OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2005 and 2004 and
for the years ended
December 31, 2005, 2004 and 2003

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of OJSC Mobile TeleSystems:

We have audited the accompanying consolidated balance sheets of Mobile TeleSystems, a Russian Open Joint-Stock Company, and subsidiaries (“the Group”) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

March 27, 2006, except for Note 24,
as to which the date is April 21, 2006

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	December 31, 2005	December 31, 2004
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	$ 78,284	$ 274,150
Short-term investments, including related party amounts of $23,100 and $73,100 as of December 31, 2005 and 2004, respectively (Note 5)	28,059	73,360
Trade receivables, net (Note 6)	209,320	162,525
Accounts receivable, related parties (Note 17)	7,661	17,768
Inventory and spare parts (Note 7)	156,660	89,518
Prepaid expenses	234,345	79,971
Deferred tax asset (Note 14)	83,336	49,850
VAT receivable	398,021	272,578
Other current assets	95,567	21,235
Total current assets	1,291,253	1,040,955
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $1,350,783 and $901,416, respectively (Note 8)	4,482,679	3,234,318
LICENSES, net of accumulated amortization of $561,137 and $385,664, respectively (Notes 3 and 21)	603,116	687,272
GOODWILL (Note 3)	155,221	108,329
OTHER INTANGIBLE ASSETS, net of accumulated amortization of $505,098 and $309,399, respectively (Notes 3 and 9)	681,025	412,532
DEBT ISSUANCE COSTS, net of accumulated amortization of $23,692 and $9,345, respectively (Note 11)	74,527	16,546
INVESTMENTS IN AND ADVANCES TO ASSOCIATES (Note 19)	107,959	81,235
OTHER INVESTMENTS (Note 20)	150,000	-
Total assets	$ 7,545,780	$ 5,581,187

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

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

	December 31, 2005	December 31, 2004
CURRENT LIABILITIES:		
Accounts payable, related parties (Note 17)	$ 40,829	$ 17,009
Trade accounts payable	363,723	242,495
Deferred connection fees, current portion (Note 10)	44,361	45,083
Subscriber prepayments and deposits	344,493	308,859
Debt, current portion (Note 11)	765,881	370,845
Capital lease obligation, current portion (Notes 12 and 17)	2,793	8,561
Income tax payable	7,565	22,567
Accrued liabilities (Note 13)	276,291	180,677
Other payables	76,890	33,872
Total current liabilities	1,922,826	1,229,968
LONG-TERM LIABILITIES:		
Notes payable (Note 11)	1,199,052	800,000
Debt, net of current portion (Note 11)	879,903	753,795
Capital lease obligation, net of current portion (Notes 12 and 17)	2,928	3,947
Deferred connection fees, net of current portion (Note 10)	57,824	47,665
Deferred taxes (Note 14)	158,414	160,390
Total long-term liabilities	2,298,121	1,765,797
Total liabilities	4,220,947	2,995,765
COMMITMENTS AND CONTINGENCIES (Note 22)	-	-
MINORITY INTEREST	30,744	62,099
SHAREHOLDERS' EQUITY:		
Common stock: (2,096,975,792 shares with a par value of 0.1 rubles authorized and 1,993,326,138 shares issued as of December 31, 2005 and 2004, 763,554,870 and 432,414,940 of which are in the form of ADS, respectively (Note 1))	50,558	50,558
Treasury stock (5,400,486 and 7,202,108 common shares at cost as of December 31, 2005 and 2004)	(5,534)	(7,396)
Additional paid-in capital	568,104	564,160
Unearned compensation (Note 16)	(1,210)	(1,780)
Shareholder receivable (Note 11)	(7,182)	(18,237)
Accumulated other comprehensive income (Note 2)	50,614	22,444
Retained earnings	2,638,739	1,913,574
Total shareholders' equity	3,294,089	2,523,323
Total liabilities and shareholders' equity	$ 7,545,780	$ 5,581,187

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Years ended December 31,		
	2005	2004	2003
NET OPERATING REVENUE			
Services revenue and connection fees	$4,942,288	$3,800,271	$2,465,089
Sales of handsets and accessories	68,730	86,723	81,109
	5,011,018	**3,886,994**	**2,546,198**
Cost of services, excluding depreciation and amortization shown separately below (including related party amounts of $78,253, $61,770 and $37,680, respectively)	732,867	481,097	301,108
Cost of handsets and accessories	254,606	218,590	173,071
General and administrative expenses (including related party amounts of $9,486, $9,509 and $11,002, respectively) (Note 18)	758,729	575,296	355,230
Provision for doubtful accounts (Note 6)	50,407	26,459	32,633
Other operating expenses	67,173	29,777	18,859
Sales and marketing expenses (including related party amounts of $80,146, $59,113 and $23,668, respectively)	608,092	460,983	326,783
Depreciation and amortization expenses	907,113	675,729	415,916
Net operating income	**1,632,031**	**1,419,063**	**922,598**
CURRENCY EXCHANGE AND TRANSACTION GAINS	(10,319)	(6,529)	(693)
OTHER EXPENSES/(INCOME) (including related party amounts of $2,070, $5,303 and $6,161, respectively)			
Interest income	(24,828)	(21,792)	(18,076)
Interest expense, net of capitalized interest	132,474	107,956	106,551
Equity in net income of associates (Note 19)	(42,361)	(24,146)	(2,670)
Other expenses/(income), net	13,211	(9,310)	6,090
Total other expenses, net	**78,496**	**52,708**	**91,895**
Income before provision for income taxes and minority interest	**1,563,854**	**1,372,884**	**831,396**
PROVISION FOR INCOME TAXES (Note 14)	410,590	354,664	242,480
MINORITY INTEREST	26,859	30,342	71,677
NET INCOME	**$ 1,126,405**	**$ 987,878**	**$ 517,239**
Weighted average number of common shares outstanding	1,986,819,999	1,984,497,348	1,983,374,949
Earnings per share, basic and diluted			
Net income	$ 0.57	$ 0.50	$ 0.26

