JSFC SISTEMA AND SUBSIDIARIES

Independent Accountants' Review Report

Consolidated Financial Statements
as of June 30, 2005 and December 31, 2004
and for the six months ended
June 30, 2005 and 2004 (unaudited)

JSFC SISTEMA AND SUBSIDIARIES

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of JSFC Sistema:

We have reviewed the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries (the "Group") as of June 30, 2005 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the six months ended June 30, 2005 and 2004. These financial statements are the responsibility of the Group's management.

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

Based on our review, we are not aware of any material modifications that should be made to accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

September 9, 2005
(September 14, 2005 as to Note 31)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2005 (unaudited) AND DECEMBER 31, 2004
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2005	December 31, 2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	$ 1,086,023	$ 503,747
Short-term investments	6	1,193,214	207,293
Loans to customers and banks, net	7	509,687	379,310
Insurance-related receivables	8	184,506	130,278
Accounts receivable, net	9	407,679	327,921
Other receivables and prepaid expenses, net	10	768,270	583,074
Inventories	11	322,570	276,832
Deferred tax assets, current portion	24	83,521	73,592
Total current assets		4,555,470	2,482,047
Property, plant and equipment, net	12	4,952,791	4,435,215
Advance payments for non-current assets		314,504	181,281
Long-term receivables		4,473	4,513
Long-term investments	13	46,774	45,911
Investments in affiliated companies	14	264,821	206,520
Goodwill	2	223,737	174,341
Licenses, net	15	672,407	750,933
Other intangible assets, net	16	498,433	467,160
Debt issuance costs, net	2	28,337	27,267
Deferred tax assets	24	12,847	3,482
TOTAL ASSETS		$ 11,574,594	$ 8,778,670

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
JUNE 30, 2005 (unaudited) AND DECEMBER 31, 2004
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	June 30, 2005	December 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 501,939	$ 361,016
Bank deposits and notes issued	17	320,106	326,861
Insurance-related liabilities	18	511,612	344,460
Taxes payable		171,714	117,888
Deferred tax liabilities, current portion	24	10,018	22,071
Accrued expenses, subscriber prepayments and other current liabilities	19	1,040,808	737,394
Short-term notes payable	20	77,137	221,103
Current portion of long-term debt	22	450,392	340,938
Total current liabilities		3,083,726	2,471,731
LONG-TERM LIABILITIES:			
Capital lease obligations	21	963	3,412
Long-term debt	22	3,031,045	2,494,522
Subscriber prepayments, net of current portion	23	173,350	156,233
Deferred tax liabilities	24	215,435	218,620
Postretirement benefit obligation	25	20,235	16,226
Total long-term liabilities		3,441,028	2,889,013
Deferred revenue	26	127,115	130,913
TOTAL LIABILITIES		6,651,869	5,491,657
Minority interests in equity of subsidiaries		1,995,454	1,851,027
Commitments and contingencies	30	-	-
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000 and 8,100,000 shares issued and outstanding as of June 30, 2005 and December 31, 2004, respectively, with par value of 90 Rubles)	27	30,057	25,090
Additional paid-in capital	3,4	1,478,564	198,882
Retained earnings		1,383,307	1,164,404
Accumulated other comprehensive income		35,343	47,610
TOTAL SHAREHOLDERS' EQUITY		2,927,271	1,435,986
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 11,574,594	$ 8,778,670

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	June 30, 2005	June 30, 2004
Sales		$ 3,139,108	$ 2,294,184
Revenues from financial services		215,842	133,861
TOTAL REVENUES		3,354,950	2,428,045
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,212,834)	(785,545)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(166,238)	(94,441)
TOTAL COST OF SALES		(1,379,072)	(879,986)
Selling, general and administrative expenses		(574,392)	(413,000)
Depreciation and amortization		(480,590)	(347,848)
Other operating expenses, net		(13,531)	(21,267)
Equity in net income of investees		34,356	6,114
Loss on disposal of interests in subsidiaries		(452)	-
OPERATING INCOME		941,269	772,058
Interest income		35,712	9,616
Interest expense, net of amounts capitalized		(122,491)	(108,068)
Currency exchange and translation (loss)/gain		(12,157)	9,084
Income before income tax, minority interests and cumulative effect of a change in accounting principle		842,333	682,690
Income tax expense	24	(260,626)	(198,901)
Income before minority interests and cumulative effect of a change in accounting principle		$ 581,707	$ 483,789

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED) FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (unaudited)

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

	Notes	June 30, 2005	June 30, 2004
Minority interests		$ (354,052)	$ (277,333)
Income before cumulative effect of a change in accounting principle		227,655	206,456
Cumulative effect of a change in accounting principle (net of income tax effect of nil)	2	-	(35,472)
NET INCOME		$ 227,655	$ 170,984
Other comprehensive income/(loss):			
Unrealized gain/ (loss) on securities available for sale, net of income tax effect of nil		307	(2,050)
Change in fair value of interest rate swaps, net of income tax effect of $245		(776)	-
Translation adjustment, net of minority interest of $4,530 and $5,893 respectively, and income tax effect of nil	3	(11,798)	9,148
Comprehensive income		$ 215,388	$ 178,082
Weighted average number of common shares outstanding		9,298,895	8,100,000
Earnings (loss) per share, basic and diluted:			
Income from continuing operations before cumulative effect of a change in accounting principle		$ 24.48	$ 25.49
Cumulative effect of a change in accounting principle		-	(4.38)
Net income		$ 24.48	$ 21.11

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

	June 30, 2005	June 30, 2004
OPERATING ACTIVITIES:		
Net income	$ 227,655	$ 170,984
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	480,590	347,848
Loss on disposal of property, plant and equipment	15	4,983
Cumulative effect of a change in accounting principle	-	35,472
Minority interests	354,052	277,333
Equity in net income of investees	(34,356)	(6,114)
Deferred income tax benefit	(41,873)	(16,321)
Provision for doubtful accounts receivable	30,704	13,908
Allowance for loan losses	(444)	(2,260)
Inventory obsolescence charge	1,752	7,269
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(353,315)	56,851
Loans to banks	(89,839)	25,969
Insurance-related receivables	(54,228)	(50,100)
Accounts receivable	(106,221)	(55,189)
Other receivables and prepaid expenses	(183,817)	67,302
Inventories	(37,483)	(44,157)
Accounts payable	132,664	20,314
Insurance-related liabilities	167,152	89,796
Taxes payable	53,310	6,965
Accrued expenses, subscriber prepayments and other liabilities	37,647	(5,699)
Postretirement benefit obligation	801	3,333
Net cash provided by operations	584,766	948,487
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(836,849)	(582,274)
Purchase of intangible assets	(136,276)	(55,566)
Purchase of businesses, net of cash acquired	(55,405)	(26,046)
Purchase of long-term investments	(68,108)	(30,312)
Purchase of short-term investments	(687,515)	(36,430)
Proceeds from sale of short-term investments	54,909	30,000
Proceeds from sale of property, plant and equipment	2,500	2,582
Net (increase)/decrease in loans to customers	(40,094)	53,569
Net cash used in investing activities	(1,766,838)	(644,477)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

		June 30, 2005		June 30, 2004
FINANCING ACTIVITIES:				
Principal payments on short-term borrowings, net		(143,966)		(142,001)
Net (decrease)/increase in deposits from customers		(16,257)		58,785
Net increase/(decrease) in bank promissory notes issued		2,709		(5,039)
Proceeds from grants		-		1,857
Proceeds from long-term borrowings, net of debt issuance costs		878,724		359,299
Principal payments on long-term borrowings		(236,494)		(419,323)
Principal payments on capital lease obligations		(5,017)		(4,436)
Proceeds from issuance of common stock		1,284,649		-
Net cash provided by/(used in) financing activities	$	1,764,348	$	(150,858)
INCREASE IN CASH AND CASH EQUIVALENTS	$	582,276	$	153,152
CASH AND CASH EQUIVALENTS, beginning of the period		503,747		283,165
CASH AND CASH EQUIVALENTS, end of the period	$	1,086,023	$	436,317
CASH PAID DURING THE PERIOD FOR:				
Interest, net of amounts capitalized	$	96,286	$	113,863
Income taxes		274,969		189,470
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	3,322	$	8,002
Equipment acquired through vendor financing		2,533		659
Equipment acquired under capital leases		2,568		3,121

In addition, non-cash investing activities for the six months ended June 30, 2005 and 2004 included acquisitions and dispositions of subsidiaries and affiliates, as described in Notes 3 and 4.

