JSFC SISTEMA AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2007 and 2006 and
For the Years Then Ended

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, 2007 and 2006 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Group changed the manner in which it accounts for uncertain tax positions effective January 1, 2007, in accordance with the adoption of Statement of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109".

Deloitte & Touche

May 14, 2008
Moscow, Russia

JSFC SISTEMA AND SUBSIDIARIES

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

	Notes	2007	2006 As restated*
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 1,061,733	$ 501,706
Short-term investments	6	909,224	554,157
Loans to customers and banks, net	7	2,764,763	1,290,082
Accounts receivable, net	8	1,383,731	1,069,706
Prepaid expenses, other receivables and other current assets, net	9	950,104	875,278
VAT receivable		435,245	450,703
Inventories and spare parts	10	780,193	661,568
Deferred tax assets, current portion	22	213,633	195,672
Assets of discontinued operations	4	545,863	946,866
Total current assets		9,044,489	6,545,738
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	10,412,636	7,412,468
Advance payments for non-current assets		284,396	305,846
Goodwill	2	860,019	504,166
Licenses, net	12	730,636	452,372
Other intangible assets, net	13	1,665,969	1,222,676
Investments in affiliates	14	1,352,972	1,108,647
Investments in shares of Svyazinvest	15	1,485,378	1,390,302
Loans to customers and banks, net of current portion	7	1,468,088	464,490
Debt issuance costs, net		101,904	80,223
Deferred tax assets, net of current portion	22	108,637	73,623
Other non-current assets	16	881,534	630,687
Total non-current assets		19,352,169	13,645,500
TOTAL ASSETS		$ 28,396,658	$ 20,191,238

* – The comparative information for the year ended December 31, 2006 reflects adjustments related to presentation of the discontinued operations (Note 4).

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

	Notes	2007	2006 As restated*
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 1,273,487	$ 868,378
Bank deposits and notes issued, current portion	17	2,101,084	961,595
Taxes payable		223,791	148,849
Deferred tax liabilities, current portion	22	77,893	48,885
Subscriber prepayments, current portion	21	598,014	552,997
Derivative financial instruments		140,563	184,316
Accrued expenses and other current liabilities	18	1,357,277	988,810
Short-term loans payable	19	724,905	1,296,778
Current portion of long-term debt	20	1,517,902	280,427
Liabilities of discontinued operations	4	396,132	869,534
Total current liabilities		8,411,048	6,200,569
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	20	6,241,937	5,296,017
Subscriber prepayments, net of current portion	21	134,280	136,861
Bank deposits and notes issued, net of current portion	17	1,266,925	65,200
Deferred tax liabilities, net of current portion	22	428,030	287,125
Postretirement benefits obligation	23	42,370	16,391
Deferred revenue	24	139,984	129,120
Total long-term liabilities		8,253,526	5,930,714
TOTAL LIABILITIES		16,664,574	12,131,283
Minority interests in equity of subsidiaries		4,987,220	3,459,245
Commitments and contingencies	30	-	-
Puttable shares of SITRONICS	25	86,100	80,000
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,276,092,868 and 9,365,757,000 shares outstanding as of December 31, 2007 and 2006, respectively, with par value of 0.09 Russian Rubles)	26	30,057	30,057
Treasury stock (373,907,132 and 284,243,000 shares as of December 31, 2007 and 2006, respectively, with par value of 0.09 Russian Rubles)	26	(469,365)	(347,068)
Additional paid-in capital	3, 4	2,439,069	2,196,475
Retained earnings		4,035,157	2,499,302
Accumulated other comprehensive income		623,846	141,944
TOTAL SHAREHOLDERS' EQUITY		6,658,764	4,520,710
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 28,396,658	$ 20,191,238

* – The comparative information for the year ended December 31, 2006 reflects adjustments related to presentation of the discontinued operations (Note 4).

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2007	2006 As restated*
Sales		$ 13,227,990	$ 10,062,445
Revenues from financial services		472,965	204,145
TOTAL REVENUES		13,700,955	10,266,590
Cost of sales, exclusive of depreciation and amortization shown separately below		(5,860,382)	(4,513,117)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(206,251)	(104,003)
TOTAL COST OF SALES		(6,066,633)	(4,617,120)
Selling, general and administrative expenses		(2,426,281)	(1,803,294)
Depreciation and amortization		(1,775,696)	(1,285,873)
Provision for doubtful accounts		(122,995)	(107,841)
Other operating expenses, net		(255,734)	(183,445)
Equity in net income of investees		66,019	91,805
Gain on disposal of interests in subsidiaries and affiliates		155,069	330,412
OPERATING INCOME		3,274,704	2,691,234
Interest income		81,085	65,439
Change in fair value of derivative instruments	15, 20	(145,800)	(60,000)
Interest expense, net of amounts capitalized		(411,813)	(355,326)
Currency exchange and translation gain		294,307	69,334
Impairment loss on investment in Bitel		-	(320,000)
Income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests		3,092,483	2,090,681
Income tax expense	22	(991,632)	(789,227)
Minority interests		(1,156,158)	(629,403)
Equity in net income of energy companies in the Republic of Bashkortostan, net of minority interest of $14,001 and $12,152, respectively		109,855	127,642
Income from continuing operations		$ 1,054,548	$ 799,693

* – The comparative information for the year ended December 31, 2006 reflects adjustments related to presentation of the discontinued operations (Note 4).

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2007	2006 As restated*
(Loss)/income from discontinued operations, net of income tax effect of $2,136 and $14,402, respectively	4	(4,612)	13,311
Gain from disposal of discontinued operations, net of income tax effect of $148,809	4	521,963	-
NET INCOME		$ 1,571,899	$ 813,004
Other comprehensive income:			
Unrealized gain on securities available for sale, net of income tax effect of $442		-	1,402
Change in fair value of interest rate swaps, net of income tax effect of $352 and $337, respectively		(1,114)	(1,067)
Effect of disposal of discontinued operations, net of minority interest of $11,617 and income tax effect of nil		(11,380)	-
Unrecognized actuarial losses, net of minority interest of $11,491 and income tax of $nil		(4,817)	-
Effect of change in functional currency, net of minority interests of $173,296		197,811	-
Translation adjustment, net of minority interests of $124,408 and $67,884, respectively, and income tax effect of nil	2	301,402	114,042
Comprehensive income		$ 2,053,801	$ 927,381
Weighted average number of common shares outstanding		9,311,126,854	9,570,049,775
Earnings per share, basic and diluted, US cent			
Income from continuing operations		$ 11.34	$ 8.4
Income from discontinued operations		5.55	0.1
Net income		16.89	8.5

* – The comparative information for the year ended December 31, 2006 reflects adjustments related to presentation of the discontinued operations (Note 4).

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,571,899	$ 813,004
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,775,696	1,290,266
Gain from disposal of discontinued operations	(521,963)	-
Loss from discontinued operations	4,612	-
Minority interests	1,156,158	641,480
Pre-acquisition operating cash flows of the acquired subsidiaries	(60,981)	-
Equity in net income of investees	(175,874)	(219,447)
Dividends received from affiliates	95,033	82,076
Deferred income tax benefit	(87,635)	(108,140)
Change in fair value of derivative financial instruments	145,800	60,000
Bitel liability and investments write-off	-	320,000
Foreign currency transactions gain on non-operating activities	(294,307)	(67,300)
Debt issuance cost amortization	26,425	27,035
Non-cash compensation to employees of subsidiaries	155,732	90,778
Gain on disposal of interests in subsidiaries and affiliates	(155,069)	(330,412)
Gain on sale of real estate investments	(157,989)	(96,919)
Loss/(gain) on disposal of property, plant and equipment	20,070	(16,917)
Amortization of connection fees	(81,536)	(91,094)
Provision for doubtful accounts receivable	122,995	107,841
Allowance for loan losses	66,107	35,363
Inventory obsolescence expense	53,714	18,734
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(48,767)	(147,034)
Loans to banks issued by the Banking segment	(847,891)	(422,031)
Insurance-related receivables	-	(75,089)
Accounts receivable	(184,139)	(388,246)
VAT receivable	16,476	45,720
Other receivables and prepaid expenses	(80,998)	(359,187)
Inventories	(229,594)	57,022
Accounts payable	75,467	80,402
Insurance-related liabilities	-	261,553
Subscriber prepayments	116,421	109,984
Taxes payable	(75,240)	14,738
Accrued expenses, subscriber prepayments and other liabilities	296,541	381,606
Postretirement benefit obligation	25,979	174
Net cash provided by operating activities	2,723,142	2,115,960

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	(2,753,186)	(1,766,148)
Payments for purchases of intangible assets	(309,300)	(599,390)
Payment for purchase of shares of Svyazinvest	-	(1,300,000)
Payments for purchases of businesses, net of cash acquired	(1,459,149)	(631,401)
Proceeds from sale of subsidiaries, net of cash disposed	636,683	235,174
Payments for purchases of long-term investments	(154,000)	(399,048)
Payments for purchases of short-term investments	(693,340)	(568,179)
Payments for purchases of other non-current assets	(247,676)	(138,827)
Proceeds from sale of other non-current assets	203,442	-
Decrease/(increase) of cash deposited for acquisition of Intracom Telecom	44,452	(46,100)
Increase in restricted cash	(287,213)	(22,624)
Proceeds from sale of property, plant and equipment	58,440	32,302
Proceeds from sale of long-term investments	20,000	20,000
Proceeds from sale of short-term investments	328,600	449,039
Net increase in loans to customers of the Banking segment	(1,141,701)	(581,631)
Net cash used in investing activities	(5,753,948)	(5,316,833)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Principal payments on)/proceeds from short-term borrowings, net	(621,820)	523,930
Net increase in deposits from customers of the Banking segment	1,797,427	341,677
Net decrease in promissory notes issued by the Banking segment	(69,237)	(24,905)
Proceeds from long-term borrowings	2,583,502	2,286,641
Debt issuance costs	(43,173)	(26,571)
Principal payments on long-term borrowings	(396,304)	(636,983)
Principal payments on capital lease obligations	(7,870)	(5,197)
Proceeds from capital transactions of subsidiaries	678,841	1,450,256
Proceeds from issuance of stock options	5,554	-
Proceeds from sale of treasury shares	16,383	-
Payments to purchase treasury stock	(161,709)	(347,068)
Payments to shareholders of subsidiaries	(385,374)	(262,419)
Dividends paid	(17,942)	(9,978)
Net cash provided by financing activities	$ 3,378,278	$ 3,289,383
Effects of foreign currency translation on cash and cash equivalents	$ 115,880	$ 27,224
INCREASE IN CASH AND CASH EQUIVALENTS	$ 463,352	$ 115,734
CASH AND CASH EQUIVALENTS, beginning of the year	598,381[(1)]	482,647
CASH AND CASH EQUIVALENTS, end of the year	$ 1,061,733	$ 598,381
CASH PAID DURING THE YEAR FOR:		
Interest, net of amounts capitalized	$ (422,656)	$ (448,062)
Income taxes	(1,189,487)	(908,209)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment contributed free of charge	$ 6,299	$ 5,387
Equipment acquired through vendor financing	2,770	4,287
Equipment acquired under capital leases	6,577	11,151
Payables related to business acquisitions	29,906	2,623
Amounts owed for capital expenditures	373,002	218,233

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

In addition, non-cash investing and financing activities for the years ended December 31, 2007 and 2006 included acquisitions and dispositions of subsidiaries and affiliates, as described in Notes 3 and 4, and stock-based compensations, as described in note 29

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Share capital		Treasury stock		Additional		Accumulated	
	Shares	Amount	Shares	Amount	paid-in capital	Retained earnings	other compre-hensive income	Total
Balances at January 1, 2006	9,650,000,000 $	30,057	-	- $	1,479,743 $	1,696,276 $	27,567 $	3,233,643
Capital transactions of subsidiaries	-	-	-	-	716,732	-	-	716,732
Repurchase of common stock	-	-	(284,243,000)$	(347,068)	-	-	-	(347,068)
Unrealized gain on securities available for sale, net of income tax effect of $442	-	-	-	-	-	-	1,402	1,402
Change in fair value of interest rate swaps, net of income tax effect of $337	-	-	-	-	-	-	(1,067)	(1,067)
Translation adjustment, net of income tax effect of nil (Note 2)	-	-	-	-	-	-	114,042	114,042
Dividends declared	-	-	-	-	-	(9,978)	-	(9,978)
Net income	-	-	-	-	-	813,004	-	813,004
Balances at December 31, 2006	9,650,000,000 $	30,057	(284,243,000)$	(347,068)$	2,196,475 $	2,499,302 $	141,944 $	4,520,710
Effect of FIN No. 48 implementation (Note 2)	-	-	-	-	-	(18,104)	-	(18,104)
Capital transactions of subsidiaries (Note 4)	-	-	-	-	232,497	-	-	232,497
Repurchase of common stock	-	-	(120,751,000)	(161,180)	-	-	-	(161,180)
Sale of treasury stock	-	-	31,086,868	38,883	-	-	-	38,883
Early termination and change in fair value of interest rate swaps, net of income tax effect of $354	-	-	-	-	-	-	(1,114)	(1,114)
Accrued compensation costs	-	-	-	-	10,097	-	-	10,097
Effect of change in functional currency, net of minority interests of $173,296	-	-	-	-	-	-	197,811	197,811
Unrecognized actuarial losses, net of minority interest of $11,491 and income tax of $nil	-	-	-	-	-	-	(4,817)	(4,817)
Translation adjustment, net of income tax effect of $nil (Note 2)	-	-	-	-	-	-	301,402	301,402
Effect of disposal of discontinued operations	-	-	-	-	-	-	(11,380)	(11,380)
Dividends declared (Note 26)	-	-	-	-	-	(17,940)	-	(17,940)
Net income	-	-	-	-	-	1,571,899	-	1,571,899
Balances at December 31, 2007	9,650,000,000 $	30,057	(373,907,132)$	(469,365)$	2,439,069 $	4,035,157 $	623,846 $	6,658,764

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives and directors of the Group. The rest of the shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), and Russian stock exchanges.

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

Significant Entities	Short Name	Principal Activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless telecommunication services
Comstar UTS and subsidiaries	Comstar UTS	Fixed line telecommunication services, data transmission and internet services
Technology Segment:		
SITRONICS and subsidiaries	SITRONICS	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development, IT and systems integration, computer hardware and software distribution
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
East-West United Bank	EWUB	
Real Estate Segment:		
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects
Mass Media Segment:		
Sistema Mass Media and subsidiaries	Sistema Mass Media	Cable television, advertising, production and distribution of periodicals, movie production
Retail Segment:		
Detsky Mir and subsidiaries	Detsky Mir	Retail and wholesale trading
Detsky Mir-Center and subsidiaries	DM-Center	
Other businesses:		
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad, hotel business
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
Medsi and subsidiaries	Medsi	Healthcare services
Binnofarm and subsidiaries	Binnofarm	Production and distribution of pharmaceuticals
Financial Fleurus Holdings S.A. and subsidiaries	Sistema International	Investing in real estate projects outside the CIS, financing activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Significant entities	Ownership interest		Voting interest	
	2007	2006	2007	2006
MTS	53%[(1)]	53%[(1)]	53%	53%
Comstar UTS	53%[(1)]	59%[(1)]	53%	59%
SITRONICS	71%	85%	71%	85%
Rosno (Note 4)	Disposed	49%[(1)]	Disposed	51%
MBRD	95%[(1)]	95%[(1)]	99%	99%
EWUB	51%	51%	51%	51%
Sistema-Hals	80%[(1)]	80%[(1)]	80%	80%
Intourist	66%	66%	66%	66%
DM-Center	100%	100%	100%	100%
Detsky Mir	75%[(1)]	75%[(1)]	75%	75%
Concern RTI	100%	100%	100%	100%
Medsi	83%	66%	83%	66%
Binnofarm	100%	100%	100%	100%
Financial Fleurus	100%	100%	100%	100%

[(1)] – Including indirect ownership

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

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

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

Concentration of Business Risk – The Group's principal business activities are within the Commonwealth of Independent States ("CIS"), primarily in the RF and Ukraine. Laws and regulations affecting businesses operating in the RF and Ukraine are subject to rapid changes, which could impact the Group's assets and operations.

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

Management has determined that the functional currencies of the Group's significant subsidiaries for the year ended December 31, 2007 are the currencies of the countries of their domicile, with the exception of Sistema-Hals and Intourist, companies incorporated in the RF, Kvazar-Micro International Ltd., a company incorporated in the United Kingdom, and Uzdunrobita, MTS subsidiary in Uzbekistan, whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations.

