JSFC SISTEMA AND SUBSIDIARIES

Independent Accountants' Review Report

Consolidated Financial Statements
as of June 30, 2006 (unaudited)
and December 31, 2005
and for the six months ended
June 30, 2006 and 2005 (unaudited)

JSFC SISTEMA AND SUBSIDIARIES

TABLE OF CONTENTS

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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, 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the six months ended June 30, 2006 and 2005. 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 accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

September 25, 2006

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2006	December 31, 2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 1,214,368	$ 482,647
Short-term investments	6	952,738	594,196
Loans to customers and banks, net	7	1,015,999	451,395
Insurance-related receivables	8	220,606	149,589
Accounts receivable, net	9	996,618	442,643
Prepaid expenses, other receivables and other current assets, net	10	713,938	578,152
VAT receivable		398,830	495,191
Inventories and spare parts	11	688,610	482,909
Deferred tax assets, current portion	25	162,267	123,681
Total current assets		6,363,974	3,800,403
Property, plant and equipment, net	12	6,789,681	5,876,124
Advance payments for non-current assets		319,885	233,761
Investments in affiliates	13	1,047,057	914,203
Other investments	14	150,000	150,000
Goodwill	2	530,032	330,932
Licenses, net	15	518,651	615,042
Other intangible assets, net	16	954,352	886,272
Loans to customers and banks, net of current portion	7	221,974	117,107
Debt issuance costs, net	23	83,547	82,662
Deferred tax assets, net of current portion	25	73,019	33,472
Other non-current assets	17	240,559	50,872
TOTAL ASSETS		$ 17,292,731	$ 13,090,850

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2006	December 31, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 828,412	$ 594,816
Bank deposits and notes issued	18	573,425	496,829
Insurance-related liabilities	19	606,079	412,328
Taxes payable		186,628	125,474
Deferred tax liabilities, current portion	25	48,475	28,149
Subscriber prepayments, current portion	24	497,937	472,673
Accrued expenses and other current liabilities	20	1,143,844	520,671
Short-term notes payable	21	314,925	637,769
Current portion of long-term debt	23	536,091	520,310
Total current liabilities		4,735,816	3,809,019
LONG-TERM LIABILITIES:			
Capital lease obligations, net of current portion	22	8,384	6,682
Long-term debt, net of current portion	23	4,837,823	3,202,629
Subscriber prepayments, net of current portion	24	161,424	163,897
Deferred tax liabilities, net of current portion	25	298,798	237,916
Post-retirement benefit obligation	26	13,625	16,217
Total long-term liabilities		5,320,054	3,627,341
Deferred revenue	27	133,691	125,700
TOTAL LIABILITIES		10,189,561	7,562,060
Minority interests in equity of subsidiaries		3,160,813	2,295,147
Commitments and contingencies	31	-	-
SHAREHOLDERS' EQUITY:			
Share capital (482,500,000 and 9,650,000 shares issued as of June 30, 2006 and December 31, 2005, respectively, with par value of 1.8 ruble and 90 rubles, respectively)	28	30,057	30,057
Treasury stock (2,228,200 shares with par value of 1.8 ruble as of June 30, 2006)	28	(50,892)	-
Additional paid-in capital	3,4	1,886,568	1,479,743
Retained earnings		1,996,376	1,696,276
Accumulated other comprehensive income		80,248	27,567
TOTAL SHAREHOLDERS' EQUITY		3,942,357	3,233,643
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 17,292,731	$ 13,090,850

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	June 30, 2006	June 30, 2005
Sales		$ 4,262,297	$ 3,144,208
Revenues from financial services		335,662	215,842
TOTAL REVENUES		4,597,959	3,360,050
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,865,658)	(1,217,934)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(232,387)	(166,238)
TOTAL COST OF SALES		(2,098,045)	(1,384,172)
Selling, general and administrative expenses		(924,914)	(574,392)
Depreciation and amortization		(614,479)	(480,590)
Other operating expenses, net		(87,375)	(13,531)
Equity in net income of investees		43,838	34,356
Net gain/(loss) on disposal of interests in subsidiaries and affiliates	4	121,600	(452)
OPERATING INCOME		1,038,584	941,269
Interest income		30,381	35,712
Interest expense, net of amounts capitalized		(165,511)	(122,491)
Currency exchange and translation loss		(788)	(12,157)
Income before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		902,666	842,333
Income tax expense	25	(335,954)	(260,626)
Equity in net income of energy companies in the Republic of Bashkortostan, net of income tax effect of $27,618	13	87,461	-
Income before minority interests		654,173	581,707
Minority interests		(344,095)	(354,052)
NET INCOME		$ 310,078	$ 227,655
Other comprehensive income/(loss):			
Unrealized gain on securities available for sale, net of income tax effect of $163 and $nil, respectively		585	307
Change in fair value of interest rate swaps, net of income tax effect of $360 and $245, respectively		1,520	(776)
Translation adjustment, net of minority interest of $36,157 and $4,530, respectively, and income tax effect of $nil	2	50,576	(11,798)
Comprehensive income		$ 362,759	$ 215,388
Weighted average number of common shares outstanding	28	481,342,813	464,944,750
Earnings per share, basic and diluted		$ 0.64	$ 0.49

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. dollars)

	June 30, 2006	June 30, 2005
OPERATING ACTIVITIES:		
Net income	$ 310,078	$ 227,655
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	614,479	480,590
Loss on disposal of property, plant and equipment	1,516	15
(Gain)/loss on disposal of interests in subsidiaries	(121,600)	452
Non-cash compensation to employees	90,778	-
Minority interests	344,095	354,052
Equity in net income of investees	(131,299)	(34,356)
Deferred income tax benefit	(65,238)	(41,873)
Provision for doubtful accounts receivable	59,923	30,704
Allowance for loan losses	14,669	(444)
Inventory obsolescence charge	6,361	1,752
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(87,350)	(353,315)
Loans to banks	(356,816)	(89,839)
Insurance-related receivables	(62,295)	(54,228)
Accounts receivable	(253,447)	(106,221)
VAT receivable	97,555	(37,490)
Other receivables and prepaid expenses	(111,106)	(146,327)
Inventories	(69,847)	(37,483)
Accounts payable	110,640	132,212
Insurance-related liabilities	180,405	167,152
Subscriber prepayments	22,791	37,916
Taxes payable	50,472	53,310
Accrued expenses and other liabilities	35,638	(269)
Post-retirement benefit obligation	(2,592)	801
Net cash provided by operations	677,810	584,766
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(878,984)	(836,849)
Purchases of intangible assets	(120,667)	(136,276)
Purchases of businesses, net of cash acquired	(394,880)	(55,405)
Purchases of long-term investments	(1,679)	(64,304)
Purchases of other non-current assets	(60,878)	(3,804)
Purchases of short-term investments	(410,336)	(687,515)
Proceeds from sale of short-term investments	124,910	54,809
Proceeds from sale of property, plant and equipment	2,281	2,500
Proceeds from disposal of interests in subsidiaries and affiliates	65,387	100
Net increase in loans to customers	(303,966)	(40,094)
Net cash used in investing activities	(1,978,812)	(1,766,838)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)
(Amounts in thousands of U.S. dollars)

		June 30, 2006		June 30, 2005
FINANCING ACTIVITIES:				
Principal payments on short-term borrowings, net		(451,171)		(143,966)
Net increase/(decrease) in deposits from customers		40,125		(16,257)
Net increase in bank promissory notes issued		36,471		2,709
Proceeds from capital transactions of subsidiaries		979,343		-
Purchase of treasury stock		(50,892)		-
Proceeds from long-term borrowings, net of debt issuance costs		1,703,194		878,724
Principal payments on long-term borrowings		(222,737)		(236,494)
Principal payments on capital lease obligations		(1,610)		(5,017)
Proceeds from issuance of common stock		-		1,284,649
Net cash provided by financing activities	$	2,032,723	$	1,764,348
INCREASE IN CASH AND CASH EQUIVALENTS	$	731,721	$	582,276
CASH AND CASH EQUIVALENTS, beginning of the period		482,647		503,747
CASH AND CASH EQUIVALENTS, end of the period	$	1,214,368	$	1,086,023
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	(165,335)	$	(96,286)
Income taxes	$	(317,911)	$	(274,969)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	-	$	3,322
Equipment acquired through vendor financing	$	2,000	$	2,533
Equipment acquired under capital leases	$	5,214	$	2,568

In addition, non-cash investing activities for the six months ended June 30, 2006 and 2005 included acquisitions of subsidiaries, as described in Note 3.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (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, 2005	**$ 25,090**	**$ -**	**$ 198,882**	**$ 1,164,404**	**$ 47,610**	**$ 1,435,986**
Issuance of common stock (Note 28)	4,967	-	1,279,682	-	-	1,284,649
Unrealized gain on securities available for sale, net of income tax effect of nil	-	-	-	-	307	307
Change in fair value of interest rate swaps, net of income tax effect of $245	-	-	-	-	(776)	(776)
Translation adjustment, net of minority interest of $4,530 and income tax of nil (Note 2)	-	-	-	-	(11,798)	(11,798)
Dividends declared	-	-	-	(8,752)	-	(8,752)
Net income	-	-	-	227,655	-	227,655
Balances at June 30, 2005	**$ 30,057**	**$ -**	**$ 1,478,564**	**$ 1,383,307**	**$ 35,343**	**$ 2,927,271**
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 $36,157 and income tax of nil (Note 2)	-	-	-	-	50,576	50,576
Dividends declared (Note 28)	-	-	-	(9,978)	-	(9,978)
Net income	-	-	-	310,078	-	310,078
Balances at June 30, 2006	**$ 30,057**	**$ (50,892)**	**$ 1,886,568**	**$ 1,996,376**	**$ 80,248**	**$ 3,942,357**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are held by owners of GDRs on JSFC Sistema common stock and by certain top executives or former top executives of the Group.

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

Operating Entities	Short Name	Principal activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless 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
Insurance Segment:		
Rosno and subsidiaries	Rosno	Medical, property, casualty, life and personal insurance and reinsurance, administration of state medical insurance programs
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities and foreign currency transactions, lease operations
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	Production and distribution of periodicals, publishing activities, broadcasting, advertising
Retail Segment:		
Detsky Mir-Center and subsidiaries	DM-Center	Retail trading in Moscow and other Russian cities
Detsky Mir and subsidiaries	Detsky Mir	Management and rent of retail stores
Other businesses:		
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
Financial Fleurus Holding S.A. and subsidiaries	Sistema International	Investing in real estate projects, financing activities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The beneficial ownership interest of JSFC Sistema and proportion of voting power of the Group in the significant subsidiaries as of June 30, 2006 and December 31, 2005 are as follows:

Operating entities	**Ownership interest**		**Proportion of voting power**	
	June 30, 2006	**December 31, 2005**	**June 30, 2006**	**December 31, 2005**
MTS and subsidiaries:	53%(1)	53%(1)	53%	53%
Ukrainian Mobile Communications ("UMC")	53%(1)	53%(1)	100%	100%
SCS-900	Merged(2)	53%(1)	Merged(2)	100%
FECS-900	Merged(2)	53%(1)	Merged(2)	100%
Uraltel	Merged(2)	53%(1)	Merged(2)	100%
Recom	53%(1)	53%(1)	100%	100%
BM-Telecom	Merged(2)	53%(1)	Merged(2)	100%
TAIF Telecom	Merged(2)	53%(1)	Merged(2)	100%
Sibchallenge	Merged(2)	53%(1)	Merged(2)	100%
Tomsk Cellular Communications	Merged(2)	53%(1)	Merged(2)	100%
Primtelefon	53%(1)	53%(1)	100%	100%
Uzdunrobita	39%(1)	39%(1)	74%	74%
Gorizont RT	Merged(2)	53%(1)	Merged(2)	100%
Telesot-Alania	53%(1)	53%(1)	100%	100%
Barash	53%(1)	53%(1)	100%	100%
Comstar-UTS and subsidiaries:	59%(1)	100%(1)	100%	100%
MGTS	31%(1)	46%(1)	53%	56%
MTU-Inform	59%(1)	99%(1)	100%	99%
Telmos	59%(1)	100%(1)	100%	100%
MTU-Intel	77%(1)	100%(1)	100%	100%

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

Operating entities	Ownership interest		Proportion of voting power	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
Golden Line	77%(1)	100%(1)	100%	100%
Tyumenneftegazsvyaz	44%(1)	75%(1)	89%	89%
SITRONICS and subsidiaries:	88%(1)	78%	88%	78%
Intracom Telecom	45%(1)	-	51%	-
STROM telecom	88%(1)	78%(1)	100%	100%
Kvazar-Micro	45%(1)	40%(1)	51%	51%
Mikron	69%(1)	60%(1)	78%	77%
Rosno	49%	49%(1)	51%	51%
MBRD	95%(1)	95%(1)	99%	99%
Sistema-Hals	100%(1)	100%(1)	100%	100%
Sistema Mass Media	100%	100%	100%	100%
DM-Center	100%	100%	100%	100%
Detsky Mir	75%(1)	75%(1)	75%	75%
Intourist	66%	72%	66%	72%
Concern RTI	100%	100%	100%	100%
Financial Fleurus	100%	100%	100%	100%

(1) – Including indirect ownership
(2) – Subsidiaries of MTS merged into MTS in April 2006

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

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 Russian Federation and Ukraine. Laws and regulations affecting businesses operating in the Russian Federation 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 currency of MGTS, Rosno, MBRD, macro-region South of MTS, Russian subsidiaries of SITRONICS, Detsky Mir, DM-Center, Sistema Mass Media and Concern RTI is the Russian ruble ("RUR"). The functional currency of UMC is the Ukrainian Hryvnia ("UAH"), the functional currency of STROM telecom is the Czech Krona and the functional currency of Intracom Telecom is Euro ("EUR"). The functional currencies of Kvazar-Micro's subsidiaries are the local currencies of the countries of their domiciliation, with the exception of Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, whose functional currency is the U.S. dollar ("USD"). Management believes that U.S. dollar is the functional currency for the other subsidiaries of the Group due to the pervasive use of the U.S. dollar in their operations.