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (unaudited)
(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2004	**$ 171**	**$ 189,934**	**$ 783,258**	**$ 15,921**	**$ 989,284**
Capital transactions of subsidiaries	-	8,948	-	-	8,948
Change in fair value of interest rate swaps, net of taxes	-	-	-	(2,050)	(2,050)
Translation adjustment, net of minority interest of $5,893 and income tax of nil	-	-	-	9,148	9,148
Dividends declared	-	-	(5,162)	-	(5,162)
Net income	-	-	170,984	-	170,984
Balances at June 30, 2004	**$ 171**	**$ 198,882**	**$ 949,080**	**$ 23,019**	**$ 1,171,152**
Balances at January 1, 2005	**$ 25,090**	**$ 198,882**	**$ 1,164,404**	**$ 47,610**	**$ 1,435,986**
Issuance of common stock (Note 27)	4,967	1,279,682	-	-	1,284,649
Unrealized gain on securities available for sale, net of income tax effect of nil	-	-	-	307	307
Change in fair value of interest rate swaps, net of income tax effect of $245	-	-	-	(776)	(776)
Translation adjustment, net of minority interest of $4,530 and income tax of nil (Note 2)	-	-	-	(11,798)	(11,798)
Dividends declared (Note 27)	-	-	(8,752)	-	(8,752)
Net income	-	-	227,655	-	227,655
Balances at June 30, 2005	**$ 30,057**	**$ 1,478,564**	**$ 1,383,307**	**$ 35,343**	**$ 2,927,271**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

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

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

Operating Entities	Short Name	Principal activity
JSFC Sistema	JSFC Sistema	Investing and financing activities
Telecommunications Segment:		
MTS and subsidiaries	MTS	Wireless and fixed line telecommunication services, data transmission and internet services
MGTS and subsidiaries	MGTS	
Comstar and subsidiaries	Comstar	
MTU-Inform	MTU-Inform	
Telmos	Telmos	
Technology Segment:		
CSC and subsidiaries	CSC	Production and marketing of integrated circuits, wafers, electronic devices and consumer electronics, research and development
Kvazar-Micro and subsidiaries	Kvazar-Micro	IT and systems integration, computer hardware and software distribution
Insurance Segment:		
Rosno and subsidiaries	Rosno	Medical, property, casualty, life and personal insurance and reinsurance, administration of state medical insurance programs
Banking Segment:		
Moscow Bank for Reconstruction and Development and subsidiaries	MBRD	Banking activities, securities transactions and foreign currency transactions
Other businesses:		
Detsky Mir and subsidiaries	Detsky Mir	Retail trading in Moscow and other Russian cities, rent of premises
Detsky Mir-Center and subsidiaries	DM-Center	
VAO Intourist and subsidiaries	Intourist	Sale of tour packages in the RF and abroad

Operating Entities	Short Name	Principal activity
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects in Moscow
Sistema Mass Media and subsidiaries	Sistema Mass Media	Production and distribution of periodicals, publishing activities, broadcasting, advertising
MTU-Intel and subsidiary	MTU-Intel	Provision of internet services
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
ECU GEST Holding S.A. and subsidiaries	ECU GEST	Investing in real estate projects, financing activities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The beneficial ownership interest of JSFC Sistema and proportion of voting power of the Group in the significant subsidiaries as of June 30, 2005 and December 31, 2004 are as follows:

Operating entities	Beneficial ownership interest		Proportion of voting power	
	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
MTS	51%(1)	51%(1)	51%	51%
Ukrainian Mobile Communications (“UMC”), subsidiary of MTS	51%(1)	51%(1)	100%	100%
Telecom XXI, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Kuban-GSM, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Telecom-900, subsidiary of MTS	51%(1)	51%(1)	100%	100%
SCS-900, subsidiary of MTS	50%(1)	50%(1)	100%	100%
FECS-900, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Uraltel, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Recom, subsidiary of MTS	27%(1)	27%(1)	54%	54%
BM-Telecom, subsidiary of MTS	51%(1)	51%(1)	100%	100%
TAIF Telcom, subsidiary of MTS	51%(1)	51%(1)	100%	100%

Operating entities	Beneficial ownership interest		Proportion of voting power	
	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
Dontelecom, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Sibchallenge, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Tomsk Cellular Communications, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Primtelefon, subsidiary of MTS	51%(1)	51%(1)	100%	100%
Uzdunrobita, subsidiary of MTS	37%(1)	37%(1)	74%	74%
Gorizont RT, subsidiary of MTS	51%	39%	100%	76%
Telesot-Alania, subsidiary of MTS	27%	27%	53%	53%
Mobilnye TeleSystemy in the Republic of Komi, subsidiary of MTS	51%	n/a	100%	n/a
Barash, subsidiary of MTS	26%	n/a	51%	n/a
MGTS	56%	56%	56%	56%
Comstar	77%(1)	77%(1)	100%	100%
MTU-Inform	76%(1)	76%(1)	99%	99%
Telmos	82%(1)	62%(1)	100%	80%
Rosno	49%(1)	49%(1)	51%	51%
MBRD	95%(1)	82%(1)	99%	86%
Intourist	72%	91%	72%	91%
DM-Center	100%	100%	100%	100%
Detsky Mir	75%(1)	75%(1)	75%	75%
CSC	78%	78%	78%	78%
NIIME and Micron ("Micron"), subsidiary of CSC	60%(1)	60%(1)	76%	76%
STROM telecom, subsidiary of CSC	52%(1)	52%(1)	67%	67%
Kvazar-Micro	50%(1)	50%(1)	51%	51%
Sistema-Hals	100%(1)	100%(1)	100%	100%
Nasha Pressa	100%(1)	100%(1)	100%	100%
MTU-Intel	87%(1)	87%(1)	100%	100%
Golden Line, subsidiary of MTU-Intel	87%(1)	87%(1)	100%	100%
Concern RTI	100%	100%	100%	100%
ECU GEST	100%	99%	100%	99%

(1) – Including indirect ownership.

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

Consolidation of Variable Interest Entities – In December 2003, Financial Accounting Standards Board ("FASB") issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after March 15, 2004, except that all public companies must at minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003.

Following the adoption of FIN 46R, the Group reevaluated the relationships with its related parties: Promtorgcenter, Notris, Laminea, Finescort-M, Kuntsevo-Invest, Putney Assets and Mosdachtrest. Kuntsevo-Invest and Mosdachtrest are engaged in construction activities of the Group. Promtorgcenter, Notris, Laminea, Finescort-M and Putney Assets possess shareholdings in and provide financing through intercompany loans to other entities of the Group. Mosdachtrest was accounted for under the equity method for the periods prior to January 1, 2004. The Group determined that these entities were variable interest entities and that it was their primary beneficiary. Accordingly, the Group has consolidated these companies effective January 1, 2004. All intercompany balances have been eliminated in consolidation and the results of these VIEs have been included in the Group's consolidated statement of operations and statement of cash flows for the six months ended June 30, 2005 and 2004. In accordance with the provisions of FIN 46R, the Group recorded a charge for the cumulative effect of this accounting change of $35.5 million, net of income tax of nil, in the six months ended June 30, 2004. This charge reflects the cumulative impact to the Group's results of operations had these VIEs been consolidated since their inception.

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

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

The Group has selected the USD as its reporting currency and translates financial statements of subsidiaries with functional currencies other than USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation adjustment loss in the amount of $11.8 million for the six months ended June 30, 2005 and translation adjustment gain in the amount of $9.1 million for the six months ended June 30, 2004, net of minority interest of $4.5 million and $5.9 million, respectively, were recorded as a separate component of other comprehensive income.

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

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

(i) Revenues derived from wireless and local telephone usage and data transmission are recognized as the services are provided.

(ii) Monthly telephone and network service fees are recognized in the month during which the telephone services are provided to customers.

(iii) Upfront fees received for installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the expected subscriber relationship period. Commencing January 1, 2004, MTS calculates an average expected term of the subscriber relationship for each region and amortizes regional connection fees accordingly. Average expected subscriber life is ranging from 20 to 76 months. The customer relationship period for residential wireline voice phone subscribers is 15 years. For all other categories of subscribers the customer relationship period is estimated at 3 to 5 years.

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

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

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

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

Local telephone services, provided by MGTS, totaling approximately 4% and 5% of the consolidated revenues for the six months ended June 30, 2005 and 2004, respectively, are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service approval.

Prior to January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. According to the new Law on Telecommunications, effective January 1, 2005, all MGTS' subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS. The amount of discounts provided by MGTS for the six months ended June 30, 2004 was $13.3 million.

STROM telecom's arrangements with its customers typically include multiple elements, such as equipment and software development, installation services and post-contract customer support. In accordance with Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", the aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each element of an arrangement are recognized as revenue when the following criteria have been met: (i) a written contract for the delivery of an element has been executed, (ii) the Group has delivered the product to the customer, (iii) the fee receivable is fixed or determinable, and (iv) collectibility of the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract customer support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as services are performed.

During the six months ended June 30, 2005 and 2004, the Group did not sell installation, training or post-contract customer support services, as well as upgrades or enhancements to existing software products, separately from other elements of its software arrangements. The vendor-specific objective evidence of fair value of installation, training and post-contract customer support services, as well as upgrades or enhancements to existing products, has been established by management having the relevant authority. The management believes that it is probable that the established price (based on rates per hour) for such services will not change before their separate introduction into the market place.

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

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

Revenues on construction contracts are recognized under the completed-contract method.

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

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

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

Financial Instruments – The Group's financial instruments include cash, short-term and long-term investments, receivables, payables and debt. Except as described below, the estimated fair value of such financial instruments as of June 30, 2005 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of June 30, 2005 ranged from 101.3% to 108.1% of the principal amount. As of June 30, 2005, fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

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

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

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

MBRD also enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets. During the six months ended June 30, 2005 and 2004, the Group did not enter into material repo or reverse repo agreements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

As a result of numerous restatements of financial statements for the fiscal year 2004 by U.S. public companies and publication of a letter by the Chief Accountant of the SEC regarding the interpretation of longstanding lease accounting principles, MTS has corrected its accounting practices for the leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements. If these capitalized leasehold improvements were depreciated in the six months ended June 30, 2004 using the depreciation rates effective in the six months ended June 30, 2005, the consolidated net income of the Group for the six months ended June 30, 2004 would have decreased by approximately $5.1 million.

Asset Retirement Obligations – In accordance with FAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group have a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under FAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of June 30, 2005, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

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

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

Goodwill and Other Intangible Assets – Goodwill represents the excess of the cost of business acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill is reviewed annually for impairment or whenever it is determined that the impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with FAS No. 142 "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Group recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No material impairment of goodwill was identified in the six months ended June 30, 2005.