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

The impact of the change in functional currency on the financial statements was an increase in the opening translated carrying values of the following non-monetary assets and liabilities and the related deferred taxes as of January 1, 2007:

		January 1, 2007
Property, plant and equipment, net	$	329,475
Intangible assets, net		66,235
Goodwill		9,961
Other non-current assets		6,501
Deferred tax liability, net		(57,798)
Other, net		4,623
Total increase	$	358,997

This increase has been reflected in shareholders equity as a part of other comprehensive income as of January 1, 2007.

MTS Belarus, the Group's affiliate, changed its functional currency from U.S. dollar to Belarusian ruble prospectively from January 1, 2007. The impact of this change on MTS Belarus statement of financial position was not material to the consolidated financial statements.

In January and February 2007, Comstar UTS, for the purpose of subscriber billing, fixed the U.S. dollar exchange rate at 28.70 Rubles for 1 U.S. dollar for a significant majority of the subscribers. Further, in June 2007 Comstar UTS re-financed its $675.0 million USD-denominated loan with a ruble-denominated credit facility. Accordingly, management has reevaluated the functional currency criteria under SFAS No. 52 and determined that effective from June 30, 2007, Comstar UTS has changed its functional currency to the Russian Ruble. The change in functional currency resulted in approximately $12.2 million, net of income taxes of $14.5 million, of the translation adjustment recorded in the statement of changes in shareholders' equity as part of other comprehensive income as of the date of the change.

The Group has selected the USD as its reporting currency and translated into USD financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation gain in the amount of $301.4 million and $114.0 million for the years ended December 31, 2007 and 2006, respectively, net of minority interests of $124.4 million and $67.9 million, respectively, were recorded as a separate component of other comprehensive income.

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

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

Telecommunications Segment

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

(i) Revenues derived from wireless and wireline telephone usage and data transmission are recognized as the services are provided.
(ii) Monthly telephone and network service fees are recognized in the month during which the telephone services are provided to customers.
(iii) Upfront fees received for installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the expected subscriber relationship period, as follows:

MTS' subscribers[1]	14-60 months
Comstar UTS residential wireline voice phone subscribers	15 years
Comstar UTS residential subscribers of broadband internet services	1 year
Other categories of Comstar UTS' subscribers	3-5 years

[1] – Based on management analysis of the subscriber base in the regions where MTS the average expected subscriber life ranged from 12 to 60 months in 2006, and from 14 to 60 months in 2007.

(iv) The Telecommunications segment recognizes revenues from prepaid phone cards in the period when the customer uses time under the phone card. Unused time on sold cards is not recognized as revenues until the related services have been provided to the customer or the card has expired. Revenues under prepaid service tariff plans, whereby a customer may purchase a package that allows a connection to a segment's wireless network and a predetermined allotment of wireless phone calls and/or other services offered by the segment, are allocated between connection fees and service fees based on their relative fair values.
(v) Value added service fees are determined based on the usage of airtime or the volume of data transmitted for value added services, such as short message services ("SMS"), including content services via SMS, internet usage and data services. The Group evaluates the criteria outlined in Emerging Issues Task Force ("EITF") Issue No. 99-19 "Reporting Revenue Gross as a Principal Versus Net as an Agent" in determining whether it is appropriate to record the gross amount of services provided and related costs or the net amount earned as commissions. Revenue is recorded gross when companies of the Group are primarily obligated in a transaction, have latitude in establishing prices and selecting suppliers of services, or have several but not all of these indicators. Revenues derived from value-added telecommunication services are recognized in the period when the services are provided to customers.
(vi) The segment charges roaming per-minute fees to other wireless operators for their subscribers utilizing the segment's networks. Revenues derived from roaming services are recognized as services are provided.

(vii) The segment sells wireless handsets and accessories to customers who are entering into contracts for service and also as separate distinct transactions. The Group recognizes revenues from the sale of wireless handsets and accessories when the products are delivered to and accepted by the customer, as it is considered to be a separate earnings process from the sale of wireless services in accordance with EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". The costs of wireless handsets and accessories, whether sold to subscribers through the distribution channel or as part of the service contract, are expensed when the associated revenue is recognized.

Incentives provided by MTS to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue. However, if the sales incentive is a free product or service delivered at the time of sale, the fair value of the free product or service is classified as an expense. In particular, MTS sells handsets at prices below cost to contract subscribers. Such subsidies are recognized in the cost of handsets and accessories when the sale is recorded.

To comply with the new long-distance traffic routing rules which came into effect starting January 1, 2006, certain subsidiaries of Comstar UTS entered into agent agreements with authorized providers of domestic long distance (DLD) and international long distance (ILD) services and started migration of its end-user customer base to the agent contracts in June 2006. As of December 31, 2006, the migration has been substantially completed. Under the agent agreements, the Group re-sells the services of authorized DLD/ILD operators, receiving a share in long-distance revenues generated by the end users from authorized operators in the form of commission. Under the old arrangements, the Group had been providing services as a principal under its own operating licenses and, accordingly, reported all DLD/ILD revenues on a gross basis, i.e. full amount earned from subscriber was shown as revenue and corresponding traffic cost was included in operating expenses. Under the new rules, the DLD/ILD revenues generated by the customers are reported on a net basis, i.e. only the commission is shown as revenue from a DLD/ILD operator with no corresponding traffic cost. The long-distance revenues from subscribers that were not yet transferred in 2006 to the agent scheme were reported on a gross basis and approximated $22.0 million for the year ended December 31, 2006.

MGTS historically has been providing DLD/ILD services to its subscribers under the agent agreement with authorized DLD/ILD operators, reporting in revenues only a commission received from authorized DLD/ILD operators. Accordingly, new long-distance traffic routing rules had no impact on the revenues of MGTS.

Effective July 1, 2006, the Calling Party Pays rule ("the CPP rule") was introduced in Russia, under which the subscribers are to pay for outgoing calls, and all incoming calls are free of charge. Accordingly, Comstar UTS started to charge its subscribers for calls to mobile operators; respective revenue for the years ended December 31, 2007 and 2006 totalled $118.8 million and $36.3 million, respectively.

Before the introduction of CPP, MTS charged subscribers in Russia for incoming calls. Under the new system, MTS charges the telecommunication operators of the calling party for incoming calls, and, in its turn, MTS pays other operators for the outgoing calls of its subscribers. MTS recognizes interconnect fees for incoming calls to customers from fixed line or wireless networks owed by other operators in the month when services to the customer are actually provided.

Regulated tariff services, consisting of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by Comstar UTS, totaled approximately 6.7% and 4.2% of the consolidated revenues for the years ended for the year ended December 31, 2007 and 2006, respectively. Changes in rate structure are subject to the Federal Tariff Service approval.

Before 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. During the years ended December 31, 2007 and 2006, MGTS received compensation from the federal budget in the amount of approximately $36.6 million and $25.8 million, respectively, which has been recorded in the accompanying consolidated statement of operations for the respective years. As of December 31, 2007 MGTS' claims to the federal budget in respect of aforementioned reimbursements were fully satisfied.

In accordance with the legislation effective January 1, 2005, substantially 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.

Technology Segment

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

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

Telecommunication Solutions division:

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

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

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

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

Information Technologies Solutions division:

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

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

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

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

Microelectronic Solutions, Consumer Services and Products divisions:

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

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

Real Estate Segment

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

(i) Revenues from real estate development activities are recognized in accordance with the provisions of FAS No. 66, "Accounting for Sales of Real Estate" and AICPA Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP No. 81-1").

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

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

Revenue from sale of equity interests in the properties developed by the segment are recognized when (a) the buyer is independent of the Group, (b) collection of the sales price is reasonably assured, and (c) the Group will not be required to support the operations of the property or its related obligations to an extent greater than its proportionate interest.

When the segment participates in the revenue and cost sharing agreements relating to the project development, revenues and related costs are recognized in the amount reflecting the segment's share in such agreements.

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

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

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

<u>Banking Segment</u>

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

Other Segments

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

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

In travel agency arrangements where the Group acts as an agent, only the net agency fee is recognized as revenue.

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

Financial Instruments – The Group’s financial instruments include cash, short-term and long-term investments, receivables, derivative financial instruments, payables and debt. Except as described below, the estimated fair value of such financial instruments as of December 31, 2007 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group’s publicly traded long-term notes as of December 31, 2007 ranged from 95.0% to 104.2% of the principal amount.

From time to time, in its acquisitions the Group uses derivative instruments, consisting of put and call options on all or part of the minority stakes of acquired companies, to defer payment of the purchase price and provide optimal acquisition structuring. These put and call options qualify as freestanding financial instruments and are accounted in accordance with the provisions of SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” and EITF 00-6 “Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary”. In addition, the Group entered into several variable-to-fixed interest rate and cross currency interest rate swap agreements to manage its exposure to changes in the fair value of future cash flows of its variable-rate long-term debt, which is caused by interest rate and currency fluctuations (Note 20). The Group also entered into several short-term USD forward agreements to hedge the fair value of its investments in RUB-denominated financial instruments and accounts receivable. The Group does not use derivatives for trading purposes.

The Group accounts for derivative instruments in accordance with FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, FAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, FAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. All derivatives are measured at fair value and recognized as either assets or liabilities in the consolidated balance sheet.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

MTS’s interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense in the same period that the related cash flows of the hedged transaction affect the interest expense.

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

Changes in fair value of other derivative instruments are recognized in net income as those instruments were not designated as hedges.

Long-term financial instruments consist primarily of long-term investments and long-term debt. It is not practicable for the Group to estimate the fair values of all of its long-term investments, as quoted market prices are not readily available and, due to nature of the investments, valuations are not being completed or obtained.

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

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

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

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

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

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

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

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

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

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

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

Assets Held for Sale – MTS' management decided to discontinue use of certain telecommunication equipment in MTS Russia in accordance with MTS' network development strategy. The Group accounts for this equipment in accordance with the provisions of FAS No. 144, "Accounting for the Impairment and or Disposal of Long-Lived Assets" and reports the equipment at the lower of its carrying amount or fair value less costs to sell. The equipment had a fair value less costs to sell of approximately $67.4 million and $63.2 million as of December 31, 2007 and 2006, respectively.

MTS initially negotiated with a third party to sell this equipment during the year ended December 31, 2007. However, due to a wide range of geographical areas in which the equipment is located and its diversity, the Group reconsidered the time needed to sell the equipment in 2007 and, as a result, the original plan of sale was extended for another two years. Accordingly, part of the equipment in the amount of $35.4 million, which is expected to be sold during 2008, was classified as other current assets in the accompanying consolidated balance sheet as of December 31, 2007. The remaining portion of equipment in the amount of $32.0 million, which is expected to be sold during 2009, was recorded in other non-current assets in the Group's consolidated balance sheet as of December 31, 2007.

Due to the fact that initial plan of sale was reconsidered, the fair value of the equipment as of December 31, 2007, was determined using the discounted cash flows based on updated expected timing of sale. As a result, an impairment loss on the equipment in the amount of $6.8 million was recorded as other operating expenses in the Group's consolidated statement of operations for the year ended December 31, 2007.

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

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

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

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Switches and transmission devices	7-31 years
Network and base station equipment	5-12 years
Other plant, machinery and equipment	3-15 years

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

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

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when such renewals are reasonably assured.

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

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations" and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" ("FIN No. 47"), the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The adoption of FIN No. 47 did not have material impact on the Group's financial position or results of operations. The Group's obligations under SFAS No. 143 relate primarily to the cost of removing its equipment from sites. The Group's obligations under FAS No. 143 relate primarily to the cost of removing equipment from its sites.

As of December 31, 2007 and 2006, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

Balance as of January 1, 2007	$	10,821
Liabilities incurred in the current year		3,115
Accretion expense		1,138
Revisions in estimated cash flows		44,453
Balance as of December 31, 2007	**$**	**59,527**

The Group recorded the present value of assets retirement obligations as other long-term liabilities in the consolidated balance sheets as of December 31, 2007 and 2006. Revisions in estimated cash flows are attributable to the increase in dismantlement works cost in dollar terms and change in the inflation rate forecast used for the calculation.

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

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of a business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed annually for impairment or whenever it is determined that impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to its fair value. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. Management believes that there was no impairment of goodwill for the years ended December 31, 2007 and 2006.

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

		Telecom-munications	Mass Media	Corporate and Other	Total
Balance as of January 1, 2006	$	328,956	- $	635 $	329,591
Purchase price allocation		48,782 $	125,500	293	174,575
Balance as of December 31, 2006	$	377,738 $	125,500 $	928 $	504,166
Purchase price allocation		251,245	23,006	15,755	290,006
Currency translation adjustment		56,721	9,126	-	65,847
Balance as of December 31, 2007	**$**	**685,704 $**	**157,632 $**	**16,683 $**	**860,019**

Other intangible assets represent acquired customer bases, trademarks, roaming contracts with other telecommunications operators, telephone numbering capacity, various purchased software costs, rights to use radio frequencies and rights to use premises. 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.

Costs of developing computer software products incurred by the Group are accounted for in accordance with FAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Accordingly, software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

Acquired customer bases are amortized over the estimated average subscriber life from 14 to 96 months. Deferred telephone numbering capacity costs with limited contractual life are being amortized over their contractual lives, which vary from 5 to 20 years. Software costs and other intangible assets are being amortized over 3 to 10 years. All finite-life intangible assets are being amortized using the straight-line method.

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

Investments in corporate shares where the Group owns more than 20% of voting shares, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition.

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

Investments in marketable securities classified as available-for-sale are stated at fair value based on market quotes. Unrealized gains/(losses), net of deferred taxes, are recorded as a component of other comprehensive income. For the years ended December 31, 2007 and 2006, the gains and losses on marketable securities available-for-sale were not significant.

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

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans. Debt issuance costs amounted to $101.9 million and $80.2 million, net of accumulated amortization of $90.3 million and $55.6 million as of December 31, 2007 and 2006, respectively.

Impairment of Long-lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management is not aware of any indicators of impairment relating to the Group's investments in long-lived assets during the year ended December 31, 2007.

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

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

Income Taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF equals 24%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. As of December 31, 2007, the corporate income tax rate in Ukraine was 25%.

On January 1, 2007, the Group adopted the provisions of FASB Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109". FIN No. 48 creates a single model to address uncertainty in tax position and clarifies the accounting for income taxes recognized by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statement. FIN No. 48 also provides guidance on recognition, measurement, classification, interest and penalties, disclosure and transition. The Group recognizes interests and penalties related to uncertain tax positions in income tax expense. As a result of the implementation the Group recognized liability of $24.1 million for the unrecognized tax benefits as of January 1, 2007.

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

Stock-based Compensation – The Group accounts for stock-based compensation plans in accordance with the provisions of FAS No. 123R "Share Based Payment". Under FAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the consolidated statement of operations and comprehensive income. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments (Note 29).

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

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

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

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

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

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets’ estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2007 and 2006 amounted to $66.4 million and $74.6 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2007 and 2006 were $393.7 million and $362.6 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Research and Development Costs – Research and development (“R&D”) costs are fully charged to the consolidated statements of operations when incurred and for the years ended December 31, 2007 and 2006, equaled $50.6 million and $27.2 million, respectively. Such costs 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, 2007 and 2006.

Diluted EPS reflect the potential dilution related to stock options granted to employees. The diluted weighted average number of shares and diluted EPS are not materially different from basic for the years ended December 31, 2007 and 2006.

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

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

Recent Accounting Pronouncements – In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" FAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements of fair value measurement. FAS No. 157 is applicable to other accounting pronouncements that require or permit fair value measurement, and accordingly, does not require any fair value measurement. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group adopted FAS No. 157 as of January 1, 2008. The adoption of FAS No. 157 did not have a material impact on the Group's financial position, results of operations and cash flows.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" – including an amendment of FASB Statement No. 115", which permits an entity to measure certain financial assets and financial liabilities at fair value. FAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or FVO). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. FAS No.159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Group does not expect the adoption of FAS No. 159 will have a material impact on the Group's consolidated financial statements.