The Group has selected the USD as its reporting currency and translates financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation adjustment gain in the amount of $50.6 million for the six months ended June 30, 2006 and translation adjustment loss in the amount of $11.8 million for the six months ended June 30, 2005, net of minority interest of $36.2 million and $4.5 million, respectively, were recorded as a separate component of other comprehensive income.

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 Group's network and (vii) equipment sales. The Group records revenues over the periods they are earned as follows:

(i) Revenues derived from wireless and 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. MTS calculates an average expected term of the subscriber relationship for each region in which it operates and amortizes regional connection fees accordingly. Average expected subscriber life ranges 12 to 60 months. The customer relationship period for residential wireline voice phone subscribers is 15 years. For all other categories of subscribers, except for residential subscribers of broadband Internet services, the customer relationship period is estimated at 3 to 5 years. Average expected subscriber life for residential subscribers of broadband Internet services was 3 years in the six months ended June 30, 2005. Effective July 1, 2005, the Group changed its estimates of average subscriber lives for residential subscribers of the broadband Internet services from 3 years to 1 year.

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

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

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

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

Local telephone services, provided by MGTS, totaling approximately 4% of the consolidated revenues for the six-month periods ended June 30, 2006 and 2005, are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service approval.

Technology Segment

The Technology Segment of the Group earns revenues from (i) manufacturing and distribution of IT and telecommunication equipment, consumer electronics and other electronic devices, and semiconductor products; (ii) manufacturing and distribution of software products; and (iii) systems integration services. The Group records revenues over the periods they are earned as follows:

(i) Revenues from manufacturing and distribution of equipment and semiconductor products are recognized when the product has been delivered, risk of loss has passed to the buyer, collection of the resulting receivable is probable, persuasive evidence of an arrangement exists, and the price to the buyer is fixed or determinable. Because of frequent sales price reductions and rapid technology obsolescence in the Technology Segment, sales made to dealers under agreements allowing price protection and/or right of return are deferred until the dealers sell the merchandise.

The Group enters into arrangements with certain manufacturers and distributors of consumer electronics devices to perform assembly of their products at the Group's facilities. In those cases where the Group buys components from and subsequently sells the assembled devices to the same counterparty, the Group records only the net amount retained as its revenues.

(ii) The Technology Segment's arrangements with end users of its telecommunication and other software products include sales of software licenses, as well as installation, training and post-contract support services. These arrangements are accounted for in accordance with the AICPA Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", and SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts".

The Group recognizes revenues on separate elements of the contracts in the long-term arrangements when all the following conditions exist: (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 his obligations under the contract; (c) the Group can be expected to perform its contractual obligations.

If the projects are segmented, revenues are assigned to the different elements or phases to achieve different rates of profitability based on the relative value of each element or phase to the estimated total contract revenues, if the following criteria are met: (a) the terms and scope of the contract or project clearly call for separable phases or elements; (b) the separable phases or elements of the project are often bid or negotiated separately; (c) the market assigns different gross profit rates to the segments because of factors such as different levels of risk or differences in the relationship of the supply and demand for the services provided in different segments; (d) the contractor has a significant history of providing similar services to other customers under separate contracts for each significant segment to which a profit margin higher than the overall profit margin on the profit is ascribed; (e) the significant history with customers who have contracted for services separately is one that is relatively stable in terms of pricing policy; (f) the excess of the sum of the prices of the separate elements over the price of the total project is clearly attributable to cost savings incident to combined performance of the contract obligations; (g) the similarity of services and prices in the contract segments and services and the prices of such services to other customers contracted separately are verifiable.

If the projects are not segmented, but the delivered elements satisfy the separate recognition criteria, the aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each element of an arrangement are recognized as revenue when the following criteria have been met: (a) a written contract for the delivery of an element has been executed, (b) the Group has delivered the product to the customer, (c) the fee receivable is fixed or determinable, and (d) collectibility of the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as services are performed.

During the six months ended June 30, 2006 and 2005, the Group did not sell installation, training or post-contract support services, as well as upgrades or enhancements to existing software products, separately from other elements of its software arrangements. The vendor-specific objective evidence of fair value of installation, training and post-contract support services, as well as upgrades or enhancements to existing products, has been established by management having the relevant authority. The management believes that it is probable that the established price (based on rates per hour) for such services will not change before their separate introduction into the marketplace.

(iii) The Group’s arrangements with its customers 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: (a) the delivered items have value to the customer on a standalone basis; (b) there is objective and reliable evidence of the fair value of the undelivered items; (c) 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 fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Real Estate Segment

The Real Estate Segment of the Group earns revenues from (i) real estate development, (ii) project and construction management, (iii) asset management and investments, (iv) facilities management. The Group 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 81-1").

When the Group 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 Group's receivable is not subject to future subordination; d) the Group 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 we are 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.

In those instances, when the Group 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 Group 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 Group carries the projects at cost. The Group does not recognize revenue on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made.

(ii) The Group provides project and construction management services to municipal governments on certain socially important infrastructure projects. The Group's remuneration for such services was 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 Group's services under such contracts do not transfer to the Group full risks and rewards associated with the projects. Therefore, the Group 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.

(iii) Revenues from asset management and investments 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.

Insurance Segment

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

Banking Segment

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

The other Group's segments 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 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, 2006 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, 2006 ranged from 95.4% to 103.6% of the principal amount. As of June 30, 2006, fair value of other fixed rate debt, including capital lease obligations and of variable rate debt approximated carrying value.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, the Group entered into several variable-to-fixed interest rate and cross currency interest rate swap agreements to manage its exposure to changes in fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate and currency fluctuations (Note 23). The Group also entered into several short-term USD forward agreements to hedge the fair value of its investments in Ruble-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" and FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". All derivatives, including some embedded derivatives, are measured at fair value and recognized as either assets or liabilities on balance sheets. MTS' interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense when the hedged debt affects the interest expense. Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges.

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

From time to time, MBRD enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets. During the six months ended June 30, 2006 and 2005, the Group did not enter into significant repo or reverse repo agreements.

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

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

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

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

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

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

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

Cost of raw materials includes cost of purchase, customs duties, transportation and handling costs. Work in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads. 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.

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.

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

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

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

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 present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to learn 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 have a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under FAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of June 30, 2006, 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) purchase price allocated to licenses acquired in business combinations (Note 3) and (b) licenses purchased directly from government organizations, which require license payments.

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed annually for impairment or whenever it is determined that the impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No material impairment of goodwill was identified in the six months ended June 30, 2006.

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

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

	Telecom-munications	Insurance	Mass Media	Corporate and Other	Total
Balance as of January 1, 2005	$ 172,365	$ 1,341	$ -	$ 635	$ 174,341
Purchase price allocation	49,396	-	-	-	49,396
Balance as of June 30, 2005	221,761	1,341	-	635	223,737
Purchase price allocation	107,195	-	-	-	107,195
Balance as of December 31, 2005	328,956	1,341	-	635	330,932
Purchase price allocation	88,351	6,250	104,499	-	199,100
Balance as of June 30, 2006	**$ 417,307**	**$ 7,591**	**$ 104,499**	**$ 635**	**$ 530,032**

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

Acquired customer bases are amortized over the estimated average subscriber life from 12 to 60 months. Deferred telephone numbering capacity costs with limited contractual life and the rights to use premises are being amortized over their contractual lives, which vary from 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 the operating income. In other cases the Group's share in net income is shown after the income tax provision and before income from continuing operations.

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. Management periodically assesses realizability of the carrying values of such investments and records impairment charges, if required.

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

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans. Debt issuance costs amounted to $125.4 million and $82.7 million, net of accumulated amortization of $43.6 million and $28.7 million as of June 30, 2006 and December 31, 2005, 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 occurred relating to the Group's investments in long-lived assets during the six months ended June 30, 2006.

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

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

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

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

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

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

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

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. 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. Income tax rate in the Ukraine, Greece and in the Czech Republic equals 25%, 25% and 26%, respectively.

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

Stock-Based Compensation – The Group accounts for stock options issued to employees and non-employee directors following the requirements of FAS No. 123R, "Accounting for Stock-Based Compensation" and FAS No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure, an amendment to FASB Statement No. 123." Under the requirements of these statements, before January 1, 2006, MTS used the intrinsic value of options on the measurement date as a method for accounting for compensation to employees and non-employee directors. Effective January 1, 2006, MTS adopted the provisions of FAS No. 123R using a modified version of prospective application. Under this transition method, compensation cost is recognized on or after the effective date for the portion of outstanding awards for which the requisite services has not yet been rendered, based on the grant date fair value of those awards previously calculated under FAS No. 148 for pro forma disclosures.

If the Group had elected to recognize compensation costs based on the fair values of options at the date of the grant, net income and earnings per share amounts for the six months ended June 30, 2005 would not change materially.

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

Retirement and Post-Retirement Benefits – 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, Czech Republic and Greece, the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to pension fund, unemployment fund and social security fund. The contributions are expensed as incurred.

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 26). The Group accounts for pension plans following the requirements of FAS No. 87, "Employers' Accounting for Pensions" and FAS No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106".

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, 2006 and 2005 amounted to $32.0 million and $36.7 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the six months ended June 30, 2006 and 2005 were $161.0 million and $101.1 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the six months ended June 30, 2006 and 2005. Diluted EPS reflect the potential dilution of MTS' stock options granted to employees.

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

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

In May 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and FAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". FAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. FAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for the Group from January 1, 2006.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the “lease term” should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group’s financial position and results of operations.

In October 2005, the FASB issued FASB Staff Position (“FSP”) FAS No. 13-1, “Accounting for Rental Costs Incurred during a Construction Period”. Under the provisions of FSP FAS No. 13-1, lessees may not capitalize rental costs incurred on building or ground operating leases during a construction period. Instead, rental costs should be expensed on a straight-line basis starting at the beginning of the lease term, i.e., when the lessee takes possession of or is given control of the leased property. The provisions of FSP FAS No. 13-1 are effective for the Group for the year ending December 31, 2006. The adoption of FSP FAS No. 13-1 did not have a material impact on the Group’s financial position and results of operations.

New Accounting Pronouncements – In February 2006, the FASB issued 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. 140, ‘Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. FAS No. 155 addresses application of FAS No. 133 to beneficial interests in securitized financial assets and permits to remeasure fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, requires to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, amends FAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument, and clarifies certain other derivatives classification issues. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that starts after September 15, 2006, and is not expected to have a material impact on the Group’s financial position and results of operations.

In March 2006, the FASB issued FAS No. 156, “Accounting for Servicing of Financial Assets”. FAS No. 156 amends FAS No. 140 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement clarified and amended the measurement methods and principles of recognition of mortgage and other servicing assets and liabilities. FAS No.156 is effective beginning the first fiscal year after September 15, 2006. The Group does not anticipate that this Statement will have a material impact on the Group’s financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”, of SFAS No. 109, “Accounting for Income Taxes”. The Interpretation applies to all tax positions that are within the scope of SFAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. The Interpretation establishes a “more-likely-than-not” recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. The Interpretation 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.

