JSFC SISTEMA AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2005 and 2004

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSFC Sistema:

We have audited the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries (the "Group") as of December 31, 2005 and 2004 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

April 21, 2006

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2005	2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 482,647	$ 503,747
Short-term investments	6	594,196	202,580
Loans to customers and banks, net	7	568,502	379,310
Insurance-related receivables	8	149,589	130,278
Accounts receivable, net	9	442,643	327,921
Prepaid expenses, other receivables and other current assets, net	10	578,152	230,460
VAT receivable		495,191	345,999
Inventories and spare parts	11	482,909	276,832
Deferred tax assets, current portion	25	123,681	73,592
Total current assets		3,917,510	2,470,719
Property, plant and equipment, net	12	5,876,124	4,448,045
Advance payments for non-current assets		233,761	181,281
Investments in affiliated companies	13	914,203	206,520
Other investments	14	150,000	-
Goodwill	2	330,932	174,341
Licenses, net	15	615,042	666,934
Other intangible assets, net	16	886,272	594,315
Debt issuance costs, net	23	82,662	27,267
Deferred tax assets	25	33,472	3,482
Other non-current assets	17	50,872	50,424
TOTAL ASSETS		$ 13,090,850	$ 8,823,328

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 594,816	$ 361,016
Bank deposits and notes issued	18	496,829	326,861
Insurance-related liabilities	19	412,328	344,460
Taxes payable		125,474	117,888
Deferred tax liabilities, current portion	25	28,149	22,071
Accrued expenses, subscriber prepayments and other current liabilities	20	993,344	770,192
Short-term loans payable	21	637,769	221,103
Current portion of long-term debt	23	520,310	340,938
Total current liabilities		3,809,019	2,504,529
LONG-TERM LIABILITIES:			
Capital lease obligations, net of current portion	22	6,682	3,412
Long-term debt, net of current portion	23	3,202,629	2,494,522
Subscriber prepayments, net of current portion	24	163,897	156,233
Deferred tax liabilities, net of current portion	25	237,916	228,977
Postretirement benefits obligation	26	16,217	11,513
Total long-term liabilities		3,627,341	2,894,657
Deferred revenue	27	125,700	130,913
TOTAL LIABILITIES		7,562,060	5,530,099
Minority interests in equity of subsidiaries		2,295,147	1,851,027
Commitments and contingencies	31	-	-
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000 and 8,100,000 shares issued and outstanding as of December 31, 2005 and 2004, respectively, with par value of 90 Russian Rubles)	28	30,057	25,090
Additional paid-in capital	3,4	1,479,743	198,882
Retained earnings		1,696,276	1,170,620
Accumulated other comprehensive income		27,567	47,610
TOTAL SHAREHOLDERS' EQUITY		3,233,643	1,442,202
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 13,090,850	$ 8,823,328

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2005	2004
Sales		$ 7,143,386	$ 5,415,491
Revenues from financial services		450,163	318,459
TOTAL REVENUES		7,593,549	5,733,950
Cost of sales, exclusive of depreciation and amortization shown separately below		(2,877,169)	(2,044,827)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(342,018)	(201,631)
TOTAL COST OF SALES		(3,219,187)	(2,246,458)
Selling, general and administrative expenses		(1,414,313)	(1,010,288)
Depreciation and amortization		(1,024,592)	(797,274)
Other operating expenses, net		(71,392)	(44,529)
Equity in net income of investees		78,033	27,121
Gain on disposal of interests in subsidiaries		15,326	2,184
OPERATING INCOME		1,957,424	1,664,706
Interest income		66,132	18,061
Interest expense, net of amounts capitalized		(225,684)	(213,943)
Currency exchange and translation (loss)/gain		(13,913)	12,620
Income before income tax, minority interests, extraordinary gain and cumulative effect of a change in accounting principle		1,783,959	1,481,444
Income tax expense	25	(512,993)	(445,731)
Income before minority interests, extraordinary gain and cumulative effect of a change in accounting principle		$ 1,270,966	$ 1,035,713

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2005	2004
Minority interests		$ (740,514)	$ (589,014)
Income before extraordinary gain and cumulative effect of a change in accounting principle		530,452	446,699
Extraordinary gain	3	3,956	-
Cumulative effect of a change in accounting principle (net of income tax effect of nil)	2	-	(35,472)
NET INCOME		$ 534,408	$ 411,227
Other comprehensive income/(loss):			
Unrealized gain on securities available for sale, net of income tax effect of nil		1,622	1,967
Change in fair value of interest rate swaps, net of income tax effect of $537 and $245, respectively		1,701	(257)
Translation adjustment, net of minority interests of $26,757 and $28,582, respectively, and income tax effect of nil	2	(23,368)	29,979
Comprehensive income		$ 514,363	$ 442,916
Weighted average number of common shares outstanding		9,475,980	8,100,000
Earnings (loss) per share, basic and diluted:			
Income before extraordinary gain and cumulative effect of a change in accounting principle		$ 56.0	$ 55.1
Extraordinary gain		0.4	-
Cumulative effect of a change in accounting principle		-	(4.3)
Net income		56.4	50.8

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars)

	2005	2004
OPERATING ACTIVITIES:		
Net income	$ 534,408	$ 411,227
Adjustments to reconcile net income to net cash provided by operations:		
Extraordinary gain	(3,956)	-
Depreciation and amortization	1,024,592	797,274
Loss on disposals of property, plant and equipment	15,638	1,551
Long-term investments impairment	-	3,070
(Gain)/loss on disposal of interests in subsidiaries	(15,326)	1,862
Cumulative effect of a change in accounting principle	-	35,472
Minority interests	740,514	589,014
Equity in net income of investees	(78,033)	(27,121)
Deferred income tax benefit	(105,920)	(58,903)
Provision for doubtful accounts receivable	59,564	29,809
Allowance for loan losses	62,054	13,810
Inventory obsolescence expense	10,875	5,868
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(306,567)	27,142
Loans to banks	86,254	(25,661)
Insurance-related receivables	(47,837)	31,111
Accounts receivable	(181,033)	(101,567)
Prepaid expenses, other receivables and other current assets	(343,342)	66,240
VAT receivable	(149,192)	(67,558)
Inventories	(200,444)	(112,269)
Accounts payable	311,936	54,110
Insurance-related liabilities	127,255	51,985
Taxes payable	6,566	(1,997)
Accrued expenses, subscriber prepayments and other liabilities	218,510	171,966
Postretirement benefits obligation	4,704	7,636
Net cash provided by operations	1,771,220	1,904,071
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,095,235)	(1,498,098)
Purchases of intangible assets	(372,552)	(164,577)
Purchases of businesses, net of cash acquired	(540,404)	(338,906)
Proceeds from disposals of subsidiaries, net of cash disposed	12,862	649
Purchases of long-term investments	(796,990)	(76,217)
Proceeds from sale of long-term investments	13,053	6,850
Purchases of short-term investments	(839,516)	(142,696)
Proceeds from sale of short-term investments	662,847	180,650
Proceeds from sale of property, plant and equipment	4,179	7,807
Net increase in loans to customers	(319,174)	(39,898)
Net cash used in investing activities	(4,270,930)	(2,064,436)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars)

	2005	2004
FINANCING ACTIVITIES:		
Proceeds from/(principal payments on) short-term borrowings, net	408,707	(263,981)
Net increase in deposits from customers	112,663	150,876
Net increase in bank promissory notes issued	50,511	12,838
Proceeds from grants	3,360	3,285
Proceeds from capital transactions of subsidiaries	-	9,445
Proceeds from long-term borrowings, net of debt issuance costs	1,357,125	1,458,082
Principal payments on long-term borrowings	(526,852)	(868,347)
Principal payments on capital lease obligations	(4,468)	(7,924)
Payments to shareholders of subsidiaries	(198,333)	(108,165)
Dividends paid	(8,752)	(5,162)
Proceeds from issuance of common stock, net of issuance costs	1,284,649	-
Net cash provided by financing activities	$ 2,478,610	$ 380,947
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	$ (21,100)	$ 220,582
CASH AND CASH EQUIVALENTS, beginning of the year	503,747	283,165
CASH AND CASH EQUIVALENTS, end of the year	$ 482,647	$ 503,747
CASH PAID DURING THE YEAR FOR:		
Interest	$ (204,171)	$ (265,779)
Income taxes	(708,505)	(487,447)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment contributed free of charge	$ 6,259	$ 13,597
Equipment acquired through vendor financing	2,533	20,714
Equipment acquired under capital leases	7,738	6,393

In addition, non-cash investing activities for the years ended December 31, 2005 and 2004 included acquisitions and dispositions of subsidiaries and affiliates, as described in Notes 3 and 4.

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2004	**$ 171**	**$ 189,934**	**$ 789,474**	**$ 15,921**	**$ 995,500**
Capital transactions of subsidiaries, net of minority interest of $2,628 and income tax of nil (Note 4)	-	8,948	-	-	8,948
Unrealized gain on securities available for sale, net of income tax of nil	-	-	-	1,967	1,967
Change in fair value of interest rate swaps, net of income tax effect of $64	-	-	-	(257)	(257)
Translation adjustment, net of minority interest of $28,582 and income tax of nil	-	-	-	29,979	29,979
Dividends declared		-	(5,162)	-	(5,162)
Increase of par value of shares	24,919	-	(24,919)	-	-
Net income	-	-	411,227	-	411,227
Balances at January 1, 2005	**$ 25,090**	**$ 198,882**	**$ 1,170,620**	**$ 47,610**	**$ 1,442,202**
Issuance of common stock (Note 28)	4,967	1,279,682	-	-	1,284,649
Disposal of a subsidiary, net of income tax of nil (Note 4)	-	1,179	-	-	1,179
Unrealized gain on securities available for sale, net of income tax effect of nil	-	-	-	1,622	1,622
Change in fair value of interest rate swaps, net of income tax effect of $537	-	-	-	1,701	1,701
Translation adjustment, net of minority interest of $26,757 and income tax of nil (Note 2)	-	-	-	(23,368)	(23,368)
Dividends declared (Note 28)	-	-	(8,752)	-	(8,752)
Net income	-	-	534,408	-	534,408
Balances at December 31, 2005	**$ 30,057**	**$ 1,479,743**	**$ 1,696,276**	**$ 27,567**	**$ 3,233,643**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives or former top executives of the Group. Commencing from February 2005, 19% of outstanding shares of the Group are traded on the London Stock Exchange in the form of GDRs (Note 28).