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. dollars, except share amounts)

	Common Stock		Treasury Stock		Other com-prehensive income	Additional Paid-in Capital	Unearned Compensation	Share-holder Receivable	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
BALANCES, January 1, 2003	1,993,326,138	$ 50,558	(9,966,631)	$ (10,206)	$ -	$ 558,102	$ (212)	$ (34,412)	$ 738,214	$ 1,302,044
Receivable from Sistema (Note 11):										
Increases for interest	-	-	-	-	-	807	-	(807)	-	-
Payments from Sistema	-	-	-	-	-	-	-	7,609	-	7,609
Issuance of stock options (Note 16)	-	-	-	-	-	1,002	(1,002)	-	-	-
Stock options exercised (Note 16)	-	-	37,557	9	-	-	-	-	-	9
Amortization of deferred compensation (Note 16)	-	-	-	-	-	-	345	-	-	345
Dividends declared (Note 1)	-	-	-	-	-	-	-	-	(110,931)	(110,931)
Translation adjustment	-	-	-	-	7,595	-	-	-	-	7,595
Net income	-	-	-	-	-	-	-	-	517,239	517,239
BALANCES, December 31, 2003	1,993,326,138	$ 50,558	(9,929,074)	$ (10,197)	$ 7,595	$ 559,911	$ (869)	$ (27,610)	$ 1,144,522	$ 1,723,910
Receivable from Sistema (Note 11):										
Increases for interest	-	-	-	-	-	1,190	-	(1,190)	-	-
Payments from Sistema	-	-	-	-	-	-	-	10,563	-	10,563
Issuance of stock options (Note 16)	-	-	-	-	-	1,811	(1,811)	-	-	-
Stock options exercised (Note 16)	-	-	2,726,966	2,801	-	1,248	-	-	-	4,049
Amortization of deferred compensation (Note 16)	-	-	-	-	-	-	900	-	-	900
Dividends declared (Note 1)	-	-	-	-	-	-	-	-	(218,826)	(218,826)
Translation adjustment	-	-	-	-	15,361	-	-	-	-	15,361
Change in fair value of interest rate swaps, net of tax	-	-	-	-	(512)	-	-	-	-	(512)
Net income	-	-	-	-	-	-	-	-	987,878	987,878
BALANCES, December 31, 2004	1,993,326,138	$ 50,558	(7,202,108)	$ (7,396)	$ 22,444	$ 564,160	$ (1,780)	$ (18,237)	$ 1,913,574	$ 2,523,323
Receivable from Sistema (Note 11):										
Increases for interest	-	-	-	-	-	643	-	(643)	-	-
Payments from Sistema	-	-	-	-	-	-	-	11,698	-	11,698
Issuance of stock options (Note 16)	-	-	-	-	-	907	(907)	-	-	-
Stock options exercised (Note 16)	-	-	1,801,622	1,862	-	2,394	-	-	-	4,256
Amortization of deferred compensation (Note 16)	-	-	-	-	-	-	1,477	-	-	1,477
Dividends declared (Note 1)	-	-	-	-	-	-	-	-	(401,240)	(401,240)
Translation adjustment	-	-	-	-	24,898	-	-	-	-	24,898
Change in fair value of interest rate swaps, net of tax	-	-	-	-	3,272	-	-	-	-	3,272
Net income	-	-	-	-	-	-	-	-	1,126,405	1,126,405
BALANCES, December 31, 2005	1,993,326,138	$ 50,558	(5,400,486)	$ (5,534)	$ 50,614	$ 568,104	$ (1,210)	$ (7,182)	$ 2,638,739	$ 3,294,089

The accompanying notes to consolidated financial statements are an integral part of these statements.

OJSC MOBILE TELESYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. dollars)

	Years ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,126,405	$ 987,878	$ 517,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	26,859	30,342	71,677
Depreciation and amortization	907,113	675,729	415,916
Amortization of deferred connection fees	(44,207)	(46,978)	(29,372)
Equity in net income of associates	(42,361)	(24,146)	(2,670)
Inventory obsolescence expense	9,112	4,610	3,307
Provision for doubtful accounts	50,407	26,459	32,633
Deferred taxes	(64,959)	(76,023)	(43,001)
Non-cash expenses associated with stock bonus and stock options	1,477	900	213
Changes in operating assets and liabilities:			
Increase in accounts receivable	(86,008)	(101,223)	(64,384)
Increase in inventory	(74,557)	(24,179)	(14,737)
Increase in prepaid expenses and other current assets	(163,630)	(18,571)	(19,151)
Increase in VAT receivable	(125,186)	(55,044)	(50,230)
Increase in trade accounts payable, accrued liabilities and other current liabilities	276,915	331,835	148,544
Net cash provided by operating activities	1,797,380	1,711,589	965,984
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of subsidiaries, net of cash acquired	(178,917)	(355,744)	(667,206)
Purchases of property, plant and equipment	(1,757,980)	(1,204,400)	(839,165)
Purchases of intangible assets	(423,367)	(154,544)	(119,606)
Purchases of short-term investments	(37,375)	(114,440)	(215,000)
Proceeds from sale of short-term investments	82,724	286,340	-
Purchase of other investments	(150,000)	-	-
Payments from associates	12,245	-	-
Investments in and advances to associates	553	(413)	(69,110)
Net cash used in investing activities	(2,452,117)	(1,543,201)	(1,910,087)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Amounts in thousands of U.S. dollars)