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

Reclassifications – Certain other reclassifications of prior years' amounts have been made to conform to the presentation adopted for the six months ended June 30, 2006.

3. ACQUISITIONS

Intracom Telecom Acquisition

In June 2006, SITRONICS acquired 51.0% of common shares of Intracom Telecom for $150.6 million (equivalent of EUR 120.0 million), of which $106.7 million was paid in cash in June 2006 and $43.9 million was recorded as a liability as of June 30, 2006. The amount due will be finalized and become payable upon completion of independent audit of Intracom Telecom. Intracom Telecom is a provider of telecommunications solutions and services, such as advanced technological products in the areas of fixed and wireless broadband access and transmission systems, as well as content delivery systems (IPTV, triple-play), primarily in the Eastern Europe and Middle East.

SITRONICS also entered into a put option with the other shareholder of Intracom Telecom to acquire the remaining 49.0% of common shares of Intracom Telecom.

The exercise period of the put option is 36 months following a 24 months period after the acquisition date. The agreement stipulates that the purchase price will be agreed by the parties, or will be equal to the fair value as determined by the independent appraiser.

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

Current assets	$	547,071
Non-current assets, net of allocated access of fair value over cost		189,751
Customer base costs		7,613
Deferred taxes		19,820
Current liabilities		(297,828)
Non-current liabilities		(158,499)
Minority interest		(157,364)
Purchase price	**$**	**150,564**

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

Cosmos Hotel Acquisition

In March 2006, Intourist purchased a 20.0% of common shares of Cosmos Hotel for approximately $20.8 million. Upon completion of this transaction, Intourist became a controlling shareholder of Cosmos Hotel with the voting power of 63.4%.

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

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

Current assets	$	15,650
Non-current assets, net of allocated excess of fair value over cost		52,554
Deferred taxes		(9,448)
Current liabilities		(9,373)
Minority interest		(7,019)
Carrying value of the Group's investments in Cosmos Hotel as of the date of acquisition		(21,614)
Purchase price	**$**	**20,750**

Acquisition of Minority Interest in MGTS

In February and March 2006, Comstar UTS completed several transactions on acquisition of MGTS' common stock under unconditional purchase offers. As a result of these transactions, Comstar UTS purchased 8.03% minority stake in MGTS for a total cash consideration of $129.9 million, increasing its ownership in MGTS to 53.0%.

The acquisition was accounted for using the purchase method. The preliminary allocation of purchase price resulted in recognition of goodwill in the amount of $66.1 million. Goodwill is mainly attributable to economic potential of the market. The purchase price allocation for this acquisition has not been yet finalized as of the date of these financial statements.

United Cable Network Acquisition

In February 2006, Sistema Mass Media acquired 100.0% shares of JIR Broadcast and JIR Inc., holders of 100.0% stock in United Cable Networks ("UCN"), for a total cash consideration of $145.9 million, including the refinancing of the debt previously obtained by JIR Broadcast and JIR Inc. UCN is a pay TV and broadband service provider in Russia, operating in 17 metropolitan areas throughout Russian Federation with 724,000 subscribers.

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

Current assets	$	9,133
Non-current assets		21,683
Customer base cost		26,000
Goodwill		104,499
Deferred taxes		(6,240)
Current liabilities		(4,104)
Non-current liabilities		(5,071)
Purchase price	**$**	**145,900**

Customer base is amortized over the average remaining subscriber's life of approximately 8 years. Goodwill is mainly attributable to economic potential of the markets where UCN is operating. The purchase price allocation for this acquisition has not been yet finalized at the date of these financial statements.

Other Acquisitions

In June 2006, Comstar-UTS purchased 100.0% stake in Astelit, an alternative wireline telecommunication operator, for a cash consideration of $7.8 million. Astelit provides integrated wireline services for corporate customers. Astelit has a package of licenses, which enables the operator to provide its services across 51 Russian regions.

In June 2006, Intourist purchased 51.0% share in Mir Otdykha for a cash consideration of $1.4 million. Mir Otdyha owns a 100.0% shares of Skyway, a travel operator.

In March 2006, Concern RTI purchased a 50.0%+1 share in UralElektro and 100.0% share in UralElektro-K for a cash consideration of $5.4 million. Both companies are producers of electronic equipment.

In March 2006, Detsky Mir completed acquisition of 99.0% stake in Tireks Development, an owner of a 30.0% minority share in Dom Igrushki, a subsidiary of the Group, for a cash consideration of $2.4 million.

In February 2006, Rosno acquired a 51.0% stake in Medexpress, provider of voluntary medical insurance in the north-western region of the RF, for a cash consideration of $6.6 million. The allocation of purchase price resulted in recognition of goodwill in the amount of $6.3 million. The Group plans to develop Medexpress operations and use its distribution facilities as an additional channel for sale of Rosno products.

In January 2006, Sistema Mass Media acquired GK Sendi, an internet provider in Nizhny Novgorod, and Informservice, a cable television operator in the same region, for a cash consideration of $6.3 million. The Group intends to use the companies' assets for the development of digital TV network.

4. DISPOSITIONS OF INTERESTS IN SUBSIDIARIES AND AFFILIATES AND CAPITAL TRANSACTIONS OF SUBSIDIARIES

In February 2006, Comstar UTS completed its initial public offering ("IPO") of 139,000,000 newly issued shares, and in addition, the Group sold 7,500,000 ordinary shares, in the form of global depository receipts ("GDRs"), with each GDR representing 1 share of common stock. The total proceeds from Comstar UTS' IPO and subsequent sale amounted to $1,060 million. The transaction resulted in increase of the Group's additional paid-in capital of $418.1 million and gain from disposal of interest in subsidiaries of $25.8 million. As a result of the IPO the Group's effective ownership in Comstar UTS decreased from 100.0% to 59.1%.

In March 2006, 5% of SITRONICS' common shares were sold to Sistema's CEO for a total cash consideration of $14.0 million with a deferral of payment for up to 4 years. The fair value of the shares amounted to approximately $105.0 million. The Group has recorded compensation costs of $91.0 million and gain from disposal of an interest in a subsidiary of approximately the same amount. Following the transaction, the Group's effective ownership in SITRONICS decreased from 93.0% to 88.2%.

In May 2006, the Group sold its 50% interest in Regiony, an affiliate operating in the real estate business for the total cash consideration of $3.1 million. The transaction resulted in gain on disposal of $3.6 million.

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

In June 2006, the Group sold its ownership in Gazeta Metro, a subsidiary operating in the media business for the total cash price of $1.9 million. The transaction resulted in gain from disposal of $1.9 million.

In June 2006, Intourist, issued additional stock to the Group and to the Moscow Government. Moscow Government contributed its 100% stake in Pekin Hotel with a fair value of $62.8 million. The transaction resulted in a decrease of the Group's additional paid-in capital by $2.5 million and decrease in the Group's ownership in Intourist from 72% to 66%.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $815.0 million and $154.2 million as of June 30, 2006 and December 31, 2005, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities less 90 days. Within this amount, $1.9 million and $2.4 million as of June 30, 2006 and December 31, 2005, respectively, represent the Group's deposits with East-West United Bank, an affiliate of the Group. As of June 30, 2006 and December 31, 2005, the Group had $6.7 million and $17.1 million, respectively, in current accounts with East-West United Bank.

Also included in cash as of June 30, 2006 and December 31, 2005, are $30.5 million and $19.6 million, respectively, which represent the MBRD's minimum reserve deposit, required by the Central Bank of Russian Federation.

6. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Trading securities:		
RF Eurobonds	$ 32,028	$ 5,013
Corporate bonds	206,709	206,655
Municipal bonds	97,422	54,959
Corporate shares	30,462	16,414
Other trading securities	22,284	16,588
	388,905	299,629
Other short-term investments:		
Promissory notes and deposit certificates from third parties	128,450	135,099
Promissory notes from and loans to related parties	34,418	49,162
Bank deposits with original maturities exceeding 90 days	345,482	104,649
Other short-term investments	55,483	5,657
	563,833	294,567
Total	**$ 952,738**	**$ 594,196**

Corporate bonds denominated in RUR represent bonds issued by major Russian companies with maturity dates from 2006 to 2009 and coupon rates of 7-20% per annum.

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

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

The weighted average interest rate on promissory notes from third parties as of June 30, 2006 was 11% as compared to 8% on December 31, 2005, while promissory notes from related parties bear interest of 9% to 11% as of June 30, 2006, and as of December 31, 2005 they were mostly interest free.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of June 30, 2006 were 8% for RUR-denominated deposits and ranged from 2% to 12% on deposits in U.S. dollars and Euros. Included in bank deposits as of June 30, 2006 and December 31, 2005 are deposits with East-West United Bank equivalent to $25.2 million and $46.5 million, respectively, bearing interest of 2%.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Loans to customers	$ 916,845	$ 589,521
Loans to banks	438,240	81,424
	1,355,085	670,945
Less allowance for loan losses	(117,112)	(102,443)
Less amounts maturing after one year	(221,974)	(117,107)
Loans to customers and banks, current portion	**$ 1,015,999**	**$ 451,395**

Loans to customers as of June 30, 2006 and December 31, 2005 include loans to related parties of $69.2 million and $47.8 million, respectively. Management anticipates no losses in respect of these amounts.

8. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Receivables from insurance operations	$ 171,466	$ 102,422
Advances to health care providers	49,140	47,167
Total	**$ 220,606**	**$ 149,589**

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

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Trade receivables	$ 1,073,035	$ 512,217
Less: provision for doubtful accounts	(76,417)	(69,574)
Total	**$ 996,618**	**$ 442,643**

Included in trade receivables as of June 30, 2006 and December 31, 2005 are receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $45.5 million and $30.0 million, respectively. Management anticipates no losses in respect of receivables from related parties.

10. 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, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Prepaid expenses and advances to suppliers	$ 346,832	$ 369,078
Security deposit under repurchase agreement	-	42,000
Prepaid taxes	54,582	39,868
Deferred policy acquisition costs	64,609	31,122
Restricted cash	20,145	8,503
Uzdunrobita put-call option	6,898	5,956
Receivables for sale of Mikron shares	4,253	4,870
Advance for purchase of Perm Motors group (Note 32)	25,513	-
Other	199,439	80,674
Less: provision for doubtful accounts	(8,333)	(3,919)
Total	**$ 713,938**	**$ 578,152**

Policy acquisition costs' amortization charge for the six months ended June 30, 2006 and 2005 was $58.1 million and $36.5 million, respectively.

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

11. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Raw materials and spare parts	$ 347,598	$ 171,026
Work in-progress	75,939	142,572
Finished goods and goods for resale	191,910	131,959
Costs and estimated earnings in excess of billings on uncompleted contracts	73,163	37,352
Total	**$ 688,610**	**$ 482,909**

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Land	$ 30,601	$ 16,792
Buildings and leasehold improvements	954,450	740,786
Switches, transmission devices, network and base station equipment	4,569,905	4,182,957
Other plant, machinery and equipment	873,322	689,884
Construction in-progress and equipment for installation	2,301,558	1,766,778
	8,729,836	7,397,197
Less: accumulated depreciation	(1,940,155)	(1,521,073)
Total	**$ 6,789,681**	**$ 5,876,124**

Depreciation expense for the six months ended June 30, 2006 and 2005, amounted to $405.2 million and $286.7 million, respectively.

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

13. INVESTMENTS IN AFFILIATES

Investments in affiliates as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006		December 31, 2005	
	Voting power, %	Carrying value	Voting power, %	Carrying value
Shares of energy companies in the Republic of Bashkortostan	Various	$ 751,944	Various	$ 636,865
MTT	50%	91,869	45%	73,984
MTS Belarus	49%	93,954	49%	66,288
Cosmos Hotel	Consolidated	Consolidated	42%	21,614
East-West United Bank	49%	17,749	49%	17,749
Metrokom	45%	14,029	45%	12,774
ZETA Telecom	49%	5,457	49%	6,338
Cosmos TV	50%	4,100	50%	4,100
Sky Link	50%	-	50%	3,200
Loans to MTS Belarus	-	41,341	-	41,341
Acquired debt of Cosmos TV	-	1,000	-	1,000
Loans to Sky Link	-	16,826	-	16,809
Other investments and loans to investees	Various	8,788	Various	12,141
Total		**$ 1,047,057**		**$ 914,203**

Investments in shares of energy companies in the Republic of Bashkortostan represent investments in several oil and oil-refining companies, including 25.0% share in ANK Bashneft, 28.2% share in Novoil, 25.5% share in Ufimsky NPZ, 22.4% share in Ufaneftekhim and 24.9% share in Ufaorgsintez.