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 Comstar-UTS and subsidiaries	MTS	Wireless telecommunication services
	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Technology Segment:		
Concern 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 transactions and foreign currency transactions
Real Estate Segment:		
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects in Moscow
Mass Media Segment:		
Sistema Mass Media and subsidiaries	Sistema Mass Media	Production and distribution of periodicals, publishing activities, broadcasting, advertising
Retail Segment:		
Detsky Mir and subsidiaries	Detsky Mir	Retail trading in Moscow and other Russian cities, rent of premises
Detsky Mir-Center and subsidiaries	DM-Center	
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
ECU GEST Holding S.A. and subsidiaries	Sistema International	Investing in real estate projects, financing activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The beneficial ownership interest of JSFC Sistema and proportion of voting power of the Group in the significant subsidiaries as of December 31, 2005 and December 31, 2004 are as follows:

Operating entities	Ownership interest		Proportion of voting power	
	2005	2004	2005	2004
MTS and subsidiaries:	53%[1]	51%[1]	53%	51%
Ukrainian Mobile Communications ("UMC")	53%[1]	51%[1]	100%	100%
Telecom XXI	Merged[3]	51%[1]	Merged	100%
Kuban-GSM	Merged[3]	51%[1]	Merged	100%
Telecom-900	Merged[3]	51%[1]	Merged	100%
SCS-900	53%[1]	51%[1]	100%	100%
FECS-900	53%[1]	51%[1]	100%	100%
Uraltel	53%[1]	51%[1]	100%	100%
Recom	53%[1]	27%[1]	100%	54%
BM-Telecom	53%[1]	51%[1]	100%	100%
TAIF Telcom	53%[1]	51%[1]	100%	100%
Dontelecom	Merged[3]	51%[1]	Merged	100%
Sibchallenge	53%[1]	51%[1]	100%	100%
Tomsk Cellular Communications	53%[1]	51%[1]	100%	100%
Primtelefon	53%[1]	51%[1]	100%	100%
Uzdunrobita	39%[1]	37%[1]	74%	74%
Gorizont R	53%[1]	39%[1]	100%	76%
Telesot-Alania	53%[1]	27%	100%	53%
Barash	53%[1]	n/a	100%	n/a
Comstar UTS and subsidiaries:	100%[1] [2]	77%[1]	100%	100%
MGTS	46%[1]	46%	56%	56%
MTU-Inform	99%[1]	76%[1]	99%	99%
Telmos	100%[1]	62%[1]	100%	80%
MTU-Intel	100%[1]	87%[1]	100%	100%
Golden Line	100%[1]	87%[1]	100%	100%
Tymenneftegazsvyaz	75%[1]	n/a	89%	n/a
Concern SITRONICS and subsidiaries:	78%	78%	78%	78%
STROM telecom	78%[1]	52%[1]	100%	67%
Kvazar-Micro	40%[1]	50%[1]	51%	51%
NIIME and Micron ("Micron")	60%[1]	60%[1]	77%	76%
SITRONICS	78%[1]	78%	100%	100%
Rosno	49%[1]	49%[1]	51%	51%
MBRD	95%[1]	82%[1]	99%	86%
Intourist	72%	91%	72%	91%
DM-Center	100%	100%	100%	100%
Detsky Mir	75%[1]	75%[1]	75%	75%

Operating entities	Ownership interest		Proportion of voting power	
	2005	2004	2005	2004
Sistema-Hals	100%[1]	100%[1]	100%	100%
Concern RTI	100%	100%	100%	100%
ECU GEST	100%	99%	100%	99%

[1] – Including indirect ownership
[2] – Based on the number of outstanding shares
[3] – Subsidiaries of MTS merged with MTS in July 2005

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

Consolidation of Variable Interest Entities – In December 2003, the Financial Accounting Standards Board ("FASB") issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions.

Following the adoption of FIN 46R in the consolidated financial statements for the year ended December 31, 2004, the Group reevaluated the relationships with certain of its related parties: Promtorgcenter, Notris, Laminea, Finescort-M, Kuntsevo-Invest, Putney Assets and Mosdachtrest. Kuntsevo-Invest and Mosdachtrest are engaged in construction activities of the Group. Promtorgcenter, Notris, Laminea, Finescort-M and Putney Assets hold equity interests in and provide financing through loans to other entities of the Group. Mosdachtrest was accounted for under the equity method for the periods prior to January 1, 2004. The Group determined that these entities were variable interest entities and that it was their primary beneficiary. Accordingly, the Group has consolidated these companies effective January 1, 2004. All intercompany balances have been eliminated in consolidation and the results of these VIEs have been included in the Group's consolidated statement of operations and statement of cash flows for the years ended December 31, 2005 and 2004. In accordance with the provisions of FIN 46R, the Group recorded a charge for the cumulative effect of this accounting change of $35.5 million, net of income tax of nil, in the year ended December 31, 2004. This charge reflects the cumulative impact to the Group's results of operations had these VIEs been consolidated since their inception.

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

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

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

Foreign Currency Translation – The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation".

Management has determined that the functional currency of MGTS, Rosno, Micron, Detsky Mir, DM-Center, Sistema Mass Media and Concern RTI is the Russian Ruble ("RUR"). Commencing January 1, 2005, RUR was determined as MBRD's functional currency following the increased ratio of RUR-denominated transactions in MBRD's operations. The functional currency of UMC is the Ukrainian Hryvnia ("UAH") and the functional currency of STROM telecom is the Czech Krona. Management believes that U.S. dollar ("USD") is the appropriate functional currency for the other subsidiaries of the Group due to the pervasive use of the U.S. dollar in their operations.

The Group has selected the USD as its reporting currency and translates into USD financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation adjustment loss in the amount of $23.4 million for the year ended December 31, 2005 and translation adjustment gain in the amount of $30.0 million for the year ended December 31, 2004, net of minority interests of $26.8 million and $28.6 million, respectively, were recorded as a separate component of other comprehensive income.

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

Revenue Recognition – 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 ranged from 20 to 76 months in the year ended December 31, 2004 and from 12 to 60 months in the year ended December 31, 2005. The effect of change in estimate in the year ended December 31, 2005 was not material. 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 year ended December 31, 2004. Effective July 1, 2005, the Group has changed its estimates of average subscriber lives for residential subscribers of the broadband Internet services from 3 years to 1 year. The effect of this change in estimate in the year ended December 31, 2005 was an increase in net income of approximately $4.0 million, net of income tax.

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

Local telephone services, provided by MGTS, totaling approximately 4% and 5% of the consolidated revenues for the years ended December 31, 2005 and 2004, respectively, are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service approval.

Prior to January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. According to the new Law on Communications, effective January 1, 2005, all MGTS' subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS. The amount of discounts provided by MGTS for the year ended December 31, 2004 was $26.3 million.

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 Group'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 Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition". The aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each element of an arrangement are recognized as revenue when the following criteria have been met: (a) a written contract for the delivery of an element has been executed, (b) the Group has delivered the product to the customer, (c) the fee receivable is fixed or determinable, and (d) collectibility of the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract 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 years ended December 31, 2005 and 2004, 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 postcontract 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.

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

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

In the year ended December 31, 2005, revenues on the construction-type contracts of the Real Estate Segment were recognized using the percentage of completion method in accordance with SOP 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". Progress towards completion is measured by percentage of costs incurred to date to the estimated total costs at completion for each contract (the "cost-to-cost" method). The Group carries the projects at cost until the project is at least 30% complete, as 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 30% complete. The Group does not recognize revenues on contracts until reasonably dependable estimates of costs to complete the project and contractual revenues can be made. Revenues on other types of contracts of the Real Estate Segment are recognized in accordance with FAS 66, "Accounting for Sales of Real Estate".

Prior to January 1, 2005, the Group recognized revenues on construction-type contracts using the completed contract method as reasonably dependable estimates of the extent of progress towards completion, contract revenues and contracts costs in most cases could not be made. The change in accounting principle effective January 1, 2005 was accounted for retroactively. The effect of the change for the year ended December 31, 2004 was an increase in sales of $22.7 million, an increase in cost of sales of $24.7 million, an increase in selling, general and administrative expenses of $0.6 million, a decrease in depreciation and amortization expenses of $2.6 million and increase in retained earnings of $6.2 million.

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

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

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

Financial Instruments – The Group's financial instruments include cash, short-term and long-term investments, receivables, payables and debt. Except as described below, the estimated fair value of such financial instruments as of December 31, 2005 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of December 31, 2005 ranged from 101.3% to 106.6% of the principal amount. As of December 31, 2005, fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. In addition, in December 2004, the Group entered into two variable-to-fixed interest rate swap agreements to manage its exposure to changes in fair value of future cash flows of its variable-rate long term debt, which is caused by interest rate fluctuations. In March 2005 and October 2005, the Group also entered into several short-term USD forward agreements to hedge the fair value of its investments in Ruble-denominated financial instruments. The Group does not use derivatives for trading purposes.

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

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

MBRD also enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets. In December 2005, JSFC Sistema entered into a repurchase operation on sale and purchase back of approximately 11% of Comstar shares. The respective repurchase was completed in February 2006 (Note 21).

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.

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

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

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 ("VAT") – Value-added taxes 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") was assigned their fair values at the acquisition date. If fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the

acquisition date, including PP&E, were reduced by such excess. All subsequent additions to PP&E have been recorded at cost.

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

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

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	10-31 years
Network and base station equipment	5-12 years
Other property, plant and equipment	3-15 years

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

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

As a result of numerous restatements of financial statements for the fiscal year ended December 31, 2004, by U.S. public companies and publication of a letter by the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC") regarding the interpretation of longstanding lease accounting principles, MTS has corrected its accounting practices for the leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements.

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

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

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group have a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under FAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2005, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

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

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed annually for impairment or whenever it is determined that the impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No material impairment of goodwill was identified in the years ended December 31, 2005 and 2004.

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

	(000's)			
	Telecom-munications	**Insurance**	**Corporate and Other**	**Total**
Balance as of January 1, 2004	$ 71,363	$ -	$ 635	$ 71,998
Purchase price allocation	101,002	1,341	-	102,343
Balance as of December 31, 2004	172,365	1,341	635	174,341
Purchase price allocation	156,591	-	-	156,591
Balance as of December 31, 2005	**$ 328,956**	**$ 1,341**	**$ 635**	**$ 330,932**

Other intangible assets represent acquired customer bases, trademarks, roaming contracts with other telecommunications operators, telephone numbering capacity, rights to use radio frequencies, 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 commencing January 1, 2005, are amortized over the estimated average subscriber life from 32 to 60 months. In the year ended December 31, 2004, the average subscriber life ranged from 20 to 76 months. Telephone numbering capacity with limited contractual life and the rights to use premises are being amortized over their contractual lives, which vary from five to twenty years. Rights to use radio frequencies are amortized over the period of the contractual life from three to fifteen years. Software costs and other intangible assets are being amortized over three to fifteen years. All finite-life intangible assets are being amortized using the straight-line method.

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

Investments in corporate shares where the Group owns more than 20% of voting shares, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, 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 $82.7 million and $27.3 million, net of accumulated amortization of $28.7 million and $11.7 million as of December 31, 2005 and 2004, 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 years ended December 31, 2005 and 2004.

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

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

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

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

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

	Shares	**Weighted average exercise price, USD**
Outstanding as of January 1, 2004	4,797,410	1.87
Granted	1,665,256	5.95
Exercised	(2,726,966)	1.49
Forfeited	(204,730)	1.92
Outstanding as of December 31, 2004	3,530,970	4.09
Granted	1,778,694	6.89
Exercised	(1,801,622)	2.43
Forfeited	(320,802)	5.25
Outstanding as of December 31, 2005	**3,187,240**	**6.47**

As of December 31, 2005, MTS had the following stock options outstanding:

Exercise prices	Number of shares	Remaining weighted average life (years)
5.95	1,417,546	0.54
6.89	1,769,694	1.54
	3,187,240	

None of the options granted in 2004 and 2005 outstanding at December 31, 2005 were exercisable.

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 market price at the date of 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 the option. This amount historically had been insignificant to the consolidated financial statements.

The fair value of options granted during the two years in the period ended December 31, 2005 were estimated using the binomial option pricing model using the following assumptions:

	2005	2004
Risk free rate	4.7%	4.5%
Expected dividend yield	3%	3%
Expected volatility	40.0%	48.8%
Expected life (years)	2	2
Fair value of options (per share)	$1.74	$2.36

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 would have been as follows:

		2005		2004
Net income as reported	$	534,408	$	411,227
Pro-forma effect of the application of fair value method of accounting		(907)		(545)
Pro-forma net income	**$**	**533,501**	**$**	**410,682**
Earnings per share – basic and diluted				
As reported	$	56.4	$	50.8
Pro-forma	$	56.3	$	50.7

In accordance with the Russian legislation, MTS Board members and key employees may be considered insiders with respect to the Group and thus may be restricted from selling their shares.