	Years ended December 31		
	2005	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock options exercise	4,256	4,049	-
Proceeds from issuance of notes	398,944	-	1,097,000
Repayment of notes	-	(600,000)	-
Notes and debt issuance cost	(59,163)	(12,039)	(9,556)
Capital lease obligation principal paid	(8,129)	(15,274)	(22,646)
Dividends paid including taxes	(407,210)	(232,662)	(110,864)
Proceeds from loans	1,012,613	1,177,556	712,716
Loan principal paid	(491,481)	(320,511)	(677,374)
Payments from Sistema	11,698	9,654	8,269
Net cash provided by financing activities	461,528	10,773	997,545
Effect of exchange rate changes on cash and cash equivalents	(2,657)	4,613	2,273
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(195,866)	183,774	55,715
CASH AND CASH EQUIVALENTS, beginning of year	274,150	90,376	34,661
CASH AND CASH EQUIVALENTS, end of year	78,284	274,150	90,376
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 588,105	$ 430,109	$ 286,016
Interest paid	$ 145,081	$ 142,899	$ 79,824
Non-cash investing activities:			
Additions to network equipment and software under capital lease	$ 4,091	$ 2,861	$ 10,928
Payable related to business acquisition (Note 3)	$ 23,618	$ -	$ 27,500
Additions to network through ING BHF Bank and Commerzbank AG financing (Note 11)	$ -	$ 8,800	$ -

The accompanying notes to consolidated financial statements are an integral part of these statements.

1. DESCRIPTION OF BUSINESS

Business of the Group – OJSC Mobile TeleSystems and its subsidiaries ("MTS" or "the Group") is the leading provider of wireless telecommunication services in the Russian Federation ("RF"), Ukraine, Uzbekistan and Turkmenistan in terms of the number of subscribers and revenues. The Group has operated primarily in the GSM standard since 1994.

Open Joint-Stock Company Mobile TeleSystems ("MTS OJSC" or "the Company") was created on March 1, 2000, through the merger of Closed Joint-Stock Company Mobile TeleSystems ("MTS CJSC") and RTC CJSC, a wholly-owned subsidiary. MTS CJSC was formed in 1993 to design, construct and operate a cellular telecommunications network in Moscow and the Moscow region. The development of the network was achieved through green-field build-out in the regions for which the Company was granted 900 or 1800 MHz ("GSM-900" and "GSM-1800") cellular licenses or through the acquisition of majority stakes in local GSM operators (see Note 21 Operating Licenses and Note 3 Businesses Acquired).

A part of the Company's shares is traded in the form of American Depositary Shares ("ADS"). Each ADS initially represented 20 shares of common stock of the Company. Effective January 3, 2005, the first trading day in 2005, the ratio was changed from 1 ADS per 20 ordinary shares to 1 ADS per 5 ordinary shares. The Company initially issued a total of 17,262,204 ADS, representing 345,244,080 common shares. Subsequently, as described below, due to sales of shares by shareholders on the open market the number of ADS increased to 152,710,974 and 86,482,988 as of December 31, 2005 and 2004, respectively (representing underlying ownership of 763,554,870 and 432,414,940 shares as of December 31, 2005 and 2004, respectively).

Ownership – As of December 31, 2005 and 2004, MTS' shareholders of record and their respective percentage direct interests were as follows:

	December 31,	
	2005	2004
Joint-Stock Financial Corporation "Sistema" ("Sistema")	41.7%	41.0%
T-Mobile Worldwide Holding GmbH ("T-Mobile")	-	10.1%
VAST, Limited Liability Company ("VAST")	3.0%	3.0%
Invest-Svyaz-Holding, Closed Joint-Stock Company	8.1%	8.1%
ADS Holders	38.4%	21.7%
Free float, GDR Holders and Others	8.8%	16.1%
	100.0%	100.0%

In March 2003, Sistema and T-Mobile (together, "the Shareholders") entered into a call option agreement, pursuant to which T-Mobile granted Sistema the option to acquire from it 199,332,614 shares of MTS, representing 10.0% of outstanding common stock of MTS. On April 26, 2003, Sistema exercised its option with T-Mobile to purchase an additional 6.0% of the outstanding common stock of MTS and purchased T-Mobile's 49.0% interest in Invest-Svyaz-Holding, bringing its interest in Invest-Svyaz-Holding to 100.0%. Concurrently with this transaction, T-Mobile sold its holding of 5.0% in MTS on the open market in the form of Global Depositary Receipts ("GDRs") listed on the London Stock Exchange.

In December 2004, T-Mobile sold a 15.09% stake in MTS on the open market in the form of GDR's. On September 12, 2005, T-Mobile sold its remaining holding of 10.1% in MTS on the open market. Concurrently GDRs were converted into the form of ADS, that increased the number of ADS.

At December 31, 2004, Sistema owned a 51.0% equity interest in VAST, a limited liability company incorporated under the laws of the Russian Federation; the remaining 49.0% interest was held by ASVT, a Russian open joint-stock company. Sistema's effective ownership in MTS was 50.6% at December 31, 2004. In December 2005, Sistema acquired the 49.0% stake in VAST bringing its total interest to 100.0%. Additionally, Sistema acquired a 0.7% stake in MTS on the open market during 2005. Collectively, those transactions increased Sistema's effective ownership in MTS to 52.8% by December 31, 2005.

In April 2003, Sistema issued $350.0 million 10.25% notes, due in 2008. These notes are collateralized by 193,473,900 shares of common stock of MTS OJSC.

On June 30, 2003, the Group approved cash dividends of $1.12 per ADS ($0.056 per share) for a total of $111.0 million. As of December 31, 2004, these dividends were fully paid.

On November 28, 2003, common shares of MTS OJSC were included by the Board of Moscow Interbank Currency Exchange ("MICEX") into the MICEX "B" Quotation List.