Investments in affiliates include $41.3 million in loans to MTS Belarus bearing interest at 3% to 11% per annum. Based on projected cash flows of MTS Belarus, the Group has concluded that no impairment of the Group's investments in MTS Belarus is required as of June 30, 2006.

14. OTHER INVESTMENTS

In December 2005, MTS acquired a 51.0% stake in Tarino Limited ("Tarino") for $150.0 million in cash. Tarino was at that time the indirect owner, through its wholly-owned subsidiaries, of Bitel LLC, a Kyrgyz company holding a GSM-900/1800 license for the entire territory of Kyrgyzstan.

Concurrently with the purchase of 51.0% stake, MTS entered into a put and call option agreement with the shareholder of Tarino to acquire the remaining 49.0% interest in Tarino. The call option is exercisable by the Group from November 2005 to November 2006, and the put option is exercisable by the seller from November 2006 to December 2006. The call and put option price is $170.0 million. In the consolidated balance sheet the put and call option was recorded at fair value, which approximated nil at June 30, 2006 and December 31, 2005.

After a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's offices were seized by a third party. The Group could not re-gain operating control over Bitel's operations in 2005 and therefore accounted for its 51.0% investment in Bitel at cost as of December 31, 2005.

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

On March 3, 2006, Mr. Glenn Harrigan, the court-appointed receiver of Fellowes International Holdings Limited ("Fellowes"), a British Virgin Islands corporation, which alleges rights on Bitel, filed a claim with the Supreme Court of the Kyrgyz Republic seeking a review and reversal of the Supreme Court's ruling of December 15, 2005, in favor of Fellowes upholding a first instance court's decision, whereby the shares in Bitel were transferred to Fellowes. Mr. Harrigan seeks a reversal of the Kyrgyz Supreme Court ruling on the grounds that the persons who had represented Fellowes before the Kyrgyz Supreme Court were not authorized to represent Fellowes. Fellowes is not affiliated with MTS. MTS will continue to vigorously assert its rights with respect to Bitel in the courts of Kyrgyzstan.

Currently, MTS is working with Tarino Limited's 49% shareholder to recover ownership and operational control of Bitel. Also, there is on-going litigation in the British Virgin Islands and arbitration in the United Kingdom related to Tarino's ownership of Bitel. These matters are likely to be subject of continued and/or new legal disputes and litigation, including concerning the agreements with respect to Tarino Limited. It is not possible at this time to predict the outcome or resolution of any such disputes or litigation; however, MTS believes that its position is meritorious.

As of June 30, 2006, the Group did not re-gain operating control over Bitel's operations and therefore continued to account for its investment in Bitel at cost. The Group's management believes that no impairment of its investment in Bitel has occurred as of June 30, 2006.

15. LICENSES, NET

Licenses, net of accumulated amortization, as of June 30, 2005 and December 31, 2004 consisted of the following:

	June 30, 2006	December 31, 2005
Operating licenses	$ 1,012,140	$ 1,000,390
Less: accumulated amortization	(493,489)	(385,348)
Total	**$ 518,651**	**$ 615,042**

Amortization expense for licenses for the six months ended June 30, 2006 and 2005 amounted to $103.7 million and $102.0 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended June 30,	
2007	$ 176,366
2008	138,204
2009	87,013
2010	36,840
2011	32,585
Thereafter	47,643
Total	**$ 518,651**

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.

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

16. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses, net of accumulated amortization, as of June 30, 2005 and December 31, 2004 consisted of the following:

	June 30, 2006			December 31, 2005		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Acquired customer base	$ 256,430	(144,156)	112,274	$ 200,931	$ (121,876)	$ 79,055
Radio frequencies	131,042	(47,781)	83,261	130,839	(31,227)	99,612
Numbering capacity with finite contractual life, rights to use premises, software and other	1,007,749	(401,833)	605,916	901,812	(339,463)	562,349
	1,395,221	(593,770)	801,451	1,233,582	(492,566)	741,016
Unamortized intangible assets:						
Numbering capacity with indefinite contractual life	24,545	-	24,545	19,080	-	19,080
Trademarks	128,356	-	128,356	126,176	-	126,176
Total intangible assets	**$ 1,548,122**	**(593,770)**	**954,352**	**$ 1,378,838**	**$ (492,566)**	**$ 886,272**

Amortization expense recorded on other intangible assets for the six months ended June 30, 2006 and 2005 amounted to $105.6 million and $91.8 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended June 30,	
2007	$ 222,935
2008	200,441
2009	165,466
2010	106,135
2011	31,513
Thereafter	74,961
Total	**$ 801,451**

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.

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

17. OTHER NON-CURRENT ASSETS

Other non-current assets as of June 30, 2006 and December 31, 2005 consisted of the following:

		June 30, 2006		December 31, 2005
Loans, promissory notes and deposits with related parties	$	26,226	$	15,265
Loans, promissory notes and deposits with third parties		9,409		5,423
Mutual investment funds		13,400		11,168
Long-term receivables		91,764		-
Net investment in the lease		41,835		6,563
Other		57,925		12,453
Total	**$**	**240,559**	**$**	**50,872**

Loans and promissory notes from related parties are mostly RUR-denominated and interest free. Majority of such loans and promissory notes mature in 2008.

Long-term receivables carry an interest of EURIBOR+1.5%-2.5% at Intracom Telecom and of 8% at SITRONICS.

18. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of June 30, 2006 and December 31, 2005 consisted of the following:

		June 30, 2006		December 31, 2005
Term deposits	$	390,434	$	294,711
Promissory notes issued		148,259		111,788
Deposits repayable on demand		34,732		90,330
Total	**$**	**573,425**	**$**	**496,829**

Bank deposits and notes issued as of June 30, 2006 and December 31, 2005 include deposits from and promissory notes issued to related parties for $2.0 million and $1.9 million, respectively.

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

19. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Unearned premium provision, net of reinsurance	$ 321,682	$ 167,446
Loss provision, net of reinsurance	126,863	89,571
Undisbursed GFOMI funds	90,889	80,071
Other insurance-related liabilities	66,645	75,240
Total	**$ 606,079**	**$ 412,328**

Usage of GFOMI funds, in the amount of $90.9 million, accumulated and undisbursed by Rosno as of June 30, 2006, is limited to payments for medical facilities and care provided to RF citizens by medical centers under GFOMI's obligatory medical insurance program.

20. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Payroll and other accrued expenses	$ 406,096	$ 236,454
Accrued interest on loans	90,904	77,746
Customers' advances	156,001	46,974
Current portion of capital lease obligations (Note 22)	7,277	3,220
Dividends payable	283,480	2,137
Payable for purchase of Intracom Telecom shares	43,915	-
Tax and legal contingencies	30,626	35,020
Other current liabilities	125,545	119,120
Total	**$ 1,143,844**	**$ 520,671**

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

21. SHORT-TERM NOTES PAYABLE

Short-term notes payable as of June 30, 2006 and December 31, 2005 consisted of the following:

	Currency	Annual interest rate (Actual at June 30, 2006)	June 30, 2006	December 31, 2005
Citibank N.A., ING Bank N.V. and Raiffeisen AG	USD	LIBOR+0.8%-2.3% (5.3-6.8%)	100,000	200,000
Societe Generale – Geniki Bank	EUR	EURIBOR+1.5% (4.7%)	28,984	-
National Bank of Greece	EUR	EURIBOR+1.0% (4.2%)	17,189	-
Emporiki Bank	EUR	EURIBOR+1.3% (4.5%)	15,684	-
Alfa Bank	EUR	EURIBOR+1.0% (4.2%)	15,492	-
HypoVereins Bank	EUR	EURIBOR+0.8% (4.0%)	12,986	-
Piraeus Bank	EUR	EURIBOR+1.1% (4.3%)	11,041	-
Promsvyazbank	RUR	12%-14.0%	10,756	-
Eurobank	EUR	EURIBOR+1.1% (4.3%)	10,414	-
Vneshtorgbank	USD	12.8%	10,000	-
ING Bank N.V.	USD	LIBOR+0.8% (4.5%)	-	150,000
Deutsche Bank	USD	LIBOR+1.9% (5.6%)	-	132,000
ABN Amro Bank	USD	LIBOR+3.0% (6.7%)	-	49,816
Donau-Bank	USD	9.0%	-	34,230
Commerzbank Eurasia	USD	LIBOR+5.0% (8.7%)	-	20,000
Dresdner Bank	USD	LIBOR+1.3% (5.0%)	-	14,000
Loans and promissory notes payable to related parties	Various	Various	24,328	6,943
Other	Various	Various	58,051	30,780
Total			**$ 314,925**	**$ 637,769**

Citibank N.A., ING Bank N.V. and Raiffeisen AG – In December 2005, UMC signed an agreement with Citibank N.A., ING Bank N.V. and Raiffeisen Zentralbank Osterreich AG, for a $200.0 million aggregated loan facility to be made available in two tranches of $103.0 million and $97.0 million. Each tranche was payable in four equal installments within a year after the signing date. These funds were used for general corporate purposes, including financing of capital expenditure and refinancing of existing indebtedness. The amount outstanding under the first tranche is guaranteed by MTS.
The first and the second tranches bear interest at LIBOR+0.8% and LIBOR+2.3% (5.3% and 6.8% as of June 30, 2006) per annum, respectively. The commitment fee is calculated on a daily basis at the rate of 45% of the applicable margin established for each tranche. As of December 31, 2005, the outstanding balances under the loan were $103.0 million and $97.0 million, respectively. The loan is subject to certain restrictive covenants including financial ratios and covenants limiting MTS' ability to convey or dispose its properties and assets. Management believes that as of June 30, 2006, MTS is in compliance with all existing covenants. In March 2006, MTS guaranteed the amount outstanding under the second tranche and the lenders agreed to reduce the interest rate applicable to it to LIBOR+0.8% per annum. As of June 30, 2006 and December 31, 2005, the outstanding balances under the loan facility were $100.0 million and $200.0 million, respectively.

Promsvyazbank – In March 2006, Yaroslavl Radioplant and NIIDAR, the subsidiaries of Concern RTI entered into several loan agreements with Promsvyazbank. The loans bear interest from 13.0% to 14.0% and mature in December 2006 and March 2007. The amount outstanding under these loans was $7.5 million as of June 30, 2006.

In March 2006, SITRONICS entered into a loan agreement with Promsvyazbank. The loan bear interest of 12.0% per annum and mature in March 2007. The outstanding balance under the loan was $3.3 million as of June 30, 2006.

Vneshtorgbank – In January 2006, Intourist entered into a loan agreement with Vneshtorgbank for the amount of $10.0 million. The loan bears interest at 12.8% per annum and matures in June 2007.

ING Bank N.V. – In November 2005, MTS Finance entered into a credit facility agreement with ING Bank N.V. which allowed it to borrow up to $150.0 million. The loan bore interest of LIBOR+0.8% (4.5% as of June 30, 2006) per annum. The arrangement fee totaled $0.8 million. The loan was subject to certain restrictive covenants including, but not limited to, certain financial ratios. The facility was fully repaid in May 2006.

Deutsche Bank – In December 2005, in connection with the planned Comstar-UTS initial public offering, the Group entered into a share repurchase transaction with Deutsche Bank AG to sell 30,530,000 shares of Comstar-UTS in accordance with the terms of the Global Master Repurchase Agreement for the amount of $132.0 million. The interest rate on the loan was determined as LIBOR+1.9% (5.6% as of June 30, 2006) per annum. The shares were repurchased by the Group in February 2006.

ABN Amro Bank – In August 2005, several subsidiaries of SITRONICS entered into loan agreements with ABN Amro Bank limited to $50.0 million. The interest rate on the loans was LIBOR+3.0% (6.7% as of June 30, 2006) per annum. The loans were subject to certain restrictive covenants, including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions to pay dividends, any merger, consolidation or disposition of assets and compliance with certain financial ratios. The loans were fully repaid as of June 30, 2006.

Donau-Bank – In April 2005, several subsidiaries of SITRONICS entered into two loan agreements with Donau-Bank, all of them bearing interest of 9.0% per annum. The outstanding balance under these loans as of December 31, 2005 was $34.2 million. The loans were fully repaid as of June 30, 2006.

Commerzbank Eurasia – In November 2003, Sistema-Hals entered into a loan agreement with Commerzbank Eurasia for the amount of $20.0 million. The loan bore interest at LIBOR+5% (8.7% as of June 30, 2006) and was due in March 2005. The loan was extended to March 2006 and was fully repaid as of June 30, 2006.