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

	(000's)			
	Telecom-munications	**Insurance**	**Corporate and Other**	**Total**
Balance as of January 1, 2004	$ 71,363	$ -	$ 635	$ 71,998
Purchase price allocation	1,342	-	-	1,342
Balance as of June 30, 2004	72,705	-	635	73,340
Purchase price allocation	99,660	1,341	-	101,001
Balance as of December 31, 2004	172,365	1,341	635	174,341
Purchase price allocation	49,396	-	-	49,396
Balance as of June 30, 2005	**$ 221,761**	**$ 1,341**	**$ 635**	**$ 223,737**

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

Acquired customer bases are amortized over the estimated average subscriber life from 20 to 76 months. Deferred telephone numbering capacity costs with limited contractual life and the rights to use premises are being amortized over their contractual lives, which vary from five to twenty years. Software costs and other intangible assets are being amortized over three to ten years. All finite-life intangible assets are being amortized using the straight-line method.

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

Investments in corporate shares where the Group owns more than 20% of voting shares, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, including investments in NIIDAR, a Research and Development Institute of Long-Distance Radio Communications, operating under governmentally imposed restrictions, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition. Management periodically assesses realizability of the carrying values of such investments and records impairment charges, if required.

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

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans. Debt issuance costs amounted to $28.3 million and $27.3 million, net of accumulated amortization of $15.5 million and $11.7 million as of June 30, 2005 and December 31, 2004, respectively.

Impairment of Long-lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. For the six months ended June 30, 2005, no significant impairments have been identified.

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

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

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

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

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

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

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

Income Taxes – Income taxes have been computed in accordance with RF laws. The income tax rate in the RF is 24%. In July 2004, amendments to Russian income tax legislation were enacted to increase the income tax rate on dividends paid within Russia to 9% (previously 6%) effective January 1, 2005. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. Income tax rate in the Ukraine and in the Czech Republic equals 25% and 26%, respectively.

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

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

If the Group had elected to recognize compensation costs based on the fair values of options at the date of the grant, net income and earnings per share amounts for the six months ended June 30, 2005 and 2004 would not change materially.

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

Retirement and Post-Retirement Benefits – Subsidiaries of the Group contribute to the local state pension funds and social funds, on behalf of all their employees.

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

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

During the six months ended June 30, 2005 and 2004, the Group managed a defined contribution plan to provide eligible employees with additional income upon retirement. The Group's contributions to the plan totaled $0.5 million and $0.4 million for the six months ended June 30, 2005 and 2004, respectively.

In addition, MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 25).

The Group accounts for pension plans following the requirements of FAS No. 87 "Employers' Accounting for Pensions."

In December 2003, FASB issued a revision to FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106" ("FAS No. 132R"). FAS No. 132R revised employers' disclosure about pension plans and other postretirement benefit plans. It requires additional disclosures about the plan assets, benefit obligations, cash flows and net periodic benefit cost of defined benefit plans and other defined postretirement plans. It does not change the measurement or recognition of those plans required by previous Financial Accounting Board Standards. Following the adoption of FAS No. 132R, the Group included the required disclosures in its consolidated financial statements as of June 30, 2005 (Note 25).

Borrowing Costs – Borrowing costs were recognized as an expense in the period in which they were incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the six months ended June 30, 2005 and 2004 amounted to $64.7 million and $14.7 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the six months ended June 30, 2005 and 2004 were $101.1 million and $73.3 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the six months ended June 30, 2005 and 2004. Diluted EPS reflect the potential dilution of MTS' stock options, granted to employees.

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

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

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

In May 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and FAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". FAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. FAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

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

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

Reclassifications – Certain other reclassifications of prior years’ amounts have been made to conform to the presentation adopted for the six months ended June 30, 2005.

3. ACQUISITIONS

Barash Communication Technologies Inc.

In June 2005, MTS acquired a 51% stake in Barash Communication Technologies, Inc. (“BCTI”), a branch of which operates in provision of cellular telecommunication services in the Republic of Turkmenistan. The consideration paid under the transaction amounted to $28.2 million. BCTI is a leading cellular operator in Turkmenistan with a customer base of 59,100 subscribers. BCTI holds license to provide GSM-900/1800 services on the whole territory of Turkmenistan and a license for provision of AMPS services.

The preliminary purchase price allocation was as follows:

		(000’s)
Current assets	$	8,066
Non-current assets		5,478
Goodwill		46,672
Current liabilities		(32,049)
Purchase price allocation	**$**	**28,167**

MTS, subject to certain conditions, will purchase the remaining 49% stake in BCTI within the next eight months, at the price depending on the operational and financial results of the company, but not in excess of $27.0 million.

Other Acquisitions

In February 2005, the Group acquired an additional 20% equity stake in Telmos from Rostelecom for a cash consideration of $8.5 million, increasing the Group's voting power in the company to 100%.

In February 2005, the Group acquired an additional 5% equity stake in MTT for a cash consideration of $6.4 million, increasing its voting interest in MTT to 50%.

In February 2005, the Group completed an acquisition of 13% stake in MBRD. The total consideration amounted to $10.0 million, including a cash payment of $2.1 million and promissory notes in the amount of $7.9 million. As a result of this transaction, the Group's voting power in MBRD increased to 99%. In June 2005, the Group contributed $20.9 million to the share capital of MBRD by purchasing 130,000 newly issued shares of MBRD's common stock in a closed subscription.

In February 2005, the Group acquired an additional 74% stake in Mobile TeleSystems Komi, increasing its voting power in the company to 100%. The value of consideration paid equaled $1.2 million. As a result of this transaction, the Group's voting power in Mobile TeleSystems Komi increased to 100%. MTS-Komi Republic provides cellular telecommunication services in GSM-900/1800 standard in the Komi Republic of the Russian Federation.

In February 2005, the Group acquired a 75% stake in Sweet-Com LLC, a holder of 3.5GHz radio frequency allocation for Moscow region, for cash consideration of $2.0 million. Sweet-Com is providing wide-range radio access services for the "last mile" based on the Radio-Ethernet technology. As the result of allocation of purchase price, the Group recorded license cost of $2.4 million.

In April 2005, the Group acquired an additional 53% stake in Kvant, a personal computers and components manufacturer located in Zelenograd, for a total consideration of $6.0 million, increasing the Group's voting power to 88%. The Group intends to utilize Kvant's facilities to enhance its home-appliance and computer assembling activity and integrate it into Technology business segment.

In May 2005, the Group acquired a 54% stake in MTU Saturn for cash consideration of $1.5 million. MTU Saturn operates in the business of design and installation of electric systems. In June 2005, the Group acquired 51% stake in Yaroslavl Radio plant, producer of commercial payload for satellites and professional communications facilities, for cash consideration of $6.1 million.

In June 2005, the Group acquired an additional 24% stake in Gorizont-RT for cash consideration of $13.5 million, increasing its voting power in the company to 100%. Gorisont-RT is a GSM mobile phone operator in the Republic of Sakha (Yakutia) in the Far East of Russia. Gorisont-RT's subscriber base as of May 30, 2005 was 130,300. The allocation of purchase price increased recorded license cost by $7.0 million and goodwill by $3.1 million.

Pro forma results of operations

The following pro forma financial data for the six months ended June 30, 2005 and 2004 give effect to the acquisition of BCTI and acquisitions made during the period from July 2004 till December 2004, including Uzdunrobita, Kvazar-Micro, Sibintertelecom, Telesot Alania and Gorizont-RT, as if they had occurred as of January 1, 2004:

	(000's)	
	June 30, 2005	**June 30, 2004**
Net revenues	$ 3,354,950	$ 2,618,374
Income before cumulative effect of a change in accounting principle	227,826	203,949
Net income	227,826	168,477
Earnings per share, basic and diluted:	$ 24.50	$ 20.80

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

4. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES

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

In January 2005, Intourist announced the issue of new stock to its existing shareholders. Moscow Government purchased the first tranche of 3,120,516,875 shares in exchange for a 40% stake in the Cosmos Hotel, a 1,000-room hotel complex situated in Moscow. In April 2005, JSFC Sistema paid an equivalent of $47.7 million for the remaining 6,961,052,632 newly-issued shares of Intourist. Upon completion of this transaction, the Group's ownership interest in Intourist decreased from 91% to 72%.

5. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $501.0 million and $113.6 million as of June 30, 2005 and December 31, 2004, respectively, are comprised primarily of term deposits with banks and bank promissory notes with original maturities less than 90 days. Within this amount, $41.9 million and $3.8 million, as of June 30, 2005 and December 31, 2004, respectively, represent the Group's deposits with East-West United Bank, an affiliate of the Group. As of June 30, 2005 and December 31, 2004, the Group had $8.7 million and $5.6 million, respectively, in current accounts with East-West United Bank.

Also included in cash as of June 30, 2005 and December 31, 2004, are $27.0 million and $10.9 million, respectively, which represent the MBRD's minimum reserve deposit, required by the Central Bank of Russian Federation.

6. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Trading securities:		
RF Eurobonds	$ 7,169	$ -
Corporate bonds	289,832	36,669
Municipal bonds	102,240	12,622
Corporate shares	12,244	11,541
Other trading securities	11,803	9,141
	423,288	69,973
Other short-term investments:		
Promissory notes and deposit certificates from third parties	182,212	35,546
Promissory notes from and loans to related parties	51,238	13,028
Bank deposits with original maturities exceeding 90 days	536,089	80,743
Other short-term investments	387	8,003
	769,926	137,320
Total	**$ 1,193,214**	**$ 207,293**

Corporate bonds denominated in RUR represent bonds issued by major Russian companies with maturity dates from 2004 to 2009 and coupon rates of 7-20% per annum.

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

The weighted average interest rate on promissory notes from third parties both as of June 30, 2005 and December 31, 2004 was 8%, while promissory notes from related parties are mostly were interest-free. Deposit certificates bear a weighted average interest rate of 6% as of June 30, 2005 compared to 5% as of December 31, 2004. Most of the notes and certificates mature within 1 year.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of June 30, 2005 were 4% for RUR-denominated deposits and 7% on deposits in USD. Included in bank deposits as of June 30, 2005 and December 31, 2004 are deposits with East-West United Bank equivalent of $65.5 million and $53.0 million, respectively, bearing interest of 2%.

7. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of an allowance for loan losses, as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Loans to customers	$ 267,762	$ 227,668
Loans to banks	263,018	173,179
	530,780	400,847
Less allowance for loan losses	(21,093)	(21,537)
Total	**$ 509,687**	**$ 379,310**

Loans to customers as of June 30, 2005 and December 31, 2004 include loans to related parties of nil and $93.3 million, respectively.

8. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Receivables from insurance operations	$ 147,993	$ 104,834
Advances to health care providers	36,513	25,444
Total	**$ 184,506**	**$ 130,278**

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Trade receivables	$ 465,460	$ 370,988
Less: provision for doubtful accounts	(57,781)	(43,067)
Total	**$ 407,679**	**$ 327,921**

Included in trade receivables as of June 30, 2005 and December 31, 2004 are receivables for services provided and goods shipped to the Group's affiliates and other related parties in the amounts of $21.2 million and $42.2 million, respectively. Management anticipates no losses in respect of receivables from related parties.

10. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Recoverable VAT	$ 383,489	$ 345,999
Advances to suppliers	179,924	111,505
Prepaid expenses	33,517	22,582
Deferred policy acquisition costs	32,818	26,203
Other taxes prepaid	24,266	22,746
Accrued interest	13,049	898
Receivables for sale of Micron shares	4,889	5,052
Receivables for sale of STROM telecom shares	825	1,606
Other	98,911	50,547
Less: provision for doubtful accounts	(3,418)	(4,064)
Total	**$ 768,270**	**$ 583,074**

Policy acquisition costs' amortization charge for the six months ended June 30, 2005 and 2004 was $36.5 million and $9.1 million, respectively.

11. INVENTORIES

Inventories as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Raw materials and spare parts	$ 137,936	$ 97,427
Work-in-progress	26,932	34,888
Finished goods and goods for resale	92,727	89,123
Project costs – construction, net of progress billings	64,975	55,394
Total	**$ 322,570**	**$ 276,832**

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Land	$ 41,747	$ 37,944
Buildings and leasehold improvements	595,029	547,629
Switches, transmission devices, network and base station equipment	3,541,302	3,284,977
Other plant, machinery and equipment	647,639	431,030
Construction in-progress and equipment for installation	1,345,190	1,080,900
	6,170,907	5,382,480
Less: accumulated depreciation	(1,218,116)	(947,265)
Total	**$ 4,952,791**	**$ 4,435,215**

Depreciation expense for the six months ended June 30, 2005 and 2004, amounted to $286.7 million and $217.8 million, respectively.

13. LONG-TERM INVESTMENTS

Long-term investments as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's) June 30, 2005	(000's) December 31, 2004
Loans, promissory notes and deposits with related parties	$ 20,900	$ 20,309
Loans, promissory notes and deposits with third parties	6,392	8,513
Mutual investment funds	9,908	9,942
Other	9,574	7,147
Total	**$ 46,774**	**$ 45,911**

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

14. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's)			
	June 30, 2005		**December 31, 2004**	
	Voting power, %	**Carrying value**	**Voting power, %**	**Carrying value**
MTT (Note 3)	50%	$ 69,171	45%	$ 49,205
MTS Belarus	49%	45,232	49%	27,699
Cosmos Hotel (Note 4)	42%	21,236	-	-
Sky Link	50%	16,011	50%	16,011
East-West United Bank	49%	16,518	49%	16,518
ZETA Telecom	49%	7,233	49%	6,699
Cosmos TV	50%	4,100	50%	4,100
Loans to MTS Belarus	-	51,375	-	51,894
Loans to Sky Link	-	19,670	-	19,316
Acquired debt of Cosmos TV	-	1,000	-	1,000
Other investments and loans to investees	Various	13,275	Various	14,078
Total		**$ 264,821**		**$ 206,520**

Investments in affiliates include $51.4 million in loans to MTS Belarus bearing interest at 3% to 11% per annum. Based on projected cash flows of MTS Belarus, the Group has concluded that no impairment of the Group's investments in MTS Belarus is required as of June 30, 2005.

In the six months ended June 30, 2005, the Group executed offers to purchase additional shares of Cosmos Hotel totaling 1.8% of its stock, the respective cash payments amounted to $0.9 million.

15. LICENSES, NET

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

	(000's) June 30, 2005	(000's) December 31, 2004
Operating licenses	$ 1,030,850	$ 1,007,369
Less: accumulated amortization	(358,443)	(256,436)
Total	**$ 672,407**	**$ 750,933**

Amortization expense for licenses for the six months ended June 30, 2005 and 2004 amounted to $102.0 million and $70.9 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
Year ended June 30,	
2006	$ 168,102
2007	126,076
2008	94,558
2009	70,918
2010	53,187
Thereafter	159,566
	$ 672,407

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

16. OTHER INTANGIBLE ASSETS, NET

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

	June 30, 2005			December 31, 2004		
	Gross carrying value	Accumu-lated amor-tization	Net carrying value	Gross carrying value	Accumu-lated amor-tization	Net carrying value
Amortized intangible assets:						
Acquired customer base	$ 150,796	(100,784)	50,012	$ 152,060	$ (78,491)	$ 73,569
Numbering capacity with finite contractual life, rights to use premises, software and other	605,646	(224,958)	380,688	474,377	(148,398)	325,979
	756,442	(325,742)	430,700	626,437	(226,889)	399,548
Unamortized intangible assets:						
Numbering capacity with indefinite contractual life	22,237	-	22,237	22,237	-	22,237
Trademarks	45,496	-	45,496	45,375	-	45,375
Total intangible assets	**$ 824,175**	**(325,742)**	**498,433**	**$ 694,049**	**$ (226,889)**	**$ 467,160**

Amortization expense recorded on other intangible assets for the six months ended June 30, 2005 and 2004 amounted to $91.8 million and $59.1 million, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

		(000's)
Year ended June 30,		
2006	$	174,410
2007		112,215
2008		64,292
2009		46,290
2010		8,777
Thereafter		24,716
	$	**430,700**

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

17. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's)			
		June 30, 2005		**December 31, 2004**
Deposits repayable on demand	$	96,756	$	133,008
Term deposits		159,483		132,694
Promissory notes issued		63,867		61,159
Total	**$**	**320,106**	**$**	**326,861**

Bank deposits and notes issued as of June 30, 2005 and December 31, 2004 include deposits from and promissory notes issued to related parties for $nil and $8.4 million, respectively.

18. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's)			
		June 30, 2005		**December 31, 2004**
Unearned premium provision, net of reinsurance	$	190,465	$	164,589
Loss provision, net of reinsurance		98,132		76,641
Undisbursed MGFOMS funds		43,456		45,719
Other insurance-related liabilities		179,559		57,511
Total	**$**	**511,612**	**$**	**344,460**

Usage of MGFOMS funds, in the amount of $43.5 million, accumulated and undisbursed by Rosno as of June 30, 2005, is limited to payments for medical facilities and care provided to RF citizens by medical centers under MGFOMS's obligatory medical insurance program.

19. ACCRUED EXPENSES, SUBSCRIBER PREPAYMENTS AND OTHER CURRENT LIABILITIES

Accrued expenses, subscriber prepayments and other current liabilities as of June 30, 2005 and December 31, 2004 consisted of the following:

	(000's)	
	June 30, 2005	**December 31, 2004**
Subscriber prepayments, current portion (Note 23)	$ 412,679	$ 391,880
Payroll and other accrued expenses	98,668	112,878
Accrued interest on loans	72,127	63,809
Customers' advances	55,248	59,146
Current portion of capital lease obligations (Note 21)	2,358	4,926
Dividends payable	228,501	6,237
Tax and legal contingencies	30,337	23,633
Other	140,890	74,885
Total	**$ 1,040,808**	**$ 737,394**

20. SHORT-TERM NOTES PAYABLE

Short-term notes payable as of June 30, 2005 and December 31, 2004 consisted of the following:

	Currency	**Annual interest rate (Actual at June 30, 2005)**	**(000's) June 30, 2005**	**December 31, 2004**
Credit Suisse First Boston	USD	LIBOR+2.2% (5.9%)	-	$ 140,000
Commerzbank Eurasia	USD	LIBOR+5.0% (8.7%)	$ 20,000	20,000
West LB	USD	LIBOR+6.8% (10.5%)	10,400	5,000
DONAU-BANK	USD	9.0%	9,701	-
Sberbank	RUR	10.0%-15.0%	6,566	10,248
Vneshtorgbank	EUR	11%	-	7,501
Loans and promissory notes payable to related parties	Various	Various	15,761	21,422
Other	Various	Various	14,709	16,932
Total			**$ 77,137**	**$ 221,103**

Credit Suisse First Boston – In October 2004, MTS entered into a short-term loan facility with Credit Suisse First Boston for a total amount of $140.0 million. Amounts outstanding under the loan agreement bore interest of LIBOR+2.2% (5.9% as of June 30, 2005). The loan was fully repaid in April 2005.

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

West LB – In December 2004, Sistema-Hals entered into a loan agreement with West LB. The loan bears interest of LIBOR+6.8% (10.5% as of June 30, 2005) per annum and matures in December 2005. The outstanding balance of the loan was $10.4 million as of June 30, 2005.

Sberbank – The Group has entered into several short-term loans with Sberbank. The outstanding balance under the loans as of June 30, 2005 was $6.6 million. The loans bear interest of 10%-15%. The Sberbank loans are secured by pledge of property, plant and equipment with the carrying value of approximately $7.8 million as of June 30, 2005.

Vneshtorgbank – In December 2004, Kamov-Holding entered into a loan agreement with Vneshtorgbank for the amount of EUR 5.5 million. The loan bore interest at 11% and was fully repaid in June 2005.