On June 24, 2004, MTS' shareholders approved cash dividends of $2.2 per ADS ($0.110 per share) for a total of $220.0 million, which were fully paid by December 31, 2004.

On June 22, 2005, MTS' shareholders approved cash dividends of $1.01 per ADS ($0.202 per share) for a total of $402.6 million, which were fully paid by December 31, 2005.

On July 1, 2005, the Company completed a merger of eight of its wholly-owned subsidiaries in Russia. These subsidiaries were Telecom XXI, Kuban-GSM, Udmurtia Digital Network-900 ("UDN-900"), Dontelecom, MTS-Barnaul, MTS-Nizhniy Novgorod ("MTS-NN"), Telecom-900 and Amur Cellular Communication ("ACC"). The merger process was approved by an extraordinary general meeting of shareholders on November 9, 2004, and by the Russian registration authority on June 30, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Accounting principles – MTS maintains its accounting books and records in Russian rubles for its subsidiaries located in the Russian Federation ("RF"), in Ukrainian hryvnas for Ukrainian Mobile Communications ("UMC"), Uzbek som for Uzdunrobita and Turkmenian manat for Barash Communications Technologies, Inc. ("BCTI") based on respective local accounting and tax legislations. The accompanying consolidated financial statements have been prepared in order to present MTS' financial position and its results of operations and cash flows in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are expressed in terms of U.S. dollars.

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in that they reflect various adjustments, not recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, acquisition accounting and depreciation and valuation of property and equipment and intangible assets.

Basis of consolidation – Wholly-owned subsidiaries and majority-owned subsidiaries where the Company has operating and financial control are consolidated. Those ventures where the Company exercises significant influence, but does not have operating and financial control are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated upon consolidation. Investments in which the Company does not have the ability to exercise significant

influence over operating and financial policies are accounted for under the cost method and included in other investments in our consolidated balance sheets. The Company's share in net income of unconsolidated associates is included in other income in the accompanying consolidated statements of operations and disclosed in Note 19. Results of operations of subsidiaries acquired are included in the consolidated statements of operations from the date of their acquisition.

As of December 31, 2005 and 2004, MTS has investments in the following significant legal entities:

	Accounting Method	**December 31,**	
		2005	**2004**
ACC (2)	Merged / Consolidated	-	100.0%
Telecom XXI (2)	Merged / Consolidated	-	100.0%
Telecom-900 (2)	Merged / Consolidated	-	100.0%
SCS-900	Consolidated	100.0%	100.0%
FECS-900	Consolidated	100.0%	100.0%
Uraltel	Consolidated	100.0%	99.8%
MTS Finance (1)	Consolidated	100.0%	100.0%
BM Telecom	Consolidated	100.0%	100.0%
Kuban-GSM (2)	Merged / Consolidated	-	100.0%
Dontelecom (2)	Merged / Consolidated	-	100.0%
MTS-Barnaul (2)	Merged / Consolidated	-	100.0%
BIT(3)	Consolidated	-	100.0%
MTS-Capital	Consolidated	100.0%	100.0%
UMC	Consolidated	100.0%	100.0%
Sibchallenge	Consolidated	100.0%	100.0%
TSS	Consolidated	100.0%	100.0%
Volgograd Mobile	Consolidated	100.0%	100.0%
Astrakhan Mobile	Consolidated	100.0%	100.0%
Mar Mobile GSM	Consolidated	100.0%	100.0%
Primtelefon	Consolidated	100.0%	100.0%
MSS	Consolidated	91.0%	91.0%
ReCom	Consolidated	100.0%	53.9%
TAIF Telcom	Consolidated	100.0%	100.0%
UDN-900 (2)	Merged / Consolidated	-	100.0%
Novitel	Consolidated	100.0%	100.0%
MTS-Kostroma	Consolidated	100.0%	100.0%
MTS-NN (2)	Merged / Consolidated	-	100.0%
Uzdunrobita	Consolidated	74.0%	74.0%
Sibintertelecom	Consolidated	100.0%	93.5%
Gorizont-RT	Consolidated	100.0%	76.0%
Telesot Alania	Consolidated	100.0%	52.5%
BCTI	Consolidated	100.0%	-
Sweet-Com	Consolidated	74.9%	-
MTS-Komi Republic	Consolidated/Equity	100.0%	26.0%
MTS Belarus	Equity	49.0%	49.0%
MTS-Tver	Consolidated/Equity	100.0%	26.0%

(1) Represents beneficial ownership
(2) Represents wholly-owned entities merged with MTS OJSC on July 1, 2005
(3) Disposed of in 2005

Translation methodology – Effective January 1, 2003, the Russian economy ceased to be considered hyperinflationary. Management believes that the U.S. dollar is the appropriate functional currency for most of its subsidiaries because the majority of their revenues, costs, property and equipment purchased, and debt are either priced, incurred, payable or otherwise measured in U.S. dollars. Each of the legal entities domiciled in Russia, Ukraine, Uzbekistan, Turkmenistan and Belarus maintains its records and prepares its financial statements in the local currency, either Russian ruble, Ukrainian hryvna, Uzbek som, Turkmenian manat or Belarusian ruble, in accordance with the requirements of local statutory accounting and tax legislation.

Translation (re-measurement) of financial statements denominated in local currencies into U.S. dollars has been performed in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 52 "Foreign Currency Translation":

- For subsidiaries of the Group where the functional currency is the U.S. dollar, monetary assets and liabilities have been translated at the period end exchange rates. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have been translated at historical rates. Translation differences resulting from the use of these rates have been accounted for as currency exchange and transaction gains and losses in the accompanying consolidated statements of operations.