Dresdner Bank – In December 2004, JSFC Sistema entered into a loan agreement with Dresdner Bank for the amount of $14.0 million bearing interest of LIBOR+1.3% (5.0% as of June 30, 2006) per annum. The loan was repaid in March 2006.

Debt Assumed in Acquisition of Intracom Telecom

In December 2005, Intracom Telecom entered into several loan agreements with a number of financial institutions, including Societe Generale – Geniki Bank, National Bank of Greece, Emporiki Bank, Alfa Bank, HypoVereins m Bank, Piraeus Bank and Eurobank. The interest rates on the loans vary from EURIBOR+0.8% to EURIBOr+1.5% (from 4.0% to 4.7% as of June 30, 2006). The loans mature in July-December 2006. The total outstanding balance under these loans was $111.8 million as of June 30, 2006.

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

22. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Capital lease obligations	$ 15,661	$ 9,902
Less: current portion of capital lease obligations (Note 20)	(7,277)	(3,220)
Total	**$ 8,384**	**$ 6,682**

During 2002-2006, the Group entered into several lease agreements for telecommunications equipment and vehicles. Most of the agreements expire in 2006-2008 and assume transfer of ownership for leased assets to the Group at the end of the lease term.

The net book value of leased assets comprised $26.3 million and $24.7 million as of June 30, 2006 and December 31, 2005, respectively. Interest expense on the leases recorded within income from continuing operations, was $1.9 million and $0.4 million for the six months ended June 30, 2006 and 2005, respectively. Future minimum payments under the lease agreements are disclosed in Note 31.

23. LONG-TERM DEBT

Long-term debt as of June 30, 2006 and December 31, 2005 consisted of the following:

	Currency	Annual interest rate (Actual at June 30, 2006)	June 30, 2006	December 31, 2005
Sistema Capital Notes	USD	8.9%	$ 350,000	$ 350,000
Sistema Finance Notes	USD	10.3%	346,475	349,285
MTS Finance Notes due 2012	USD	8.0%	399,113	399,052
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 Bonds	USD	8.6%-8.9%	310,000	150,000
Sitronics Finance Notes	USD	7.9%	200,000	-
MGTS Bonds	RUR	8.3%-10.0%	79,750	104,230
DMC Bonds	RUR	8.5%	42,468	39,954
Total Corporate Bonds			**2,527,806**	**2,192,521**
MTS Syndicated Loan Facility	USD	LIBOR+0.8% (6.4%)	$ 630,000	-
MTS Syndicated Loan	USD	LIBOR+2.5% (8.1%)	320,000	$ 460,000
Vneshtorgbank	EUR, USD	EURIBOR+5.0%-5.4% (8.2%-8.6%), 8.5%, 10.5%	373,889	66,027
EBRD	USD	LIBOR+3.1% (8.7%)	228,462	139,387
HSBC Bank plc and ING BHF-Bank AG	USD	LIBOR+0.4% (6.0%)	162,546	171,816
Intracom Telecom Syndicated Loan	EUR	EURIBOR+1.6% (4.8%)	148,350	-
Citibank International plc and ING Bank N.V.	USD	LIBOR+0.3% (5.9%)	123,509	111,009
Commerzbank AG, ING Bank AG and HSBC Bank plc	USD	LIBOR+0.3% (5.9%)	122,884	92,826
Barclays Bank plc	USD	LIBOR+0.2% (5.7%)	105,245	80,086

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

	Currency	Annual interest rate (Actual at June 30, 2006)	June 30, 2006	December 31, 2005
HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank	USD	LIBOR+0.3% (5.9%)	118,537	63,338
Deutsche Bank AG	EUR	EURIBOR+4.0% (7.2%)	100,376	-
ABN AMRO N.V.	USD, EUR	LIBOR+0.4% (5.9%), EURIBOR+0.4% (3.6%)	79,699	83,179
Vnesheconombank	USD	LIBOR+3.0% (8.6%)	62,043	-
Commerzbank (Eurasia)	USD	LIBOR+0.4%-3.5% (6.0%-9.1%)	40,938	34,071
ING BHF Bank and Commerzbank AG	EUR	EURIBOR+0.7% (3.9%)	39,261	43,168
Citibank	USD	LIBOR+1.6% (7.1%)	20,577	21,584
Commerzbank Belgium S.A.	USD	LIBOR+0.4% (6.0%)	15,788	13,314
Credit Suisse Bank	USD	LIBOR+2.8% (8.4%)	12,491	12,990
Vendor Financing	Various	Various	9,836	16,260
ING-Bank (Eurasia)	USD	LIBOR+2.3%-4.2% (7.7%-8.7%)	6,666	20,000
ABN AMRO Bank	USD	LIBOR+3.0% (8.6%)	-	20,000
Loans from related parties	Various	Various	56,325	26,594
Other	Various	Various	68,686	54,769
			5,373,914	3,722,939
Less amounts maturing within one year			(536,091)	(520,310)
Total			**$ 4,837,823**	**$ 3,202,629**

Corporate Bonds – In January 2004, Sistema Capital, a wholly-owned subsidiary of the Group domiciled in Luxembourg, issued $350.0 million of 8.9% notes, due in January 2011. The notes are fully and unconditionally guaranteed by JSFC Sistema. Interest payments on the notes are due semi-annually in January and July of each year, commencing July 2004. On or prior to January 2007, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 108.9% of the principal amount. The notes are listed on the London Stock Exchange. In January 2007, the holders of the notes may require Sistema Capital to redeem their notes at 100% of the principal amount thereof, together with accrued interest. In addition, these notes provide the holders with a right to require Sistema Capital to redeem all of the notes outstanding at 101.0% of the principal amount of the notes plus accrued interest upon any change in control.

In April 2003, Sistema Finance, a wholly-owned subsidiary of the Group, issued $350.0 million of 10.3% notes, due in April 2008, at 99.5% of par. These notes are secured by 193,473,900 shares of common stock of MTS. The notes are listed on the Luxembourg Stock Exchange. JSFC Sistema is a guarantor of the notes. Interest on the notes is payable semi-annually in arrears. These notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. In addition, these notes provide the holders with a right to require Sistema Finance to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control.

In January 2005, MTS Finance, a beneficially wholly-owned subsidiary of MTS, issued $400.0 million 8.0% unsecured notes at 99.7%. These notes are fully and unconditionally guaranteed by MTS and mature in January 2012. MTS Finance is required to make interest payments on the notes semi-annually in arrears in January and July, commencing in July 2005. The notes are listed on the Luxembourg

Stock Exchange. The cash proceeds were $398.9 million, the related debt issuance costs in amount of $2.5 million were capitalized.

In October 2003, MTS Finance issued $400.0 million notes bearing interest at 8.4% at par. The cash proceeds, net of issuance costs of approximately $4.6 million, amounted to $395.4 million. These notes are fully and unconditionally guaranteed by MTS and will mature in October 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears in April and October of each year, commencing April 2004. The notes are listed on the Luxembourg Stock Exchange.

In January 2003, MTS Finance issued $400.0 million 9.8% notes at par. These notes are fully and unconditionally guaranteed by MTS and mature in January 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears in January and July, commencing July 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were $400.0 million and related debt issuance costs of $3.9 million were capitalized.

Subject to certain exceptions and qualifications, the indentures governing MTS' notes contain covenants limiting MTS' ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person or convey its properties and assets to another person; and sell or transfer any of its GSM licenses for Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101% of their principal amount, plus accrued interest. MTS is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by 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. Management believes that MTS is in compliance with all restrictive provisions as of June 30, 2006.

In March 2005, MBRD entered into a loan agreement with Dresdner Bank AG in the amount of $150.0 million. The loan bears an interest of 8.6% per annum and is due in March 2008. To finance the loan to MBRD, Dresdner Bank AG issued Loan Participation Notes that were admitted to trade on the Luxembourg Stock Exchange. Interest payments on the loan are due semi-annually in March and September of each year, commencing in September 2005. Loan agreement contains certain restrictive covenants including, but not limited to, limitations on mergers, liens and dispositions of assets and transactions with the Group's subsidiaries and affiliates. Management believes that MBRD is in compliance with all restrictive provisions as of June 30, 2006.

In March 2006, MBRD issued $60.0 million 8.9% Loan Participation Notes to finance a subordinated loan. The notes mature in March 2016. MBRD is required to make interest payments semi-annually in arrears in March and September, commencing in September 2006. The notes are listed on the Luxembourg Stock Exchange.

In June 2006, MB Capital S.A., an affiliate of MBRD, issued $100.0 million 8.8% notes at par. The notes mature in June 2009. MBRD is required to make interest payments semi-annually in arrears in June and December, commencing in December 2006. The notes are listed on the Luxembourg Stock Exchange.

In February 2006, Sitronics Finance S.A. issued 3-year $200.0 million notes at 99.7% of par with an annual coupon of 7.9%. The notes are fully and unconditionally guaranteed by SITRONICS. SITRONICS is required to make interest payments in arrears in March and September, commencing in September 2006. The notes are listed on the London Stock Exchange.

In May 2005, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $55.4 million as of June 30, 2006). The bonds carry a coupon of 8.3% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in May 2007.

In April 2004, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $55.4 million as of June 30, 2006). The bonds carry a coupon of 10.0% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006. As a result of the offer, MGTS has purchased the bonds in the amount of $31.0 million.

In December 2005, Detsky Mir-Center issued RUR-denominated bonds in the amount of 1,150 million RUR (equivalent of $42.5 million as of June 30, 2006) maturing in May 2015. The bonds carry coupon of 8.5% per annum. The principal of the notes is fully and unconditionally guaranteed by the Moscow City. Concurrently, JSFC Sistema pledged to Moscow City real estate and shareholdings for the amount of approximately $62.8 million. DMC is required to make interest payments on the notes semi-annually in arrears in June and December of each year, commencing June 2006.

MTS Syndicated Loan Facility – In April 2006, MTS entered into a syndicated loan facility with international financial institutions, including 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 Limited. The facility allows MTS to borrow up to $1,330.0 million and is available in two tranches of $630.0 million and $700.0 million. The proceeds will be used by MTS for general corporate purposes, including acquisitions and refinancing of existing indebtedness. The first tranche bears interest of LIBOR+0.8% per annum and matures in April 2009. The second tranche matures in April 2011, bears interest of LIBOR+1.0% per annum within the first three years and LIBOR+1.2% per annum thereafter and is repayable in 13 equal quarterly installments, commencing in April 2008. As of June 30, 2006, the outstanding balance under the credit facility was $630.0 million. The credit facility is subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates. Management believes that as of June 30, 2006, MTS is in compliance with all existing covenants.

MTS Syndicated Loan – In July 2004, MTS entered into a $500.0 million syndicated loan agreement with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank plc, Raiffeisen Zentralbank Oesterreich AG, Bank Austria Creditanstalt AG, Commerzbank AG and others. The credit facility bears interest at LIBOR+2.5% (8.1% as of June 30, 2006) per annum and matures in three years. The proceeds were used by MTS for corporate purposes, including refinancing of its existing indebtedness. In September 2004, MTS extended total amount available under the syndicated loan facility for an additional $100.0 million to the total amount of $600.0 million. Commitment fee for the syndicated loan facility amounted to $0.5 million. Debt issuance costs of $10.2 million were capitalized. As of June 30, 2006 and December 31, 2005, the outstanding balances under the syndicated loan facility were $320.0 million and $460.0 million, respectively. The loan facility is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants.

Vneshtorgbank – In December 2005, Sistema-Invest, a subsidiary of the Group, entered into a credit facility with Vneshtorgbank. The facility allows borrowing up to $600.0 million. The facility bears interest of 8.5% per annum. The commitment fee is 0.2% per annum on the undrawn facility. As of June 30, 2006, the outstanding balance under the facility was $350.0 million. The available amount under the credit facility as of June 30, 2006 was $250.0 million. The facility is collateralized by pledge of 19.9% of the shares of each of Novoil, Ufimsky NPZ, Ufaneftekhim, ANK Bashneft and Ufaorgsintez and 18.57% 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. Management believes that as of June 30, 2006, Sistema-Invest was in compliance with these covenants.

In March 2006, MGTS entered into a credit agreement with Vneshtorgbank for an amount of Euro 7.7 million (equivalent of $9.7 million as of June 30, 2006) to finance acquisition of equipment. The loan matures in January 2012 and bears interest at EURIBOR+3.8% (7.0% as of June 30, 2006) per annum. As of June 30, 2006, the amount outstanding under the agreement was $9.7 million.