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% (from 35.6% to 2% before January 1, 2005) 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% (from 28% to 2% before January 1, 2005) depending on the annual gross salary of each employee. These contributions are expensed as incurred.

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

In addition, MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 26). The Group accounts for pension plans following the requirements of FAS No. 87, "Employers' Accounting for Pensions" and FAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106". The Group's contributions to the plan assets are managed by Pension Fund Sistema, a subsidiary of Sistema.

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 years ended December 31, 2005 and 2004 amounted to $56.2 million and $34.0 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2005 and 2004 were $270.0 million and $168.5 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the years ended December 31, 2005 and 2004. Diluted EPS reflect the potential dilution of MTS' stock options, granted to employees.

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

New Accounting Pronouncements – In September 2004, the SEC staff issued the EITF Topic D-108, "Use of the Residual Method to Value Acquired Assets Other Than Goodwill", which requires the companies to use the direct value method to determine the fair value of the intangible assets acquired in business combinations completed after September 29, 2004. The SEC staff also announced that companies that currently apply the residual value approach for valuing intangible assets with indefinite useful lives for purposes of impairment testing must use the direct value method by no later than the beginning of their first fiscal year after December 15, 2004. The adoption of the above SEC guidance did not have a material impact on the Group's financial position or results of operations.

In December 2004, the Financial Accounting Standards Board ("FASB") issued FAS No. 123R, "Share-Based Payment" ("FAS No. 123R"), a revision of FAS No. 123, "Accounting for Stock-Based Compensation". FAS No. 123R supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and requires all entities to recognize compensation cost in an amount equal to the fair value of share-based payments grant-date to employees. That cost is recognized over the period during which an employee is required to provide service in exchange for an award of equity instruments. The Group will adopt FAS No. 123R for the year ending December 31, 2006. The Group does not expect the adoption of FAS No. 123R to have a material impact on its financial position or results of operations.

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

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

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

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 accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-2, "The Meaning of 'Conventional Convertible Debt Instrument' in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Issue No. 00-19 is used to evaluate whether embedded derivatives should be bifurcated under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Specifically, Statement 133 provides guidance as to when an issuer is required to bifurcate a conversion option that is embedded in convertible debt. However, Issue 00-19 does not define "conventional convertible debt instrument." Given the development of numerous contractual terms that may be included in a convertible debt instrument, it was not clear when a convertible debt instrument is "conventional". The consensus reached by EITF No. 05-2 is effective for new instruments entered into and instruments modified in reporting periods after June 29, 2005. The Group does not anticipate the adoption of EITF No. 05-2 to have a material impact on its financial position and results of operations.

In June 2005, the 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 Group does not anticipate the adoption of EITF No. 05-6 to have a material impact on its financial position and results of operations.

In October 2005, the FASB issued FASB Staff Position ("FSP") FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period". Under the provisions of FSP FAS 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 13-1 are effective for the Group for the year ending December 31, 2006. The Group is currently assessing the impact of FSP FAS 13-1 on its consolidated financial position and results of operations.

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.

Reclassifications – Certain other reclassifications of prior years' amounts have been made to conform to the presentation adopted for the year ended December 31, 2005.

3. ACQUISITIONS

Acquisition of Minority Interest in ReCom

In December 2005, MTS purchased 46.1% minority stake in ReCom for $110.0 million in cash. Previously MTS owned 53.9% of ReCom; as a result of the transaction, MTS' ownership in the subsidiary increased to 100.0%. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license cost by $43.9 million, customer base cost by $15.0 million and resulted in recognition of goodwill in the amount of $16.2 million.

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 3 to 8 years and customer base is amortized over the average subscriber's life of approximately 60 months.

Barash Communication Technologies Inc. ("BCTI") Acquisition

In June 2005, MTS entered into an agreement to acquire 100.0% of the outstanding stock of BCTI, which is a leading cellular operator in Turkmenistan with a customer base of approximately 59,100 subscribers (unaudited). BCTI holds a license to provide GSM-900/1800 services for the whole territory of Turkmenistan and a license for provision of AMPS services. The agreement provided for the acquisition of a 51.0% stake and included a forward commitment to complete the acquisition of the remaining 49.0% stake within eight months of the date of the original agreement subject to certain conditions.

MTS acquired the 51.0% stake in BCTI for cash consideration of $28.2 million, including a finder's fee of $2.5 million. The Group accounted for the purchase of the remaining 49.0% stake in BCTI as a financing of the minority interest and, consequently, consolidated 100.0% of the subsidiary starting from June 30, 2005. In November 2005, MTS completed the acquisition of the remaining 49.0% stake in BCTI for a cash consideration of $18.5 million.

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

		(000's)
Current assets	$	7,808
Non-current assets		3,804
License costs		50,503
Deferred taxes		(10,862)
Current liabilities		(4,566)
Purchase price	**$**	**46,687**

In accordance with certain provisions of the license agreement, the Group shares certain percentage of net profit derived from the operations of the BCTI branch located in Turkmenistan with the Government of Turkmenistan. The amount of shared net profit is calculated based on the financial statements prepared in accordance with local GAAP subject to certain adjustments. The Group shared 49% of net profit since the date of acquisition and until December 21, 2005, and 20% of net profit commencing December 21, 2005.

Gorizont-RT Acquisition

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

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

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

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 10 years and customer base is amortized over the average subscriber's life of approximately 60 months.

In June 2005, MTS acquired the remaining 24.0% stake in Gorizont-RT, increasing its ownership to 100.0%. The purchase price paid $13.5 million. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license cost by $7.5 million.

Sibintertelecom Acquisition

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

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

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

Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. License costs are amortized over the remaining contractual terms of the licenses of approximately 5 years for Chita region and 7 years for Aginsk-Buryatsk District and customer base is amortized over the average subscriber's life of approximately 44 months.

In December 2005, MTS acquired the remaining 6.47% stake in Sibintertelecom, which resulted in increase of MTS' ownership in Sibintertelecom to 100.0%. The amount paid for the stake was $2.8 million. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license cost by $1.4 million.

Telesot Alania Acquisition

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

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

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

License costs are amortized over the remaining contractual terms of the licenses of approximately 2 years and customer base is amortized over the average subscriber's life of approximately 60 months.

In December 2005, MTS acquired the remaining 47.5% equity stake in Telesot-Alania, increasing its ownership in the company to 100.0%. In accordance with the purchase agreement, the purchase price amounted to $32.6 million, of which $9.0 million was paid in cash in December 2005 and $23.6 million was recorded as a liability as of December 31, 2005, and included in other payables in the consolidated balance sheet. The liability was fully settled in February 2006. The acquisition was accounted for using the purchase method of accounting. The preliminary allocation of purchase price increased recorded license cost by $2.7 million and $26.3 million was recognized as goodwill. Goodwill is mainly attributable to economic potential of the market assuming low regional penetration level as of the date of acquisition. The purchase price allocation for this acquisition has not been yet finalized at the date of these financial statements.

Uzdunrobita Acquisition

In July 2004, MTS entered into an agreement to acquire 74.0% of Uzbekistan mobile operator JV Uzdunrobita ("Uzdunrobita") for a cash consideration of $126.4 million, including transaction costs of $5.4 million. Acquisition was completed in August 2004. Uzdunrobita holds licenses to provide GSM-1800 mobile communication services on the whole territory of Uzbekistan, which has a population of approximately 25.2 million. Uzdunrobita's customer base as of the date of acquisition was approximately 230,000 subscribers (unaudited).

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

Current assets	$	5,950
Non-current assets		67,293
License costs		40,861
Customer base cost		958
Trademark		3,622
Goodwill		46,470
Current liabilities		(14,705)
Non-current liabilities		(1,356)
Deferred taxes		(6,384)
Minority interest		(16,308)
Purchase price	**$**	**126,401**

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

MTS also entered into call and put option agreements with the existing shareholders of Uzdunrobita to acquire the remaining 26.0% of common shares of the company. The exercise period for the call and put option is 48 months from the acquisition date. The call and put option agreements stipulate a minimum purchase price of $37.7 million plus 5% per annum commencing from the acquisition date. Fair value of the option was $5.9 million and $4.0 million at December 31, 2005 and 2004, respectively, and was included in other current assets on the accompanying consolidated balance sheets.

Kvazar-Micro Corporation B.V. Acquisition

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

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

Current assets	$	68,718
Non-current asset		3,635
Trademark		3,211
Customer contracts and the related customer relationships		13,864
Current liabilities		(43,485)
Non-current liabilities		(4,068)
Minority interest		(13,875)
Purchase price	**$**	**28,000**

Customer contracts and the related customer relationships acquired are amortized over the remaining contractual terms of approximately 36 months. Trademarks have unlimited contractual lives and are reviewed, at least annually, for impairment.

Primtelefon Acquisition

In June 2004, MTS purchased 50.0% of Far-Eastern operator Primtelefon ("Primtelefon") for a cash consideration of $31.0 million, increasing its effective ownership to 100.0%, as 50.0% of Primtelefon's shares were controlled through Vostok Mobile, a wholly-owned subsidiary of MTS. Primtelefon holds licenses to provide GSM-900/1800 mobile cellular communications in the Far-East region of Russia. The company's subscriber base as of the date of acquisition of the controlling stake was approximately 216,000 subscribers (unaudited).

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

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

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

Energy companies in the Republic of Bashkortostan

In August 2005, the Group completed acquisition of minority shareholdings in six energy companies in the Republic of Bashkortostan for a total cash consideration of $469.6 million. The acquired shareholdings included 19.9% of the shares of each of Novoil, Ufimsky NPZ, Ufaneftekhim, ANK Bashneft and Ufaorgsintez and 18.6% of Bashnefteproduct.

In October 2005, the Group increased its stakes in five of the companies, for a total cash consideration of $143.7 million. Sistema's shareholding in Novoil increased to 28.2%, in Ufimsky NPZ to 25.5%, in Ufaneftekhim to 22.4%, in ANK Bashneft to 25.0% and in Ufaorgsintez to 24.9%.

The Group's share in net assets and net income of the acquired companies is included in the consolidated net assets and operating results using the equity method of accounting.

Acquisition of an Additional Stake in MTS

In December 2005, the Group increased its ownership interest in VAST to 100.0% for a total cash consideration of $160.0 million. Prior to the acquisition VAST was a joint venture, where Sistema had 51% ownership interest and 50% voting power. VAST owns 3% stake in MTS.

In addition, in October-December 2005, the Group acquired on the open market 0.8% common shares of MTS for a total cash consideration of $115.5 million.

As a result of these transactions, Sistema's voting power in MTS increased by 2.3% to 52.8%.

The acquisition was accounted for using the purchase method. The preliminary allocation of purchase price increased recorded trademark cost by $87.9 million, customer base cost by $7.2 million, numbering capacity cost by $2.1 million, license cost by $17.2 million, and resulted in recognition of goodwill in the amount of $113.0 million. The purchase price allocation for this acquisition has not been yet finalized at the date of these financial statements. Goodwill is mainly attributable to economic potential of the markets where MTS is operating.

Other Acquisitions

In December 2005, MTS acquired an additional 74.0% stake in MTS-Tver for $1.4 million. As a result of the transaction, MTS' ownership in the company increased to 100.0%.