In December 2007, the FASB issued FAS No. 141(R), "Business Combinations", and FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". These statements substantially change the way companies account for business combinations and noncontrolling interests (minority interests in current GAAP). Compared with their predecessors, FAS No. 141(R) and FAS No.160 will require among other changes: (a) more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date; (b) liabilities related to contingent consideration to be remeasured at fair value in each subsequent reporting period; (c) an acquirer to expense acquisition-related costs (e.g., deal fees for attorneys, accountants, investment bankers); and (d) noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Both Statements are to be applied prospectively (with one exception related to income taxes) for fiscal years beginning on or after December 15, 2008. However, FAS No.160 requires entities to apply the presentation and disclosure requirements retrospectively (e.g., by reclassifying noncontrolling interests to appear in equity) to comparative financial statements, if presented. Both standards prohibit early adoption.

In connection with the issuance of FAS No. 160, the SEC revised EITF Topic D-98 "Classification and Measurement of Redeemable Securities" to include the SEC Staff's views regarding the interaction between Topic D-98 and FAS No. 160. The revised Topic D-98 indicates that the classification, measurement, and earnings-per-share guidance required by Topic D-98 applies to noncontrolling interests (e.g., when the noncontrolling interest is redeemable at a fixed price by the holder or upon the occurrence of an event that is not solely within the control of the issuer). This includes noncontrolling interests redeemable at fair value. The revisions to Topic D-98 that are specific to accounting for noncontrolling interests should be applied no later than the effective date of FAS No. 160. The Group is currently evaluating the impact that adoption of FAS No. 160 and revisions to Topic D-98 will have on the accounting and disclosure of the Group's minority interest.

In March 2008, the FASB issued FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Group is currently evaluating the potential impact, if any, of the adoption of FAS No. 161 on the Group's financial position, results of operations and cash flows.

In April 2008, the FASB issued Staff Position (FSP) No. FAS 142-3, "Determination of the Useful Life of Intangible Assets." The FSP amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, Goodwill and Other Intangible Assets. The FSP affects entities with recognized intangible assets and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) both intangible assets acquired in business combinations and asset acquisitions. The Group is currently evaluating the impact that adoption of the FSP will have on the Group's financial position, results of operations and cash flows.

In May 2008, the FASB issued FAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. Prior to the issuance of FAS No. 162, U.S. GAAP hierarchy was defined in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". FAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.

Reclassifications – Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for the year ended December 31, 2007. The Group made certain adjustments to the prior year financial statements to reflect the effects of discontinued operations.

3. ACQUISITIONS

Bashcell

In December 2007, MTS acquired 100% of Bashcell, the GSM-1800 mobile services provider in the Republic of Bashkortostan, situated in Russia's Volga region. The cash consideration paid amounted to $6.7 million. In connection to the purchase MTS assumed debt in the amount of $31.9 million due from Bashcell to its previous shareholder.

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

Current assets	$ 4,960
Non-current assets	28,730
Customer base cost	8,586
Goodwill	5,123
Current liabilities	(7,568)
Non-current liabilities	(31,919)
Deferred taxes	(1,220)
Purchase price	**$ 6,692**

Goodwill is mainly attributable to the synergy expected as a result of the acquisition. The total amount of goodwill is not deductible for income tax purposes. The customer base is amortized over the estimated average subscriber's life of approximately 34 months.

Digital Telephone Networks South

In November 2007, Comstar UTS acquired a 100% stake in Digital Telephone Networks South ("DTN"), the largest alternative telecommunications operator in the Southern Federal District of Russia.

DTN owns a digital telephone network which operates under a zonal license in Rostov-on-Don and the Rostov region. DTN provides a full range of telecommunication services, including digital telephony, leased channels and Internet access, to residential and corporate subscribers.

DTN services over 155,000 telephone numbers, including more than 125,000 numbers for residential subscribers and around 30,000 numbers for corporate clients, in Rostov-on-Don and the Rostov region, as at the date of acquisition.

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

Current assets	$	11,377
Non-current assets		121,856
Customer base cost		74,493
Current liabilities		(6,431)
Non-current liabilities		(34,139)
Purchase price	**$**	**167,156**

The customer base is amortized over the estimated average subscriber's lives, which constitute approximately 15 years in respect of residential subscribers and 4 years in respect of corporate clients.

Dalcombank

In October 2007, the Group completed the acquisition of a 28.16% stake in Dalcombank, for a total cash consideration of $11.7 million. As a result of this acquisition the Group increased its ownership in Dalcombank to 48.2% for a total cash consideration of $20.0 million. Concurrently with the deal, the Group made an unconditional offer to purchase the remaining shares in Dalcombank from the existing shareholders and guaranteed payment for these shares. As of December 31, 2007, the offer was irrevocably accepted by the holders of 50.5% share in Dalcombank and the Group obtained control over its operations for an additional consideration of $98.4 million, which was recorded as a current liability as of December 31, 2007. The settlement of the liability was completed in March 2008 by a combination of cash and shares of MBRD.

Founded in 1988, Dalcombank provides banking services across a wide retail network in 29 cities of Russia's Far East region, including its largest cities: Khabarovsk, Vladivostok, Yakutsk, Blagoveschensk, Birobidjan, Komsomolsk-on-Amur and Irkutsk.

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

Current assets	$	494,312
Non-current assets		195,852
Customer base cost		128,723
Current liabilities		(491,662)
Non-current liabilities		(166,206)
Deferred taxes		(30,893)
Purchase price	**$**	**130,126**

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

K-Telecom

In September 2007, MTS acquired an 80% stake in International Cell Holding Ltd, 100% indirect owner of CJSC K-Telecom, Armenia's wireless telecommunication operator. As part of the acquisition, the Group entered into a call and put option agreement for the remaining 20% stake to be exercised not earlier than July 2010 and not later than July 2012. In accordance with the put and call option agreement, the exercise price shall be determined by an independent investment bank at the date the option is exercised. The option is valid until July 2012. The option was accounted for at fair value which was $nil at December 31, 2007.

In accordance with sale and purchase agreement, MTS paid EUR 260.0 million ($380.6 million as of December 31, 2007) for the 80% of K-Telecom and EUR 50.0 million ($73.2 million as of December 31, 2007) shall be paid out to the sellers in the course of three years from 2008 to 2010 provided certain agreed financial targets are met by K-Telecom. Based on K-Telekom's financial results for the year ended December 31, 2007, EUR 10.0 million ($14.6 million as of December 31, 2007) out of EUR 50.0 million ($73.2 million as of December 31, 2007) was recognized as a liability in the accompanying consolidated balance sheet and included in the purchase price of K-Telekom. In conjunction with the acquisition, MTS extended a EUR 140.0 million ($204.9 million as of December 31, 2007) technical loan to K-Telecom for repayment of payables for equipment and other liabilities to PMF Telecommunications, an entity affiliated to the sellers. As a result, K-Telekom's liabilities to the seller and its affiliates were settled.

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

Current assets	$	31,805
Non-current assets		198,984
License costs		217,354
Customer base cost		76,754
Trade mark		2,555
Goodwill		120,579
Current liabilities		(25,138)
Non-current liabilities		(149,841)
Deferred taxes		(59,722)
Minority interest		(10,772)
Purchase price	**$**	**402,558**

Recording contingent consideration once financial targets are met will result in future adjustments to the purchase price.

Goodwill is mainly attributable to the economic potential of Armenia, given the low mobile penetration level of the market. Goodwill is not deductible for income tax purposes.

The customer base is amortized over the estimated average subscriber's life of approximately 46 months.

Additional Interest in Uzdunrobita

In June 2007, MTS purchased an additional 26% stake in JV Uzdunrobita ("Uzdunrobita"), mobile operator in Uzbekistan, from a private investor for $250.0 million in cash. Previously MTS owned 74% of Uzdunrobita. As a result of this transaction, MTS' ownership increased to 100%. The transaction was accounted for using the purchase method. Allocation of the purchase price increased the recorded license cost by $155.7 million, the customer base cost by $6.5 million, and the property plant and equipment cost by $5.4 million. An additional $35.0 million was recognized as goodwill. Goodwill is not deductible for income tax purposes and is mainly attributable to the economic potential of the markets where Uzdunrobita operates.

Svyazinvest

In December 2006, the Group acquired a 25% stake plus one share in JSC Svyazinvest from Mustcom Limited for a total consideration of approximately $1,390.0 million, including cash of $1,300.0 million and the fair value of the call and put option of $90.0 million (Note 15). In a series of transactions, Comstar UTS and MGTS Finance S.A., a subsidiary of Comstar UTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of the total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest.

East-West United Bank ("EWUB")

In December 2006, MBRD purchased a 2.0% share in East-West United Bank from VTB for a total cash consideration of EUR 0.6 million ($0.9 million as of December 31, 2007), increasing the Group's ownership to 51.0%. Under the purchase agreement, the Group had an obligation to further purchase, and VTB had an obligation to sell, another 49.0% of the voting shares, subject to fulfillment of certain conditions till December 31, 2007.

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

Loans to customers and banks	$	255,594
Short-term investments		81,028
Other current assets		17,916
Bank deposits and notes issued		(263,451)
Other current liabilities		(31,502)
Minority interests		(41,079)
Carrying value of the Group's investments in EWUB as of the date of acquisition		(17,749)
Purchase price	**$**	**757**

In December 2007, MBRD purchased 49.0% share in EWUB from VTB for a total cash consideration of EUR 39.3 million ($57.6 million as of December 31, 2007), increasing the Group's ownership to 100.0%. Allocation of the purchase price increased the property plant and equipment cost by $5.9 million. An additional $10.3 million was recognized as goodwill. Goodwill is not deductible for income tax purposes and is mainly attributable to the economic potential of the markets where EWUB operates.

Intracom Telecom

In June 2006, SITRONICS acquired 51.0% of the common shares of Intracom Telecom for $150.6 million (equivalent of EUR 120.0 million as of the date of the transaction), of which $106.7 million was paid in cash in June 2006 and $46.1 million was recorded as a liability as of December 31, 2006. In May 2007, the purchase price was reduced by $1.0 million and $39.6 million of the outstanding balance was paid in cash. As of December 31, 2007, $7.3 million remained outstanding and is recorded as a liability (Note 18). Intracom Telecom is a provider of telecommunications solutions and services, such as advanced technological products in the areas of fixed and wireless broadband access and transmission systems, as well as content delivery systems (IPTV, triple-play), primarily in Eastern Europe and the Middle East.

SITRONICS also entered into a put option with the other shareholder of Intracom Telecom to acquire the remaining 49.0% of the common shares of Intracom Telecom. The exercise period of the put option is 36 months following a 24 months period after the acquisition date. The agreement stipulates that the purchase price will be agreed by the parties, or will be equal to the fair value as determined by an independent appraiser.

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

Current assets	$	522,208
Non-current assets		181,078
Customer base costs		7,096
Software costs		66,106
Deferred taxes		11,287
Current liabilities		(492,728)
Long-term liabilities		(7,463)
Minority interest		(137,020)
Purchase price	**$**	**150,564**

The customer base costs are amortized over the average estimated term of the related customer relationships of approximately 3 years.

Cosmos Hotel

In March 2006, Intourist purchased 20.0% of the common shares of Cosmos Hotel for approximately $20.8 million. Upon completion of this transaction, Intourist became a controlling shareholder of Cosmos Hotel with the voting power of 64.1%.

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

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

United Cable Network

In February 2006, Sistema Mass Media acquired 100.0% of the shares of JIR Broadcast and JIR Inc., holders of 100.0% of the 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 the Russian Federation.

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

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

The customer base is amortized over the average remaining subscriber's life of approximately 8 years. Goodwill is mainly attributable to the economic potential of the markets where UCN is operating.

Additional Interests in MTS and MGTS

In December 2006, MTS Bermuda, one of MTS' subsidiaries, repurchased 2,232,200 of MTS' ADRs for a total cash consideration of $110.0 million. As a result of this transaction, the Group' ownership interest in MTS increased from 52.8%, as of January 1, 2006, to 53.1%. The transaction was accounted for using the purchase method. The allocation of the purchase price increased the recorded trademark cost by $10.0 million, the customer base cost by $2.1 million, the license cost by $2.7 million and $35.7 million was recognized as goodwill. Goodwill is mainly attributable to the economic potential of the markets where MTS is operating.

In February, March and October 2006, Comstar UTS completed several transactions on acquisition of MGTS' common stock under unconditional purchase offers. As a result of these transactions, Comstar UTS purchased 11.3% of the voting shares of MGTS (9.4% of MGTS' share capital) for an aggregate cash consideration of $181.4 million, increasing its voting interest in MGTS to 55.7%.

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

Current assets	$	(903)
Non-current assets		55,942
Customer base cost		6,080
Current liabilities		2,859
Non-current liabilities		123
Minority interest		117,257
Purchase price	**$**	**181,358**

The customer base is amortized over the average remaining subscriber's life of approximately 15 years for residential wireline voice phone subscribers and of approximately 5 years for other categories of subscribers.

Other

Below are the lists of other acquisitions for the years ended December 31, 2007 and 2006:

For the year ended December 31, 2007

Acquiree	Principal activity	Date of acquisition	Ownership interest Before acquisition	Ownership interest After acquisition	Acquiring segment	Purchase price (in millions USD)
Shyam Telelink Ltd	Mobile operator in India	September 2007	0.0%	10.0%	Telecom-munications	11.4
SITRONICS	Holding company of the Group's Technology segment	January 2007	84.5%	87.6%	SITRONICS	36.0
Micron	Microelectronic producer	January 2007	69.4%	77.0%	SITRONICS	7.6
Medexpress	Voluntary medical insurance services provider	May and June 2007	0.0%	100.0%	Medical Services	10.0
Digital TV Broadcasting	Digital TV provider	March 2007	74.0%	100.0%	Mass Media	3.0
RTC	Fixed line operator	December 2007	0.0%	88.0%	Telecom-munications	26.4
Sochitelecomservice	Fixed line operator	August 2007	0.0%	100.0%	Telecom-munications	0.8
VZPP-Micron	Producer of electronic power supply components	March 2007	97.0%	100.0%	SITRONICS	0.5
SMM	Regional TV providers	December 2007	0.0%	100.0%	Mass Media	25.5

For the year ended December 31, 2006						
			Ownership interest			Purchase price (in millions USD)
Acquiree	**Principal activity**	**Date of acquisition**	**Before acquisition**	**After acquisition**	**Acquiring segment**	
Comstar UTS	Fixed-line operator	December 2006	59.1%	59.4%(1)	Telecommunications	13.8
Riviera Holding	Tour operator	December 2006	0.0%	51.0%	Tourism	7.0
Zeta Telecom	Consulting company	December 2006	49.0%	51.0%	Corporate	0.3
VZPP-Mikron	Producer of electronic power supply components	December 2006	51.0%	96.7%	SITRONICS	4.5
WaveCrest Group Enterprises Ltd. (2)	Fixed-line operator in Great Britain.	October 2006	0.0%	66.0%	Corporate	39.3
DG Tel and Technology Systems	Alternative fixed-line operators in Ukraine	October 2006	0.0%	100.0%	Telecommunications	4.7
Callnet and Cornet	Fixed-line operators in the Republic of Armenia	October 2006	0.0%	75.0%	Telecommunications	4.4
Nostro LLC	Owner of a building located in Moscow	August 2006	0.0%	100.0%	Real Estate	26.6
Stenson Corporation/ Skymax UK Ltd.	Owner of radio frequencies	August 2006	0.0%	100.0%	Mass Media	18.2
Cable television operators in various regions of RF	Cable television	July-September 2006	0.0%	55.5%-100.0%	Mass Media	10.7
Tatilya Turizm Seyahat Insaat	Turkish travel operator, working under the brand “Danuna”	July 2006	0.0%	51.0%	Tourism	0.3
Dagtelecom	Mobile operator in the Republic of Dagestan	July 2006	0.0%	75.0%	Telecommunications	14.7
Pekin Hotel(3)	Hotel complex in Moscow	June 2006	0.0%	100.0%	Intourist	62.8
Astelit	Alternative fixed-line operator	June 2006	0.0%	100.0%	Telecommunications	7.8
Mir Otdykha/Skyway	Travel operator	June 2006	0.0%	51.0%	Tourism	1.4
UralElektro	Producer of electronic equipment	March 2006	0.0%	50.0%+1 share	Radars and Aerospace	2.1
UralElektro-K	Producer of electronic equipment	March 2006	0.0%	100.0%	Radars and Aerospace	3.3
Tireks Development	Owner of 30.0% interest in Dom Igrushki, the Group’s subsidiary	March 2006	0.0%	99.0%	Retail	2.4
SITRONICS(4)	Holding company of the Group’s Technology segment	March 2006	78.0%	93.0%	Corporate	14.5
Medexpress	Provider of voluntary medical insurance in the north-west region of RF	February 2006	0.0%	51.0%	Insurance	6.6
GK Sendi and Informservice	Internet provider and a cable television operator in Nizhny Novgorod	January 2006	0.0%	100.0%	Mass Media	6.3

(1) – Represents increase in the Group’s ownership interest in Comstar UTS after transactions described in Note 29.

