

In September 2007, Sistema-Hals has acquired a 75% stake in Gorki-8, which owns more than 35,000 sq. m. of real estate and near 90,000 sq. m. of land in the district of Rublevsko-Uspenskoe highway, one of the most expensive and prestigious Moscow suburbs. The cash consideration amounted $100.4 million.

In August 2007, the Group completed the acquisition of a 20% stake in Dalcombank, a commercial bank based in the Far East of Russia, for a total cash consideration of $8.3 million.

Other

In July 2007, the Board of Directors of SITRONICS approved two Ruble-denominated bond issues in the amount of RUB 3 billion (approximately $115.8 million) and RUB 2 billion (approximately $77.2 million), respectively, to be issued later in 2007. On September 25, 2007, SITRONICS issued its first ruble-denominated bonds. The 3-year RUB 3 billion issue was priced at 100%, with an annual coupon of 10%, and a put option after 1.5 years at which time the coupon rate could be reset. Coupon payments will be made on a semi-annual basis.

In August 2007, Sistema-Hals signed an agreement with VTB for a loan facility of $500 million for the period of 5 years with effective interest rate of 8.5% per annum. These credit resources will be used to refinance loans from Deutsche Bank AG, Nomura International plc and UBS AG, as well as to finance the company's current investment program. As of the reporting date the loan amount was fully received by Sistema-Hals.

In September 2007, the Board of Directors of JSFC Sistema approved the split of the nominal value of the Company’s ordinary shares by 1,000 times. As a result of the share split, JSFC Sistema’s share capital of RUB 868,500,000 will comprise 9,650,000,000 ordinary shares with a par value of RUB 0.09 per share.