- For UMC, Kuban-GSM and BCTI where the functional currency is the local currency being the Ukrainian hryvna, Russian ruble and Turkmenian manat, respectively, all year-end balance sheet items have been translated into U.S. dollars at the period-end exchange rate. Revenues and expenses have been translated at period average exchange rate. In addition, a "new cost basis" for all non-monetary assets of Kuban-GSM has been established as of January 1, 2003, when the Russian economy ceased to be considered hyperinflationary. Cumulative translation adjustment related to use of local currency as functional in the amount of $24,898, $15,361 and $7,595 were recorded directly in the consolidated statement of shareholders' equity as at December 31, 2005, 2004 and 2003, respectively.

Management estimates – The preparation of consolidated 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 during 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.

Cash and cash equivalents – Cash represents cash on hand and in MTS' bank accounts and short-term investments having original maturities of less than three months.

Short-term investments – Short-term investments represent investments in time deposits, which have original maturities in excess of three months but less than twelve months. These investments are being accounted for at cost.

Allowance for doubtful accounts – MTS provides an allowance for doubtful accounts based on management's periodic review for recoverability of accounts receivable from customers and other receivables.

Prepaid expenses – Prepaid expenses are primarily comprised of advance payments made for inventory and services to vendors.

Inventory – Inventory, accounted for at cost, determined by the first-in, first-out, or FIFO method, consists of telephones and accessories, held for sale, and spare parts, to be used for equipment maintenance within next twelve months, and other inventory items.

Telephones and accessories, held for sale, are written down to their market values based on specific periodic reviews and are expensed as cost of equipment sold.

Value-added tax ("VAT") – Value-added tax related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed from the state, subject to certain restrictions, against VAT related to sales.

Property, plant and equipment – Property, plant and equipment, including improvements that extend useful lives, are stated at cost. Property, plant and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life as follows:

Network and base station equipment	5-12 years
Leasehold improvements	shorter of 8–10 years or lease term
Office equipment and computers	5 years
Buildings	50 years
Vehicles	4 years

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use.

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

Interest expense incurred during the construction phase of the MTS's network under development is capitalized as part of property, plant and equipment until the projects are completed and placed into service.

As a result of recent financial statement restatements by numerous U.S. public companies and publications of a letter by the Chief Accountant of the SEC regarding the interpretation of longstanding lease accounting principles, MTS corrected its accounting practices for leasehold improvements in the fourth quarter of 2004. The primary effect of this accounting correction was to accelerate to earlier periods depreciation expenses with respect to certain components of previously capitalized leasehold improvements.

These corrections resulted in a cumulative net charge to net income of $34.9 million, net of income tax, in the forth quarter of 2004, of which $21.5 million relates to the years 1998 through 2003. The net cumulative charge is comprised of a $44.5 million increase in depreciation expense related primarily to depreciation of capitalized leasehold improvements expenses for base stations; a decrease of $1.4 million in the equity net income from the MTS-Belarus also related to depreciation of capitalized leasehold improvements expense for base station sites; and an increase of $11.0 million related to an additional deferred tax benefit due to the change in accounting base for property, plant and equipment.

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

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

License costs – License costs are capitalized as a result of (a) purchase price allocated to licenses acquired in business combinations 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 industry do not have sufficient experience with the renewal of licenses, license costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over three to ten years starting from the date such license becomes commercially operational.

Other intangible assets and goodwill – Intangible assets represent various purchased software costs, telephone numbering capacity, acquired customer base, rights to use radio frequencies and rights to use premises. A part of the rights to use premises was contributed by shareholders to the Group's charter capital. Telephone numbering capacity with finite contractual life are being amortized over the contract period which vary from five to ten years and the rights to use premises are being amortized over five to nine years. Amortization of numbering capacity costs starts immediately upon the purchase of numbering capacity. Telephone numbering capacity with unlimited contractual life is not amortized, but is reviewed, at least annually, for impairment in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142").

Software and other intangible assets are amortized over three to fifteen years. Acquired customer bases commencing January 1, 2005, are amortized over their estimated average subscriber life from 32 to 60 months. In 2004 the average subscriber life ranged from 20 to 76 months, the effect of change in estimate in 2005 was not material. Rights to use radio frequencies are amortized over the period of contractual life from three to fifteen years. All finite-life intangible assets are being amortized using the straight-line method.

Goodwill represents an excess of the cost of business acquired over the fair market value of identifiable net assets at the date of acquisition.

Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. The Group determines whether an impairment has occurred by assigning goodwill to the reporting unit identified in accordance with SFAS No. 142, 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. To date, no impairment of goodwill has occurred.

Leasing arrangements – The Group accounts for leases based on the requirements of SFAS No. 13, "Accounting for Leases." Certain subsidiaries of the Group lease operating facilities, which include switches, base stations and other cellular network equipment as well as billing systems. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the balance sheet. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

Dealers commissions – dealers commissions represent the direct costs paid for each new subscriber enrolled through MTS' independent dealers. MTS expenses these costs as incurred.

Investments impairment – Management periodically assesses the realizability of the carrying values of the investments and if necessary records impairment losses to write the investment down to fair value. For the three years in the period ended December 31, 2005, no such impairment has occurred.

Debt issuance costs – Debt issuance costs are amortized using the effective interest method over the terms of the related debt.

Impairment of long-lived assets – MTS periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS 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, MTS 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, MTS 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. No impairment of long-lived assets has occurred during the three years in the period ended December 31, 2005.

Subscriber prepayments – MTS requires the majority of its customers to pay in advance for telecommunication services. All amounts received in advance of service provided are recorded as a subscriber prepayment liability and are not recorded as revenues until the related services have been provided to the subscriber.

Revenue recognition – Revenues are recognized on an accrual basis, when services are actually provided or title to equipment passes to customer, regardless of when the resulting monetary or financial flow occurs.