Donau-Bank – In April 2005, Micron entered into two loan agreements with Donau-Bank for amount of $8.0 million and $2.0 million, respectively. Both loans bear interest of 9.0% per annum. The short-term loan facilities mature in November 2005 and March 2006, respectively.
The outstanding balance under these loans was $9.7 million.

21. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2005 and December 31, 2004 consisted of the following:

		(000's) June 30, 2005		December 31, 2004
Capital lease obligations	$	3,321	$	8,338
Less: current portion of capital lease obligations (Note 19)		(2,358)		(4,926)
Total	**$**	**963**	**$**	**3,412**

During 2002-2005, the Group entered into several lease agreements for telecommunications equipment and vehicles. Most of the agreements expire in 2005-2008 and assume transfer of ownership for leased assets to the Group at the end of the lease term.

The net book value of leased assets comprised $19.1 million and $20.3 million as of June 30, 2005 and December 31, 2004, respectively. Interest expense on the leases recorded within income from continuing operations, was $0.4 million and $0.8 million for the six months ended June 30, 2005 and 2004, respectively. Future minimum payments under the lease agreements are disclosed in Note 30.

22. LONG-TERM DEBT

Long-term debt as of June 30, 2005 and December 31, 2004 consisted of the following:

	Currency	Annual interest rate (Actual at June 30, 2005)	(000's) June 30, 2005	December 31, 2004
Sistema Finance Notes	USD	10.3%	$ 349,094	$ 348,808
Sistema Capital Notes	USD	8.9%	350,000	350,000
MTS Finance Notes due 2008	USD	9.8%	400,000	400,000
MTS Finance Notes due 2010	USD	8.4%	400,000	400,000
MTS Finance Notes due 2012	USD	8.0%	400,000	-
MGTS Bonds	RUR	8.3%-10.0%	104,631	90,094
MBRD Bonds	USD	8.6%	150,000	-
Micron Bonds	RUR	15.0%	-	6,293
Total Corporate Bonds			**2,153,725**	**1,595,195**
Syndicated Loan	USD	LIBOR+2.5% (6.2%)	600,000	600,000
EBRD	USD	LIBOR+3.1% (6.8%)	150,000	150,000
HSBC Bank and ING-BHF-Bank	USD	LIBOR+0.4% (4.1%)	162,688	77,003
ABN AMRO N.V.	USD	LIBOR/EURIBOR+0.35% (4.05%/2.45%)	88,860	-
Hermes Credit Facility	EUR	EURIBOR+0.7% (2.8%)	50,291	63,851
ING-Bank (Eurasia)	USD	LIBOR+2.3%-4.2% (6.0%-7.9%)	33,333	46,667
Commerzbank (Eurasia)	USD	LIBOR+1.4%-3.5% (5.1%-7.2%)	31,184	27,213
Vendor Financing	Various	Various	27,682	33,181
Barclays Bank PLC	USD	LIBOR+0.15% (3.86%)	23,459	-
Citibank	USD	LIBOR+1.6% (5.3%)	20,714	15,144
Vneshtorgbank	USD, EUR	LIBOR+4.9% (8.6%), EURIBOR+5.35% (7.45%), 13%	18,947	16,981
Commerzbank Belgium S. A.	USD, EUR	LIBOR+0.4% (4.1%), 3.75%	16,344	-
Raiffeisenbank	USD	LIBOR+7.0% (10.7%)	14,786	19,684
Credit Suisse Bank	USD	LIBOR+3.45% (7.15%)	13,491	-
HSBC	USD	LIBOR+2.8% (6.5%)	12,500	17,500
Ericsson Project Finance	USD	LIBOR+4.0% (7.7%)	9,450	14,850
Nordea Bank Sweden	USD	LIBOR+0.4% (4.1%)	4,875	6,500
WestLB	EUR	EURIBOR+2.0% (4.1%)	4,000	4,000
Sberbank	RUR	11.0%-20.3%	-	17,299
Loans from related parties	Various	Various	19,391	86,432
Other	Various	Various	25,717	43,960
			3,481,437	2,835,460
Less amounts maturing within one year			(450,392)	(340,938)
Total			**$ 3,031,045**	**$ 2,494,522**

Corporate Bonds – In April 2003, Sistema Finance, a wholly-owned subsidiary of the Group, issued $350.0 million 10.25% notes, due in April 2008, at 99.52% of par. These notes are secured by 193,473,900 shares of common stock of MTS. The notes are listed on the Luxembourg Stock Exchange. JSFC Sistema is a guarantor of the notes. Interest on the notes is payable semi-annually in arrears. On or prior to April 14, 2006, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 110.25% of par. These notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. In addition, these notes provide the holders with a right to require Sistema Finance to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control.

In January 2004, Sistema Capital, a wholly-owned subsidiary of the Group domiciled in Luxembourg, issued $350.0 million of 8.875% notes, due in January 2011. The notes are fully and unconditionally guaranteed by JSFC Sistema. Interest payments on the notes are due semi-annually in January and July of each year, commencing July 2004. On or prior to January 2007, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 108.9% of the principal amount. The notes are listed on the London Stock Exchange.
In January 2007, the holders of the notes may require Sistema Capital to redeem their notes at 100% of the principal amount thereof, together with accrued interest. In addition, these notes provide the holders with a right to require Sistema Capital to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control.

In January 2003, MTS Finance ("MTS Finance"), a wholly-owned subsidiary of the Group, issued $400.0 million 9.75% notes at par. These notes are fully and unconditionally guaranteed by MTS and mature in January 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears in January and July, commencing July 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes were $400.0 million and related debt issuance costs of $3.9 million were capitalized.

In October 2003, MTS Finance issued $400.0 million notes bearing interest at 8.375% at par. The cash proceeds, net of issuance costs of approximately $4.6 million, amounted to $395.4 million. These notes are fully and unconditionally guaranteed by MTS and will mature in October 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears in April and October of each year, commencing April 2004. The notes are listed on the Luxembourg Stock Exchange.

In January 2005, MTS Finance issued $400.0 million 8.0% unsecured notes at 99.74%. These notes are fully and unconditionally guaranteed by MTS and mature on January 28, 2012. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 28 and July 28, commencing on July 28, 2005. The notes are listed on the Luxembourg Stock Exchange. The cash proceeds were $398.9 million, the related debt issuance costs in amount of $2.5 million were capitalized.

Subject to certain exceptions and qualifications, the indentures governing the MTS' notes contain covenants limiting MTS' ability to incur debt; create liens; lease properties sold or transferred by MTS; enter into loan transactions with affiliates; merge or consolidate with another person or convey its properties and assets to another person; and sell or transfer any of its GSM licenses for Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

In addition, if MTS experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require MTS to redeem the notes at 101% of their principal amount, plus accrued interest. MTS is also required to take all commercially reasonable steps necessary to maintain a rating of the notes from Moody's or Standard & Poor's. The notes also have cross default provisions with publicly traded debt issued by the 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. The Group believes that MTS is in compliance with all restrictive provisions as of June 30, 2005.

In February 2003, MGTS issued 2-year RUR denominated bonds in the amount of 1,000 million RUR (equivalent of $34.9 million as of June 30, 2005). The bonds carry coupon of 12.3% during the first year of trading and 17.0% during the second year. MGTS fully repaid the bonds in February 2005.

In April 2004, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $52.3 million as of June 30, 2005). The bonds carry a coupon of 10% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006.

In May 2005, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (equivalent of $52.3 million as of June 30, 2005). The bonds carry a coupon of 8.3% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in May 2010.

In July 2003, Micron issued RUR denominated bonds with face value of RUR 300.0 million (equivalent of $10.5 million as of June 30, 2005) due in January 2005. Interest was payable semi-annually. The interest rate was set at 15% per annum, and two-thirds of the interest payments were covered by the municipal government. The Group fully repaid the bonds in January 2005.

In March 2005, MBRD entered into a loan agreement with Dresdner Bank AG in the amount of $150.0 million. The loan bears an interest of 8.625% per annum and is due in March 2008. To finance the loan to MBRD, Dresdner Bank AG issued Loan Participation Notes that were admitted to trade on the Luxembourg Stock Exchange. Interest payments on the loan are due semi-annually in March and September of each year, commencing in September 2005. Loan agreement contains certain restrictive covenants including, but not limited to, limitations on mergers, liens and dispositions of assets and transactions with the Group's subsidiaries and affiliates.

Syndicated Loan – In July 2004, MTS entered into a $500.0 million syndicated loan agreement with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank PLC, Raiffeisen Zentralbank Oesterreich AG, Bank Austria Creditanstalt AG, Commerzbank AG and others. The credit facility bears interest LIBOR+2.5% per annum (6.2% as of June 30, 2005) and matures in 3 years. The proceeds were used by MTS for corporate purposes, including refinancing of its existing indebtedness. In September 2004, MTS extended total amount available under the syndicated loan facility for an additional $100.0 million to total amount of $600.0 million. Commitment fee for the syndicated loan facility amounted to $0.5 million. Debt issuance costs of $10.2 million related to the syndicated loan facility have been capitalized. As of June 30, 2005, $600.0 million was outstanding under this credit facility. The loan facility is subject to certain restrictive covenants including, but not limited to, certain financial ratios of MTS. As of June 30, 2005, MTS is in compliance with all existing covenants.

EBRD – In December 2004, MTS entered into a credit line with the European Bank for Reconstruction and Development ("EBRD") limited to $150.0 million. The facility bears interest at LIBOR+3.1% (6.8% as of June 30, 2005). Commitment fee of 0.5% per annum should be paid in accordance with the credit agreement. The final maturity of this agreement is in December 2011. As of June 30, 2005, the balance outstanding under the loan was $150.0 million. The loan is subject to restrictive covenants including, but not limited to, certain financial ratios of MTS. As of June 30, 2005, MTS is in compliance with all existing covenants.