In December 2005, Comstar UTS acquired 100.0% shares of Conversiya Svyaz and Overta, two alternative fixed-line operators in the Saratov region, for $9.0 million in cash and $1.0 million in a deferred cash payment.

In December 2005, Comstar UTS acquired 100.0% shares of CTK Contrast Telecom, an alternative fixed-line operator in the Moscow region, for $5.5 million in cash. CTK Contrast-Telecom provides local fixed-line voice service, data transmission, internet access and a range of value-added services and operates a proprietary telecommunications network, controlling about 25.0% of the local wireline telephony market and over 50.0% of the Internet access market in Sergiev Posad.

In December 2005, Comstar UTS acquired 100.0% of Unitel, an alternative fixed line operator in the Moscow region, for a total cash consideration of $4.5 million, including refinancing of its debts.

In December 2005, the Group acquired 75.0% stake in Upravlenie i Leasing for a cash consideration of $5.1 million. Upravlenie i Leasing is engaged in provision of cable TV broadcasting services, data transmission and local telephone services in Ekaterinburg. The Group was granted a call option to purchase the remaining 25.0% stake in Upravlenie i Leasing for a cash consideration agreed upon by the parties as of the date of option exercise.

In November 2005, the Group acquired 100.0% stake in Euro Dawn, the owner of 74.0% of Digital TV Broadcasting, for a cash consideration of $7.0 million. Digital TV Broadcasting is the holder of licenses for aerial, digital, multiprogram television broadcasting and transmission of additional information. The Group was granted an exclusive right of first refusal to purchase the remaining 26.0% stake in Digital TV Broadcasting.

In October 2005, Comstar UTS acquired 89.4% of the ordinary shares and 31.9% of preferred shares of Tyumenneftegazsvyaz, an alternative fixed line telecommunications services provider operating in the Tyumen region, as well as in the autonomous districts of Khanty Mansi and Yamalo Nenets, for $9.0 million in cash.

In September 2005, Comstar UTS completed the purchase of 45.0% stake in Metrocom, an alternative fixed line operator in Saint-Petersburg, for a total cash consideration of $22.5 million, including the refinancing of a loan previously obtained by Metrocom. The acquisition is expected to enhance Comstar UTS business operations through regional development.

In August and September 2005, Detsky Mir acquired a retail network operating under the brand "Vyrastai-ka", S-Toys, a children's toys wholesale company, and Chudo-Ostrov Neva, children's goods retailer based in Saint-Petersburg, for a total cash consideration of approximately $2.0 million. The retail network owns 4 stores in Moscow and 6 stores in Saint-Petersburg, specializing in selling toys for children.

In August 2005, Sistema Mass Media acquired Esta group, a Russian cable television operator in MMDS standard, for a total cash consideration of approximately $8.6 million. Esta group owns cable networks in Tver, Kaluga and several other cities, and provides services to approximately 217,000 customers (unaudited).

In July 2005, as a part of implementation of the SITRONICS' restructuring plan, the Group re-acquired a 33.0% stake in STROM telecom for $19.8 million. The fair value of the acquired net assets as of the date of this transaction was determined to be in excess of the purchase price. The allocation of purchase price decreased cost of the manufacturing plant and inventories by $3.9 million and $3.6 million, respectively. The remaining excess of the fair value of net assets acquired over the purchase price comprised $4.0 million and was recorded as an extraordinary gain in the consolidated statement of operations.

In May 2005, the Group acquired 54.0% stake in MTU Saturn for a cash consideration of $1.5 million. MTU Saturn operates in the business of design and installation of electric systems. In June 2005, the Group acquired 51.0% stake in Yaroslavl Radio plant, producer of commercial payload for satellites and professional communications facilities, for a cash consideration of $6.1 million.

In April 2005, the Group acquired an additional 53.0% stake in Kvant, a personal computers and components manufacturer located in Zelenograd, for a total consideration of $6.0 million, increasing the Group's voting power to 88.0%. The Group utilized Kvant's facilities to enhance its home-appliance and computer assembling activity and integrate it into Technology business segment.

In February 2005, MTS completed the acquisition of 74.9% stake in Sweet-Com for a cash consideration of $2.0 million. Sweet-Com is a holder of 3.5GHz radio frequency allocation for Moscow region. Sweet-Com is providing wide-band radio access services for the "last mile" based on the Radio-Ethernet technology. The acquisition was accounted for using purchase method of accounting. As the result of the purchase price allocation the Group recorded license cost of $2.4 million.

In February 2005, the Group acquired 20.0% minority stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing the Group's voting power in Telmos to 100.0%.

In February 2005, MTS acquired 74.0% stake in MTS-Komi Republic increasing its ownership to 100.0%. The consideration paid under the transaction amounted to $1.2 million.

In February 2005, the Group completed acquisition of 13.0% stake in MBRD. The total consideration amounted to $10.0 million, including cash payment of $2.1 million and promissory notes in the amount of $7.9 million. As a result of this transaction, the Group's voting power in MBRD increased to 99.0%. In June 2005, the Group contributed $20.9 million to the share capital of MBRD by purchasing 130,000 newly issued shares of MBRD's common stock in a closed subscription.

In June 2004, the Group acquired from Vneshtorgbank 5.0% share in East-West United Bank, a bank incorporated in Luxembourg, for a cash consideration of $1.7 million. In November 2004, the Group acquired from Vneshtorgbank 14.0% share in East West United Bank for a cash consideration of $5.3 million, increasing its ownership to 49.0%.

In October 2004, Rosno acquired from RAO UES 100.0% stake in Leader. The value of consideration equaled $3.0 million. Leader is an insurance company, selling primarily property insurance to energy companies. During 2002-2004, the Group assumed reinsurance from Leader and performed operational management of this company.

In October 2004, Rosno acquired 100.0% stake in Deutsche Investment Trust for a cash consideration of $2.4 million. The allocation of purchase price increased goodwill by $1.3 million. The goodwill is mainly attributable to the assembled workforce.

In September 2004, MTS exercised its option to acquire the remaining 47.3% of common shares and 50.0% of preferred shares in TAIF Telcom for a cash consideration of $63.0 million, increasing its ownership to 100.0%. The Group received title to the acquired shares in October 2004. The purchase price allocation increased recorded license costs by $35.8 million, increased acquired customer base by $4.2 million; goodwill was recorded in the amount of $21.2 million. Goodwill is mainly attributable to economic potential of the market.

In September 2004, the Group acquired 29.8% stake in Mezhregionalny Transit Telecom ("MTT"), operator of a nation-wide transit network providing telecommunications services and network interconnection for mobile and fixed network operators throughout Russia, for cash consideration of $39.8 million, increasing its ownership interest in MTT to 44.8%. In October 2004, the Group purchased an additional 0.2% stake in MTT for cash consideration of $0.1 million. As a result, by December 31, 2004, the Group's ownership interest in MTT increased to 45.0%. In February 2005, the Group acquired an additional 5.0% equity stake in MTT for a cash consideration of $6.4 million, increasing its voting interest in MTT to 50.0%.

In August 2004, MTS acquired the remaining 50.0% stakes in Astrakhan Mobile and Volgograd Mobile, increasing its ownership to 100.0%, for a cash consideration of $1.1 million and $2.9 million, respectively. Astrakhan Mobile holds a 800/1800 MHz licenses covering Astrakhan region (population of approximately 1 million) and Volgograd Mobile holds a 800/1800 MHz licenses covering Volgograd region (population of approximately 2.7 million). As of July 31, 2004, two companies provided AMPS/DAMPS services to approximately 10,000 subscribers (unaudited). The acquisition was accounted for using the purchase method. The allocation of purchase price for the first and second stakes in both companies resulted in increase in license costs by $16.5 million.

In August 2004, MTS acquired 49.0% minority stake in UDN-900 for $6.4 million in cash. This acquisition increased MTS' ownership in UDN-900 to 100.0%. The allocation of purchase price increased recorded license cost by $0.3 million. UDN-900 provides GSM 900 services under the MTS brand in Udmurtia Republic (population 1.6 million). UDN-900's subscriber base as of July 31, 2004 was 219,760 (unaudited).

In April 2004, MTS acquired additional 7.5% stake in MSS, a company, which operates in the Omsk region, for $2.2 million in cash. This acquisition increased MTS's ownership in MSS to 91.0%. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license costs by $1.1 million.

In April 2004, MTS acquired 40.0% stake in FECS-900 for a cash consideration of $8.3 million, increasing its ownership in FECS-900 to 100.0%. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license costs by $4.1 million.

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

- 35.0% of MTS-NN (a service provider in Nizhny Novgorod) for $0.5 million, and
- 49.0% of Novitel (handsets dealer in Moscow) for $1.3 million.

Both acquisitions increased Group's share in the respective companies to 100.0%. The acquisitions were accounted for using the purchase method. The allocation of purchase price increased recorded goodwill by $1.8 million.

In March 2004, MTS acquired 11.0% stake in SCS-900 for a cash consideration of $8.5 million, increasing its ownership in SCS-900 to 99.5%. The acquisition was accounted for using the purchase method. The allocation of purchase price increased recorded license costs by $2.6 million.

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

Pro forma results of operations (unaudited)

The following pro forma financial data for the years ended December 31, 2005 and 2004 give effect to the acquisitions of BCTI, ReCom, MTS, Uzdunrobita, Kvazar-Micro, Sibintertelecom, Telesot Alania and Gorizont-RT, as if they had occurred as of January 1, 2004:

	(000's)	
	2005	**2004**
Net revenues	$ 7,593,549	$ 5,766,738
Income before cumulative effect of a change in accounting principle	553,549	459,937
Net income	557,505	424,465
Earnings per share, basic and diluted:	$ 58.83	$ 52.40

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

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES

In December 2005, the Group disposed of its ownership interest in Concern CMM, a subsidiary operating in mass media business, to a related party for free. The transaction resulted in an increase of additional paid-in capital of $1.2 million.

In December 2005, Rosno sold its interest in Leader, a subsidiary operating in insurance business, for the total cash consideration of approximately $6.0 million. The transaction resulted in recognition of loss from disposal of $0.2 million.

In November 2005, the Group sold its interests in TV-Project, the subsidiary operating in media business for a total cash consideration less than $0.1 million. The transaction resulted in recognition of gain from disposal of $2.5 million. The assets and operations of the subsidiary were not material for the Group.

In November 2005, the Group sold its interests in Kamov Holding for the total cash consideration of approximately $11.8 million. Kamov Holding held 49.5% stake in Kamov, a helicopter producer. The transaction resulted in gain from disposal of $1.0 million.

In September 2005, the Group sold its interest in Concern RadioCenter for a total cash consideration of approximately $0.9 million. The transaction resulted in recognition of gain from disposal of $0.4 million. The assets and operations of this subsidiary were not material for the Group.

In August 2005, the Group sold its interests in Nasha Pressa and Stolichnaya Pressa, the subsidiaries operating in media business for the total cash consideration of approximately $3.0 million. The transaction resulted in recognition of gain from disposal of $2.9 million. The assets and operations of these subsidiaries were not material for the Group.

In February 2005, the Group sold its interests in Credo Service and Gloros Stolitsa, the subsidiaries operating in media business for the total cash consideration of less than $0.1 million. The transaction resulted in recognition of loss from disposal of $0.5 million. The assets and operations of these subsidiaries were not material for the Group.