MTS categorizes the revenue sources in the statements of operations as follows:

- Service revenue and connection fees: (a) subscription fees, (b) usage charge, (c) value added service fees, (d) roaming fees charged to other operators for guest roamers utilizing MTS' network, (e) connection fees and (f) prepaid phone cards; and
- Sales of handsets and accessories.

Subscription fees – MTS recognizes revenues related to the monthly network fees in the month that the wireless service is provided to the subscriber.

Usage charges and value added services fees – Usage charges consist of fees based on airtime used by subscriber, the destination of the call and the service utilized.

Value added service fees are based on usage of airtime or volume of data transmitted for value added services, such as short message services, internet usage and data services. MTS recognizes revenues related to usage charges and value added services in the period when services are rendered.

Roaming fees – MTS charges roaming per-minutes fees to other wireless operators for non-MTS subscribers utilizing MTS' network. MTS recognizes such revenues when the services are provided.

Connection fees – MTS defers initial connection fees on its prepaid and postpaid tariff plans from the moment of initial signing of the contract with subscribers and activation of value added services over the estimated average subscriber life. Prior to December 31, 2003, the Group estimated that the average expected term of the subscriber relationship ranged from 39 to 47 months.

Following management analysis of the subscriber base in the regions where the Group operates, effective January 1, 2004, average subscriber lives have been changed. Commencing January 1, 2004, the Group calculates an average expected term of the subscriber relationship for each region and amortizes regional connection fees accordingly. Average expected subscriber life ranged from 20 to 76 months in 2004 and from 12 to 60 months in 2005. The effect of change in estimate was approximately $8.5 million, net of income tax or $0.004 per share, in 2004 and not material in 2005.

Prepaid phone cards – MTS sells prepaid phone cards to subscribers, separately from the handset. These cards allow subscribers to make a predetermined allotment of wireless phone calls and/or take advantage of other services offered by the Group, such as short messages and sending or receiving faxes.

At the time that the prepaid phone card is purchased by a subscriber, MTS records the receipt of cash as a subscriber prepayment. The Group recognizes revenues from the sale of phone cards in the period when the subscriber uses airtime under the phone card. Unused airtime on sold phone cards is not recognized as revenues until the related services have been provided to the subscriber or the prepaid phone card expired.

In addition, MTS offers prepaid service tariff plans, whereby a customer may purchase a package that allows a connection to the MTS network and a predetermined allotment of wireless phone calls and/or other services offered by the Group. Revenues under these plans are allocated between connection fees and service fees based on their relative fair values.

Sales of handsets and accessories – MTS sells handsets and accessories to customers who are entering into contracts for service and also as separate distinct transactions. The Group recognizes revenues from the sale of handsets and accessories when title to the product passes to the customer. MTS records estimated returns as a direct reduction of sales at the time the related sales are recorded. The costs of handsets and accessories, whether sold to subscribers through the distribution channel or as part of the service contract, are expensed when title passes to the customer.

In Ukraine, UMC also from time to time sells handsets at prices below cost. MTS recognizes these subsidies in cost of equipment when sale is recorded.

Expense recognition – Expenses incurred by MTS in relation to the provision of wireless communication services mainly relate to interconnection and line rental costs, roaming expenses, costs of handsets and other accessories sold, depreciation and amortization and maintenance of the network.

Calls made by subscribers from areas outside of territories covered by the Group licenses are subject to roaming fees charged by the wireless provider in those territories. These fees are recorded as roaming expenses, as MTS acts as the principal in the transaction with subscriber and bears the risk of non-collection from the subscriber. Roaming fees are charged to MTS subscribers based on Group's existing tariffs and are recorded as service revenues.

Any fees paid to dealers as commissions are recorded as a component of sales and marketing expenses.

Taxation – Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely that these assets will not be realized.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2005, 2004 and 2003, were $248,610, $159,035 and $102,018, respectively, and are reflected as a component of sales and marketing expenses in the accompanying consolidated statements of operations.

Government Pension Fund – Subsidiaries of the Group contribute to the local state pension fund and social fund, on behalf of all its employees.

In Russia, starting from January 1, 2001, all social contributions, including contributions to the pension fund, were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 2% of the annual gross remuneration of each employee, that was changed, starting January 1, 2005, to a rate from 26% to 2%. UST is allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 28% to 2% (from 20% to 2% starting January 1, 2005), depending on the annual gross salary of each employee. The contributions are expensed as incurred. Payments of the unified social tax in Russia amounted to $43.6 million, $33.7 million and $27.8 million in 2005, 2004 and 2003, respectively.

In Ukraine, Uzbekistan and Turkmenistan, the subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to the local pension fund, unemployment fund and social security fund. Payments to the Pension fund in Ukraine amounted to $6.6 million, $2.9 million and $1.7 million in 2005, 2004 and 2003 years, respectively. Amounts contributed to the Pension fund in Uzbekistan and Turkmenistan are not material.

The Group does not participate in any pension funds other then described above.

Earnings per share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the year. Diluted EPS reflect the potential dilutive effect of stock options granted to employees. There are 3,187,240, 3,530,970 and 4,797,410 stock options outstanding as at December 31, 2005, 2004 and 2003, respectively.

The following is the reconciliation of the share component for basic and diluted EPS with respect to the Group's net income:

	December 31,		
	2005	2004	2003
Weighted average number of common share outstanding	1,986,819,999	1,984,497,348	1,983,374,949
Dilutive effect of stock options, as if exercised	290,040	1,168,573	1,727,131
Weighted average number of common shares and potential shares outstanding	1,987,110,039	1,985,665,921	1,985,102,080

Fair value of financial instruments – The fair market value of financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable, which are included in current assets and liabilities, approximates the carrying value of these items due to the short term nature of these amounts. As of December 31, 2005, the $400 million Notes due in 2008 have a fair value of 105.7% or $423 million, the $400 million Notes due in 2010 have a fair value of 104.6% or $418 million and the $400 million Notes due in 2012 have a fair value of 101.9% or $408 million. As of December 31, 2005, the fair value of other fixed rate debt including capital lease obligations approximated its carrying value. The fair value of variable rate debt approximates carrying value.