(2) – The acquisition was performed for the purpose of resale to MTT, the Group’s affiliate, to which it was subsequently sold with gain on sale recorded in the statement of operations for the year ended December 31, 2006 in an amount of $0.8 million.

(3) – In June 2006, VAO Intourist issued additional stock to the Group and to the Moscow Government. The Moscow Government contributed its 100.0% stake in Pekin Hotel with a fair value of $62.8 million. The transaction resulted in a decrease of the Group’s additional paid-in capital by $2.5 million and a decrease in the Group’s ownership in Intourist from 72.0% to 66.0%.

(4) – In March 2006, Sistema contributed $206.8 million to the share capital of SITRONICS. Minority share of this consideration amounted to $14.5 million. Upon completion of this transaction, Sistema’s ownership interest in SITRONICS increased to 93.0%, which due to subsequent capital transactions of SITRONICS decreased to 84.5% (Notes 4 and 25).

Pro forma results of operations (unaudited)

The following pro forma financial data for the years ended December 31, 2007 and 2006 give effect to the acquisitions of K-Telecom, Dalcombank, DTN and purchases of additional interests in EWUB, MGTS, MTS, Uzdunrobita as if they had occurred as of January 1, 2006:

		2007		2006
Net revenues	$	13,710,749	$	10,495,252
Operating income		3,267,093		2,727,031
Net income		1,640,585		860,617
Earnings per share, basic and diluted, US cent	$	17.6	$	9.0

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

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES AND AFFILIATES

Metrocom

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

ROSNO

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

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

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

SITRONICS

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

In March 2006, 5.0% of SITRONICS' common shares were sold to Sistema's CEO for a total cash consideration of $14.0 million with a deferral of payment for up to 4 years. The fair value of the shares amounted to approximately $105.0 million. The Group has recorded compensation costs of $91.0 million and a gain from disposal of an interest in a subsidiary of approximately the same amount. Following the transaction, the Group's effective ownership in SITRONICS decreased from 93.0% to 88.2%, which subsequently decreased to 84.5% (Note 25).

Perm Motor Group

In December 2007, the Group committed to a plan to sell its stake in CJSC Sahles, a controlling shareholder of the entities constituting the Perm Motor Group (PMG), to an unrelated party within the next six months. The sale was completed in March 2008 (Note 31).

Accordingly, the Group has recorded the effects of PMG's operations in its consolidated financial statement of operations and comprehensive income as results of discontinued operations, while the assets and liabilities of PMG were classified as assets and liabilities of discontinued operations in the consolidated balance sheets.

The assets and liabilities of discontinued operations as of December 31, 2007 consisted of the following:

		December 31, 2007
Current assets	$	349,233
Non-current assets		196,630
Total assets of discontinued operations	**$**	**545,863**
Current liabilities	$	107,778
Non-current liabilities		288,354
Total liabilities of discontinued operations	**$**	**396,132**

The results of operations of PMG for the year ended December 31, 2007 were as follows:

Total revenues	$	250,761
Total expenses		(254,197)
Loss from discontinued operations before income tax	**$**	**(3,436)**
Income tax expense	$	(2,136)
Loss from discontinued operations, net of income tax	**$**	**(5,572)**

Sistema-Hals

In November 2006, Sistema-Hals completed its initial public offering ("IPO") of 1,738,650 newly issued shares, and in addition, the Group sold 112,171 ordinary shares, in the form of global depository receipts ("GDRs"), with 20 GDR representing 1 share of common stock. The gross proceeds from Sistema-Hals IPO and subsequent sale of shares amounted to approximately $432.1 million. The transaction resulted in an increase of the Group's additional paid-in capital of $301.4 million, and a gain from disposal of $19.2 million. As a result of the IPO, the Group's effective ownership in Sistema-Hals decreased from 100% to 80%.

Energy companies in the Republic of Bashkortostan

In July 2006, the Group disposed of Glorerly, a subsidiary holding 35.0% interest in Sistema-Invest, the owner of the Group's interests in energy companies in the Republic of Bashkortostan for a total cash consideration of $201.0 million. The transaction resulted in a gain from disposal of $175.1 million.

Comstar UTS

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

Other

During the year ended December 31, 2006, the Group sold its interests in Literaturnaya Gazeta, TV Stolitsa and Gazeta Metro for the total cash consideration of $9.0 million. These transactions resulted in recognition of an aggregate gain from disposal of $6.4 million.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $205.4 million and $121.4 million as of December 31, 2007 and 2006, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities of less than 90 days.

Also included in cash as of December 31, 2007 and 2006, are $51.6 million and $56.0 million, respectively, which represent the MBRD's minimum reserve deposit, required by the national bank regulators.

6. SHORT-TERM INVESTMENTS

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

	2007	2006
Trading securities:		
RF Eurobonds	$ 73,590	$ 7,392
Corporate bonds	121,734	166,147
Government and municipal bonds	63,856	45,754
Corporate shares	5,496	18,201
Other trading securities	-	564
	264,676	238,058

	2007	2006
Other short-term investments:		
Promissory notes and deposit certificates from third parties	400,385	151,078
Promissory notes from and loans to related parties	111,250	95,046
Bank deposits with original maturities exceeding 90 days	12,640	60,338
Advance paid to investment broker	96,608	-
Funds under trust management	22,149	-
Other short-term investments	1,516	9,637
	644,548	316,099
Total	**$ 909,224**	**$ 554,157**

Promissory notes from third parties, mostly denominated in RUB, bear interest rates varying from 5% to 14% as of December 31, 2007. The promissory notes from related parties denominated in RUB bear 12-14% interest rates, while USD denominated notes bear an interest rate of 5% as of December 31, 2007.

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

In 2007, Comstar UTS has contributed cash to the investment broker in order to exercise acquisition of a telecommunication company. Due to the changes in market conditions, as of December 31, 2007 and the date of the financial statements, the transaction has not been completed. Management believes that possibility that the transaction will be successfully closed is remote and expects that the contribution will be returned in cash in 2008.

7. LOANS TO CUSTOMERS AND BANKS, NET

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

	2007	2006
Loans to customers	$ 2,945,540	$ 1,388,923
Loans to banks	1,491,224	503,455
	4,436,764	1,892,378
Less: allowance for loan losses	(203,913)	(137,806)
Less: amounts maturing after one year	(1,468,088)	(464,490)
Loans to customers and banks, current portion	**$ 2,764,763**	**$ 1,290,082**

Loans to customers as of December 31, 2007 and 2006 included loans to affiliates and other related parties of $35.5 million and $35.8 million, respectively. Management anticipates no losses in respect of these amounts.

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

	2007			2006		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Loans to customers						
- corporate customers	13.7%	12.7%	12.9%	13.7%	13.2%	13.1%
- individuals	17.0%	14.1%	12.6%	18.0%	12.3%	19.3%
Loans to banks	7.8%	5.7%	3.0%	5.8%	5.8%	3.5%

8. ACCOUNTS RECEIVABLE, NET

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

	2007	2006
Trade receivables	$ 1,490,740	$ 1,156,756
Less: provision for doubtful accounts	(107,009)	(87,050)
Total	**$ 1,383,731**	**$ 1,069,706**

Trade receivables as of December 31, 2007 and 2006 include net receivables for services provided and goods shipped to the Group’s affiliates and other related parties in the amounts of $162.6 million and $48.4 million, respectively.

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

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

	2007	2006
Prepaid expenses and advances to suppliers	$ 632,510	$ 534,588
Prepaid taxes	103,144	66,566
Net investments in leases (Note 16)	54,545	36,805
Interest receivables	47,272	21,822
Assets held for sale	35,354	63,209
Dividends receivable from energy companies in the Republic of Bashkortostan	-	83,215
Receivables for sale of WaveCrest shares	-	40,674
Other	86,954	40,946
Less: provision for doubtful accounts	(9,675)	(12,547)
Total	**$ 950,104**	**$ 875,278**

10. INVENTORIES AND SPARE PARTS

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

		2007		2006
Finished goods and goods for resale	$	372,697	$	230,571
Raw materials and spare parts		286,688		329,118
Work-in-progress		96,858		74,077
Costs and estimated earnings in excess of billings on uncompleted contracts		87,084		27,802
		843,327		661,568
Less: long-term portion		(63,134)		-
Total	**$**	**780,193**	**$**	**661,568**

In the year ended December 31, 2007, the Group has re-evaluated the classification of inventories and determined that $63.1 million of inventories is expected to be sold in the years ended December 31, 2009 and 2010. Accordingly, this amount has been classified into non- current assets.

11. PROPERTY, PLANT AND EQUIPMENT, NET

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

		2007		2006
Land	$	344,063	$	48,305
Buildings and leasehold improvements		1,481,717		1,041,966
Switches, transmission devices, network and base station equipment		7,943,556		5,406,574
Other plant, machinery and equipment		1,560,830		995,040
Construction in-progress		1,831,282		1,364,476
Telecommunication equipment for installation		778,446		582,827
Real estate investments		661,488		277,446
		14,601,382		9,716,634
Less: accumulated depreciation		(4,188,746)		(2,304,166)
Total	**$**	**10,412,636**	**$**	**7,412,468**

Depreciation expense for the years ended December 31, 2007 and 2006 amounted to $1,241.9 million and $862.1 million, respectively.

12. LICENSES, NET

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

		2007		2006
Operating licenses	$	1,348,376	$	1,042,164
Less: accumulated amortization		(617,740)		(589,792)
Total	**$**	**730,636**	**$**	**452,372**

Amortization expense for licenses for the years ended December 31, 2007 and 2006 amounted to $201.8 million and $213.5 million, respectively.

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

Year ended December 31,		
2008	$	222,142
2009		205,314
2010		129,265
2011		54,730
2012		48,408
Thereafter		70,777
	$	**730,636**

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

13. OTHER INTANGIBLE ASSETS, NET

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

	2007			**2006**		
	Gross carrying value	**Accumu-lated amorti-zation**	**Net carrying value**	**Gross carrying value**	**Accumu-lated amorti-zation**	**Net carrying value**
Amortized intangible assets:						
Acquired customer base	$ 601,250	(208,127)	393,123	$ 266,305	(164,969)	101,336
Radio frequencies	199,981	(69,398)	130,583	163,963	(52,882)	111,081
Numbering capacity with finite contractual life, software and other	1,855,837	(937,974)	917,863	1,339,843	(505,265)	834,578
	2,657,068	(1,215,499)	1,441,569	1,770,111	(723,116)	1,046,995
Unamortized intangible assets:						
Trademarks	195,864	-	195,864	147,449	-	147,449
Numbering capacity with indefinite contractual life	28,536	-	28,536	28,232	-	28,232
Total intangible assets	**$ 2,881,468**	**(1,215,499)**	**1,665,969**	**$ 1,945,792**	**(723,116)**	**1,222,676**

Amortization expense recorded on other intangible assets for the years ended December 31, 2007 and 2006 amounted to $332.0 million and $210.3 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Year ended December 31,		
2008	$	425,369
2009		352,091
2010		290,655
2011		186,435
2012		55,356
Thereafter		131,573
	$	**1,441,569**

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

14. INVESTMENTS IN AFFILIATES

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

	2007		2006	
	Voting power, %	Carrying value	Voting power, %	Carrying Value
Shares of energy companies in the Republic of Bashkortostan	Various	$ 844,712	Various	$ 826,960
MTT	50%	127,965	50%	108,851
MTS Belarus	49%	188,621	49%	119,802
Metrocom (Note 4)	Disposed	-	45%	15,635
Loans to MTS Belarus		-	-	21,341
SkyLink		114,696	-	5,354
Construction joint ventures	50%	33,195	-	-
Coral/Sistema Strategic Fund	99%	16,452	-	-
Other investments and loans to investees	Various	27,331	Various	10,704
Total		**1,352,972**		**$ 1,108,647**

In 2007, Sistema-Hals signed strategic partnership agreements with Apsys to develop Leto City, a St. Petersburg-based project, and with Saraya to develop Kamelia project. In accordance with signed agreements, 50.0% stakes in Leto and Kamelia projects were transferred to Apsys and Saraya, respectively.

In 2007, the Group purchased an interest in a strategic fund organized by Sistema and Coral Capital Management in order to invest in various projects in the telecommunications and high-technology area. The fund is organized in the form of limited partnership, where Coral Capital Management acts as a General Partner. The Group has committed to invest up to $75.0 million if called upon by the General Partner.

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

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

The most recent financial information available for the energy companies in the Republic of Bashkortostan is as of and for the year ended September 30, 2007. The aggregate financial position and results of operations of these companies as of and for the year ended September 30, 2007 (unaudited) are as follows:

As of September 30, 2007

Current assets	$ 1,589,922
Non-current assets	$ 3,633,439
Current liabilities	$ (777,753)
Non-current liabilities	$ (712,189)

For the year ended September 30, 2007

Revenues	$	5,761,938
Operating income	$	912,789
Net income	$	489,224

The aggregate financial position and results of operations of MTT, MTS Belarus and SkyLink as of and for the year ended December 31, 2007 (unaudited) are as follows:

As of December 31, 2007

Current assets	$	511,051
Non-current assets	$	1,172,271
Current liabilities	$	(576,094)
Non-current liabilities	$	(608,200)

For the year ended December 31, 2007

Revenues	$	1,781,746
Operating income	$	249,236
Net income	$	156,555

15. INVESTMENTS IN SHARES OF SVYAZINVEST

As discussed in Note 3, in December 2006, the Group acquired a 25% stake plus one share in Svyazinvest. Based on the analysis of all relevant factors, the management of the Group has determined that the acquisition of 25% plus one share of Svyazinvest does not allow the Group to exercise significant influence over this entity. Accordingly, the Group accounts for its investment in Svyazinvest at cost of acquisition. Due to the lack of consolidated financial statements of Svyazinvest prepared in accordance with U.S. GAAP as of December 31, 2007 or earlier date, the Group is unable to present summarized information as to assets, liabilities and results of operations of Svyazinvest.

Simultaneously with the acquisition of the stake in Svyazinvest, MGTS Finance and "2711 Centerville Cooperatief U.A." ("2711 UA"), an affiliate of Mustcom Limited, signed a call and put option agreement, which gave 2711 UA a right to purchase 46,232,000 shares of Comstar UTS, representing 11.06% of total issued shares, from MGTS Finance S.A., and sell them back to MGTS Finance S.A. The call option acquired by 2711 UA could be exercised at a strike price of USD 6.97 per share at any time following the signing of the agreement with respect to 10.5% of Comstar UTS' shares. The call option for the remaining 0.56% stake could be exercised at any time beginning from April 1, 2007. The call option was to expire in one year from the date of signing of the agreement. 2711 UA may exercise its put option at any time within two years from the date of exercising the call option at a strike price, which will be calculated based on a weighted average price of Comstar UTS' GDRs during the 90 trading days period preceding the exercise of the put.

Fair value of the call and put option as of December 11, 2006, the grant date, was estimated at $90.0 million and included in cost of investment in Svyazinvest. The Group estimates the fair value of the respective liability using an option pricing model and re-measures it as of each balance sheet date. Respective gains and losses are included in the statement of operations for the period and amounted to $60.0 million loss for the year ended December 31, 2006.

On December 7, 2007, Access Telecommunications Cooperatief U.A. (previously known as 2711 UA) has exercised the call option for 46,232,000 shares and paid $322.2 million in cash to the Group. Fair value of the put option outstanding as of December 31, 2007 amounted to $88.0 million. Loss from revaluation of the call and put option for the period from January 1, 2007 till December 7, 2007 and the remaining put option for the period from December 7 till December 31, 2007 totalled $145.9 million and was included in the statement of operations for the year ended December 31, 2007.