In March 2005, MGTS entered into a credit agreement with Vneshtorgbank for an amount of Euro 5.3 million (equivalent of $6.6 million as of June 30, 2006) to finance acquisition of equipment. The loan matures in September 2010 and bears interest at EURIBOR+5.0% (8.2% as of June 30, 2006) per annum. Equipment with approximate carrying value of $5.7 million is pledged to collateralize the outstanding balance under the agreement. As of June 30, 2006, the amount outstanding under the agreement was $5.9 million.

In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $9.2 million as of June 30, 2006) to finance acquisition of equipment. The loans mature in January 2010 and bear interest at the highest of EURIBOR+5.4% (8.6% as of June 30, 2006) or 7.5%. Equipment with approximate carrying value of $7.6 million is pledged to collateralize the outstanding balance under the agreement. As of June 30, 2006, the amount outstanding under these credit agreements was $6.4 million.

During the year ended December 31, 2002, MGTS received a number of loans from Vneshtorgbank maturing in 2006 to finance working capital. As of June 30, 2006, $1.9 million was outstanding under these loans. The loans are collateralized by equipment with approximate carrying value of $3.3 million. The weighted average interest rate on the loans outstanding as of June 30, 2006 was 10.5% per annum.

EBRD – In December 2004, MTS entered into a credit line agreement with the European Bank for Reconstruction and Development ("EBRD") for the total amount of $150.0 million, which was later extended by $90.0 million. The facility bears interest at LIBOR+3.1% (8.7% as of June 30, 2006) per annum. Commitment fee of 0.5% per annum is payable in accordance with the credit agreement. The final maturity of this agreement is December 2011. The debt issuance costs in the amount of $1.5 million were capitalized. As of June 30, 2006 and December 31, 2005, the balances outstanding under the loan were $228.5 million and $139.4 million, respectively. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants.

HSBC Bank plc and ING BHF-Bank AG – In October 2004, MTS entered into two credit facility agreements with HSBC Bank plc and ING BHF-Bank AG for the total amount of $121.4 million. The facilities also allow uncommitted additional borrowing up to $36.5 million. In April 2005, the lenders agreed to increase the amount of available credit facility by $28.3 million. The funds received under the facilities were used to purchase telecommunication equipment and software from Siemens AG and Alcatel SEL AG for technical upgrade and expansion of network. The facility bears interest at LIBOR+0.4% (6.0% as of June 30, 2006) per annum. A commitment fee of 0.2% per annum and an arrangement fee of 0.3% is payable in accordance with the loan agreement. The principal and interest amounts are to be repaid in seventeen equal half year installments, starting July 2005 for the first agreement and September 2005 for the second one. The debt issuance costs in the amount of $25.9 million were capitalized. As of June 30, 2006 and December 31, 2005, the outstanding balances under these agreements were $162.5 million and $171.8 million, respectively. The facilities mature in July and September 2013 and are subject to certain restrictive covenants, including, but not limited to, covenants restricting MTS' ability to convey or dispose its properties and assets to another person. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants.

Intracom Telecom Syndicated Loan – In 2002, Intracom Holding S.A. has entered into a syndicated loan agreement with a number of banks, including Alfa Bank, National Bank of Greece, Commercial Bank of Greece and Societe Generale – Geniki Bank. In 2005, the loan has been transferred, as a result of a spin-off, to Intracom Telecom. The loan bears interest of EURIBOR+1.6% per annum and matures in 2007. As of June 30, 2006, the outstanding balance of the loan was $148.4 million. The guarantor of the syndicated loan agreement is Intracom Holding S.A.

Citibank International plc and ING Bank N.V. – In December 2005, MTS signed an agreement with Citibank International plc and ING Bank N.V. for $130.8 million committed credit facility and a $36.6 million uncommitted additional facility. These funds will be used to purchase telecommunication equipment from Ericsson AB. The loan bears interest of LIBOR+0.3% (5.89% as of June 30, 2006) per annum. An arrangement fee of 0.2% of the original facility amount and agency fee of $0.01 million per annum is payable in accordance with the agreement. Commitment fee is 0.1% per annum on the undrawn facility. The loan is subject to certain covenants, including, but not limited to, covenants restricting MTS' ability to convey or dispose its properties and assets to another person. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over nine years. As of June 30, 2006, the balance outstanding under these facilities was $123.5 million.

Commerzbank AG, ING Bank AG and HSBC Bank plc – In October 2005, MTS entered into an agreement with Commerzbank AG, HSBC Bank plc and ING Bank Deutschland AG for a $125.8 million commited credit facility. The agreement also allows to borrow up to $28.3 million under an uncommitted additional facility. These funds will be used to purchase telecommunication equipment from Siemens AG. The loan bears interest of LIBOR+0.3% (5.9% as of June 30, 2006) per annum. An arrangement fee of 0.2% flat on the original facility amount and $0.01 million per annum will be paid in accordance with the agreement. The commitment fee is 0.1% per annum on the undrawn facility. The facilities are repayable on a biannual basis in equal installments over nine years. The loan is subject to certain covenants, including, but not limited to, covenants restricting MTS' ability to convey or dispose its properties and assets to another person. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants. As of June 30, 2006, the balance outstanding under the loan was $122.9 million. The unused amount under the credit facility as of June 30, 2006, was $2.9 million.

Barclays Bank plc – In February 2005, MTS entered into a credit facility with Barclays Bank plc to finance the acquisition of equipment from Motorola Limited. The facility allows borrowing up to $25.7 million and uncommitted additional borrowing of up to $64.3 million. In December 2005, the agreement with Barclays Bank plc was amended to increase the amount of available uncommitted additional facility by $23.3 million. The original facility bears interest of LIBOR+0.2% (5.7% as of June 30, 2006) per annum and additional uncommitted facilities bear interest of LIBOR+0.1% (5.6% as of June 30, 2006) per annum. An arrangement fee of 0.4% of the original facility amount and of 0.4% flat on each additional commitment facility amount is payable in accordance with the agreement. The commitment fee is 0.2% per annum. The debt issuance costs in the amount of $10.4 million were capitalized. The facilities are redeemable in equal semi-annual installments by January 2014. The loan is subject to certain covenants, including, but not limited to, covenants restricting MTS' ability to convey or dispose its properties and assets to another person. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants. As of June 30, 2006, the outstanding balance under the facility was $105.2 million. The unused amount under the credit facility as of June 30, 2006, was $6.6 million.

HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank – In November 2005, MTS entered into a credit facility with HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank. The facility allows borrowing of up to $123.8 million and up to $17.3 million of uncommitted additional borrowing. The funds received will be used to finance the acquisition of telecommunication equipment from Alcatel SEL AG. The loan bears interest of LIBOR+0.3% (5.89% as of June 30, 2006) per annum. An arrangement fee of 0.2% of the original facility amount and an agency fee of $0.01 million per annum is payable in accordance with the agreement. The commitment fee is 0.1% per annum on the undrawn facility. The debt issuance costs in the amount of $19.3 million were capitalized. The loan is subject to certain covenants, including, but not limited to, covenants restricting the MTS' ability to convey or dispose its properties and assets to another person. Management believes that as of June 30, 2006 MTS was in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over nine years. As of June 30, 2006, the outstanding amount under the credit facility was $118.5 million. The amount of available credit facility as of June 30, 2006 was $5.3 million.

Deutsche Bank AG – In January 2006, Rensonbay, a subsidiary of the Group, entered into a credit agreement with Deutsche Bank AG for Euro 80.0 million (equivalent of $100.4 million as of June 30, 2006). The funds received will be used to finance construction of Siemens' building by Sistema-Hals. The loan bears interest of EURIBOR+4.0% (7.2% as of June 30, 2006) per annum and matures in 2009. The facility is guaranteed by JSFC Sistema.

ABN AMRO N.V. – In November 2004, MTS signed a loan agreement with ABN AMRO Bank N.V. for $56.6 million and Euro 8.4 million ($10.5 million at June 30, 2006). In March 2005, the agreement was amended to expand the Euro facility up to Euro 31.3 million (equivalent of $39.3 million at June 30, 2006).These funds were used to acquire telecommunication equipment from Ericsson AB to expand the network. The loan is repayable on a biannual basis in equal installments over nine years and has an interest rate of LIBOR+0.4% (5.9% as of June 30, 2006) and EURIBOR+0.4% (3.6% as of June 30, 2006) per annum. The debt issuance costs in the amount of $9.8 million were capitalized. The loan is subject to certain covenants, including, but not limited to, covenants restricting MTS' ability to make any substantial change to general nature or scope of its business. Management believes that as of June 30, 2006, MTS was in compliance with all existing covenants. As of June 30, 2006 and December 31, 2005, $79.7 million and $83.2 million, respectively, were outstanding under the facility.

Vnesheconombank – In June 2006, Concern RTI, a subsidiary of the Group, entered into a credit facility with Vnesheconombank for $62.0 million. The loan bears interest of LIBOR+3.0% (8.6% as of June 30, 2006) per annum and matures in December 2008.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered into a number of credit facilities with Commerzbank (Eurasia) for a total amount of $40.9 million as of June 30, 2006. The facilities bear interest of LIBOR+0.4%-3.5% per annum (5.99%-9.1% as of June 30, 2006). As of June 30, 2006, approximately $40.9 million was outstanding under these facilities. The facilities are fully and unconditionally guaranteed by MGTS.

ING BHF Bank and Commerzbank AG – In December 2003, UMC entered into a credit facility with ING BHF Bank and Commerzbank AG to finance the acquisition of telecommunication equipment from Siemens AG. The aggregate amount available under this credit facility is Euro 47.4 million (equivalent of $59.5 million as of June 30, 2006). In 2004, the agreement was amended to increase the amount available under the facility by Euro 9.2 million (equivalent of $11.5 million as of June 30, 2006). The loan is guaranteed by MTS and bears interest at EURIBOR+0.7% (3.9% as of June 30, 2006) per annum. The amount outstanding is redeemable in ten equal semi-annual installments starting July 2004. At June 30, 2006 and December 31, 2005, the amounts outstanding under the loan were $39.3 million and $43.2 million, respectively.

Citibank – In 2003-2005, MGTS entered into four credit facilities with Citibank for a total amount of $25.1 million. All facilities bear interest of LIBOR+1.6% (7.1% as of June 30, 2006) per annum and are repayable in 8 semi-annual installments every six months with the last payments in 2008-2010. The facilities were received to finance acquisitions of equipment from STROM telecom. The facilities are collaterized by equipment with an approximate carrying value of $16.9 million, a deposit of $2.3 million in Citibank and are guaranteed by Export Guarantee and Insurance Corporation of the Czech Republic. As of June 30, 2006, the amount outstanding under these facilities was $20.6 million.

The loans are subject to certain restrictive covenants including, but not limited to, certain financial ratios. The written approval of Citibank is required for MGTS to obtain borrowings individually exceeding $30.0 million (apart from Sberbank loan, Raiffeisenbank loan and MGTS bonds) or alienate more than 10% of its assets. Management believes that as of June 30, 2006, MGTS was in compliance with all existing covenants.

Commerzbank Belgium S.A. – In October 2004, MTS entered into a loan agreement with Commerzbank Belgium S.A. The aggregate amount available under the agreement is $18.3 million. The loan proceeds were used to finance the purchase of telecommunication equipment from Alcatel Bell N.V. The loan bears interest of LIBOR+0.4% per annum (5.99% as of June 30, 2006). A commitment fee at rate of 0.2% per annum and flat management fee of 0.3% on the loan amount is payable in accordance with the terms of agreement. Related debt issuance costs of $1.3 million were capitalized. As of June 30, 2006 and December 31, 2005, the outstanding balance under the loan was $15.8 million and $13.3 million, respectively. The available amount under the credit facility as of June 30, 2006 was $2.5 million.

Credit Suisse Bank – In December 2004, JSFC Sistema entered into a credit facility agreements with Credit Suisse Bank (Zurich) for the total amount of $14.0 million. The funds were used to purchase an aircraft for administrative use. The facility bears interest at LIBOR+2.8% (8.39% as of June 30, 2006) and matures in 2015. As of June 30, 2006 and December 31, 2005, the balance outstanding under the facility was $12.4 million and $13.0 million, respectively.

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

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

ING Bank (Eurasia) – In September 2003, UMC entered into a $60.0 million syndicated credit facility with ING Bank (Eurasia), Standard Bank and Commerzbank AG with an interest rate of LIBOR+2.3%-4.2% per annum (7.7%-8.7% as of June 30, 2006). The loan is fully and unconditionally guaranteed by MTS. The proceeds were used by UMC to refinance its existing indebtedness. The loan is payable in eight equal quarterly installments starting from September 2004. As of June 30, 2006 and December 31, 2005, $6.7 million and $20.0 million were outstanding, respectively, under this credit facility.