Derivative Financial Instruments and Hedging Activities – 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 variability in expected future cash flows of its variable-rate long term debt, which is caused by interest rate fluctuations. The Group does not use derivatives for trading purposes.

The Group accounts for its derivative financial instruments following the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." All derivatives are recorded as either assets or liabilities in the consolidated balance sheets and measured at their respective fair values. The Group's interest rate swap agreements are designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting. The effective portion of the change in fair value of interest rate swap agreements is, accordingly, recorded in other comprehensive income and reclassified to interest expense in the same period that the related cash flows of the hedge transaction affect the interest expense. Changes in the 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. As of December 31, 2005 the hedge is highly effective. Approximately $0.7 million is expected to be reclassified in net income during the next twelve months.

Comprehensive income – Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources. The following is the reconciliation of other comprehensive income, net of tax for the years ended December 31, 2005, 2004 and 2003:

	Year ended December 31,		
	2005	**2004**	**2003**
Net Income	$ 1,126,405	$ 987,878	$ 517,239
Translation Adjustment	24,898	15,361	7,595
Change in fair value of interest rate swaps, net of tax of $1,033 and $123 as of December 31, 2005 and 2004, respectively	3,272	(512)	-
Total Comprehensive Income	$ 1,154,575	$ 1,002,727	$ 524,834

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

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 earning per share amounts would have been as follows:

	December 31,		
	2005	**2004**	**2003**
Net income as reported	$ 1,126,405	$ 987,878	$ 517,239
Pro-forma effect of the application of fair value method of accounting	(1,716)	(1,078)	(727)
Pro-forma net income	$ 1,124,689	$ 986,800	$ 516,512
Earnings per share – basic and diluted			
As reported	$ 0.57	$ 0.50	$ 0.26
Pro-forma	$ 0.57	$ 0.50	$ 0.26

Comparative information – Certain prior year amounts have been reclassified to conform to the current period presentation.

New and recently adopted 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 assessing the impact of Interpretation No. 47 on its consolidated financial position and results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised) "Share−Based Payment" (SFAS No. 123R), which requires all companies to measure compensation cost for all share−based payments (including employee stock options) at fair value. In April 2005, the Securities and Exchange Commission announced that it would provide a phased−in implementation process for SFAS No. 123R. As a result of this phased−in process, the provisions of SFAS No. 123R must be adopted by most public entities no later than the beginning of the first fiscal year commencing after June 15, 2005. SFAS No. 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Effective for the fiscal year beginning January 1, 2006, the Company will adopt the provisions of SFAS No. 123R using a modified version of prospective application. Under this transition method, compensation cost will be recognized on or after the effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant date fair value of those awards previously calculated under SFAS No. 148 for pro forma disclosures. The Company does not expect the adoption of SFAS No. 123R to have a material impact on its consolidated financial position or results of operations.

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 107, "Share Based Payment" ("SAB 107"). SAB 107 summarizes the views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. The Group will adopt SAB 107 concurrently with the adoption of SFAS 123(R) with effect from January 1, 2006. The Company does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 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. SFAS 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. 05-6, "Determining the Amortization Period for Leasehold Improvements." As part of a business combination, the acquiring entity will often assume existing lease agreements of the acquired entity and acquire the related leasehold improvements. The issues are whether the "lease term" should be reevaluated at consummation of a purchase business combination and whether the amortization period for acquired leasehold improvements should be reevaluated by the acquiring entity in a business combination. The consensus reached by EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group's financial position and results of operations.

In October 2005, the FASB issued FASB Staff Position ("FSP") FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period". Under the provisions of FSP FAS 13-1, lessees may not capitalize rental costs incurred on building or ground operating leases during a construction period. Instead, rental costs should be expensed on a straight-line basis starting at the beginning of the lease term, i.e., when the lessee takes possession of or is given control of the leased property. The provisions of FSP FAS 13-1 are effective starting with the first reporting period beginning after December 15, 2005. The Group is currently assessing the impact of FSP FAS 13-1 on its consolidated financial position and results of operations.

3. BUSINESSES ACQUIRED

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

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

This acquisition was accounted for using the purchase method of accounting. Total purchase price amounted to $46.7 million. The purchase price allocation for the acquisition was as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Uzdunrobita acquisition – In July 2004, MTS entered into an agreement to acquire 74.0% of Uzbekistan mobile operator JV Uzdunrobita ("Uzdunrobita") for a cash consideration of $126.4 million, including transaction costs of $5.4 million. The acquisition was completed on August 1, 2004, and starting from this date Uzdunrobita's financial results are consolidated. Uzdunrobita holds licenses to provide GSM-1800 mobile communication services on the whole territory of Uzbekistan, which has a population of approximately 25.2 million. Uzdunrobita's customer base as of the date of acquisition was approximately 230,000 subscribers (unaudited).

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

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

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

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

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

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

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

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

Telecom-900 acquisition – On August 13, 2003, Telecom-900, a subsidiary of MTS, completed the purchase of the 43.7% and 2.95% stakes in Uraltel for a cash consideration of $35.7 million. The transaction increased Telecom-900's ownership in Uraltel to 99.85%. The acquisition was accounted using purchase method of accounting. The allocation of purchase price increased recorded license cost by $24.5 million.

In November 2003, the Group completed the purchase of the 30.0% stake in SCS-900 from Sibirtelecom for cash consideration of $28.6 million. The Group's acquisition of this stake increased its ownership in SCS-900 to 81.0%. On December 29, 2003, the Group acquired for cash consideration of $9.3 million a 100.0% stake in ILIT LLC, a company which owns a 7.5% stake in SCS-900, increasing its ownership in SCS-900 to 88.5%. The acquisition was accounted using purchase method of accounting. The allocation of purchase price increased recorded license cost by $25.7 million.