16. OTHER NON-CURRENT ASSETS

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

	2007	2006
Restricted cash	$ 350,710	$ 79,331
Loans, promissory notes and deposits with third parties	169,902	121,206
Receivables for sale of Glorerly shares	79,078	79,078
Net investments in leases, net of current portion	70,184	39,229
Raw materials and spare parts (Note 10)	63,134	-
Investments in shares of Rosno (Note 4)	42,623	-
Assets held for sale (Note 2)	32,067	-
Long-term receivables	31,054	79,435
Loans, promissory notes and deposits with related parties	11,833	69,282
Investments in shares of Shyam Telecom (Note 3)	11,974	-
Mutual investment funds	-	17,035
Other investments	-	122,500
Other	18,975	23,591
Total	**$ 881,534**	**$ 630,687**

Restricted cash as of December 31, 2007 includes cash in the amount of $310.0 million deposited by JSFC Sistema for obtaining radio frequencies in India. Restricted cash as of December 31, 2006 includes deferred compensation of $46.1 million placed by SITRONICS on an escrow account deposit in accordance with the terms of the purchase agreement of Intracom Telecom.

Restricted cash as of December 31, 2007 and 2006 also includes $28.6 million and $24 million, respectively, deposited by Uzdurobita in a special bank account, which was created to be in compliance with government regulation of local currency conversion into foreign currencies.

Loans and promissory notes from related parties are mostly RUB denominated and interest-free. The majority of such loans and promissory notes mature in 2010.

Maturity of receivable for sale of Glorerly shares was extended to 2009 according to the agreement signed by the parties.

The components of net investment in finance lease as of December 31, 2007 and 2006 are as follows:

	2007	2006
Minimum lease payments	166,070	86,074
Less: unearned finance income	(41,341)	(22,031)
Net investment in finance lease	**124,729**	**64,043**
Current portion	55,545	36,805
Long-term portion	70,184	39,229
Net investment in finance lease	**124,729**	**64,043**

Long-term receivables representing mainly trade receivables of Intracom Telecom under contracts with extended payment terms carry interest of EURIBOR+1.5%-2.5% per annum and mature from 2011 to 2014.

17. BANK DEPOSITS AND NOTES ISSUED

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

	2007	2006
Term deposits	$ 1,912,150	$ 670,734
Promissory notes issued	17,646	86,883
Deposits repayable on demand	1,438,213	269,178
	3,368,009	1,026,795
Less: amounts maturing after one year	(1,266,925)	(65,200)
Total	**$ 2,101,084**	**$ 961,595**

Bank deposits and notes issued as of December 31, 2007 and 2006 include deposits from and promissory notes issued to affiliates and other related parties for $43.0 million and $4.5 million, respectively.

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

	2007			2006		
	RUB	USD	Other currencies	RUB	USD	Other currencies
Term deposits:						
- corporate customers	8.8%	6.2%	5.7%	5.9%	6.6%	5.9%
- individuals	10.9%	8.9%	7.1%	10.3%	8.8%	7.0%
Promissory notes issued	8.1%	9.3%	6.0%	8.3%	9.4%	6.0%
Deposits repayable on demand:						
- corporate customers	1.4%	3.8%	1.7%	2.4%	4.9%	-
- individuals	1.5%	1.3%	0.1%	2.0%	0.5%	0.5%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	2007	2006
Payroll and other accrued expenses	$ 491,602	$ 437,790
Customers' advances	203,548	96,679
Bitel liability (Note 30)	170,000	170,000
Accrued interest on loans	111,107	121,951
Payable for purchase of Dalcombank (Note 3)	109,639	-
Asset retirement obligations	59,527	10,821
Tax and legal provisions	29,550	40,344
Accrued liabilities for purchase of K-Telecom shares	17,356	-
Payable for purchase of Intracom Telecom shares	7,320	46,122
Dividends payable	4,336	3,468
Other	153,292	61,635
Total	**$ 1,357,277**	**$ 988,810**

19. SHORT-TERM LOANS PAYABLE

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

	Interest rate (Actual at December 31, 2007)	2007	2006
USD-denominated:			
Drezdner Bank	9.3%	$ 125,000	-
Raiffeisen Bank	LIBOR+3.2% (8.6%)	50,000	-
Natexic Bank	LIBOR+1.1% (6.5%)	30,000	-
ABN Amro Bank	-	-	$ 675,000
Deutsche Bank	-	-	140,000
Nomura International	-	-	100,000
UBS AG	-	-	100,000
Other	Various	37,028	44,359
		242,028	1,059,359
EUR-denominated:			
Societe Generale – Geniki Bank	EURIBOR+1.2% (5.7%)	7,320	25,662
Eurobank	EURIBOR+1.2% (5.7%)	1,464	10,937
Other	Various	9,006	34,279
		17,790	70,878
Borrowings in other currencies:			
HSBC	PRIBOR+0.5% (4.6%)	53,889	25,900
Solidarnost Bank	10.0%	52,983	-
National Reserve Bank	7.8%	40,753	-
Nomos Bank	10.0%	21,185	-
ABN Czech	PRIBOR+0.9% (5.0%)	16,595	31,895
Citibank	PRIBOR+0.7% (4.8%)	14,986	2,175
Rus Bank	-	-	17,090
Other	Various	67,244	85,366
		267,635	162,426
Loans from related parties	Various	197,452	4,115
Total		**$ 724,905**	**$ 1,296,778**

The weighted average interest rate was 8.8% and 7.3% as of December 31, 2007 and 2006, respectively. Short-term loans and notes payable mature in 2008.

20. LONG-TERM DEBT

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

	2007	2006
Loans from banks and financial institutions	$ 5,211,991	$ 3,005,509
Notes and corporate bonds	2,463,684	2,497,838
Loans from related parties	17,042	23,162
Capital leases	14,581	15,874
Vendor financing	3,150	6,001
Other borrowings	49,391	28,060
	7,759,839	5,576,444
Less amounts maturing within one year	(1,517,902)	(280,427)
Total	**$ 6,241,937**	**$ 5,296,017**

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

	Currency	Interest rate	2007	2006
Sistema Capital Notes due 2011	USD	8.9%	$ 345,000	$ 350,000
Sistema Finance Notes due 2008	USD	10.3%	310,328	312,471
MTS Finance Notes due 2012	USD	8.0%	400,000	400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
MTS Finance Notes due 2008	USD	9.8%	400,000	400,000
MBRD Loan Participation Notes due 2016	USD	8.9%	60,000	60,000
MBRD Loan Participation Notes due 2008	USD	8.6%	150,000	150,000
MBRD Capital Notes due 2009	USD	8.8%	100,000	100,000
MGTS Bonds due 2010	RUB	8.3%	59,903	55,842
MGTS Bonds due 2009	RUB	7.1%	29,338	27,533
DM-Center Bonds due 2015	RUB	8.5%	46,850	43,654
Intourist Bonds due 2010	RUB	9.0%	40,732	-
SITRONICS Bonds due 2010	RUB	7.9%	122,219	-
SITRONICS Finance Bonds due 2009	USD	7.8%	-	200,000
			2,464,370	2,499,500
Less: unamortized discount			(686)	(1,662)
Total notes and corporate bonds			**$ 2,463,684**	**$ 2,497,838**

Sistema Capital Notes are listed on the London Stock Exchange and Sistema Finance Notes are listed on the Luxembourg Stock Exchange. JSFC Sistema is a guarantor of the notes. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness; restrictions on mergers or consolidations; limitations on liens and dispositions of assets; and limitations on transactions with affiliates. In addition, these notes provide the holders with a right to require the Group to redeem all of the notes outstanding at 101.0% of the principal amount of the notes plus accrued interest upon any change in control. Sistema Finance Notes are secured by 193,473,900 shares of common stock of MTS.

MTS Finance Notes are fully and unconditionally guaranteed by MTS. The notes are listed on the Luxembourg Stock Exchange. Subject to certain exceptions and qualifications, the indentures governing MTS' 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 the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101.0% of their principal amount, plus accrued interest. MTS is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by JSFC Sistema. If MTS fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate debt to be immediately due and payable.

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

SITRONICS, MGTS, DM-Center and Intourist bonds are listed on MICEX.

The principal of DM-Center bonds is fully and unconditionally guaranteed by the Moscow City Government. Concurrently, JSFC Sistema has pledged to Moscow City Government real estate and shareholdings with approximate book value of $62.8 million.

Management believes that the Group is in compliance with all restrictive provisions of notes and corporate bonds as of December 31, 2007.

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

	Maturity	Interest rate (Actual at December 31, 2007)		2007		2006
USD-denominated:						
Syndicated Loan Facility to MTS	2008-2011	LIBOR+0.8% (6.2%)	$	1,330,000	$	860,000
VTB	2010-2012	8.5%		1,385,000		600,000
EBRD	2011-2013	LIBOR+3.1% (8.5%)		216,666		250,000
Citibank International plc and ING Bank N.V.	2008-2014	LIBOR+0.3% (5.7%)		130,467		150,208
HSBC Bank plc and ING BHF Bank AG	2008-2013	LIBOR+0.4% (5.8%)		128,185		149,984
Commerzbank AG, ING Bank AG and HSBC Bank plc	2008-2014	LIBOR+0.3% (5.7%)		103,533		118,324
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2008-2014	LIBOR+0.3% (5.7%)		100,567		117,109
Barclays Bank plc	2008-2014	LIBOR+0.2% (5.6%)		85,515		98,672
Vnesheconombank	2008-2014	LIBOR+3.0% (8.4%)		141,586		71,213
Dresdner Bank	2008-2010	LIBOR+1.3% (6.7%)		100,000		50,000
ABN AMRO Bank	2008-2013	LIBOR+0.4% (5.8%)		37,721		44,009
Commerzbank (Eurasia)	2008-2010	LIBOR+3.5% (8.9%)		38,321		42,516
Other	2008-2015	Various		52,199		76,249
			$	3,849,760	$	2,628,284
EUR-denominated:						
Syndicated Loan to Intracom Telecom	2009	EURIBOR+1.6% (5.9%)		120,253		121,200
Deutsche Bank AG	2009	EURIBOR+4.0% (8.3%)		117,768		105,360
ING BHF Bank and Commerzbank AG	2009	EURIBOR+0.7% (5.0%)		22,903		34,360
ABN AMRO Bank	2008-2013	EURIBOR+0.4% (4.7%)		30,396		31,921
VTB	2010-2012	EURIBOR+3.8%-5.4% (8.1%-9.7%)		18,984		21,428
Other	2008-2010	Various		26,790		35,417
			$	337,094	$	349,686
RUR-denominated:						
Sberbank	2012	7.6%		877,689		-
Raiffeisen Bank	2009	MosPrime+2.8% (9.7%)		47,103		-
International Moscow Bank	2011	MosPrime+1.8% (8.7%)		31,070		-
Other	Various	Various		13,177		5,209
			$	969,039	$	5,209
Other currencies	2008-2018	Various	$	56,098	$	22,330
Total			**$**	**5,211,991**	**$**	**3,005,509**

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

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

As of December 31, 2007, the Group has pledged 1,917,040 shares of JSC Sistema-Hals as a security under the loan facility from VTB in the amount of $700 million.

In June 2007, Comstar UTS entered into a non-revolving credit line facility with Sberbank for the amount of RUB 26.0 billion (equivalent of $1,059.2 million as of December 31, 2007). In June 2007, Comstar UTS has drawn down approximately RUB 17.4 billion (equivalent of $675.0 million as of the date of the drawdown) under this facility and used the proceeds to repay a $675.0 million loan from ABN Amro and Morgan Stanley. In November 2007, Comstar UTS has drawn additional RUB 4.1 billion (equivalent of $167.4 million as of the date of the drawdown) under this facility to finance the acquisition of a 100% stake in DTN (see Note 3). The facility bears interest at 7.6% per annum and is repayable in equal quarterly installments from September 2009 until June 2012 and is secured by a pledge of a 25% plus one share stake in Svyazinvest (see Note 3). Deferred financing costs of approximately $1.5 million were capitalized in connection with this facility.
As of December 31, 2007, approximately RUB 4.5 billion (equivalent of approximately $181.5 million) under the facility remains undrawn.

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

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

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

Management believes that the Group is in compliance with all restrictive covenants and provisions of loans and credit facilities as of December 31, 2007.

The schedule of repayments of long-term debt over the five-year period and thereafter beginning after December 31, 2007 is as follows:

Year ended December 31,		
2008	$	1,517,902
2009		1,541,985
2010		1,989,358
2011		563,441
2012		1,751,811
Thereafter		395,342
Total	**$**	**7,759,839**

Hedging Transactions – In January 2006, MTS entered into a variable-to-fixed interest rate swap agreement with HSBC Bank Plc to hedge MTS's exposure to variability of future cash flows caused by the change in EURIBOR related to the ABN AMRO Bank. MTS agreed with HSBC Bank plc to pay a fixed rate of 3.3% and receive a variable interest of EURIBOR on EUR 26.0 million for the period from April 2006 up to October 2013. As of December 31, 2007, the Group recorded an asset of $1.0 million in relation to the hedge contract in the accompanying consolidated balance sheet and an income of $0.8 million, net of minority interest of $0.4 million and tax of $0.2 million, as other comprehensive income in the accompanying consolidated statement of changes in shareholders' equity in relation to the change in fair value of these agreements.

In 2002, Intracom Holdings S.A. entered into a swap agreement with Alpha Bank to eliminate the foreign currency exposure risk and to effectively convert a syndicated loan of $121.2 million at a rate of three months LIBOR+1.50% to EUR 118.0 million ($158.7 million as of December 31, 2007) bearing three months EURIBOR+1.59% interest rate. The terms of the swap matched the terms of the underlying debt. The arrangement did not qualify for hedge accounting. In 2005, the loan and the swap were transferred to Intracom Telecom. As of December 31, 2007 and 2006, the Group recorded a liability of $52.6 million and $34.3 million, respectively, in relation to this instrument in the accompanying consolidated balance sheet and a loss of $18.3 million and $15.5 million for the years ended December 31, 2007 and 2006, respectively, which was offset by the foreign exchange gain resulted from underlying debt.

In 2006, SITRONICS TS CR entered into several currency swap agreements with ABN-AMRO Bank. These arrangements were used to hedge the fair value of the USD and EUR denominated accounts receivable against the effect on earnings of changes in exchange rates until these receivables are settled. The gain from change in fair values of those instruments comprised $6.3 million and $2.0 million and was recognized in the consolidated income statement for the years ended December 31, 2007 and 2006, respectively.

21. SUBSCRIBER PREPAYMENTS

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

		2007		2006
Current portion				
Advances and customers' deposits	$	519,958	$	463,134
Connection fees		78,056		89,863
		598,014		552,997
Non-current portion				
Connection fees		134,280		136,861
Total	**$**	**732,294**	**$**	**689,858**

22. INCOME TAX

The Group's provision for income taxes for the years ended December 31, 2007 and 2006 was:

		2007		2006
Current provision	$	1,079,267	$	902,771
Deferred income benefit		(87,635)		(113,544)
Total income tax expense	**$**	**991,632**	**$**	**789,227**

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

		2007		2006
Income tax provision computed on income before taxes at statutory rate	$	768,561	$	532,398
Adjustments due to:				
Change in valuation allowance		12,942		19,950
Bitel liability and investment write-off		-		76,800
Other non-deductible items		111,051		98,094
Stock-based compensation non-deductible for tax purposes		36,961		21,787
Put and call option revaluation		35,006		14,400
Non-taxable items		(31,497)		(13,043)
Taxable losses not carried forward		37,965		16,623
Effect of FIN No. 48 application		29,247		-
Currency exchange and translation differences		(9,289)		46,170
Effect of rates different from standard		685		(23,952)
Income tax expense	**$**	**991,632**	**$**	**789,227**

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

		2007		2006
Deferred tax assets				
Property, plant and equipment	$	184,615	$	148,439
Accrued expenses		158,968		121,159
Intangible assets		51,399		46,991
Subscriber and customer prepayments		53,755		85,517
Allowance for doubtful accounts and loans receivable		31,415		36,411
Deferred revenues		29,570		27,205
Tax losses carried forward		39,627		6,193
Other		48,702		14,523
		598,051		486,438
Less: valuation allowance		(46,086)		(33,144)
Total deferred tax assets	**$**	**551,965**	**$**	**453,294**
Deferred tax liabilities				
Property, plant and equipment		(261,557)		(203,065)
Intangible assets		(330,550)		(198,898)
Undistributed earnings of subsidiaries and affiliates		(83,631)		(59,115)
Debt issuance costs		(15,609)		(19,253)
Other		(44,271)		(39,678)
Total deferred tax liabilities	**$**	**(735,618)**	**$**	**(520,009)**
Net deferred tax assets, current	$	213,633	$	195,672
Net deferred tax assets, long-term	$	108,637	$	73,623
Net deferred tax liabilities, current	$	(77,893)	$	(48,885)
Net deferred tax liabilities, long-term	$	(428,030)	$	(287,125)

Deferred tax assets relating to tax losses carried forward in the amount of $26.2 million as of December 31, 2007, expiring in 2012, are attributable to SITRONICS TS CR. The Group made a 100% valuation allowance for this amount, while the remaining amount of deferred tax assets relating to tax losses carried forward is mainly attributable to other companies of the Technology segment, and fully expires by 2018.