ABN AMRO Bank – In September 2005, Comstar-UTS entered into a credit line agreement with ABN AMRO Bank limited to $20.0 million. The credit line bears interest of LIBOR+3.0% (8.59% as of June 30, 2006) per annum and is repayable in seven equal consecutive installments with the last payment in September 2007. The credit line was opened to finance acquisitions. The credit line is fully and unconditionally guaranteed by MTU-Inform. As of December 31, 2005, the amount outstanding under the credit line was $20.0 million. As of June 30, 2006, the loan was fully repaid.

The schedule of repayments of long-term debt over the five-year period beginning on June 30, 2006 is as follows:

Year ended June 30,		
2007	$	536,091
2008		915,740
2009		1,657,133
2010		142,257
2011		1,222,177
Thereafter		900,516
Total	**$**	**5,373,914**

In December 2004, MTS entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and HSBC Bank plc to hedge MTS' exposure to variability of future cash flows caused by change in LIBOR related to the syndicated loan. MTS agreed with ABN AMRO to pay a fixed rate of 3.3% and receive a variable interest of LIBOR on $100.0 million for the period from October 2004 to July 2007. MTS agreed with HSBC Bank plc to pay a fixed rate of 3.3% and receive a variable interest of LIBOR on $150.0 million for the period from October 2004 to July 2007. These instruments qualify as cash flow hedges under the requirements of FAS No. 133, as amended by FAS No. 149. As of June 30, 2006, the Group recorded an asset of $1.9 million in relation to these contracts in the accompanying consolidated balance sheet and an income of $1.5 million, net of tax of $0.4 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 2006, there were no amounts reclassified from other comprehensive income to income due to hedge ineffectiveness.

In January 2006, Intracom Telecom entered into a cross currency interest rate swap agreement with Alpha Bank A.E. to be protected from significant currency fluctuations. The Group agreed with Alpha Bank to pay a rate of 3-month EURIBOR+1.6% on EURO 118.0 millions and receive an interest of 3-month LIBOR+1.5% on $120.9 million for the period from January 2006 to January 2007. This instrument does not qualify as cash flow hedge under the requirements of FAS No. 133, as amended by FAS No. 149. For the six months ended June 30, 2006, the Group recorded an income of $0.1 million in relation to this contract in the accompanying consolidated statement of operations.

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

24. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006	December 31, 2005
Current portion		
Connection fees	$ 85,924	$ 83,333
Advances and customers' deposits	412,013	389,340
	497,937	472,673
Non-current portion		
Connection fees	161,424	163,897
Total	**$ 659,361**	**$ 636,570**

25. INCOME TAX

The Group's provision for income taxes is as follows for the six months ended June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
Current provision	$ 401,192	$ 302,499
Deferred benefit	(65,238)	(41,873)
Total income tax expense	**$ 335,954**	**$ 260,626**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate of 24% to income before income tax, equity in net income of energy companies in the Republic of Baskortostan and minority interests. The items causing this difference are as follows:

	June 30, 2006	June 30, 2005
Income tax provision computed on income before taxes at statutory rate	$ 216,640	$ 202,160
Adjustments due to:		
Change in valuation allowance	(372)	275
Non-deductible items	89,868	44,458
Non-taxable items	(6,033)	(1,635)
Taxable losses not carried forward	6,607	20,433
Currency exchange and translation differences	26,314	(6,101)
Effect of rates different from standard	2,930	1,036
Income tax expense	**$ 335,954**	**$ 260,626**

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

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

	June 30, 2006	December 31, 2005
Deferred tax assets		
Subscriber and customer prepayments	$ 82,683	$ 86,300
Property, plant and equipment	135,436	101,423
Intangible assets	33,645	25,966
Deferred revenue	28,059	25,007
Allowance for doubtful accounts	17,494	31,414
Accrued expenses	106,937	57,381
Tax losses carried forward	6,535	1,324
Other	16,469	17,813
	427,258	346,628
Less: valuation allowance	(29,773)	(30,144)
Total deferred tax assets	**$ 397,485**	**$ 316,484**
Deferred tax liabilities		
Intangible assets	(227,642)	(231,838)
Property, plant and equipment	(150,028)	(118,784)
Undistributed earnings of affiliates	(65,999)	(23,345)
Debt issuance costs	(19,582)	(19,839)
Other	(46,221)	(31,590)
Total deferred tax liabilities	**$ (509,472)**	**$ (425,396)**
Net deferred tax assets, current	$ 162,267	$ 123,681
Net deferred tax assets, long-term	$ 73,019	$ 33,472
Net deferred tax liabilities, current	$ (48,475)	$ (28,149)
Net deferred tax liabilities, long-term	$ (298,798)	$ (237,916)

As of June 30, 2006 deferred tax assets relating to tax losses carried forward in amount of $5.5 million are attributable to MTU-Inform and $1.0 million is attributable to Detsky Mir Severo-Zapad. These tax losses expire in 2012.

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

26. POST-RETIREMENT BENEFITS

Intracom Telecom

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

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

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 pension expense:

Discount rate	4.6%
Future salary increases	4.5%

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 RUR 3,600 (equivalent of USD 125 as of June 30, 2006) to RUR 50,400 (equivalent of USD 1,751 as of June 30, 2006) per year depending on employee's actual years of service and qualification;

Death-in-Service – Lump-sum payment of RUR 15,000 (equivalent of USD 521 as of June 30, 2006), 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 RUR 3,700 (equivalent of USD 129 as of June 30, 2006) to RUR 22,200 (equivalent of USD 771 as of June 30, 2006) depending on 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, 2006) for their monthly telephone bills from MGTS;

Death-while-pensioner – MGTS pays lump-sum benefits to relatives of deceased pensioners of up to RUR 10,000 (equivalent of USD 347 as of June 30, 2006).

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

Discount rate	9.2%
Future salary increases	9.2%
Future pension increases	0.0%
Average life expectancy of members from date of retirement	17 years

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

The change in the Group's projected benefit obligation and the change in plan assets are presented in the following table:

	June 30, 2006	June 30, 2005
Projected benefit obligation, beginning of the period	$ 16,217	$ 13,550
Service cost	1,315	1,523
Interest cost	684	741
Actuarial (gains)/losses	(1,051)	2,565
Benefit payments	(668)	(298)
Currency translation effect	(487)	(142)
Projected benefit obligation, end of the period	16,010	17,939
Less: fair value of plan assets	(3,020)	(2,439)
Unfunded status of the plan, end of the period	**$ 12,990**	**$ 15,500**

The changes in the projected benefit obligation due to actuarial gains and losses for the six months ended June 30, 2006 and 2005 relate primarily to the changes in the discount rate and employees turnover assumptions.

The accumulated benefit obligation as of June 30, 2006 and 2005 was $13.0 million and $15.5 million, respectively. The components of the net periodic benefit costs for the 6 months ended June 30, 2006 and 2005 are as follows:

	June 30, 2006	June 30, 2005
Service cost	$ 1,315	$ 1,523
Interest cost	684	741
Net periodic benefit cost	**$ 1,999**	**$ 2,264**

The Group's management expects contributions to the plan during the year ended December 31, 2006 to amount to $0.9 million.

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

Year ended June 30,	
2007	$ 1,267
2008	1,223
2009	1,184
2010	1,149
2011-2015	4,321
Thereafter	3,846
Total	**$ 12,990**

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

Intracom Telecom also provides death-in-service benefits to its employees as a part of medical insurance program, whereby in case of death the family of the deceased is entitled to a lump-sum payment of 14 to 28 salaries. In addition, according to the Greek law, Intracom Telecom provides lump-sum payments upon retirement in the amount of 40% of employee dismissal allowance.

27. DEFERRED REVENUE

Deferred revenue is comprised of property, plant and equipment contributions and grants received by the Group and as of June 30, 2006 and December 31, 2005 was as follows:

	June 30, 2006	December 31, 2005
Deferred revenue at the beginning of the period	$ 125,700	$ 130,913
Contributions received during the period	1,984	6,369
Currency translation effect	7,910	(4,693)
	135,594	132,589
Deferred revenue amortized	(1,903)	(6,889)
Deferred revenue at the end of the period	**$ 133,691**	**$ 125,700**

28. SHARE CAPITAL

At January 1, 2005, JSFC Sistema had 68,325,000 voting common shares authorized and 8,100,000 shares issued and outstanding with a par value of 90.0 RUR.

In February 2005, JSFC Sistema completed an IPO of 1,550,000 common shares, with a nominal value of 90 RUR per share in the form of 77,500,000 global depositary receipts ("GDRs"), with 50 GDRs representing one share. On February 14, 2005, JSFC Sistema's GDRs were admitted to trade on the London Stock Exchange. Proceeds from the offering, net of underwriting discount and other direct costs, were $1,284.6 million. Simultaneously, certain shareholders of the Group sold 42,663 common shares in the form of 2,133,150 GDRs. In addition, shareholders exercised their option to sell additional 238,900 shares in the form of 11,945,000 GDRs.

In June 2006, the shareholders of JSFC Sistema decided to split each share with par value of 90.0 rubles into 50 shares with par value of 1.8 rubles.

In June 2006, JSFC Sistema declared dividends for the year ended December 31, 2005, amounting to $10.0 million, or 28.0 ruble (equivalent to $1.03) per share (or 0.6 ruble (equivalent to $0.02) per share after stock split).

In March 2006, Sistema Finance Investments, a subsidiary of the Group, purchased 2,228,200 (after the split) shares of JSFC Sistema in the open market for a total cash consideration of $50.9 million. The shares are intended to be used for a share option program for Sistema's top management, the terms of which have not been yet finalized.

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

29. SEGMENT INFORMATION

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

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

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the six months ended June 30, 2006 and 2005, is as follows:

For the six months ended June 30, 2006	Telecom-munications	Technology	Insurance	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [a]	3,292,847	547,520	262,542	73,120	33,397	102,765	117,903	167,865	4,597,959
Intersegment sales	4,505	149,084	18,256	14,708	12,181	3,771	19	26,631	229,155
Income from equity investees	43,686	16	176	-	-	-	-	87,421	131,299
Interest income	29,766	3,828	378	-	97	841	771	10,119	45,800
Interest expense	(100,807)	(16,382)	-	-	(1,422)	(2,599)	(3,104)	(50,538)	(174,852)
Net interest revenue [b]	-	-	32,286	13,181	-	-	-	-	45,467
Depreciation and amortization	(597,063)	(18,192)	(1,947)	(1,130)	(7,099)	(1,735)	(891)	(7,218)	(635,275)
Operating income/(loss)	954,008	62,405	34,752	8,620	2,823	42,692	(8,321)	37,792	1,134,771
Income tax expense	(279,658)	(13,515)	(9,397)	(4,894)	(1,728)	(5,294)	274	(29,391)	(343,603)
Income/(loss) before minority interests	628,216	37,064	17,555	3,726	(239)	30,662	(9,654)	72,518	779,848
Investments in affiliates	258,019	-	-	17,749	5,100	-	-	766,189	1,047,057
Segment assets	11,742,137	1,580,357	803,432	1,904,791	303,460	393,009	164,693	2,701,704	19,593,583
Indebtedness [c]	(3,417,379)	(519,737)	(1,523)	(350,938)	(30,956)	(42,017)	(55,089)	(1,286,861)	(5,704,500)
Capital expenditures	881,182	41,266	4,670	3,354	20,642	42,540	8,953	4,258	1,006,865

[a] – Interest income and expenses of the Insurance and Banking segments are presented as revenues from financial services in the Group's consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt, including vendor financing, and capital lease obligations

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

For the six months ended June 30, 2005	Telecom-munications	Technology	Insurance	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers[a]	2,652,866	265,612	182,800	33,048	71,344	32,647	45,143	76,590	3,360,050
Intersegment sales	27,160	160,929	15,069	12,770	22,196	1,082	19	3,517	242,742
Income from equity investees	31,493	-	307	-	384	-	-	2,172	34,356
Interest income	18,339	248	-	-	30	338	5	21,753	40,713
Interest expense	(81,650)	(5,177)	-	-	(740)	(2,793)	(507)	(43,716)	(134,583)
Net interest revenue[b]	-	-	-	4,146	-	-	-	-	4,146
Depreciation and amortization	(462,515)	(5,462)	(1,871)	(1,005)	(3,436)	(732)	(819)	(4,750)	(480,590)
Operating income/(loss)	920,523	109,942	13,640	3,141	463	3,215	3,811	(11,429)	1,043,306
Income tax expense	(222,354)	(19,211)	(6,435)	(1,939)	(1,442)	(1,164)	(892)	(7,189)	(260,626)
Income/(loss) before minority interests	633,935	85,243	6,060	1,202	(1,536)	3,452	2,169	(48,282)	682,243
Investments in affiliates	203,213	-	-	16,518	808	103	-	44,179	264,821
Segment assets	8,414,326	426,080	633,771	1,122,469	106,339	239,624	66,531	1,884,048	12,893,188
Indebtedness [c]	(2,552,221)	(27,023)	(517)	(150,000)	(26,596)	(33,375)	(183,866)	(588,297)	(3,561,895)
Capital expenditures	880,712	15,469	4,575	2,145	5,982	16,093	703	55,869	981,548