HSBC Bank and ING BHF Bank – In October 2004, MTS entered into two credit facility agreements with HSBC Bank and ING BHF Bank to finance the purchase of telecommunication equipment and software from Siemens AG and Alcatel SEL AG for the technical upgrade and expansion of network. Euler Hermes Kreditversicherung AG, the German credit export agency, is providing export credit cover in respect to both facilities. The facilities bear interest at LIBOR+0.4% (4.1% as of June 30, 2005). A commitment fee of 0.2% per annum and an agreement fee of 0.25% should be paid in accordance with the loan agreement. The principal and interest amounts are to be repaid in seventeen equal semi-annual installments, starting July 2005 for the first agreement and September 2005 for the second one. As of June 30, 2005, the outstanding balance under these agreements was $162.6 million. The final maturity of these agreements is in July and September 2013. The loan facility is subject to certain restrictive covenants applying to MTS. As of June 30, 2005, MTS is in compliance with all existing covenants.

ABN AMRO N.V. – In February and April 2005, MTS received several loans from ABN AMRO N.V. under the agreement to finance purchases of equipment from Ericsson. The loans bear interest at LIBOR+0.35% (4.05% as of June 30, 2005) per annum for USD-denominated loans and EURIBOR+0.35% (2.45% as of June 30, 2005) per annum for EUR-denominated loans. A commitment fee of 0.175% per annum and an arrangement fee of 0.36% should be paid in accordance with the loan agreement. The principal and interest amounts are to be repaid in eighteen consecutive semi-annual installments. The final maturity of these loans is in October 2013 and April 2014. The total outstanding balance under these loans was $88.9 million as of June 30, 2005.

Hermes Credit Facility – In December 2003, UMC entered into Hermes Credit Facility with ING-BHF Bank and Commerzbank to finance the acquisition of GSM equipment from Siemens AG. The aggregate amount available under this credit facility is EUR 47.4 million (equivalent of $57.1 million as of June 30, 2005). In 2004, the agreement was amended to increase the amount available under the facility by EUR 9.2 million (equivalent of $11.1 million as of June 30, 2005). The loan is fully and unconditionally guaranteed by MTS and bears interest at EURIBOR+0.7% (2.8% as of June 30, 2005). The amount outstanding is redeemable in 10 equal semi-annual installments, commencing July 2004. The balance outstanding under the facility as of June 30, 2005 was $50.3 million.

ING Bank (Eurasia) – In September 2003, UMC entered into a $60.0 million syndicated credit facility with ING Bank (Eurasia), Standard Bank and Commerzbank AG with an interest rate of LIBOR+2.3%-4.2% (6.0%-7.9% as of June 30, 2005). The loan is fully and unconditionally guaranteed by MTS. The proceeds were used by UMC to refinance its existing indebtedness. The loan is payable in 8 equal quarterly installments starting from September 2004. As of June 30, 2005, the balance outstanding under this credit facility was $33.3 million.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered into a number of credit facilities with Commerzbank (Eurasia) for a total amount of $38.5 million as of June 30, 2005. The facilities bear interest of LIBOR+1.4%-3.5% per annum (5.1%-7.2% as of June 30, 2005). As of June 30, 2005, approximately $31.2 million was outstanding under these facilities. The facilities are fully and unconditionally guaranteed by MTS.

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

Barklays Bank PLC – In February 2005, MTS entered into a credit facility with Barklays Bank PLC. The facility allows borrowing up to $25.6 million to assist the financing of the contract on acquisition of equipment from Motorola. Also facility allows uncommitted additional borrowing up to $64.3 million. The loan bears interest of LIBOR+0.15% (3.9% as of June 30, 2005). An arrangement fee of 0.4% on the original facility amount and 0.4% on each additional commitment facility amount should be paid in accordance with the agreement. Commitment fee comprises 0.175% per annum. The loan is subject to certain restrictive covenants limiting the MTS' ability to become subject to any consolidation or reorganization, convey or dispose its properties and assets to another party and other. As of June 30, 2005, MTS is in compliance with all existing covenants. As of June 30, 2005, the outstanding balance under the facility was $23.5 million.

Citibank – In July 2003, MGTS received a loan from Citibank for purchase of equipment in the amount of $7.1 million. In addition, in August 2004 and January 2005, MGTS received loans from Citibank for purchase of equipment and software in the total amount of $13.6 million. All loans bear interest of LIBOR+1.6% (5.3% as of June 30, 2005). The loans are collateralized by pledged equipment with fair value of $9.5 million and by two deposits in Citibank for the total amount of $1.9 million and guaranteed by Export Guarantee and Insurance Corporation, Czech Republic. As of June 30, 2005, approximately $20.1 million was outstanding under these loans. Based on the restrictive covenants of the agreements, the Debt to Equity ratio and Debt Service to Earnings Before Interest and Taxes ("EBIT") ratio of MGTS should not exceed 3:1. MGTS is not allowed to obtain borrowings individually in excess of $30.0 million (apart from the Sberbank loan, Raiffeisenbank loan and the issues of MGTS bonds) or alienate more than 10% of its assets without the written approval of Citibank and its aggregate debt may not exceed $250.0 million.

Vneshtorgbank – The loans provided by Vneshtorgbank are collateralized by pledge of equipment with fair value of $9.5 million and by a pledge of 4% of MGTS common shares. The weighted average interest rate on the loans outstanding as of June 30, 2005 was 8.1% per annum. The loans mature in 2005-2010.

Raiffeisenbank – In November 2002, JSFC Sistema entered into a credit line with Raiffeisenbank (Austria) limited to $20.0 million. The building with fair value of $16.8 million was pledged under this credit line as of June 30, 2005. In addition, the Group is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The loan bears interest of LIBOR+7% per annum (10.7% as of June 30, 2005) and matures in 2007. As of June 30, 2005, approximately $14.8 million was outstanding under this credit line.

Commerzbank Belgium S.A. – In October 2004, MTS entered into a loan agreement with Commerzbank Belgium S.A. The available credit facility under the agreement is $18.3 million. The loan serves to finance the supply of the telecommunication equipment acquired from Alcatel Bell N.V. and bears interest of LIBOR+0.4% (4.1% as of June 30, 2005). A commitment fee at rate of 0.225% per annum and flat management fee of 0.25% on the loan amount should be paid in accordance with the terms of the loan agreement. As of June 30, 2005, the outstanding balance under the loan was $13.3 million.

In December 2004, Sistema Multimedia, subsidiary of the Group, entered into a loan agreement with Commerzbank Belgium S.A. for the amount of up to EUR 5.5 million. The loan bears interest at 3.75% per annum and matures in several installments during 2005-2010. The outstanding balance under the loan agreement was equivalent to $3.0 million as of June 30, 2005.

Credit Suisse Bank - In December 2004, JSFC Sistema entered into a credit facility agreements with Credit Suisse Bank (Zurich) for the total amount of $14.0 million. The funds were used to purchase an aircraft for administrative use. The facility bears interest at LIBOR+3.45% (7.15% as of June 30, 2005) and matures in 2015. As of June 30, 2005 the balance outstanding under the facility was $13.5 million.

HSBC – In October 2003, TAIF Telcom entered into a $25.0 million credit facility with HSBC Bank, which is fully and unconditionally guaranteed by MTS. The facility bears interest at LIBOR+2.8% (6.5% as of June 30, 2005) and is redeemable in ten equal quarterly installments commencing June 2004. The funds were used to purchase telecommunication equipment and for general corporate purposes. As of June 30, 2005, the outstanding balance of the facility was $12.5 million.

Ericsson Project Finance – In December 1996, Rosico entered into a credit agreement with Ericsson Project Finance AB, which provided for a credit facility with an aggregate principal amount of $60.0 million. The loan bears interest of LIBOR+4% per annum (7.7% as of June 30, 2005). The loan is collateralized by a pledge of 16.8% of MGTS voting shares held by the Group. In February 2003, Ericsson Project Finance AB assigned all of its rights and obligations under the loan to Salomon Brothers Holding Company, Inc. As of June 30, 2005, the loan balance was $9.5 million.

Nordea Bank Sweden – In September 2003, Primtelefon entered into a long-term loan facility with Nordea Bank Sweden for the total amount of $9.8 million. Amounts outstanding under the loan agreement bear interest at LIBOR+0.4% (4.1% as of June 30, 2005) and mature in October 2006. The loan is fully and unconditionally guaranteed by MTS. As of June 30, 2005, the amount outstanding under the loan was $4.9 million.

West LB – In July 2002, MTS-P, a subsidiary of MTS, entered into a credit facility agreement with West LB International S.A. Amounts outstanding under this agreement bear interest of EURIBOR+2.0% (4.1% as of June 30, 2005) per annum for the first two years for each advance and EURIBOR+4.0% (6.1% as of June 30, 2005) per annum for the remaining interest periods for each advance until maturity. The final maturity of this agreement is in December 2006. The loan is fully and unconditionally guaranteed by MTS. As of June 30, 2005, the amount outstanding under the loan agreement was $4.0 million.

The schedule of repayments of long-term debt over the five-year period beginning on June 30, 2005 is as follows:

		(000's)
Year ended June 30,		
2006	$	450,392
2007		416,098
2008		638,920
2009		587,653
2010		66,240
Thereafter		1,322,134
Total	**$**	**3,481,437**

In December 2004, MTS entered into two variable-to-fixed interest rate swap agreements with ABN AMRO Bank N.V and with HSBC Bank PLC to hedge MTS' exposure to variability of future cash flows caused by the change in LIBOR related to the syndicated loan. MTS agreed with ABN AMRO to pay a fixed rate of 3.27% and receive a variable interest of LIBOR on $100.0 million for the period from October 7, 2004 up to July 27, 2007. MTS agreed with HSBC Bank PLC to pay a fixed rate of 3.25% and receive a variable interest of LIBOR on $150.0 million for the period from October 7, 2004 up to July 27, 2007. These instruments qualify as cash flow hedges under the requirements of SFAS No. 133 as amended by SFAS No. 149. As of June 30, 2005, the Group recorded a liability of $2.1 million in relation to these contracts in the accompanying balance sheet and a loss of $0.8 million, net of tax of $0.2 million, as other comprehensive loss in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements. In the six months ended June 30, 2005, there were no amounts reclassified from other comprehensive loss to the statement of operations due to hedge ineffectiveness.

23. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of June 30, 2005 and December 31, 2004 consisted of the following:

		(000's)		
		June 30, 2005		**December 31, 2004**
Current portion (Note 19)				
Connection fees	$	86,649	$	83,021
Advances and customers' deposits		326,030		308,859
		412,679		391,880
Non-current portion				
Connection fees		173,350		156,233
Total	**$**	**586,029**	**$**	**548,113**

24. INCOME TAX

The Group's provision for income taxes is as follows for the six months ended June 30, 2005 and 2004:

	(000's) June 30, 2005	(000's) June 30, 2004
Current provision	$ 302,499	$ 215,222
Deferred benefit	(41,873)	(16,321)
Total income tax expense	**$ 260,626**	**$ 198,901**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate (24% in 2005 and 2004) to net income before income tax, minority interests and cumulative effect of a change in accounting principle. The items causing this difference are as follows:

	(000's) June 30, 2005	(000's) June 30, 2004
Income tax provision computed on income from continuing operations before taxes at statutory rate	$ 202,160	$ 163,846
Adjustments due to:		
Change in valuation allowance	275	837
Non-deductible items	44,458	21,314
Non-taxable items	(1,635)	(2,851)
Taxable losses not carried forward	20,433	13,124
Currency exchange and translation differences	(6,101)	5,280
Effect of rates different from standard	1,036	(2,649)
Income tax expense	**$ 260,626**	**$ 198,901**

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

	(000's) June 30, 2005	(000's) December 31, 2004
Deferred tax assets		
Subscriber and customer prepayments	$ 74,689	$ 76,364
Property, plant and equipment	74,186	60,963
Deferred revenues	27,596	24,581
Allowance for doubtful accounts	6,882	14,559
Accrued expenses	25,160	27,293
Tax losses carried forward	8,659	8,930
Other	15,711	16,101
	232,883	228,791
Less: valuation allowance	(9,407)	(8,908)
Total deferred tax assets	**$ 223,476**	**$ 219,883**
Deferred tax liabilities		
Intangible assets	(198,776)	(224,522)
Property, plant and equipment	(104,031)	(111,930)
Undistributed earnings of affiliates	(3,747)	(25,220)
Other	(46,007)	(21,828)
Total deferred tax liabilities	**$ (352,561)**	**$ (383,500)**
Net deferred tax assets, current	$ 83,521	$ 73,592
Net deferred tax assets, long-term	$ 12,847	$ 3,482
Net deferred tax liabilities, current	$ (10,018)	$ (22,071)
Net deferred tax liabilities, long-term	$ (215,435)	$ (218,620)

Deferred tax assets relating to tax losses carried forward in amount of $8.7 million as of June 30, 2005 and expire in 2008 and are attributable to MSS and Rosico, subsidiaries of MTS.

25. POSTRETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently such benefits include bonus payments of a fixed amount to retiring employees with at least five years of service (RUR 12,300 or RUR 24,600 ($429 or $858 at the exchange rate current as of June 30, 2005), depending on actual years of service); lifetime payments of a fixed amount to employees retiring with at least fifteen years of service (RUR 4000 per year, per employee, or approximately $140 at the exchange rate as for the six months ended June 30, 2005); and discounted telephone service to employees retiring with at least thirty years of service. An employee is withdrawn from the benefit plan if his/her employment with MGTS is discontinued prior to retirement.

The assumed discount rate used in determining net periodic cost is 8% per annum. The future benefit payments to retirees under the defined benefit plan are expected as follows:

		(000's)
Year ended June 30,		
2006	$	4,983
2007		1,274
2008		1,204
2009		1,150
2010-2014		5,213
Thereafter		1,676
Total	**$**	**15,500**

MGTS's defined benefit plan is unfunded. For the six months ended June 30, 2005 and 2004, net periodic benefit costs recognized and the contributions paid by MGTS under the plan were not material.

26. DEFERRED REVENUE

Deferred revenue is comprised of property, plant and equipment contributions and grants received by the Group and as of June 30, 2005 and December 31, 2004 was as follows:

		(000's) June 30, 2005		December 31, 2004
Deferred revenue at the beginning of the period	$	130,913	$	115,363
Contributions received during the period		3,322		21,530
Currency translation effect		(4,227)		1,044
		130,008		137,937
Deferred revenue amortized		(2,893)		(7,024)
Deferred revenue at the end of the period	**$**	**127,115**	**$**	**130,913**

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

27. SHARE CAPITAL

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

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

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

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

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

28. SEGMENT INFORMATION

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

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

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the six months ended June 30, 2005 and 2004 is as follows:

	For the six months ended June 30, 2005					
	Tele-communi-cations	**Techno-logy**	**Insurance**	**Banking**	**Corporate and Other**	**Total**
Net sales to external customers [a]	2,652,866	265,612	182,800	33,048	220,624	3,354,950
Intersegment sales	27,160	160,929	15,069	12,770	26,814	242,742
Income from equity affiliates	31,493	-	307	-	2,556	34,356
Interest income	18,339	248	-	-	22,126	40,713
Interest expense	(81,650)	(5,177)	-	-	(47,756)	(134,583)
Net interest revenue [b]	-	-	-	4,146	-	4,146
Depreciation and amortization	(462,515)	(5,462)	(1,871)	(1,005)	(9,737)	(480,590)
Operating income/(loss)	920,523	109,942	13,640	3,141	(3,940)	1,043,306
Income tax expense	(222,354)	(19,211)	(6,435)	(1,939)	(10,687)	(260,626)
Income/(loss) before minority interests and cumulative effect of a change in accounting principle	633,935	85,243	6,060	1,202	(44,197)	682,243
Investments in affiliated companies	203,213	-	-	16,518	45,090	264,821
Segment assets	8,066,691	326,460	608,538	983,551	1,687,164	11,672,404
Cash and cash equivalents	618,377	24,947	119,233	104,091	219,375	1,086,023
Indebtedness [c]	(2,552,221)	(27,023)	(517)	(150,000)	(832,134)	(3,561,895)
Capital expenditures	880,712	15,469	4,575	2,145	78,647	981,548

For the six months ended June 30, 2004						
	Tele-communi-cations	Technology	Insurance	Banking	Corporate and Other	Total
Net sales to external customers [a]	2,109,134	51,740	115,770	18,091	133,310	2,428,045
Intersegment sales	-	31,250	8,096	9,165	1,000	49,511
Income/(loss) from equity affiliates	5,677	-	155	700	(418)	6,114
Interest income	15,309	-	-	-	2,550	17,859
Interest expense	(84,119)	(1,560)	-	-	(31,554)	(117,233)
Net interest revenue [b]	-	-	-	6,799	-	6,799
Depreciation and amortization	(341,054)	(1,032)	(1,929)	(533)	(3,300)	(347,848)
Operating income/(loss)	777,738	13,173	4,925	6,966	(18,700)	784,102
Income tax expense	(189,606)	(5,163)	(338)	(1,919)	(1,875)	(198,901)
Income/(loss) before minority interests and cumulative effect of a change in accounting principle	522,397	6,729	6,295	4,734	(45,244)	494,911
Investments in affiliated companies	88,968	1,664	172	6,596	34,667	132,067
Segment assets	5,785,278	128,137	324,155	471,237	649,361	7,358,168
Cash and cash equivalents	187,810	7,102	29,546	178,155	33,704	436,317
Indebtedness [c]	(1,574,107)	(36,518)	(2,401)	-	(879,631)	(2,492,657)
Capital expenditures	609,204	2,953	4,281	3,230	30,658	650,326

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

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

	June 30 (000's) 2005	2004
Total segment operating income	$ 1,043,306	$ 784,102
Intersegment eliminations	(102,037)	(12,044)
Interest income	35,712	9,616
Interest expense	(122,491)	(108,068)
Currency exchange and translation gain	(12,157)	9,084
Consolidated income before income tax, minority interests and cumulative effect of a change in accounting principle	**$ 842,333**	**$ 682,690**
Total segment income before minority interests and cumulative effect of a change in accounting principle	$ 682,243	$ 494,911
Intersegment eliminations	(100,536)	(11,122)
Total segment income before minority interests and cumulative effect of a change in accounting principle	**$ 581,707**	**$ 483,789**
Total segment assets	$ 11,672,404	$ 7,358,168
Intersegment eliminations	(97,810)	(9,553)
Consolidated assets	**$ 11,574,594**	**$ 7,348,615**

For the six months ended June 30, 2005 and 2004 the Group's revenues derived from Ukraine were $691.9 million and $345.3 million, respectively. Long-lived assets of the Group's entities domiciled in Ukraine were $1,039.3 million and $849.4 million as of June 30, 2005 and December 31, 2004, respectively.

For the six months ended June 30, 2005 and 2004, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

The results of operations of the Telecommunications Segment for the six months ended June 30, 2005 do not include operations of MTU-Intel and Golden Line. Starting January 1, 2005, the results of operations of MTU-Intel and Golden Line were included in the operations of media business and evaluated by the Group's management as part of Corporate and Other Segment.

29. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the six months ended June 30, 2005 and 2004, the Group entered into transactions with related parties as follows:

	June 30 (000's) 2005	2004
Sale of computer spare parts and other equipment	$ (15,982)	-
Insurance premium received	(370)	-
Telecommunication services provided	(7,383)	-
Revenues from financial services	(1,459)	-
Mass media products sale	-	$ (5,402)
Consulting services provided	-	(1,116)
Telecommunication services purchased	7,744	-
Interest expense/(income)	5,657	(1,216)
Finance services related costs	178	-
Other	2,189	694

Related party balances as of June 30, 2005 and 2004 are disclosed in the corresponding notes to the financial statements.

30. COMMITMENTS AND CONTINGENCIES

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

Future minimum rental payments under capital and operating leases in effect as of June 30, 2005, are as follows:

		(000's)	
		Capital leases	**Operating leases**
Year ended June 30,			
2006		2,561	39,021
2007		1,109	28,893
2008		57	19,628
2009		22	15,662
2010		17	21,019
Thereafter		48	48,321
Less: amount representing interest		(493)	-
Total	**$**	**3,321**	**172,544**

Capital Commitments – As of June 30, 2005, MTS had executed non-binding purchase agreements in the amount of approximately $181.1 million to subsequently acquire property, plant and equipment.

In December 2003, MGTS announced its long-term investment program for the period from 2004 till 2012 providing for extensive capital expenditures including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government in December 2003. Capital expenditures under the investment program are currently estimated to be approximately $1.6 billion during the years 2004-2012 and include reconstruction of 350 local telephone stations and installation of 4.3 million of new phone numbers. The Group expects to finance approximately 50% of the capital expenditures under the investment program.

In July 2003, Sistema-Hals entered into an agreement with Siemens Real Estate to develop an office building in Moscow, which will become Siemens AG headquarters in Russia. Under this agreement Sistema-Hals is responsible for obtaining all necessary permits, planning and overall control of the construction process. The building is expected to be completed in late 2005. The cost of the project is estimated at approximately Euro 85.8 million (equivalent of $103.5 million as of June 30, 2005).

During 2004, Organizator, a subsidiary of Sistema-Hals, signed an agreement with Government of Moscow to administrate construction of a tunnel in the City of Moscow. Under the agreements signed by Organizator in relation to this project it is responsible for obtaining all permits, planning and oversight of design and construction work. The construction is financed by the Government of Moscow and expected to be completed in 2007. The cost of the project is estimated at RUR 53,528.4 million ($1,870.3 million as of June 30, 2005).

In January 2005, Organizator also entered into an agreement with Government of Moscow to administrate relocation of residential premises from the area of ongoing construction of business center "Moscow-City" to other districts of Moscow. The relocation is financed by the Government of Moscow and expected to be completed in 2006. The cost of the project is estimated at RUR 3,100.0 million ($108.1 million as of June 30, 2005)

Additionally, Sistema-Hals entered into construction agreements with various third party subcontractors for a total amount of $39.2 million.

As of June 30, 2005, Kamov-Holding, subsidiary of the Group, had a commitment to purchase 24 engines for helicopters from Rolls-Royce for the amount of approximately $11.0 million.

Operating Licenses – Since the commencement of MTS' operations in 1994, a number of telecommunication licenses for the Russian Federation were issued to MTS and its now consolidated subsidiaries. These license agreements stipulate that certain fixed "contributions" be made to a fund for the development of telecommunication networks in the Russian Federation. Most of MTS' current licenses provide for the payment of such fees, which in the aggregate could total approximately

$103.0 million, as at June 30, 2005. According to the terms of licenses, such contributions are to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators (the "Association"). The Association is a nongovernmental, not-for-profit association, and their Board of Directors comprises representatives of the major cellular communications companies, including MTS.

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

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

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

Issued Guarantees – As of June 30, 2005, MTS has issued guarantees for MTS-Belarus, an equity investee, for the total amount of $12.0 million. Under these guarantees the Group could be potentially liable for a maximum amount of $12.0 million in case of the borrower's default under the obligations. The guarantees expire by April 2007.

In July 2004, MTU-Inform issued guarantees to MBRD on behalf of Sky Link for the total amount of $21.1 million.

Additionally, MBRD guaranteed loans for several companies, including related parties, which totalled $20.6 million as of June 30, 2005.

These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. Under these guarantees the Group could be potentially liable for a maximum amount of $53.7 million in case of the borrower's default under the obligations. As of June 30, 2005, no event of default has occurred under any of the guarantees issued by the Group.

Legal Proceedings – In the ordinary course of business, the Group may be party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

In June 2004, the General Prosecutor of Ukraine filed a claim against MTS and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to MTS. The complaint also seeks an order that would prohibit MTS from alienating 51% of its stake in UMC until the claim is resolved. In August 2004, the Kiev Commercial Court rejected a claim of General Prosecutor of Ukraine against MTS. No appeal was filed to the Court by the office of General Prosecutor of Ukraine within an established period. As of the date of these statements an office of General Prosecutor of Ukraine filed a request to the Constitutional Court of Ukraine to clear out terms of the State Privatization Plan for 2000-2002 and respond whether Ukrtelecom had a right to sell 51% stake in UMC. The Group believes that it acquired a stake in UMC in full compliance with Ukrainian law and, if required, intends to vigorously defend its acquisition of UMC.

Minimum Capital Requirements – The Law on Insurance in Russia sets minimum capital requirements for insurance organizations, depending on the type of insurance premiums they are writing. The minimum capital requirement for insurance organizations conducting reinsurance operations is set at 120.0 million RUR (equivalent of $4.2 million as of June 30, 2005). As of December 31, 2004, Rosno's statutory share capital amounted to 1,069.0 million RUR (equivalent of $37.3 million as of June 30, 2005).

The Central Bank of Russia sets minimum capital requirements for banks. Effective December 1, 2003, the minimum capital requirement is set at Euro 5.0 million for each newly-founded bank. As of June 30, 2005, MBRD's share capital amounted to 998.0 million RUR (equivalent of $34.8 million as of June 30, 2005).

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

On January 1, 2004, a new Law on Telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector.

The Law on Telecommunications introduces a Universal Service Fund ("USF") which will result in higher costs for all operators, including the Group. Under the Law on Telecommunications, all telecom operators must contribute to the USF. The USF is designed to fund socially important but economically unviable projects. In April 2005, Russian government approved several provisions clarifying how the USF will be collected and administered. Starting July 1, 2005 the amount of the universal service charge will be 1.2% of the total revenues received from the usage of public telecommunication network less connection fees and revenues received from interconnection services provided to other operators.

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

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (income tax), and payroll (social) taxes, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that is more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of June 30, 2005, tax declarations of the Group for the preceding three fiscal years were open to further review.

In March 2005, the Russian tax authorities audited MTS's compliance with tax legislation for the year ended December 31, 2002. Based on the results of this audit, the tax authorities assessed additional taxes, penalties and fines of RUR 372,152 thousand (approximately $13.0 million as at June 30, 2005). MTS has prepared and filed with the Arbitrary Court of Moscow a petition to recognize the tax authorities' resolution as partially invalid. The amount of disputed taxes and fines equals approximately $9.8 million as at June 30, 2005.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Importation of Goods – The Group utilizes third parties to import goods into the CIS countries. This results in significant savings of customs duties and related taxes for certain subsidiaries of the Group. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position can not be quantified at this stage due to the lack of precedent for such determinations and uncertainty in the calculations of penalties and interest. No contingent liabilities have been recorded in the Group's financial statements in relation to these transactions.

31. SUBSEQUENT EVENTS

Acquisitions

In July 2005, MTS increased its ownership interest in Uraltel to 100% by purchasing the remaining 0.16% stake for $0.1 million. The transaction was completed in compliance with MTS's strategy of consolidation of minority interests in subsidiaries.

In August 2005, Sistema Mass Media acquired Esta group, a leading Russian cable television operator in MMDS standard, for a total cash consideration of approximately $8.6 million. Esta group owns cable networks in Tver, Kaluga and several other cities, and provides services to 217 thousand customers. The acquisition was carried out in line with the program of media assets expansion and development.

In August 2005, the Group completed the acquisition of minority shareholdings in seven energy companies in the Republic of Bashkortostan, RF. for a total cash consideration of $469.6 million. The acquired shareholdings include 19.9% of the shares of each of OJSC Novoil, OJSC Ufimsky NPZ, OJSC Ufaneftekhim, OJSC ANK Bashneft and OJSC Ufaorgsintez and 18.57% of OJSC Bashnefteproduct. All the acquired companies are listed on the Russian Trading System (RTS) stock exchange.

In August and September 2005, Detsky Mir acquired a retail network operating under the brand "Vyrastai-ka", S-Toys, a children's toys wholesale company, and Chudo-Ostrov Neva, children's goods retailer based in Saint-Petersburg, for a total cash consideration of $3.0 million. The retail network owns 4 stores in Moscow and 6 stores in Saint-Petersburg, specializing in selling toys for children.

In September 2005, Comstar UTS completed the purchase of 45% stake in Metrokom, a leading alternative fixed line operator in Saint-Petersburg, for a total cash consideration of $22.5 million, including the refinancing of a loan previously obtained by Metrocom. The acquisition is expected to enhance Comstar UTS business operations through regional development.

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

Other

In July 2005, an additional issue of CSC voting common shares was registered with the Federal Service for the Financial Markets. The additional issue, when completed, will consist of 5,817,000,000 voting common shares with a par value of 1 RUR.

In August 2005, trading of JSFC Sistema common shares on the Moscow Stock Exchange (“MSE”) commenced. Sistema’s common shares have also been included in the calculation of MSE technical index.

In September 2005, the Group’s affiliate Sky Link, issued 9,724,000 additional voting common shares with the par value of 100 RUR each to its shareholders in proportion to their existing shareholdings. The issue was fully paid in the amount equivalent to $34.0 million.