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

The changes in unrecognized tax benefits during the year ended December 31, 2007 were as follows:

Balance at January 1, 2007	$	24,091
Additions based on tax positions related to the current year		29,562
Additions based on tax positions related to prior years		5,933
Reduction to tax positions related to prior years		(1,345)
Reversal of tax positions from prior years due to expiration of statute of limitations		(1,275)
Settlements with taxing authorities		(3,628)
Balance at December 31, 2007	**$**	**53,338**

The Group recognized approximately $1.4 million in interest and penalties for the year ended December 31, 2007 related to unrecognized tax benefits in other operating expenses.

As of the date of these financial statements, the tax years ended December 31, 2005, 2006 and 2007 remained subject to examination by the Russian tax authorities.

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

23. POSTRETIREMENT BENEFITS

Intracom Telecom

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

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

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

	2007	**2006**
Discount rate	4.7%	4.6%
Future salary increases	4.5%	4.5%
Long-term inflation	3.0%	2.0%
Staff turnover for voluntary resignation (for ages 51 and above)	2.0%	2.0%
Staff turnover for dismissal	0.2%	0.2%

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2007 and 2006 are presented in the following table:

		2007		2006
Change in projected benefit obligation				
Projected benefit obligation, beginning of the year	$	6,790	$	4,066
Service cost		680		523
Interest cost		297		253
Plan amendments		570		787
Actuarial (gains)/losses		(950)		1,085
Benefit payments		(861)		(512)
Currency translation effect		729		588
Projected benefit obligation, end of the period	**$**	**7,255**	**$**	**6,790**

The components of the net periodic benefit cost for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Service cost	$	680	$	523
Interest cost		297		253
Net periodic benefit cost	**$**	**977**	**$**	**776**

Amounts recognized in other comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Unrecognized losses	$	484	$	(554)
Unrecognized prior service credit		-		-
Total recognized in other comprehensive income		**484**		**(554)**

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

Year ended December 31,		
2008	$	703
2009		776
2010		849
2011		922
2012-2016		4,005
Total	**$**	**7,255**

As of December 31, 2007, the long-term portion of post-retirement benefit liabilities amounted to $6.6 million.

MGTS

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

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

	2007
Discount rate	6.5%
Expected return on plan assets	7.11%
Increase in unit persons and other benefits	9.2%
Discount rate used for annuity contracts calculation	7.0%
Rate at which pension payments are assumed to be indexed	0.0%
Long-term inflation	5.0%
Staff turnover (for ages below 50)	10.0%

The change in the projected benefit obligation and the change in plan assets for the years ended December 31, 2007 and 2006 are presented in the following table:

		2007		2006
Change in projected benefit obligation				
Projected benefit obligation, beginning of the year	$	15,942	$	18,868
Service cost		1,556		(8,538)
Interest cost		970		1,232
Actuarial losses		18,155		6,352
Plan amendments		(746)		-
Benefit payments		(1,395)		(365)
Settlement and curtailment gain		(2,676)		-
Termination benefits		4,471		-
Foreign currency translation effect		2,013		(1,607)
Projected benefit obligation, end of the year		38,290		15,942
Change in fair value of plan assets				
Fair value of plan assets, beginning of the year		5,760		2,651
Actual return on plan assets		103		337
Employer contributions		2,760		3,137
Benefits paid		(1,395)		(365)
Settlement		(1,575)		-
Foreign currency translation effect		270		-
Other		(3,450)		-
Fair value of plan assets, end of the year		2,473		5,760
Unfunded status of the plan, end of the year	**$**	**35,817**	**$**	**10,182**

The components of the net periodic benefit cost for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Service cost	$	1,556	$	(8,538)
Interest cost		970		1,232
Expected return on plan assets		(103)		(337)
Immediate recognition of prior service cost		4,471		-
Net periodic benefit cost	**$**	**6,894**	**$**	**(7,643)**

Reconciliation of the unfunded status of the plan for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Unfunded status of the plan, beginning of the year	$	10,182	$	16,217
Net periodic pension cost		6,894		(7,643)
Contributions made		(2,760)		(3,137)
Charge to other comprehensive income, net		16,308		-
Foreign currency translation effect		1,743		(1,607)
Other		3,450		6,352
Unfunded status of the plan, end of the year	**$**	**35,817**	**$**	**10,182**

Amounts recognized in other comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Unrecognized losses	$	17,072	$	-
Unrecognized prior service credit		(764)		-
Total recognized in other comprehensive income		**(16,308)**		**-**

The Group's management expects contributions to the plan during the year ended December 31, 2008 to amount to $5.9 million. The future benefit payments to retirees under the defined benefit plan are expected to be as follows: 2008 – $1.4 million; 2009 – $1.8 million; 2010 – $1.9 million; 2011 – $2.5 million, 2012 – $2.9 million, and $25.0 million thereafter.

In connection with reorganization and headcount reduction program adopted in 2007, management has estimated an additional liability in respect to lump-sum payments upon retirement in the projected benefit obligation ("PBO"), which resulted in an increase in PBO of approximately $9.7 million as of December 31, 2007, and revised estimated staff turnover rate, which was increased to 10% per annum. In addition, due to adoption of new motivation scheme at MGTS, estimated future increase in unit pension and other benefits was increased to 9.2% per annum, which resulted in a difference of approximately $14.3 million between PBO and accumulated benefit obligation (ABO) as of December 31, 2007. Accumulated benefit obligation as of December 31, 2007 and 2006 amounted to $24.0 million and $15.9 million, respectively.

NPF "Sistema" does not allocate any separately identifiable assets to its clients such as MGTS. Instead, it operates a pool of investments where it invests the funds from the pension solidarity and individual accounts. The pool of investments includes primarily investments in Russian corporate bonds, Russian governmental bonds and shares of Russian issuers.

24. DEFERRED REVENUE

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

		2007		2006
Deferred revenue at the beginning of the year	$	129,120	$	125,700
Contributions received during the year		6,344		5,616
Currency translation effect		10,128		11,442
		145,592		142,758
Deferred revenue amortized		(5,270)		(3,996)
Effect of acquisitions		(338)		(9,642)
Deferred revenue at the end of the year	**$**	**139,984**	**$**	**129,120**

25. PUTTABLE SHARES OF SITRONICS

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

In addition, if JSFC Sistema contemplates a purchase of additional shares in SITRONICS, either existing or newly issued, EBRD must be given the opportunity to participate in such a purchase on a pro rata basis, unless such purchase is necessary or desirable for the success of an initial public offering of SITRONICS' shares. The Group has the right of first refusal if EBRD decides to divest its interests in SITRONICS. EBRD also agreed not to sell any of its shares for 180 days following the initial public offering of SITRONICS' shares. The term of the agreement extends up to two years after the date of the offering, except in certain circumstances.

In addition, simultaneously with the subscription agreement and the shareholders' agreement, JSFC Sistema entered into a put option agreement with EBRD pursuant to which EBRD has the right to sell to JSFC Sistema all of its shares in SITRONICS under certain circumstances during the period of up to two years after the date of the public offering. If EBRD exercises its put option, JSFC Sistema will pay EBRD approximately $80.0 million plus (1) interest at a rate of 10.0% per annum if the value of SITRONICS' shares is between $1.6 billion and $2.1 billion upon the completion of the offering or; (2) interest at the LIBOR+2.5% (7.9% as of December 31, 2007) per annum if the value of SITRONICS' shares is less than $1.6 billion or more than $2.1 billion upon the completion of the offering.

26. SHARE CAPITAL

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

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

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

In June and August 2007, the Group sold approximately 0.2% of the shares of JSFC Sistema to the Group's top managers for a total cash consideration of $0.03 million. The fair value of the shares amounted to approximately $23.0 million. The Group has recorded compensation costs of $23.0 million as a component of selling, general and administrative expenses.

In September 2007, the Board of Directors of JSFC Sistema approved the split of the nominal value of the Company's ordinary shares at a ratio 1:1,000. As a result of the share split, JSFC Sistema's share capital at December 31, 2007, of RUB 868,500,000 comprised 9,650,000,000 ordinary shares with a par value of RUB 0.09 per share.

27. SEGMENT INFORMATION

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

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

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

An analysis and reconciliation of the Group’s business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2007 and 2006 is as follows:

For the year ended December 31, 2007	Tele-commu-nications	Technology	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [a]	9,833,604	1,351,300	472,965	104,887	382,245	597,196	958,758	13,700,955
Intersegment sales	8,965	268,304	15,882	32,150	69,953	28	21,882	417,164
Equity in net income of investees	78,437	(66)	-	10,815	215	-	123,667	213,068
Interest income	52,593	14,397	-	633	14,272	106	77,789	159,790
Interest expense	(194,890)	(39,884)	-	(3,698)	(11,953)	(15,921)	(167,281)	(433,627)
Net interest revenue [b]	-	-	63,383	-	-	-	-	63,383
Depreciation and amortization	(1,639,594)	(56,453)	(8,668)	(21,163)	(14,872)	(10,494)	(24,452)	(1,775,696)
Operating income/(loss)	3,343,954	(158,918)	54,715	2,028	41,855	25,637	(96,306) [d]	3,212,965
Income tax expense	(909,043)	(27,399)	(18,100)	(675)	(16,216)	(4,696)	(15,503)	(991,632)
Investments in affiliates	438,198	1,176	-	19,060	29,724	-	854,291	1,342,449
Segment assets	16,302,090	1,887,360	5,622,534	508,939	1,770,030	496,978	4,181,561	30,769,492
Indebtedness [c]	(4,394,620)	(511,071)	(655,632)	(83,024)	(856,526)	(182,799)	(1,801,072)	(8,484,744)
Capital expenditures	1,836,830	234,483	77,121	76,139	692,869	94,336	99,162	3,110,940

[a] – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group’s consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt
[d] – Excluding dividends received by the Corporate segment from the Group’s subsidiaries in amount of US$ 378.9 million.

For the year ended December 31, 2006	Tele-commu-nications	Technology	Banking	Mass Media	Real Estate	Retail	Corporate and Other	Total
Net sales to external customers [a]	7,469,439	1,268,368	204,145	78,872	273,096	335,144	637,526	10,266,590
Intersegment sales	6,150	342,366	24,046	27,834	9,770	165	17,933	428,264
Equity in net income of investees	91,717	245	-	5,529	-	-	139,637	237,128
Interest income	56,483	11,223	-	289	4,454	863	30,780	104,092
Interest expense	(200,424)	(32,235)	-	(727)	(7,560)	(7,927)	(127,670)	(376,543)
Net interest revenue [b]	-	-	26,792	-	-	-	-	26,792
Depreciation and amortization	(1,198,980)	(42,706)	(3,236)	(11,155)	(7,153)	(5,706)	(16,937)	(1,285,873)
Operating income	2,377,358	129,809	33,971	15,447	85,974	15,152	263,882 [d]	2,921,593
Income tax expense	(645,042)	(40,847)	(8,276)	(2,575)	(16,564)	(2,413)	(73,510)	(789,227)
Investments in affiliates	266,488	-	-	6,675	-	-	842,159	1,115,322
Segment assets	12,656,286	1,638,708	2,513,548	355,477	943,348	238,138	3,514,069	21,859,574
Indebtedness [c]	(3,908,943)	(505,333)	(399,069)	(17,693)	(359,727)	(90,890)	(1,590,640)	(6,872,295)
Capital expenditures	2,001,973	103,869	11,414	83,714	134,738	32,341	3,874	2,371,923

[a] – Interest income and expenses of the Banking segment are presented as revenues from financial services in the Group’s consolidated financial statements.
[b] – The Banking segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.
[c] – Represents the sum of short-term and long-term debt
[d] – Excluding dividends received by the Corporate segment from the Group’s subsidiaries in amount of US$ 275.4 million.

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

		2007		2006
Total segment operating income	$	3,212,965	$	2,921,593
Intersegment eliminations		61,739		(230,359)
Interest income		81,085		65,439
Change in fair value of derivative financial instruments		(145,800)		(60,000)
Interest expense		(411,813)		(355,326)
Impairment loss on investment in Bitel		-		(320,000)
Currency exchange and translation gain		294,307		69,334
Consolidated income from continuing operations before income tax, equity in net income of energy companies in the Republic of Bashkortostan and minority interests	**$**	**3,092,483**	**$**	**2,090,681**

		2007		2006
Total segment assets	$	30,769,492	$	21,859,574
Intersegment eliminations		(2,372,834)		(1,668,336)
Consolidated assets	**$**	**28,396,658**	**$**	**20,191,238**

For the years ended December 31, 2007 and 2006, the Group's revenues outside of the RF were as follows:

		2007		2006
Ukraine	$	1,804,894	$	1,689,900
Greece		218,410		248,809
Central and Eastern Europe		479,487		175,546
Asia and Pacific region		690,978		116,872
Other		99,189		305,814
Total	**$**	**3,292,958**	**$**	**2,536,941**

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

		2007		2006
Ukraine	$	2,082,501	$	1,805,084
Asia and Pacific region		1,262,726		274,711
Greece		181,887		129,392
Central and Eastern Europe		41,345		81,290
Other		3,147		-
Total	**$**	**3,571,606**	**$**	**2,290,477**

For the years ended December 31, 2007 and 2006, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

28. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the years ended December 31, 2007 and 2006, the Group entered into transactions with related parties as follows:

		2007		2006
Sale of goods and services	$	(27,049)	$	(39,587)
Telecommunication services provided		(180,801)		(64,827)
Revenues from financial services		(5,855)		(3,534)
Telecommunication services purchased		159,324		100,178
Insurance premiums received		-		(862)
Purchases of goods for resale		1,058		1,878
Other		15,876		12,992

In 2007 and 2006, the Group had interconnect and line rental agreements with Mezhregion Tranzit Telecom (MTT). Interconnect revenues for the years ended December 31, 2007 and 2006 amounted to $98.4 million and $34.0 million, respectively. Interconnect expenses for the years ended December 31, 2007 and 2006 amounted to $118.9 million, and $84.4 million, respectively.

The Group provides interconnection and other services to Sky Link and subsidiaries. Respective revenues for the years ended December 31, 2007 and 2006 were approximately $13.8 million and $7.9 million, respectively.

The Group entered in agent agreements with Rostelecom, a subsidiary of Svyazinvest, for provision of ILD/DLD services to the Group's subscribers and interconnection agreements with other subsidiaries of Svyazinvest. During the years ended December 31, 2007 and 2006, the Group purchased services, including interconnection, rental of telecommunication equipment and others for the amounts of $68.1 million and $23.2 million, respectively. Related expenses for the years ended December 31, 2007 and 2006 amounted to $40.2 million and $15.6 million, respectively.

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

29. STOCK BONUS AND STOCK OPTION PLANS

Comstar UTS

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

From the launch of the program on October 30, 2006 to December 31, 2006 Comstar UTS acquired 10,746,761 shares issued in the form of GDRs, or 2.6% of its total issued shares, for a total cash consideration of approximately $73.9 million.

In November 2006, Comstar UTS approved the grant of options to certain members of its Board of Directors and top management. The exercise price for these options is RUB 122.3 (approximately $4.7 as of December 31, 2007) per share. These stock options vest in November 2008.

The following table summarizes information about non-vested common stock options during the years ended December 31, 2007 and 2006:

	Number of shares	Exercise price, USD per share	Fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2006				
Granted	3,343,525	$ 4.7	$ 3.16	$ 25,411
Exercised	-	-	-	
Forfeited	-	-	-	
Outstanding at December 31, 2006	3,343,525	$ 4.7	$ 3.16	$ 25,411
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(940,366)	4.7	3.16	(7,147)
Outstanding at December 31, 2007	**2,403,159**	$ **4.7**	**$** **3.16**	**$** **18,264**

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

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

Expected volatilities were based on historical volatility of the Comstar UTS' GDRs.

During the year ended December 31, 2007, certain options have been forfeited, as employment of certain members of management and the Board of Directors of Comstar UTS has been terminated. Accordingly, $0.1 million of costs under the cancelled options recorded during the year ended December 31, 2006 has been reversed in the accompanying consolidated statement of operations for the year ended December 31, 2007.