[a] – Interest income and expenses of the Insurance and Banking segments are presented as revenues from financial services in the Group's consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt, including vendor financing, and capital lease obligations

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

	June 30, 2006	June 30, 2005
Total segment operating income	$ 1,137,614	$ 1,043,306
Intersegment eliminations	(99,030)	(102,037)
Interest income	30,381	35,712
Interest expense	(165,511)	(122,491)
Currency exchange and translation losses	(788)	(12,157)
Consolidated income before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$ 902,666**	**$ 842,333**
Total segment income before minority interests	$ 779,848	$ 682,243
Intersegment eliminations	(125,675)	(100,536)
Consolidated income before minority interests	**$ 654,173**	**$ 581,707**
Total segment assets	$ 19,593,583	$ 12,893,188
Intersegment eliminations	(2,300,852)	(1,318,594)
Consolidated assets	**$ 17,292,731**	**$ 11,574,594**

For the six months ended June 30, 2006 and 2005 the Group's revenues derived from Ukraine were $904.7 million and $691.9 million, respectively. Long-lived assets of the Group's entities domiciled in Ukraine were $1,580.7 million and $1,398.4 million as of June 30, 2006 and December 31, 2005, respectively.

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

For the six months ended June 30, 2006 and 2005, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

30. 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, 2006 and 2005, the Group entered into transactions with related parties as follows:

		June 30, 2006	June 30, 2005
Sale of goods and services	$	(12,815)	(15,982)
Insurance premium received		(370)	(370)
Telecommunication services provided		(8,275)	(7,383)
Revenues from financial services		(2,724)	(1,459)
Telecommunication services purchased		14,432	7,744
Interest (income)/expense		(91)	5,657
Finance services related costs		-	178
Purchase of goods for resale		1,960	-
Other		1,111	2,189

Related party balances as of June 30, 2006 and December 31, 2005 are disclosed in the corresponding notes to the financial statements.

31. 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 2055.

Future minimum rental payments under capital and operating leases in effect as of June 30, 2006, are as follows:

		Capital leases	Operating leases
Year ended June 30,			
2007		7,494	94,164
2008		6,903	70,353
2009		3,616	58,767
2010		6	59,811
2011		4	47,532
Thereafter		1	73,565
Less: amount representing interest		(2,363)	-
Total	**$**	**15,661**	**404,192**

Capital Commitments – As of June 30, 2006, MTS had executed non-binding purchase agreements in the amount of approximately $388.2 million to subsequently acquire property, plant and equipment.

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

In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012 providing for extensive capital expenditures including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of Moscow City Government of December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1,600 million and include reconstruction of 350 local telephone stations and installation of 4.3 million of new phone numbers.

In December 2005, MGTS entered into an agreement to acquire telecommunications equipment and related services from ECI Telecom (Israel). The vendor financing amounting to $2.3 million will bear interest of LIBOR+4% and be repayable in nine equal quarterly installments starting October 2006.

In July 2003, Sistema-Hals entered into an agreement with Siemens Real Estate to develop an office building in Moscow, which will become Siemens AG headquarters in Russia. Under this agreement Sistema-Hals is responsible for obtaining all necessary permits, planning and overall control of the construction process. The building is expected to be completed in 2008. The cost of the project is estimated at approximately $114.6 million. Siemens will pay to Sistema-Hals Euro 159.0 million (equivalent of $200.3 million as of June 30, 2006).

Additionally, Sistema-Hals entered into construction agreements with various third party subcontractors for a total amount of $89.7 million.

Organizator, a subsidiary of Sistema-Hals, acts as a project manager on a number of construction projects which will be completed subsequent to the balance sheet date. The estimated cost to complete these projects as of June 30, 2006, is as follows (including Organizator's fee based on a percentage of project costs incurred):

		Estimated costs to complete
Construction of Krasnopresnensky Prospekt from Moscow Ring Highway ("MKAD") to Marshala Zhukova Prospekt (includes tunnel, bridge and roads)	$	672,576
Highway off-ramps and connection between MKAD and the Moscow "third ring" road		15,700
Road construction from the "third ring" to "Moscow City" development site		41,353
Lefortovo tunnel		46,833
Residential premises relocation on 3rd Magistralnaya St.		56,051

Other Commitments – In August 2005, the Group entered into a binding agreement with the other shareholder of Skylink, the Group's affiliate, to protect the other shareholder from losses in case the joint venture does not reach certain targets in terms of customer base, cash flows and earnings. If Skylink does not reach certain quantitative targets by the first half of 2007, the Group will have at the discretion of the other shareholder to purchase the 50% share in Skylink for a total cash consideration of $200.0 million, or reimburse the other shareholder in the amount determined as $200.0 million multiplied by the percentage of deviation from the agreed quantitative targets.

Operating Licenses – Since the commencement of MTS' operations in 1994, a number of wireless telecommunication licenses for the Russian Federation were issued to MTS and its now consolidated subsidiaries. These license agreements stipulate that certain fixed "contributions" be made to a fund for the development of telecommunication networks in the Russian Federation. According to the terms of licenses, such contributions were to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators ("the Association").

The Association is a nongovernmental, not-for-profit association, and their Board of Directors comprises representatives of the major cellular communications companies, including MTS. On January 1, 2004, a new Federal Law on Communications came into effect in the Russian Federation. According to the Law the Group was required to update operating licenses as requirements to make certain fixed contributions discussed above has been abandoned with the new Law on Communications.
As of June 30, 2006, MTS' potential liability according to the terms of licenses that still provide for the payment of such fees could total approximately $18.1 million.

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

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

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

Issued Guarantees – As of June 30, 2005, MTS has issued guarantees to third party banks for the loans taken by MTS-Belarus, an equity investee, for the total amount of $9.0 million. The guarantees expire by April 2007.

MBRD guaranteed loans for several companies, including related parties, which totaled $38.6 million as of June 30, 2006.

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, 2006, no event of default has occurred under any of the guarantees issued by the Group.

Minimum Capital Requirements – The Law on Insurance in Russia sets minimum capital requirements for insurance organizations, depending on the type of insurance they are underwriting. The minimum capital requirement for insurance organizations conducting reinsurance operations is set at 120.0 million RUR (equivalent of $4.4 million as of June 30, 2006). As of June 30, 2006, Rosno's statutory share capital amounted to 1,069.0 million RUR (equivalent of $39.5 million as of June 30, 2006).

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million (equivalent of $6.3 million as of June 30, 2006) for each newly-founded bank. As of June 30, 2006, MBRD's share capital amounted to 998.0 million RUR (equivalent of $36.9 million as of June 30, 2006).

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

A recent amendment to the Federal Law on Communications effective July 1, 2006, implemented the "calling party pays," or CPP, principle prohibiting mobile operators from charging their subscribers for incoming calls. Generally, operators charge subscribers for incoming calls. Under the new system, fixed line operators began charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls while mobile operators will not. The settlement rate between mobile and fixed line operators was set by the government at 0.95 RUR (equivalent of $0.03 as of June 30, 2006) per minute. While the impact of this regulatory change at this point is uncertain, management believes it will not have a material adverse effect for the Group.

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

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes, 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 is more significant than typically found in countries with more developed tax systems.

MTS' operations in Turkmenistan are subject to certain restrictions in accordance with 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 not material.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2006, tax declarations of the Group for the preceding three fiscal years were open to further review.

In the ordinary course of business, the Group may be party to various legal and tax 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 proceeding or other matters will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

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.

In the first half of 2005, MGTS filed seven claims in the Moscow Arbitration Court against the Ministry of Labor and Social Development of the Russian Federation for the recovery of losses it incurred in connection with the provision of communications services in 2003 to 2004 to Russian veterans at a reduced rate. Pursuant to the Federal Law on Veterans, MGTS was seeking full reimbursement from federal funds totaling approximately $15.8 million. In the second half of 2005, the Arbitration Court ruled in favor of MGTS for the full amount. The reimbursed funds were collected and recorded as revenues in the six months ended June 30, 2006.

32. SUBSEQUENT EVENTS

Acquisitions

In August 2006, the Group acquired a 81.3% share in CJSC Sahles, a company holding controlling stakes in the entities which constitute the Perm Motors group, for a total cash consideration of $122.0 million. The Group plans to integrate these assets in its radiotechnical business.

In July 2006, MTS acquired a 75.0% controlling stake in Dagtelecom for a cash consideration of $14.7 million with an option to buy the remaining stake. Dagtelecom is the GSM-900 mobile services provider in the Republic of Dagestan, a region in the south of Russia with a population of 2.6 million. Dagtelecom's customer base as at the date of acquisition was approximately 170,000 subscribers.

In August 2006, the Group acquired from related parties a 100% stake in LLC Nostro for consideration of $26.6 million and committed to additionally invest $7.2 million to settle the debts of that entity. LLC Nostro owns a building located in Moscow at Sadovnicheskaya st., 75.

In July-September 2006, Sistema Mass Media acquired several cable television operators in various Russian regions, namely 74% share in Smolensk-based "Teleradiotekhnika" for $1.2 million, 100% share in Voronezh-based "Elecom-service" for $1.0 million, 100% share in "Telesat" located in Nizhny Tagil for $0.4 million, 74% share in a group of operators based in Ivanovo for $7.1 million, 55% share in "Electronica" in Balakovo for $0.8 million and 90% share in "Sallak" based in Krasnodar for $0.2 million. These acquisitions continued the Group's expansion in the regional cable television market.

In July 2006, Intourist Overseas Limited purchased 51% share in Tatilya Turizm Seyahat Insaat, a Turkish travel operator, working under the brand "Danuna". The acquisition price amounted to $0.3 million.

Disposals

In July 2006, the Group disposed of Glorely, a subsidiary holding 35% interest in Sistema-Invest, the owner of the Group's energy companies in the Republic of Bashkortostan for a total cash consideration of $201.0 million.

In August 2006, the Group sold for $20.0 million its 8% interest in MTK ("KOMKOR") together with additional 3% interest acquired from a related party after June 30, 2006.

In September 2006, SITRONICS issued 293,476,990 additional common shares at par value of 1 ruble each to EBRD. The proceeds from the issue amounted to $80.0 million. Following the transaction, the Group's beneficial ownership in SITRONICS decreased from 88.2% to 84.6%

Debt issuance

In July 2006, STROM telecom entered into a credit line with ABN Amro Bank guaranteed by SITRONICS, limited to $15.0 million. The loan is bearing interest at Prague Interbank Offered Rate+0.7% per annum, with maturity undefined; the facility is prolonged based on satisfactory annual review.

In August 2006, MTS received the second tranche of $700.0 million under the syndicated loan facility arranged by 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 Limited (Note 23).

In August 2006, Sistema-Hals entered into a loan facility with Deutsche Bank AG in the amount of $140.0 million for the term of one year. The loan facility was extended for Sistema-Hals' general operational needs and bears interest rate of 8.7%.

In September 2006, Sistema-Hals entered into a loan facility with NOMURA International Plc in the amount of $100.0 million for the term of one year. The loan facility was extended for Sistema-Hals' general operational needs and bears interest rate of 8.5%.

Other

In September 2006, the Board of Directors of MTS has authorized a share repurchase program to repurchase MTS' ADRs representing up to 10% of the total number of outstanding shares of MTS, over a period of 12 months until August 31, 2007. The program does not obligate MTS to acquire a particular number of ADRs, and the program may be suspended or discontinued at MTS' discretion. The repurchase could be funded through MTS' own cash flows, commercial paper program or potentially through existing credit facilities. The launch of the program is subject to approval by the Federal Anti-Monopoly Service of the RF.

In August 2006, MTS amended the option agreement with the minority shareholders of Uzdunrobita. The amendment to the original option agreement eliminates the call option yet extends the exercise period of the put option to July 2008. The purchase price for the put option will be determined by an international investment bank to be selected jointly by both parties within 10 days of the date of service of a put notice.