In January 2005, Intourist announced issue of new stock to its existing shareholders. Moscow Government purchased the first tranche of 3,120,516,875 shares in exchange for a 40% stake in Cosmos Hotel, a 1000-room hotel complex situated in Moscow. In April 2005, Sistema paid an equivalent of $47.7 million for the remaining 6,961,052,632 newly-issued shares of Intourist. Upon completion of this transaction, Sistema's ownership interest in Intourist decreased to 72%. During the year ended December 31, 2005, the Group purchased an additional 3.4% share of Cosmos Hotel on the open market for a total cash consideration of $0.9 million.

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $154.2 million and $113.6 million as of December 31, 2005 and 2004, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities less than 90 days. Within this amount, $2.4 million and $3.8 million, as of December 31, 2005 and 2004, respectively, represent the Group's deposits with East-West United Bank, an affiliate of the Group. As of December 31, 2005 and 2004, the Group had $17.1 million and $5.6 million, respectively, in current accounts with East-West United Bank.

Also included in cash as of December 31, 2005 and 2004, are $19.6 million and $10.9 million, respectively, which represent the MBRD's minimum reserve deposit, required by the Central Bank of Russian Federation.

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2005 and 2004 consisted of the following:

	(000's)	
	2005	**2004**
Trading securities:		
RF Eurobonds	$ 5,013	-
Corporate bonds	206,655	$ 36,669
Municipal bonds	54,959	12,622
Corporate shares	16,414	11,541
Other trading securities	16,588	9,141
	299,629	69,973
Other short-term investments:		
Promissory notes and deposit certificates from third parties	135,099	35,546
Promissory notes from and loans to related parties	49,162	13,028
Bank deposits with original maturities exceeding 90 days	104,649	80,743
Other short-term investments	5,657	3,290
	294,567	132,607
Total	**$ 594,196**	**$ 202,580**

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

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

The weighted average interest rate on promissory notes from third parties both as of December 31, 2005 and 2004 was 8%, while promissory notes from related parties were mostly interest-free. Deposit certificates bear a weighted average interest rate of 5% as of December 31, 2004, compared to 6% as of December 31, 2005. Most of the notes and certificates mature within 1 year.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2005 were 4% for RUR-denominated deposits and 7% on deposits in USD. Included in bank deposits as of December 31, 2005 and 2004 are deposits with East-West United Bank equivalent to $46.5 million and $53.0 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 December 31, 2005 and 2004 consisted of the following:

	(000's)	
	2005	**2004**
Loans to customers	$ 589,521	$ 227,668
Loans to banks	81,424	173,179
	670,945	400,847
Less allowance for loan losses	(102,443)	(21,537)
Total	**$ 568,502**	**$ 379,310**

Loans to customers as of December 31, 2005 and 2004 included loans to related parties of $47.8 million and $93.3 million, respectively.

8. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Receivables from insurance operations	$ 102,422	$ 104,834
Advances to health care providers	47,167	25,444
Total	**$ 149,589**	**$ 130,278**

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Trade receivables	$ 512,217	$ 370,988
Less: provision for doubtful accounts	(69,574)	(43,067)
Total	**$ 442,643**	**$ 327,921**

Included in trade receivables as of December 31, 2005 and 2004 are receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $30.0 million and $42.2 million, respectively. Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

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 December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Prepaid expenses and advances to suppliers	$ 369,078	$ 134,087
Security deposit under repurchase agreement (Note 21)	42,000	-
Prepaid taxes	39,868	22,746
Deferred policy acquisition costs	31,122	26,203
Restricted cash	8,503	3,268
Uzdunrobita put-call option	5,956	-
Receivables for sale of Micron shares	4,870	5,052
Other	80,674	43,168
Less: provision for doubtful accounts	(3,919)	(4,064)
Total	**$ 578,152**	**$ 230,460**

Policy acquisition costs' amortization charge for the years ended December 31, 2005 and 2004 was $81.9 million and $42.7 million, respectively.

11. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Raw materials and spare parts	$ 171,026	$ 97,427
Project costs – construction, net of progress billings	142,572	55,394
Finished goods and goods for resale	131,959	89,123
Work-in-progress	37,352	34,888
Total	**$ 482,909**	**$ 276,832**

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Land	$ 16,792	$ 37,944
Buildings and leasehold improvements	740,786	547,629
Switches, transmission devices, network and base station equipment	4,182,957	3,284,977
Other plant, machinery and equipment	689,884	443,860
Construction in-progress and equipment for installation	1,766,778	1,080,900
	7,397,197	5,395,310
Less: accumulated depreciation	(1,521,073)	(947,265)
Total	**$ 5,876,124**	**$ 4,448,045**

Depreciation expense for the years ended December 31, 2005 and 2004 amounted to $630.1 million and $510.1 million, respectively.

13. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005		2004	
	Voting power, %	**Carrying value**	**Voting power, %**	**Carrying value**
Shares of energy companies in the Republic of Bashkortostan (Note 3)	Various	$ 636,865	-	-
MTT (Note 3)	50%	73,984	45%	$ 49,205
MTS Belarus	49%	66,288	49%	27,699
Cosmos Hotel (Note 4)	43%	21,614	-	-
East-West United Bank	49%	17,749	49%	16,518
Metrocom (Note 3)	45%	12,774	-	
ZETA Telecom	49%	6,338	49%	6,699
Cosmos TV	50%	4,100	50%	4,100
Sky Link	50%	3,200	50%	16,011
Loans to MTS Belarus	-	41,341	-	51,894
Loans to Sky Link	-	16,809	-	19,316
Acquired debt of Cosmos TV	-	1,000	-	1,000
Other investments and loans to investees	Various	12,141	Various	14,078
Total		**$ 914,203**		**$ 206,520**

Investments in affiliates as of December 31, 2005 include $41.3 million in loans to MTS Belarus and $16.8 million in loans to Sky Link bearing interest at 3% to 11% per annum.

Based on projected cash flows of MTS Belarus and Sky Link, the Group has concluded that no impairment of the Group's investments in MTS Belarus and Sky Link has occurred as of December 31, 2005.

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. The put and call option was recorded at fair value, which approximated nil at December 31, 2005, in the consolidated balance sheet.

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.

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. The Group's management believes that no impairment of its investment in Bitel has occurred as of December 31, 2005.

15. LICENSES, NET

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

	(000's)	
	2005	**2004**
Operating licenses	$ 1,000,390	$ 891,876
Less: accumulated amortization	(385,348)	(224,942)
Total	**$ 615,042**	**$ 666,934**

Amortization expense for licenses for the years ended December 31, 2005 and 2004 amounted to $194.3 million and $160.5 million, respectively.

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

	(000's)
Year ended December 31,	
2006	$ 209,143
2007	163,889
2008	103,184
2009	43,687
2010	38,641
Thereafter	56,498
	$ 615,042

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

16. OTHER INTANGIBLE ASSETS, NET

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

	2005			**2004**		
	Gross carrying value	**Accumu-lated amorti-zation**	**Net carrying value**	**Gross carrying value**	**Accumu-lated amorti-zation**	**Net carrying value**
Amortized intangible assets:						
Acquired customer base	$ 200,931	(121,876)	79,055 $	152,060 $	(78,491)$	73,569
Radio frequencies	130,839	(31,227)	99,612	115,493	(31,494)	83,999
Numbering capacity with finite contractual life, rights to use premises, software and other	901,812	(339,463)	562,349	517,532	(148,398)	369,134
	1,233,582	(492,566)	741,016	785,085	(258,383)	526,702
Unamortized intangible assets:						
Trademarks	126,176	-	126,176	45,376	-	45,376
Numbering capacity with indefinite contractual life	19,080	-	19,080	22,237	-	22,237
Total intangible assets	**$ 1,378,838**	**(492,566)**	**886,272 $**	**852,698 $**	**(258,383)$**	**594,315**

Amortization expense recorded on other intangible assets for the years ended December 31, 2005 and 2004 amounted to $203.8 million and $129.9 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
Year ended December 31,	
2006	$ 206,124
2007	185,326
2008	152,989
2009	98,132
2010	29,137
Thereafter	69,308
	$ 741,016

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

17. OTHER NON-CURRENT ASSETS

Other non-current assets as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Loans, promissory notes and deposits with related parties	$ 15,265	$ 20,309
Loans, promissory notes and deposits with third parties	5,423	8,513
Mutual investment funds	11,168	9,942
Other	19,016	11,660
Total	**$ 50,872**	**$ 50,424**

Loans and promissory notes from related parties are mostly RUR denominated and interest-free. Majority of such loans and promissory notes mature in 2007.

18. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Term deposits	$ 294,711	$ 132,694
Promissory notes issued	111,788	61,159
Deposits repayable on demand	90,330	133,008
Total	**$ 496,829**	**$ 326,861**

Bank deposits and notes issued as of December 31, 2005 and December 31, 2004 include deposits from and promissory notes issued to related parties for $1.9 million and $8.4 million, respectively.

19. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Unearned premium provision, net of reinsurance	$ 167,446	$ 164,589
Loss provision, net of reinsurance	89,571	76,641
Undisbursed GFOMI funds	80,071	45,719
Other insurance-related liabilities	75,240	57,511
Total	**$ 412,328**	**$ 344,460**

Usage of GFOMI funds, in the amount of $80.1 million, accumulated and undisbursed by Rosno as of December 31, 2005, 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, SUBSCRIBER PREPAYMENTS AND OTHER CURRENT LIABILITIES

Accrued expenses, subscriber prepayments and other current liabilities as of December 31, 2005 and 2004 consisted of the following:

	(000's)	
	2005	2004
Subscriber prepayments, current portion (Note 24)	$ 472,673	$ 391,880
Payroll and other accrued expenses	236,454	112,878
Accrued interest on loans	77,746	63,809
Customers' advances	46,974	59,146
Current portion of capital lease obligations (Note 22)	3,220	4,926
Dividends payable	2,137	6,237
Tax and legal provision	35,020	23,633
Other	119,120	107,683
Total	**$ 993,344**	**$ 770,192**

21. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of December 31, 2005 and 2004 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2005)	(000's) 2005	2004
Citibank N.A., ING Bank N.V. and Raiffeisen AG	USD	LIBOR+0.8%-2.3% (5.3%-6.8%)	$ 200,000	-
ING Bank N.V.	USD	LIBOR+0.8% (5.1%)	150,000	-
Deutsche Bank	USD	LIBOR+1.9% (6.6%)	132,000	-
ABN Amro Bank	USD	LIBOR+3.0% (7.5%)	49,816	-
Donau-Bank	USD	9.0%	34,230	-
Commerzbank Eurasia	USD	LIBOR+5.0% (9.8%)	20,000	$ 20,000
Dresdner Bank	USD	LIBOR+1.3% (6.1%)	14,000	-
West LB	USD	LIBOR+6.8% (10.6%)	10,400	5,000
Sberbank	RUR	12.0%	903	10,248
Credit Suisse First Boston	USD	LIBOR+2.2% (6.9%)	-	140,000
Vneshtorgbank	EUR	11.0%	-	7,501
Loans and promissory notes payable to related parties	Various	Various	6,943	21,422
Other	Various	Various	19,477	16,932
Total			**$ 637,769**	**$ 221,103**

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 is payable in four equal installments within a year after the signing date. These funds will be 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 tranche bear interest at LIBOR+0.8% and LIBOR+2.3% 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 December 31, 2005, 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.