In connection with introduction of a repurchase feature of the option program, as of December 31, 2007 the Group re-classified the option program as liability, which resulted in a decrease in net income and basic and diluted earnings per share for the year ended December 31, 2007 by $6.2 million, USD 0.02 and USD 0.02, respectively. The following assumptions were used in the option-pricing model as of December 31, 2007:

Risk-free interest rate	3.34%
Expected option life (months)	11
Expected dividend yield	-
Expected volatility	37.7%
Fair value of options (per share), USD	$7.76

The costs recognized in accordance with stock option plan for the years ended December 31, 2007 and 2006 approximated $10.3 million and $0.7 million, respectively. Total expected future compensation cost related to non-vested awards not yet recognized as of December 31, 2007 amounted to $7.7 million. This cost will be recognized in 2008.

Intrinsic value of the employee stock options as of December 31, 2007 and 2006 was USD 7.6 and USD 3.8, respectively. Management expects that some of the option holders will use the repurchase feature. The source of shares for the rest of the holders will be the treasury stock.

MTS

In 2000, MTS established a stock bonus plan and stock option plan for selected officers, key employees and key advisors.

Since 2002, MTS has made several 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 the continued employment of the grantee with MTS. The exercise price of the options equaled the average market share price during the hundred day period preceding the grant date.

A summary of the status of the MTS' stock option plan is presented below:

	Number of shares	Weighted average exercise price, USD per share	Weighted average grant date fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2006	3,187,240	$ 6.47	$ 2.02	$ 2,455
Granted	-	-	-	-
Exercised	(639,357)	5.95	2.36	(695)
Forfeited	(1,112,882)	6.23	2.17	(1,017)
Outstanding at December 31, 2006	1,435,001	$ 6.89	$ 1.74	$ 743
Granted	1,778,694	6.31	5.95	6,652
Exercised	(848,126)	6.89	1.74	(433)
Forfeited	(968,313)	6.66	2.65	(1,726)
Outstanding at December 31, 2007	**1,397,256**	**$ 6.31**	**$ 4.05**	**$ 5,236**

Stock options outstanding as of December 31, 2007 will vest during the year ended December 31, 2008. None of the stock options outstanding as of December 31, 2007 were exercisable.

The fair value of options granted during the year ended December 31, 2007 was estimated using the lattice model based on the following assumptions:

Risk free rate	3.1%
Expected dividend yield	0.3%
Expected volatility	40.3%
Expected life, years	2
Fair value of options (per share), USD	$5.95

Compensation costs under the stock option plan of $2.8 million and $1.7 million was recognized in the consolidated statements of operations during the years ended December 31, 2007 and 2006, respectively.

The effect of the estimated forfeitures on the Group's operations was $1.7 million and $1.0 million in 2007 and 2006, respectively.

As of December 31, 2007, there is $3.0 million of total unrecognized compensation costs related to non-vested stock-based compensation awards under the stock option plan. This amount is expected to be recognized over a weighted-average period of 0.54 years.

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.

MTS' Phantom Stock Plan

In June 2007, the Board of Directors of MTS approved a phantom stock plan to provide deferred compensation to certain key employees of MTS. Under the plan, the participants are entitled to a cash payment equal to the difference between the initial grant price and the exercise price of phantom shares, multiplied by the number of phantom shares granted, upon vesting of the award. The initial grant price is determined based on the average market share price during the hundred day period preceding the grant date. The exercise price of the phantom shares is determined based on the average market share price during the hundred day period preceding the vesting date. The vesting period is two years from the grant date, contingent upon the continuing employment of the participants by MTS. Further, the award shall vest only if at the end of the vesting period the cumulative percentage of MTS' market capitalization growth since the grant date exceeds the cumulative cost of equity determined by the Board of Directors of MTS for the same period.

MTS has a maximum of 3,600,000 phantom ADSs, or 18,000,000 phantom shares, reserved for issuance under the phantom stock plan, of which 720,000 ADSs, or 3,600,000 phantom shares, were granted in 2007. A summary of the status of MTS' phantom stock plan is presented below:

	Number of shares	Weighted average exercise price, USD per share	Weighted average fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2007	-	$ -	$ -	$ -
Granted	3,600,000	11.4	8.8	32,400
Exercised	-	-	-	-
Forfeited	(183,320)	11.4	8.8	(1,650)
Outstanding at December 31, 2007	**3,416,680**	**$ 11.4**	**$ 8.8**	**$ 30,750**

All phantom shares outstanding as of December 31, 2007 are non-vested and will vest in 2009. None of the phantom shares were exercisable as of December 31, 2007.

The fair value of the liability under the Phantom Stock Plan as of December 31, 2007, were estimated using the Monte-Carlo simulation technique based on the following assumptions:

Risk free rate	3.1%
Present value of expected dividends, USD	$5.3
Expected volatility	40.3%
Remaining vesting period, years	1.5
Cumulative cost of equity	21.7%
Fair value of phantom share award (per share), USD	$8.8

The compensation cost under the phantom stock plan recognized in the consolidated statements of operations for the year ended December 31, 2007 in the amount of $7.6 million, net of the related deferred tax benefit of $1.8 million. The respective liability of $7.6 million was included in accrued expenses and other liabilities in the consolidated balance sheet as of December 31, 2007.

As of December 31, 2007, there was $23.7 million of total unrecognized compensation cost related to non-vested phantom shares. This amount is expected to be recognized over a weighted-average period of 1.5 years. MTS is required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of phantom shares awards will be achieved and only recognize the expense for those shares expected to vest. MTS' estimated forfeiture rate was 5.1%. The effect of forfeitures amounted to $2.0 million for the year ended December 31, 2007.

Sistema-Hals

In June 2007, Sistema-Hals granted stock bonuses of 403,815 shares (3.6% of total issued shares) to senior management (280,427 shares – 2.5% of total issued shares), and directors (123,388 shares – 1.1% of total issued shares). The fair value of the awards as of the grant date was $68.0 million and $29.9 million, respectively, and was included in consolidated operating expenses for the year ended December 31, 2007.

The stock options entitle participants to acquire a specific number of shares in Sistema-Hals, at a price determined and agreed in advance. Sistema-Hals reserved 235,556 shares (2.1% of total issued shares) for the stock option and stock bonus program. Options will be granted to the participants during the following 4 years in equal amounts each year. The vesting period of the options is one year.

The fair value of options granted in the year ended December 31, 2007 was estimated using the Black-Scholes pricing model using the following assumptions:

Risk-free rate	4.97%
Expected dividend yield	-
Expected volatility	26.2%
Expected option life (years)	1

The following table summarizes information about non-vested common stock options in the year ended December 31, 2007:

	Number of shares	**Exercise price, USD per share**	**Fair value of options, USD per share**
Outstanding as of January 1, 2007	-	-	-
Granted	235,556	201	47.4
Exercised	-	-	-
Forfeited	(89,736)	201	47.4
Outstanding as of December 31, 2007	**145,820**	**201**	**47.4**

During the year ended December 31, 2007, certain options have been forfeited, as employment of certain members of management has been terminated.

The total value of the stock option plan amounted to $6.9 million of which the costs recognized in the year ended December 31, 2007 approximated $1.8 million and was included in operating expenses in the consolidated statement of operations and compensation cost related to non-vested awards not yet recognized as of December 31, 2007 amounted to $5.1 million. This cost will be recognized over the 42 months ending June 2011.

The stock option plan is not in-the-money as of December 31, 2007.

SITRONICS

In July 2007, SITRONICS established a stock option plan for certain of its employees. Originally the share pool consisted of 627,783,968 shares, representing 6.57% of the share capital. The shares are to be issued from the SITRONICS' treasury stock. The options are contingent on the continued employment of the grantees with SITRONICS or, in some cases, with Sistema. According to the terms of the plan, the grantees are entitled to buy option shares in four installments, representing 16.7% of the total amount due to each person during the years 2007, 2008, 2009, and the remaining amount of 49.9% in 2010. The exercise price is 1 RUB per share. All the participants are restricted from selling their shares until 2010.

In July 2007, 140,713,101 stock options were exercised under the stock option program for a consideration of $5.6 million (representing 1 Ruble per share). SITRONICS transferred the equivalent number of treasury shares to the participants. The cost of the treasury shares less the consideration received was recorded as additional paid-in-capital in the amount of $3.9 million.

From the grant date till December 2007, a number of the Program participants left SITRONICS and forfeited options exercisable in future periods. During December 2007, a number of new employees were added to the list of participants. The terms of the Program were not amended due to the mentioned changes in the number of participants.

The total compensation cost of $20.4 million resulting from this transaction was credited to additional paid-in capital.

The activity relating to the stock options for the year ended December 31, 2007 was as follows:

	Number of shares	Exercise price, USD per share	Fair value of options, USD per share	Aggregate intrinsic value
Outstanding at January 1, 2007	-	$ -	$ -	$ -
Granted	842,593,430	0.04	0.14	80,240
Exercised	(140,713,103)	0.04	0.14	(13,400)
Forfeited	(163,211,836)	0.04	0.14	(15,543)
Outstanding at December 31, 2007	**538,668,491**	**$ 0.04**	**$ 0.14**	**$ 51,297**

The assumptions used for the Black-Scholes model for each option are summarized in the table below:

Grant date fair value price, USD	$0.14
Exercise price, USD	$0.04
Option lifetime, years	1.43
Expected volatility	27.1%
Dividend yield	0.0%
Risk-free rate	4.5%-5.9%

Assumptions on the expected volatility have been made on the basis of the average volatility of four different peer companies. The volatility for each of these companies was calculated based on quotes for the 3 years prior to the date of the grant, and volatility was based on daily observations of share prices for each peer company. The total intrinsic value of the options outstanding at the December 31, 2007 was $39.9 million.

As of December 31, 2007, there was $17.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a 3-year period.

The cost of the Plan for the year ended December 31, 2007 amount to $20.4 million and is shown within general and administrative expenses in the consolidated statements of operations. SFAS 123R stipulates that entities should recognize a deferred tax asset or liability resulting from implementing the stock option plan. According to Russian tax regulations income tax is payable on the exercise date on the difference between the fair value of the stock exercised and the actual tax cost of the stock exercised, calculated using the LIFO method.

SITRONICS has calculated the deferred tax liability arising from the stock option plan using the fair value estimations as described above and using the tax cost of the stock. The resulting income tax expense is allocated to periods using the same method for allocation of the stock option expense. The deferred tax liability for the year ended December 31, 2007 amounted to $3.3 million.

JSFC Sistema

In December 2007, JSFC Sistema announced the launch of the long-term incentive program for up to 110 of its senior and middle managers. Participants of the program will be entitled to exercise their options not earlier than three years and not later than four years from the grant date. A total of up to 20,000 Sistema phantom share options, up to 996,000 MTS phantom share options, up to 1,190,500 Comstar UTS phantom share options, up to 37,600 Sistema-Hals phantom share options, and up to 45,455,000 SITRONICS phantom share options will be distributed under the scheme. The exercise price for the phantom options will be based on the market price of the share at the time of exercise.

JSFC Sistema has also allocated part of its holding of ordinary shares in its unlisted subsidiaries for the purpose of the creation of the stock option program. The table below sets out the allocation of issued ordinary shares in the Group's non-public subsidiaries for the purposes of stock option plan.

Subsidiary	**The aggregate share of issued common shares allocated for the stock option plan**
MBRD	2.2%
Detsky Mir-Center	2.5%
Sistema Mass Media	2.5%
VAO Intourist	4.0%
Concern RTI Systems	5.0%
Medsi	5.0%
Binnofarm	5.0%

The total amount of the Group's treasury stock currently being allocated to this option plan is expected to amount to 0.1% of JSFC Sistema's total issued share capital. The Group's Board of Directors may, from time to time, grant additional stock bonuses to senior and middle managers of the Group as part of annual individual incentive programs.

A summary of the status of JSFC Sistema's phantom stock plan is presented below:

	Number of shares	**Weighted average exercise price, USD per share**	**Weighted average fair value of options, USD per share**	**Aggregate intrinsic value**
Outstanding at January 1, 2007	-	$ -	$ -	$ -
Granted	20,000,000	1.8	0.6	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at December 31, 2007	**20,000,000**	**$ 1.8**	**$ 0.6**	**$ -**

All phantom shares outstanding as of December 31, 2007 are non-vested and will vest in 2010. None of the phantom shares were exercisable as of December 31, 2007.

The stock option plan is not in-the-money as of December 31, 2007.

30. COMMITMENTS AND CONTINGENCIES

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

Rental expenses under the operating leases amounted to $277.6 million and $203.0 million for the years ended December 31, 2007 and 2006, respectively. Future minimum rental payments under operating leases in effect as of December 31, 2007, are as follows:

Year ended December 31,		
2008	$	257,250
2009		76,852
2010		66,834
2011		54,449
2012		45,039
Thereafter		67,893
Total	**$**	**568,317**

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

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

The Group's operating licenses do not provide for automatic renewal. However, licenses that expired during the year ended December 31, 2007 were renewed. The Group has limited experience with the renewal of its existing licenses. Management believes that licenses required for the Group's operations will be renewed upon expiration.

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

Capital Commitments – As of December 31, 2007, MTS had executed non-binding purchase agreements in the amount of approximately $252.7 million to subsequently acquire property, plant and equipment.

As of December 31, 2007, Sistema-Hals entered into a contractual agreement for the purchase of 100% interest in a company owning a building located at Novodanilovskaya nab. 8 in Moscow. Commitments under this contract amounted to $85.0 million as of December 31, 2007.

Leningradsky 39 – Sistema-Hals has contracted for construction works and other general construction expenditures. Aggregate commitments under these contracts amounted to $63.3 million as of December 31, 2007. In addition, in connection with this project, Sistema-Hals undertook obligations to provide the Central Army Sports Club ("CSCA") with 17,437 square meters of residential housing. As of December 31, 2007 the remaining obligation amounted to 8,775 square meters with approximate market value of $36.3 million.

MGTS properties – Sistema-Hals entered contractual agreements for the reconstruction of certain MGTS buildings. Commitments under these contracts amounted to $53.2 million as of December 31, 2007.

Mosdachtrest properties – Sistema-Hals has contracted for construction works related to Mosdachtrest properties. Commitments under these contracts amounted to $5.3 million as of December 31, 2007.

Aurora project – Sistema-Hals has contracted for construction works, including construction of the roads, gas and electricity networks. Commitments under these contracts amounted to $15.4 million as of December 31, 2007.

Western Kuntsevo properties – Sistema-Hals has hired a contractor to perform general construction works. Commitments under these contracts amounted to $101.5 million, including $81.5 million in relation to Elninskaya 28A Project and $19.6 million in relation to Rublevskoe shosse 111A Project as of December 31, 2007.

Zdravnitza Novaya (Rozhnovka) – Sistema-Hals entered contractual agreements for a technological connection to transmission links. Commitments under the contract amounted to $3.0 million as of December 31, 2007.

Povarskaya 8 – Sistema-Hals entered contractual agreements for construction of office premises. Commitments under these contracts amounted to $22.3 million as of December 31, 2007.

Pekin – Sistema-Hals entered contractual agreements for construction of a Hotel and Office Centre. Commitments under these contracts amounted to $15.7 million as of December 31, 2007.

Buchvostova 12/11 – Sistema-Hals entered contractual agreements for initial construction works of the project. Commitments under these contracts amounted to $3.0 million as of December 31, 2007.

TRK Leto – Sistema-Hals entered contractual agreements for construction of a retail and entertainment complex in Saint-Petersburg. Commitments under these contracts amounted to $48.1 million as of December 31, 2007.

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

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 the Moscow City Government on December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1,600.0 million and included reconstruction of 350 local telephone stations and installation of 4.3 million of new phone lines. As a result of implementation of the investment program, new digital equipment will be installed in the buildings housing the telephone nodes, and a substantial amount of floor space will become available after the replacement of analogue switching equipment. The additional free floor space after reconstruction is expected to be sold to third parties or rented out. There are 113 automatic telephone station buildings which are to be reconstructed or rebuilt in the course of the investment program. Currently, the management had not made a decision whether to sell the free floor space created in the course of the investment program or to rent it out.

In November 2006, MGTS signed an agreement with the Moscow City Government, under which MGTS' investment program was approved. Under the agreement, the Moscow City Government is entitled to receive not less than 30% of the market value of additional floor space constructed during the course of the investment program. The obligation arises at the time the reconstruction of specified properties is completed. In December 2003, MGTS made a prepayment to Moscow City Government under this program which will be offset against the future liability arising as a result of the investment program (see Note 11).