ING Bank N.V. – In November 2005, MTS Finance entered into a credit facility agreement with ING Bank N.V. which allows it to borrow up to $150.0 million. These funds will be used for general corporate purposes. The loan bears interest of LIBOR+0.8% per annum. The arrangement fee totaled $0.8 million. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, MTS is in compliance with all existing covenants. The facility matures in six months after the first utilization of available loan amount. As of December 31, 2005, $150.0 million was outstanding under the facility.

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. Pursuant to the terms of the agreement, the shares were to be repurchased by Sistema before February 22, 2006 (Note 32). Concurrently, the Group placed the security deposit of $42.0 million in cash with Deutsche Bank AG (Note 10). The interest rate on the loan is determined as LIBOR+1.9% (6.6% as of December 31, 2005) per annum applied to the difference between the initial margin and the loan amount.

ABN Amro Bank – In August 2005, several subsidiaries of SITRONICS entered into loan agreements with ABN Amro Bank limited to $50.0 million. The loans bear interest of LIBOR+3.0% per annum (7.5% as of December 31, 2005) and mature in 2006. The outstanding balance under these loans as of December 31, 2005 was $49.8 million. The loans are 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. Management believes that as of December 31, 2005 subsidiaries of SITRONICS are in compliance with these covenants.

Donau-Bank – In 2005, several subsidiaries of SITRONICS entered into loan agreements with Donau-Bank, all of them bearing interest of 9.0% per annum. The short-term loan facilities mature in 2006. The outstanding balance under these loans as of December 31, 2005 was $34.2 million.

Commerzbank Eurasia – In November 2003, Sistema-Hals entered into a loan agreement with Commerzbank Eurasia for the amount of $20.0 million. The loan bears interest at LIBOR+5.0% (7.4% as of December 31, 2005) and was due in March 2005. The loan was extended to March 2006. The loan is guaranteed by JSFC Sistema.

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% (6.1% as of December 31, 2005) per annum. The loan was repaid in March 2006.

West LB – In December 2004, Sistema-Hals entered into a loan agreement with West LB. The loan bears interest of LIBOR+6.8% (9.4% as of December 31, 2005) per annum and was due in December 2005. The loan was extended to December 2006. The outstanding balance of the loan was $10.4 million as of December 31, 2005. The loan is guaranteed by MGTS.

Sberbank – The Group has entered into several short-term loans with Sberbank. The outstanding balance under the loans as of December 31, 2005 was $0.9 million. These loans bear interest of 12.0%.

Credit Suisse First Boston – In October 2004, MTS entered into a short-term loan facility with Credit Suisse First Boston for a total uamount of $140.0 million. Amounts outstanding under the loan agreement bore interest of LIBOR+2.2% (4.8% as of December 31, 2005). The loan was fully repaid in April 2005.

Vneshtorgbank – In December 2004, Kamov-Holding entered into a loan agreement with Vneshtorgbank for the amount of EUR 5.5 million. The loan bore interest at 11.0% and was fully repaid in June 2005.

22. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of December 31, 2005 and 2004 consisted of the following:

	(000's) 2005	2004
Capital lease obligations	$ 9,902	$ 8,338
Less: current portion of capital lease obligations (Note 20)	(3,220)	(4,926)
Total	**$ 6,682**	**$ 3,412**

During 2002-2005, 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 $24.7 million and $20.3 million as of December 31, 2005 and 2004, respectively. Interest expense on the leases recorded within income from continuing operations, was $0.6 million and $1.9 million for the years ended December 31, 2005 and 2004, respectively. Future minimum payments under the lease agreements are disclosed in Note 31.

23. LONG-TERM DEBT

Long-term debt as of December 31, 2005 and 2004 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2005)	(000's) 2005	2004
Sistema Capital Notes	USD	8.9%	$ 350,000	$ 350,000
Sistema Finance Notes	USD	10.3%	349,285	348,808
MTS Finance Notes due 2012	USD	8%	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%	150,000	-
MGTS Bonds	RUR	8.3%-10.0%	104,230	90,094
DMC Bonds	RUR	8.5%	39,954	-
Micron Bonds	RUR	-	-	6,293
Total Corporate Bonds			**$ 2,192,521**	**$ 1,595,195**
Syndicated Loan	USD	LIBOR+2.5% (7.2%)	$ 460,000	$ 600,000
HSBC Bank plc and ING BHF-BANK AG	USD	LIBOR+0.4% (5.1%)	171,816	77,003
EBRD	USD	LIBOR+3.1% (7.8%)	139,387	150,000
Citibank International plc and ING Bank N.V.	USD	LIBOR+0.3% (5.0%)	111,009	-
Commerzbank AG, ING Bank AG and HSBC Bank plc	USD	LIBOR+0.3% (5.0%)	92,826	-
ABN AMRO N.V.	USD, EUR	LIBOR+0.4% (5.1%) EURIBOR+0.4% (3.0%)	83,179	-
Barclays Bank	USD	LIBOR +0.1%-0.2% (4.8%-4.9%)	80,086	-
Vneshtorgbank	USD, EUR	LIBOR+4.9% (9.6%), EURIBOR+5.0%-5.4% (7.6-8.0%), 8.5%	66,027	16,981

	Currency	Annual interest rate (Actual at December 31, 2005)	(000's) 2005	2004
HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank	USD	LIBOR+0.3% (5.0%)	63,338	-
ING BHF Bank and Commerzbank AG	EUR	EURIBOR+0.7% (3.3%)	43,168	63,851
Commerzbank (Eurasia)	USD	LIBOR+0.4%-3.5% (5.1%-6.1%)	34,071	27,213
Citibank	USD	LIBOR+1.6% (6.3%)	21,584	15,144
ABN AMRO Bank	USD	LIBOR+3.0% (7.5%)	20,000	-
ING-Bank (Eurasia)	USD	LIBOR+2.3%-4.2% (6.8%-8.7%)	20,000	46,667
Commerzbank Belgium S.A./N.V	USD	LIBOR + 0.4% (5.1%)	13,314	-
Credit Suisse Bank	USD	LIBOR+2.8% (7.5%)	12,990	-
Raiffeisenbank	USD	-	-	19,684
Vendor Financing	Various	Various	16,260	33,181
Loans from related parties	Various	Various	26,594	86,432
Other	Various	Various	54,769	104,109
			3,722,939	2,835,460
Less amounts maturing within one year			(520,310)	(340,938)
Total			**$ 3,202,629**	**$ 2,494,522**

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% 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 December 31, 2005.

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.

In May 2005, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $52.1 million as of December 31, 2005). 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 $52.1 million as of December 31, 2005). 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.

In February 2003, MGTS issued 2-year RUR denominated bonds in the amount of 1,000 million RUR (equivalent of $34.7 million as of December 31, 2005). The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year. MGTS fully repaid the bonds in February 2005.

In December 2005, Detsky Mir-Center issued RUR denominated bonds in the amount of 1,150 million RUR (equivalent of $40.0 million as of December 31, 2005) maturing in May 2015. The bonds carry coupon of 8.5% per annum. The principal of the notes is fully and unconditionally guaranteed by 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.

In July 2003, Micron issued RUR denominated bonds with face value of RUR 300.0 million (equivalent of $10.4 million as of December 31, 2005) due in January 2005. Interest was payable semi-annually. The interest rate was set at 15% per annum, and two-thirds of the interest payments were covered by the municipal government. The Group fully repaid the bonds in January 2005.

Syndicated Loan – In July 2004, MTS entered into a $500.0 million syndicated loan agreement with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank plc, Raiffeisen Zentralbank Oesterreich AG, Bank Austria Creditanstalt AG, Commerzbank AG and others. The credit facility bears interest at LIBOR+2.5% (7.2% as of December 31, 2005) 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 December 31, 2005 and 2004, the outstanding balances under the syndicated loan facility were $460.0 million and $600.0 million, respectively. The loan facility is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, 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% (5.1% as of December 31, 2005) 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 December 31, 2005 and 2004, the outstanding balances under these agreements were $171.8 million and $77.0 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 December 31, 2005, MTS was in compliance with all existing covenants. The unused amount under the credit facility as of December 31, 2005 was $3.8 million.

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. The facility bears interest at LIBOR+3.1% (7.8% as of December 31, 2005) 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 December 31, 2005 and 2004, the balances outstanding under the loan were $138.5 million and $150.0 million, respectively. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, MTS was in compliance with all existing covenants.

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% 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 December 31, 2005, MTS was in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over nine years. As of December 31, 2005, the balance outstanding under these facilities was $111.0 million. The unused amount under the credit facility as of December 31, 2005 was $19.7 million.

Commerzbank AG, HSBC Bank plc and ING Bank AG – 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 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% (5.0% as of December 31, 2005) 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 December 31, 2005, MTS was in compliance with all existing covenants. As of December 31, 2005, the balance outstanding under the loan was $92.8 million. The unused amount under the credit facility as of December 31, 2005, was $33.0 million.

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 ($9.9 million at December 31, 2005). In March 2005, the agreement was amended to expand the Euro facility up to Euro 31.3 million (equivalent of $37.2 million at December 31, 2005).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% (5.1% as of December 31, 2005) and EURIBOR+0.4% (3.0% as of December 31, 2005) 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 December 31, 2005, MTS was in compliance with all existing covenants. As of December 31, 2005 and 2004, $83.2 million and nil, respectively, were outstanding under the facility.

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% (4.8% as of December 31, 2005) per annum and additional uncommitted facilities bear interest of LIBOR+0.1% (4.9% as of December 31, 2005) 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 December 31, 2005, MTS was in compliance with all existing covenants. As of December 31, 2005, the outstanding balance under the facility was $80.1 million. The unused amount under the credit facility as of December 31, 2005, was $31.7 million.

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 December 31, 2005, the outstanding balance under the facility was $50.0 million. The available amount under the credit facility as of December 31, 2005 was $550.0 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 (Note 3). 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 December 31, 2005 Sistema-Invest was in compliance with these covenants.

In March 2005, MGTS entered into a credit agreement with Vneshtorgbank for an amount of Euro 5.3 million (equivalent of $6.2 million as of December 31, 2005) to finance acquisition of equipment. The loan matures in September 2010 and bears interest at EURIBOR+5.0% (7.6% as of December 31, 2005) per annum. Equipment with approximate carrying value of $5.7 million is pledged to collateralize the outstanding balance under the agreement. As of December 31, 2005, the amount outstanding under the agreement was $6.2 million.

In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $8.6 million as of December 31, 2005) to finance acquisition of equipment. The loans mature in January 2010 and bear interest at the highest of EURIBOR+5.4% (8.0% as of December 31, 2005) or 7.5%. Equipment with approximate carrying value of $7.6 million is pledged to collateralize the outstanding balance under the agreement. As of December 31, 2005, the amount outstanding under these credit agreements was $6.9 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 December 31, 2005, $2.9 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 December 31, 2005 was 9.6% per annum.

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% (5.0% as of December 31, 2005) 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 December 31, 2005 MTS was in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over nine years. As of December 31, 2005, the outstanding amount under the credit facility was $63.3 million. The amount of available credit facility as of December 31, 2005 was $60.5 million.

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 $56.3 million as of December 31, 2005). In 2004, the agreement was amended to increase the amount available under the facility by Euro 9.2 million (equivalent of $10.9 million as of December 31, 2005). The loan is guaranteed by MTS and bears interest at EURIBOR+0.7% (3.3% as of December 31, 2005) per annum. The amount outstanding is redeemable in ten equal semi-annual installments starting July 2004. At December 31, 2005 and 2004, the amounts outstanding under the loan were $43.2 million and $63.9 million, respectively.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered into a number of credit facilities with Commerzbank (Eurasia) for a total amount of $38.5 million as of December 31, 2005. The facilities bear interest of LIBOR+0.4%-3.5% per annum (5.1%-8.2% as of December 31, 2005). As of December 31, 2005, approximately $34.1 million was outstanding under these facilities. The facilities are fully and unconditionally guaranteed by MGTS.

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% (6.3% as of December 31, 2005) 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 December 31, 2005, the amount outstanding under these facilities was $21.6 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 December 31, 2005, MGTS was in compliance with all existing covenants.

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% (7.5% as of December 31, 2005) 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. The credit line is subject to certain restrictive covenants

including, but not limited to, limitations on the amount of dividends paid, loans issued to parties other than Sistema Telecom, acquisitions and investments made at terms different from market and certain financial ratios. Management believes that as of December 31, 2005, Comstar UTS was in compliance with all existing covenants.

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 (6.8%-8.7% as of December 31, 2005). 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 December 31, 2005 and 2004, $20.0 million and $46.7 million were outstanding, respectively, under this credit facility.

Commerzbank Belgium S.A./N.V. – In October 2004, MTS entered into a loan agreement with Commerzbank Belgium S.A./N.V. 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 (5.1% as of December 31, 2005). 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 December 31, 2005 and 2004, the outstanding balance under the loan was $13.3 million and nil, respectively. The available amount under the credit facility as of December 31, 2005 was $5.0 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% (7.5% as of December 31, 2005) and matures in 2015. As of December 31, 2005 and 2004, the balance outstanding under the facility was $13.0 million and nil, respectively.

Raiffeisenbank – In November 2002, JSFC Sistema entered into a credit line with Raiffeisenbank (Austria) limited to $20.0 million, bearing interest of LIBOR+5%-7% per annum and maturing in 2007. The building with fair value of $16.8 million was pledged under this credit line. As of December 31, 2005, the loan was fully repaid.

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.

The schedule of repayments of long-term debt over the five-year period beginning on December 31, 2005 is as follows:

		(000's)
Year ended December 31,		
2006	$	520,310
2007		341,619
2008		1,039,942
2009		113,470
2010		604,032
Thereafter		1,103,566
Total	**$**	**3,722,939**

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 December 31, 2005, the Group recorded an asset of $3.6 million in relation to these contracts in the accompanying consolidated balance sheet and an income of $2.8 million, net of tax of $0.8 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 2005, there were no amounts reclassified from other comprehensive income to income due to hedge ineffectiveness.

24. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of December 31, 2005 and 2004 consisted of the following:

	(000's)	
	2005	**2004**
Current portion (Note 20)		
Connection fees	$ 83,333	$ 83,021
Advances and customers' deposits	389,340	308,859
	472,673	391,880
Non-current portion		
Connection fees	163,897	156,233
Total	**$ 636,570**	**$ 548,113**

25. INCOME TAX

The Group's provision for income taxes for the years ended December 31, 2005 and 2004 was:

	(000's)	
	2005	**2004**
Current provision	$ 618,913	$ 504,634
Deferred benefit	(105,920)	(58,903)
Total income tax expense	**$ 512,993**	**$ 445,731**

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

	(000's)	
	2005	**2004**
Income tax provision computed on income from continuing operations before taxes at statutory rate	$ 428,150	$ 355,546
Adjustments due to:		
Change in valuation allowance	(1,366)	234
Non-deductible items	61,334	50,951
Non-taxable items	(5,775)	(7,584)
Taxable losses not carried forward	36,820	32,007
Currency exchange and translation differences	(9,714)	21,496
Effect of rates different from standard	3,544	(6,919)
Income tax expense	**$ 512,993**	**$ 445,731**

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

	(000's)	
	2005	2004
Deferred tax assets		
Subscriber and customer prepayments	$ 86,300	$ 76,364
Property, plant and equipment	71,650	60,963
Intangible assets	25,966	1,878
Deferred revenues	25,007	24,581
Allowance for doubtful accounts and loans receivable	31,414	14,559
Accrued expenses	57,381	27,293
Tax losses carried forward	1,324	8,930
Other	17,813	14,223
	316,855	228,791
Less: valuation allowance	(371)	(8,908)
Total deferred tax assets	**$ 316,484**	**$ 219,883**
Deferred tax liabilities		
Intangible assets	(231,838)	(234,879)
Property, plant and equipment	(118,784)	(111,930)
Undistributed earnings of subsidiaries and affiliates	(23,345)	(25,220)
Debt issuance costs	(19,839)	(6,544)
Other	(31,590)	(15,284)
Total deferred tax liabilities	**$ (425,396)**	**$ (393,857)**
Net deferred tax assets, current	$ 123,681	$ 73,592
Net deferred tax assets, long-term	$ 33,472	$ 3,482
Net deferred tax liabilities, current	$ (28,149)	$ (22,071)
Net deferred tax liabilities, long-term	$ (237,916)	$ (228,977)

As of December 31, 2004, MTS had taxable loss carryforward in the amount of $29.9 million related to operations of Rosico, that resulted in deferred tax assets in the amounts of $7.2 million. While Rosico was merged into MTS in June 2003, the Group recorded a valuation allowance for the entire amount of the available tax loss carryforward related to Rosico as of December 31, 2004, as MTS had not yet performed all procedures necessary to determine what amounts will be available for deductions in the future as of that date. As of December 31, 2005, the possibility of the claim for the tax loss carryforward was assessed as remote and therefore deferred tax asset was written off against the valuation allowance.

Deferred tax assets relating to tax losses carried forward in amount of $1.3 million as of December 31, 2005 expire in 2012 and are attributable to MTU-Inform.

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

26. POSTRETIREMENT BENEFITS

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 December 31, 2005) to RUR 50,400 (equivalent of USD 1,751 as of December 31, 2005) 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 December 31, 2005), 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 December 31, 2005) to RUR 22,200 (equivalent of USD 771 as of December 31, 2005) 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 December 31, 2005) 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 December 31, 2005).

MGTS' pension obligations are measured as of December 31. 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

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

	(000's)	
	2005	**2004**
Projected benefit obligation, beginning of the year	$ 13,550	$ 6,034
Service cost	2,914	1,601
Interest cost	1,441	634
Plan amendments	-	4,488
Actuarial losses	2,117	855
Benefit payments	(668)	(433)
Currency translation effect	(487)	371
Projected benefit obligation, end of the year	18,867	13,550
Less: fair value of plan assets	(2,650)	(2,037)
Unfunded status of the plan, end of the year	**$ 16,217**	**$ 11,513**

The increase in projected benefit obligation due to plan amendment in the year ended December 31, 2004 relates to the increase in the base rate used to determine the monthly payments to the retired employees. The changes in the projected benefit obligation due to actuarial losses for the years ended December 31, 2005 and 2004 relate primarily to the changes in the discount rate and employees turnover assumptions.

The accumulated benefit obligation as of December 31, 2005 and 2004 was $16.2 million and $11.5 million, respectively. The components of the net periodic benefit costs for the years ended December 31, 2005 and 2004 are as follows:

	(000's)	
	2005	**2004**
Service cost	$ 2,914	$ 1,601
Interest cost	1,441	634
Net periodic benefit cost	**$ 4,355**	**$ 2,235**

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:

		(000's)
Year ended December 31,		
2006	$	4,499
2007		1,436
2008		1,370
2009		1,310
2010		1,257
2011-2015		4,365
Thereafter		1,980
Total	**$**	**16,217**

The plan assets for lifetime payments to employees retiring after January 1, 2004, are managed by Sistema Pension Fund, a subsidiary of the Group.

27. DEFERRED REVENUE

Deferred revenue is comprised of property, plant and equipment contributions and grants received by the Group and as of December 31, 2005 and 2004 was as follows:

		(000's)		
		2005		**2004**
Deferred revenue at the beginning of the year	$	130,913	$	115,363
Contributions received during the year		6,369		21,530
Currency translation effect		(4,693)		1,044
				137,937
Deferred revenue amortized		(6,889)		(7,024)
Deferred revenue at the end of the year	**$**	**125,700**	**$**	**130,913**

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

28. SHARE CAPITAL

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

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

On February 11, 2005, JSFC Sistema completed an initial public offering 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 December 2005, the controlling shareholder of the Group disposed of 1% of shares of JSFC Sistema in favor of four of the top managers of the Group. The Group did not record any expense in relation to this transaction, as it was not aimed at the retention of, or improved performance by the employees.

In June 2005, JSFC Sistema declared dividends for the year ended December 31, 2004, amounting to $8.8 million.

In August 2005, the Board of Directors of JSFC Sistema approved its dividend policy, which describes recommendations on the size of dividends, as well as Sistema's obligations on dividend payments and relevant disclosures. The policy determines the recommended dividend rate at 2% of the Group's consolidated net income.

29. SEGMENT INFORMATION

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

The Group's operating segments are: Telecommunications, Technology, Insurance, Banking, Mass Media, Real Estate, Retail, Tourism 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 an extraordinary gain and a change in accounting principle.

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2005 and 2004 is as follows:

For the Year ended December 31, 2005	**Tele-communications**	**Tech-nology**	**Insurance**	**Banking**	**Mass Media**	**Real Estate**	**Retail**	**Corporate and Other**	**Total**
Net sales to external customers [a]	5,892,232	665,680	371,936	78,228	26,137	73,552	207,972	277,812	7,593,549
Intersegment sales	651	295,453	36,924	28,557	26,291	4,896	36	5,782	398,590
Income from equity affiliates	66,382	16	239	1,231	-	-	-	10,165	78,033
Interest income	32,386	715	-	-	260	660	148	43,874	78,043
Interest expense	(148,681)	(10,155)	-	-	(1,393)	(5,702)	(2,266)	(81,126)	(249,323)
Net interest revenue [b]	-	-	-	13,046	-	-	-	-	13,046
Depreciation and amortization	(989,210)	(12,044)	(4,373)	(1,555)	(4,540)	(2,104)	(1,618)	(9,148)	(1,024,592)
Operating income/(loss)	1,933,269	143,517	28,417	12,722	7,070	10,399	10,445	(39,425)	2,106,414
Income tax expense	(444,975)	(31,705)	(11,175)	(3,967)	(1,174)	(4,248)	(2,712)	(13,037)	(512,993)
Income/(loss) before minority interests, extraordinary gain and cumulative effect of a change in accounting principle	1,352,892	101,892	19,679	8,755	3,814	2,315	5,649	(111,582)	1,383,414
Investments in affiliated companies	214,259	-	-	17,749	469	2,397	-	679,329	914,203
Segment assets	9,696,648	561,546	581,452	1,114,875	81,905	331,793	146,284	2,009,138	14,523,641
Cash and cash equivalents	157,088	83,339	109,954	95,260	4,899	10,010	6,846	216,961	684,357
Indebtedness [c]	(3,088,284)	(116,335)	(955)	(150,000)	(49,881)	(211,152)	(70,346)	(1,315,680)	(5,002,633)
Capital expenditures	2,339,371	30,512	8,417	5,170	28,423	18,571	8,971	44,882	2,484,317