In the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema-Hals related to project development and reconstruction of buildings housing the telephone stations. The main portion of the work under these contracts will be performed between 2008 and 2012. Under the agreements, Sistema-Hals will prepare the project documentation and perform construction works on behalf of MGTS, and MGTS will reimburse all the expenses incurred in relation to the construction process with a margin of 4.75% on such expenses and will pay a fixed fee of $0.04 million per one building. During 2007 and 2006, project development and site preparation works were performed by Sistema-Hals on 98 sites, which resulted in $17.6 million and $6.8 million addition to construction in-progress in 2007 and 2006, respectively, and recognition of payable to Sistema-Hals. No construction or other works were performed in relation to the other sites in 2006, as the business plans are still under development.

In addition, MGTS has entered into joint venture agreements with ten project organizations affiliated with Sistema-Hals. MGTS intends to engage these organizations in construction and reconstruction of certain sites and grant them the investor's rights to receive their share of property in new or reconstructed property.

As of December 31, 2007, Intracom Telecom had executed non-binding purchase agreements in the amounts of approximately EUR 51.1 million (equivalent of $73.1 million) to subsequently acquire inventories and services.

As of December 31, 2007, some of the Group companies were limited partners in the fund '2006 Coral/Sistema Strategic Fund' ("Fund"). The Fund invests in securities of small business concerns primarily in technology driven companies with strategic value to the Group. As of December 31, 2007, the total commitment of the Group to invest in the Fund amounted to $58.3 million.

Importation of Goods – Kvazar-Micro, SITRONICS subsidiary in Ukraine, utilizes third parties to import goods into the CIS countries. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position cannot be quantified at this stage due to the lack of precedent for such determinations. No contingent liabilities have been recorded in the Group's financial statements in relation to these transactions.

Other Commitments - MBRD guaranteed loans for several companies, including related parties, which totaled $61.5 million as of December 31, 2007. EWUB issued guarantees to several companies and individuals, which totaled $33.1 million as of December 31, 2007.

The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2007, no event of default has occurred under any of the guarantees issued by the Group.

The Central Bank of Russia sets minimum capital requirements for banks. The minimum capital requirement is set at EUR 5.0 million (equivalent of $7.3 million as of December 31, 2007) for each newly-founded bank. As of December 31, 2007, MBRD's share capital amounted to RUB 1,023.0 million (equivalent to $41.7 million as of December 31, 2007). As of December 31, 2007, Dalcombank's share capital amounted to RUB 788.2 million (equivalent to $32.1 million as of December 31, 2007).

Operating Environment – The Russian and Ukrainian economies, while deemed to be of market status, continue to display certain traits consistent with that of emerging markets. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls which cause the national currencies to be illiquid outside of Russia and Ukraine. The continued success and stability of the Russian and Ukrainian economies will be subject to the respective governments' continued actions with regard to supervisory, legal, and economic reforms.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with the local regulatory environment including, but not limited to, hard currency sale on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is represented by a loss from currency translation transactions in Turkmenistan in the amount of $24.3 million which is recognized as other operating expense in the Group's consolidated statement of operations for the year ended December 31, 2007.

Industry Regulations – The new Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. For the years ended December 31, 2007 and 2006, the Group incurred approximately $64.8 million and $54.2 million in USF charges, respectively, which are recorded in other operating expenses in the accompanying consolidated statements of operations.

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

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

Taxation – Russia and Ukraine currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax, UST, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year.

In September 2006, the Russian tax authorities audited MTS OJSC's compliance with tax legislation for the years ended December 31, 2003 and 2004. Based on the results of this audit, the Russian tax authorities assessed that RUB 1,283,660 thousand (approximately $52.3 million as of December 31, 2007) of additional taxes, penalties and fines were payable by the Group. The Group has prepared and filed a petition with the Arbitration Court of Moscow to recognize the tax authorities' resolution to be partially invalid. The amount of disputed taxes and fines equals RUB 1,220,096 thousand (approximately $49.7 million). In 2007, a final court hearing considered this matter which resulted in a judgment in favour of the Group. The tax authorities prepared an appeal with Court of Appeal; however the judgment was not changed. As of December 31, 2007, no provision in relation to the above tax audit was accrued in the Group's consolidated financial statements or paid to the tax authorities.

There are regulatory uncertainties in Ukraine related to the treatment for VAT purposes of contributions payable to the Ukrainian State Pension Fund ("Pension Fund") in respect of the cash paid for the consumption of telecommunication services by customers. This could have an influence on income tax and other taxes paid by the Group. As a result of a tax audit of the period from July 1, 2004 to April 1, 2007, additional VAT charges (including penalties) calculated on the Pension Fund contributions could be up to $11.5 million. In 2005, UMC initiated a litigation case in respect of this issue against the tax authorities, and has received favorable rulings from the courts on three occasions (the most recent from the Highest Administrative Court of the Ukraine). Management believes that VAT was not applicable to the Pension Fund contributions during the period under the tax authorities' review. Further, management believes that UMC is in line with industry practice and has already defended its position in the courts. At December 31, 2007, no VAT charges in relation to the above litigation was accrued in the Group's consolidated financial statements or paid to the tax authorities.

In 2008, tax authorities completed audit procedures in Uzdunrobita, BCTI and K-Telekom for the year ended December 31, 2006. According to the local tax legislation of Uzbekistan, Turkmenistan and Armenia tax declarations remain open for further inspection for five, six and three years, respectively.

MTS purchases supplemental software from foreign suppliers of telecommunication equipment in the ordinary course of business. The Group's management believes that customs duties are calculated in compliance with the legislation. However there is a risk that the customs authorities may take a different view and impose additional customs duties. As of December 31, 2007 and 2006, no provision was recorded in the consolidated financial statements in respect of such additional duties.

Certain MGTS agreements with operators connected on the analogue segment of the network do not provide for per-minute settlements based on actual volumes of traffic as prescribed by changes in the legislation effective from July 1, 2006 due to lack of technical ability to execute per-minute settlements. Tax authorities may assess additional taxes on such agreements in the amount that cannot be estimated reliably. Any such assessment may be significant to the financial statements, however, management believes that they can sustain their position in the court.

During the year ended December 31, 2007, Sistema-Hals entered into a number of investing activities in another tax jurisdiction, their tax effect is described as "effect of non-standard income tax rates" in Note 21 "Income taxes". While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, it is possible that the tax authorities in the Russian Federation could take a differing position with regard to certain interpretive tax issues relating to the aforementioned tax savings. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Management believes that it has adequately provided for tax and customs liabilities in the consolidated financial statements. As of December 31, 2007 and 2006, the provision accrued amounted to $25.4 million and $29.8 million, respectively. However the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Legal Disputes – In May 2007, a minority shareholder won a case against MGTS in respect of the non-payment of dividends on preferred shares for 2005. The court of first instance, which determined such decision of MGTS' general shareholders' meeting in respect of dividends for 2005 was null and void. Such dividend, if declared and paid, may amount to RUB 879.0 million (approximately $35.8 million as of December 31, 2007). In February 2008, appeals to the court of the third instance ruled in favor of MGTS. Management believes that the likelihood of a ruling against MGTS in the case of an appeal by the minority shareholder to the Supreme Arbitration Court is remote.

In December 2006, the claim was filed with London Court of International Arbitration by Winwood Holdings Limited ("Winwood") pertaining to the proposed sale by the Group of 25% plus one share stake in MBRD pursuant to a sale and purchase agreement. Winwood alleged that the Group breached the sale and purchase agreement by failing to transfer shares by the closing date under the agreement. Winwood was seeking payment of lost profits, contractual break fee and escrow interest totaling up to $102.0 million. The arbitration was settled by the parties executing a settlement deed in December 2007. In accordance with the deed the Group paid $4.0 million to Winwood.

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

Other Contingencies

Bitel – In December 2005, MTS Finance acquired a 51% stake in Tarino Limited ("Tarino") for $150.0 million in cash from Nomihold Securities Inc. ("Nomihold"). Tarino was at that time the indirect owner, through its wholly-owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Concurrently with the purchase of a 51% stake, MTS entered into a put and call option agreement with Nomihold to acquire the remaining 49% interest in Tarino. The call option was exercisable by MTS from November 22, 2005 to November 17, 2006, and the put option was exercisable by the seller from November 18, 2006 to December 8, 2006. The call and put option price was $170.0 million. The put and call option was recorded at fair value, which approximated $nil at December 31, 2005. At December 31, 2006, a liability of $170.0 million was recorded.

After the decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. The Group could not re-gain operating control over Bitel's operations.

During 2006, the Group took steps to vindicate its ownership rights on Bitel although these efforts so far have not proven to be successful. The matter was brought to the Kyrgyz Prosecutor General for investigation. On January 15, 2007, the Prosecutor General informed the Group that it sees no grounds to become involved in the ownership dispute over Bitel and additionally stated that MTS had no basis to appeal the decision of the Kyrgyz courts in connection with ownership of Bitel.

In addition, an appeal to overturn certain adverse Kyrgyz courts rulings connected with the ownership rights to Bitel was also filed with the Kyrgyz Supreme Court on December 15, 2006, but the time period in which the appeal should have been heard has expired without any action by the court.

Consequently the decision was made by the Group to write off the costs associated with the purchase of the 51% stake in Bitel. As of December 31, 2006, the investment was fully impaired and the related charge of $150.0 million was recorded in the consolidated statements of operations. Furthermore, as noted above, with the impairment of the underlying asset, a liability of $170.0 million was recorded with an associated charge to non-operating expenses.

In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase the remaining 49% stake in Tarino Limited for $170.0 million. Nomihold seeks specific performance of the put option, unspecified monetary damages, interest, and costs. The matter is currently pending.

A group of individual shareholders of Sistema has agreed to compensate MTS Finance for any potential loss up to $170.0 million should the arbitration decision regarding exercise of the aforementioned put option prove unfavourable to MTS Finance.

In a separate arbitration proceeding initiated against the KFG Companies (three Isle of Man companies affiliated with the Group) by Kyrgyzstan Mobitel Investment Company Limited (KMIC) under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a May 31, 2003 Transfer Agreement concerning the shares of Bitel. Tarino owned Bitel through the KFG Companies. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited (IPOC) although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance's acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. It is not possible to predict the outcome of these proceedings or the amount of damages to be paid, if any.

In addition, the KFG Companies have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received from Bitel by these three companies in the first quarter of 2005 in the amount of approximately $25.2 million plus compensatory damages, and to recover approximately $3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, MTS may be liable to Bitel for such claims.

The KFG Companies have also asserted counterclaims against Bitel, and claims against other defendants including Altimo and Altimo Holding, for the wrongful appropriation and control of Bitel. In November 2007, the Isle of Man court declined the jurisdiction for this claim which decision was immediately appealed by the KFG Companies. It is not possible at this time to predict the outcome or resolution of these claims.

Siemens Project – In 2003, the Group entered into a fixed price contract with Siemens to develop an office building in Moscow. In 2005 the Group signed a fixed price agreement with a subcontractor to physically construct the building. In October 2007, the subcontractor's controlling shareholder was appointed as a vice-president of the Group in charge for construction. Management believes that this event will not effect the relationships with subcontractor. Amounts due to the subcontractor are presented in the Note 13 to these consolidated financial statements.

During 2006 and 2007, there was significant growth in the prices of materials, labor and other construction costs. As a result of this, the Group is unable to complete the project within the original budget cost estimates. The Group has initiated negotiations with Siemens to revise the contract price to recover the increased costs. At the same time, the Group is negotiating the fixed price construction agreement so that all or part of the overruns be absorbed by the subcontractor. In case the Group is unable to reach consensus with Siemens and/or the subcontractor on these matters, the Group will consider various remedial options, including actions that may lead to termination of the contract. In case the contract is terminated the Group is likely to retain the rights for the constructed building and become liable for repayment of EUR 64.0 million of advances received previously under the contract, while possible compensation, claims and damages to Siemens will need to be assessed. At this stage the Group is unable to estimate the amount of such compensation, claims and damages.

Due to the uncertainties referred to above, as of the reporting date, the Group is not able to reasonably determine or estimate the likely outcome of the project. No losses in relation to this project are provided for as at December 31, 2007.

31. SUBSEQUENT EVENTS

Acquisitions

In March 2008, SITRONICS acquired a 36% stake in Kvazar-Micro from Melrose Holding Company for $116.9 million. The acquisition was financed by a combination of cash and SITRONICS' stock. As a result of the transaction, SITRONICS owns 87% of Kvazar-Micro and Melrose Holding Company owns a 3.07% stake in SITRONICS.

In January 2008, Sistema increased its stake in Shyam Telelink Ltd. from 10% to 51%. The additional shares were acquired for a total cash consideration of $90.6 million, including the success fee of $43.9 million. At the same time, Shyam Telelink Ltd. was awarded unified telecommunication licenses for the provision of fixed-line and cellular services in 21 Indian circles. Sistema guaranteed $520 million of the total $630 million to be paid for obtaining the licenses. In April 2008, Shyam Telelink Ltd. received radio frequencies for building mobile networks in eleven Indian circles. Together with radio frequencies already obtained in Rajasthan, Shyam Telelink Ltd. will be able to start building a full scale CDMA network in 12 Indian circles, which will cover over half of the territory of India with a target population of approximately 650 million people.

Disposals

In April 2008, Sistema-Hals sold “Rochdelskaya, 22” development project in Moscow. The project encompasses a 0.29 hectares land plot with a gross building area of approximately 13,000 square meters.

In February 2008, the Group acquired an additional 18.8% of CJSC Sahles from an unrelated party for $51.1 million in cash. As a result of this transaction, the Group’s ownership has increased to 100%. In March 2008, the Group completed the sale of 100% in CJSC Sahles to CJSC Saturn, a subsidiary of OPK Oboronprom, for a total cash consideration of $190.0 million.

Other

As at January 1, 2008, Sistema-Hals has changed its functional currency from U.S. dollars to Russian Rubles in accordance with FAS No. 52, “Foreign Currency Translation”. The change in functional currency is due to the introduction of a new policy to fix contract sales prices in Russian Rubles from January 1, 2008, as well as other changes to Sistema-Hals’ activities.

In January 2008, MTS redeemed its $400.0 million bond issue. The coupon payments for the entire period, including the last coupon, which took place simultaneously with the retirement of the bonds, amounted to $195.0 million.

In January 2008, MBRD has securitised part of its car loan portfolio. The deal provided MBRD with the funding in the amount of RUB 1.5 billion (approximately $62.9 million).

In March 2008, Sistema placed its RUB 6 billion (approximately $251.6 million) corporate bond issue on MICEX. The annual interest rate for the first and second coupon payments has been set at 9.45%. The bonds mature in five years and coupon payments will be made on a semi-annual basis.

In March 2008, MBRD repaid its $150.0 million bonds issue. The issue was repaid upon its maturity. The bonds were issued in March 2005 and were listed on Luxembourg Stock Exchange.

In March 2008, the Board of Directors of Comstar UTS approved the employee phantom option program, under which the Group’s top and middle management were granted 12,965,882 phantom options effective April 1, 2008. In addition, 2,140,000 phantom options may be granted during the two years ending March 31, 2010. The phantom options vest on March 31, 2010. Upon vesting, the participants will be entitled to cash compensation equal to the difference between weighted average price of one GDR for the 60 calendar days preceding March 31, 2010 and April 1, 2008, respectively, timed by the number of phantom options granted. The compensation will be adjusted downwards should the return on Comstar UTS GDR be less than prescribed amount, and will not paid at all if the Group does not meet the benchmarks set for return on Comstar UTS GDR, revenue growth rate, OIBDA margin and market share.

In April 2008, Sistema Finance repaid its $350.0 million bond issue. The issue was repaid upon its maturity in full using the Company's cash flows and previously obtained debt financing.

In May 2008, MTS’ Board of Directors approved amendments to the employee motivation and retention program that was adopted in June 2007 with reward periods extending through 2011. As amended, the program will involve a total of 10,207,751 phantom and actual American Depositary Receipts (ADRs). The amended program increases the share of individual employee’s compensation dependent upon the level of investment appeal of MTS as judged by growth in share price combined with dividend payout, or total shareholder return (TSR), as well as the realization of key strategic goals. Program participants become eligible for their awards upon reaching an annual TSR level of not less than 15%. Prior to its amendment, the program included 3.6 million phantom ADRs as well as performance-based monetary awards that were independent of the stock price.