[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

For the Year ended December 31, 2004	Tele-commu-nications	Tech-nology	Insurance	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [(a)]	4,615,846	396,912	275,510	42,950	33,282	113,086	79,344	177,020	5,733,950
Intersegment sales	856	101,515	24,684	22,788	2,935	2,256	-	-	155,034
Income/(loss) from equity affiliates	27,324	-	191	1,097	-	-	156	(1,647)	27,121
Interest income	30,202	197	-	-	6	127	23	4,821	35,376
Interest expense	(134,816)	(6,876)	-	-	(330)	(3,574)	(1,478)	(86,085)	(233,159)
Net interest revenue [(b)]	-	-	-	11,713	-	-	-	-	11,713
Depreciation and amortization	(783,668)	(3,484)	(3,378)	(1,119)	(680)	(1,049)	(1,336)	(2,560)	(797,274)
Operating income/(loss)	1,630,305	45,918	30,168	11,691	(938)	23,463	9,039	(64,224)	1,685,482
Income tax expense	(405,772)	(10,594)	(8,646)	(1,338)	(187)	(2,646)	(1,845)	(14,703)	(445,731)
Income/(loss) before minority interests extraordinary gain and cumulative effect of a change in accounting principle	1,133,354	27,199	21,074	12,693	163	16,161	6,499	(172,269)	1,044,874
Investments in affiliated companies	165,724	-	-	16,519	-	102	504	23,671	206,520
Segment assets	7,186,266	306,186	452,761	757,902	37,064	222,918	52,687	664,646	9,680,430
Cash and cash equivalents	370,938	39,685	127,610	84,404	3,257	4,090	1,190	73,785	704,959
Indebtedness [(c)]	(2,143,237)	(84,673)	(522)	(11,547)	(41,202)	(163,089)	(12,226)	(1,008,343)	(3,464,839)
Capital expenditures	1,538,321	11,882	14,079	3,032	2,472	27,191	4,083	25,926	1,626,986

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

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

	(000's) 2005	2004
Total segment operating income	$ 2,106,414	$ 1,685,482
Intersegment eliminations	(148,990)	(20,776)
Interest income	66,132	18,061
Interest expense	(225,684)	(213,943)
Currency exchange and translation (loss)/gain	(13,913)	12,620
Consolidated income before income tax, minority interests, extraordinary gain and cumulative effect of a change in accounting principle	**$ 1,783,959**	**$ 1,481,444**
Total segment assets	$ 14,523,641	$ 9,680,430
Intersegment eliminations	(1,432,791)	(857,102)
Consolidated assets	**$ 13,090,850**	**$ 8,823,328**
Total segment indebtedness	$ 5,002,633	$ 3,464,839
Intersegment eliminations	(632,023)	(399,938)
Consolidated indebtedness	**$ 4,370,610**	**$ 3,064,901**

For the years ended December 31, 2005 and 2004, the Group's revenues derived from Ukraine were $1,673.8 million and $1,115.3 million, respectively. Long-lived assets of the Group's entities domiciled in Ukraine were $1,398.4 million and $849.4 million as of December 31, 2005 and 2004, respectively.

The Group's revenues derived from Czech Republic, Uzbekistan, Turkmenistan and other countries were not significant in relation to the Group's consolidated revenues for the years ended December 31, 2005 and 2004.

For the years ended December 31, 2005 and 2004, 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 years ended December 31, 2005 and 2004, the Group entered into transactions with related parties as follows:

	(000's)	
	2005	**2004**
Sale of goods and services	$ (24,114)	$ (131,820)
Telecommunication services provided	(4,487)	(10,497)
Revenues from financial services	(4,506)	(2,052)
Consulting services provided	-	(1,799)
Telecommunication services purchased	41,181	15,751
Interest expense	-	4,998
Finance services related costs	-	1,510
Purchases of goods for resale	9,807	2,612
Other	2,105	2,238

Related party balances as of December 31, 2005 and 2004 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 2049.

Future minimum rental payments under capital and operating leases in effect as of December 31, 2005, are as follows:

	(000's)	
	Capital leases	**Operating leases**
Year ended December 31,		
2006	$ 3,220	$ 85,851
2007	4,101	40,237
2008	2,946	30,031
2009	44	24,726
2010	41	17,677
Thereafter	2	64,446
Less: amount representing interest	(452)	-
Total	**$ 9,902**	**$ 262,968**

Capital Commitments – As of December 31, 2005, MTS had executed non-binding purchase agreements in the amount of approximately $388.2 million to subsequently acquire property, plant and equipment.

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 2006. The cost of the project is estimated at approximately Euro 116.5 million (equivalent of $138.4 million as of December 31, 2005). Siemens will pay to Sistema-Hals Euro 126.7 million (equivalent of $150.5 million as of December 31, 2005).

Additionally, Sistema-Hals entered into construction agreements with various third party subcontractors for a total amount of $62.3 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 December 31, 2005, is as follows (including Organizator's fee based on a percentage of project costs incurred):

		(000's) Estimated costs to complete
Construction of Krasnopresnensky Prospekt from Moscow Ring Highway ("MKAD") to Marshala Zhukova Prospekt (includes tunnel, bridge and roads)	$	1,253,024
Highway off ramps and connection between MKAD and the Moscow "third ring" road		60,339
Road construction from the "third ring" to "Moscow City" development site		41,353
Lefortovo tunnel		46,833
Residential premises relocation on 3rd Magistralnya		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 December 31, 2005, 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 December 31, 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 $30.5 million as of December 31, 2005.

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. Under these guarantees the Group could be potentially liable for a maximum amount of $39.5 million in case of the borrower's default under the obligations. As of December 31, 2005, 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 $4.2 million as of December 31, 2005). As of December 31, 2005, Rosno's statutory share capital amounted to 1,069.0 million RUR (equivalent of $37.2 million as of December 31, 2005).

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at Euro 5.0 million for each newly-founded bank. As of December 31, 2005, MBRD's share capital amounted to 998.0 million RUR (equivalent of $34.8 million as of December 31, 2005).

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.

The new Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. The Group has incurred approximately $35.6 million in USF charges for May through December 2005 which is recorded in other operating expenses. In addition, a recent amendment to the Federal Law on Communications which is planned to become effective July 1, 2006, will implement 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 will begin 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 introduction of CPP may have a negative impact on the Group's service revenues depending on the settlement rate between mobile and fixed line operators set by the government. While the impact of this regulatory change at this point is uncertain due to the insufficient information made available to the market by the regulator, 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.

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

In the course of performing tax audit of UMC in respect to the period from October 1, 2002 to June 30, 2004, the tax authorities expressed their opinion that the contributions payable to the Pension Fund in respect of the consumption of telecommunication services by customers (6% of the value of services) should be included in the taxable base for VAT purposes. Inclusion of such amounts ultimately results in an increase in the VAT liability of UMC in respective tax reporting periods. The maximum exposure on UMC's VAT position resulting from such treatment equals to $9.0 million plus penalties amounting to $4.5 million, which were claimed by the tax authorities upon their recent tax audit.

The Pension Fund contributions were introduced in July 1999. Management believes that VAT was not applicable to the Pension Fund contributions and this point was not raised by the tax authorities in tax audits completed for the periods from July 1999 to July 2002. Also the management considers that UMC was in line with the industry practice. In 2005, UMC initiated a litigation case in respect of this issue against the tax authorities, and has received favorable rulings from the courts of two instances, which are expected to become subject to further appeal from the tax authorities. The maximum exposure of this risk on UMC's VAT position as of December 31, 2005 amounts to $38.1 million, which includes the amounts claimed by the tax authorities described above plus additional VAT charges for the period from the last date of the period audited by tax authorities and resulting penalties.

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 December 31, 2005, 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 is 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. Although writs of execution have been obtained with respect to four of the seven claims, MGTS has not yet received any payments and, accordingly did not reflect any potential cash receipts in the accompanying financial statements.

32. SUBSEQUENT EVENTS

Acquisitions

In January 2006, Sistema Mass Media acquired GK Sendi, an internet provider in Nizhny Novgorod, and Informservis, 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.

In December 2005, Comstar UTS made an unconditional purchase offer to the holders of common shares of MGTS. The offer price was set at RUR 490 (equivalent of $17.1 as of December 31, 2005) per one common share of MGTS. Shareholders of MGTS could accept this offer within 30 days of receipt of official notification. In February 2006, Comstar UTS announced the results of its public share purchase offer to MGTS common stock shareholders. For the first two months of 2006, Comstar UTS acquired 3,363,332 MGTS ordinary shares, representing 4.21% of its outstanding ordinary shares, during the offer period for a total cash consideration of RUR 1,600 million (equivalent of $58.4 million). In March 2006, Comstar UTS further purchased 3.82% of MGTS common stock from minority shareholders for $71.5 million. As a result, Comstar UTS' voting power and ownership interest in MGTS increased to 63.7% and 53.0%, respectively.

In March 2006, Comstar UTS made the second public unconditional share purchase offer to MGTS' shareholders. The offer price was set at RUR 490 (equivalent of $17.1 as of December 31, 2005) per one common share of MGTS. Shareholders of MGTS could accept this offer within 30 days of the receipt of official notification.

In February 2006, Rosno acquired a 51% 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 Group plans to develop Medexpress operations and use its distribution facilities as an additional channel for sale of Rosno products.

In February 2006, Sistema Mass Media and ECU GEST acquired 90% and 10% shares, respectively, in JIR Broadcast and JIR Inc., holders of 100% 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 (unaudited).

In March 2006, Detsky Mir completed acquisition of 99% stake in Tireks Development, an owner of a 30% minority share in Dom Igrushki, a subsidiary of the Group, for a cash consideration of $2.4 million.

In March 2006, Intourist purchased a 20% equity interest in Cosmos Hotel for approximately $20.0 million. Upon completion of this transaction, Intourist became a controlling shareholder of Cosmos Hotel with 61.8% stake in its capital.

In March 2006, Concern RTI purchased a 50%+1 share in UralEleketro and 100% share in UralElektro-K for a cash consideration of $5.4 million. Both companies are producers of electronic equipment.

Debt issuance

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 Concern SITRONICS.

In January 2006, MTS entered into a credit facility agreement with HSBC Bank plc. The facility allows borrowing of up to $100.0 million. The funds received will be used for general corporate purposes. The loan bears interest of LIBOR+0.8% per annum. An arrangement fee in the amount of $0.6 million should be paid in accordance with the agreement. The facility should be repaid by July 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 April 2006, MTS signed 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, 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. The loan 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.

Other

In January 2006, the Group contributed $200.0 million to the share capital of Concern SITRONICS by purchasing the additional issue of its shares. This contribution increased the Group's share in Concern SITRONICS from 78.0% to 94.5%.

In February 2006, Comstar UTS completed its Initial Public Offering 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 proceeds from Comstar UTS IPO amounted to $1,060 million. Upon completion of the IPO, the Group repurchased 7.3% of Comstar ordinary shares from Deutsche Bank sold earlier under a repurchase transaction (Note 21).

In March 2006, the Group announced two management incentive programs for its employees. Under the first program, JSFC Sistema transferred 14.7% of Concern SITRONICS stock to Concern SITRONICS' subsidiary, for establishment of a stock option plan for the top management of Concern SITRONICS. Under the second program, Sistema Finance, a subsidiary of the Group, purchased 44,564 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 top management.

In March 2006, the Russian registration authority approved the merger of nine wholly-owned MTS subsidiaries in Russia into MTS. The subsidiaries are Gorizont RT, TAIF Telcom, MTS-RTK, Sibchallenge, Tomsk Cellular Communications, BM Telekom, FECS-900, SCS-900 and Uraltel. The merger was completed in line with MTS' strategy to consolidate administratively all its majority-owned subsidiaries and improve management efficiency.

In March 2006, the Group's Board of Directors approved the purchase of 66% share in WaveCrest Group Enterprises Ltd. for cash consideration equivalent to $34.5 million. WaveCrest Group is a voice services provider in both the retail and wholesale telecommunications, domiciled in Great Britain.