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

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

License costs are amortized over the remaining contractual terms of the respective license, ranging from 6 to 10 years at the date of the first acquisition. Customer base is amortized over the average remaining subscribers life ranging from 32 to 40 months.

Tomsk Cellular Communications acquisition – In September 2003, MTS purchased 100.0% of Siberian operator Tomsk Cellular Communications ("TSS") for cash consideration of $47.0 million. TSS holds licenses to provide GSM 900/1800 mobile cellular communications in the Tomsk region. The company's customer base as of the date of acquisition was approximately 183,000 subscribers (unaudited).

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

Current assets	$	3,299
Non-current assets		11,412
License costs		49,282
Current liabilities		(4,543)
Non-current liabilities		(105)
Deferred taxes		(12,345)
Purchase price	$	47,000

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers life of approximately 76 months.

Sibchallenge acquisition – On August 22, 2003, MTS completed the purchase of 100.0% of Sibchallenge, a cellular operator in the Krasnoyarsk region, for cash consideration of $45.5 million, paid a finder's fee of $2.0 million and assumed net debt of approximately $6.6 million. Sibchallenge holds licenses to provide GSM 900/1800 and DAMPS mobile services in the Krasnoyarsk region of Siberia, the Republic of Khakasiya, and in the Taimyr Autonomous region, all of which are located in the Siberian part of Russia. At the date of acquisition, Sibchallenge had approximately 132,000 subscribers (unaudited).

The purchase price allocation was as follows:

Current assets	$	4,078
Non-current assets		16,678
License costs		52,625
Current liabilities		(6,405)
Non-current liabilities		(6,628)
Deferred taxes		(12,894)
Purchase price	$	47,454

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 8 years and customer base is amortized over the average remaining subscribers life of approximately 36 months.

UMC acquisition – On March 4, 2003, MTS acquired 57.7% of the outstanding voting interest of UMC, a provider of mobile services in Ukraine, for cash consideration of $199.0 million, including the acquisition of 16.3% of the outstanding voting interest from Deutsche Telekom AG, a related party, for $55.0 million. Acquisition costs relating to the transaction of $1.4 million were capitalized. In connection with the acquisition, MTS also assumed debt of UMC with face value of approximately $65.0 million, with the fair value of approximately $62.0 million. At the date of acquisition, UMC had approximately 1.8 million subscribers (unaudited) and was one of the two leading mobile operators in Ukraine, operating under nationwide GSM 900/1800 and NMT 450 licenses.

The acquisition was accounted for using the purchase method. For convenience, MTS consolidated UMC from March 1, 2003. Purchase price allocation is as follows:

Current assets	$	82,293
Non-current assets		272,721
License costs		82,200
Customer base cost		30,927
Current liabilities		(63,551)
Non-current liabilities		(78,580)
Deferred taxes		(27,425)
Minority interest		(99,581)
Purchase price	$	199,004

MTS paid $171.5 million of the purchase price in cash and agreed to pay the balance of the purchase price of $27.5 million to Cetel B.V., a wholly-owned subsidiary of Deutsche Telekom AG, within one year. The amount payable accrued interest of 9.0% per annum. In March 2004, MTS cash settled the balance payable to Cetel B.V.

MTS also had an option agreement with Ukrtelecom to purchase its remaining 26.0% stake in UMC, exercisable from February 5, 2003 to November 5, 2005, with an exercise price of $87.6 million. On June 4, 2003, MTS exercised its call option. As a result of the transaction, MTS' ownership in UMC increased from 57.7% to 83.7%. The acquisition was accounted for using purchase method of accounting. The allocation of purchase price increased recorded license cost by $10.2 million, increased customer base cost by $13.9 million, and decreased minority interest by $66.4 million.

In addition, MTS entered into a put and call option agreement with TDC Mobile International A/S ("TDC") for the purchase of its 16.3% stake in UMC. The exercise period of the call option was from May 5, 2003 to November 5, 2004, and the put option was exercisable from August 5, 2003 to November 5, 2004. The call option price was $85.0 million plus interest accrued from November 5, 2002 to the date of the exercise at 11% per annum; the price of the put option was calculated based on reported earnings of UMC prior to the exercise and was subject to a minimum amount of $55.0 million. On June 25, 2003, MTS notified TDC of its intent to exercise its rights under the put and call option agreement. The purchase was completed during July 2003. MTS paid cash consideration of approximately $91.7 million to purchase the remaining 16.3% stake in UMC. The acquisition was accounted for using purchase method of accounting. The allocation of purchase price increased recorded license cost by $52.7 million, increased customer base cost by $8.7 million, and decreased minority interest by $43.8 million.

The UMC license costs are amortized over the remaining contractual terms of the licenses of approximately 9 to 13 years at the date of the acquisition, acquired customer base is amortized over the average remaining subscriber's life of approximately 32 months. Other acquired intangible assets, represented mostly by software, are amortized over their respective useful lives of 3 to 10 years.

In accordance with SFAS No. 141 "Business Combinations," the Group recognized $8.0 million of goodwill relating to workforce-in-place.

TAIF Telcom acquisition – In April 2003, MTS acquired 51.0% of the common shares of TAIF Telcom, a Russian open joint-stock company, for cash consideration of $51.0 million and 50.0% of the preferred shares of TAIF Telcom for cash consideration of $10.0 million. In May 2003, MTS acquired an additional 1.7% of the common shares of TAIF Telcom for cash consideration of $2.3 million. In connection with the acquisitions, MTS also assumed indebtedness of approximately $16.6 million that was collateralized by telecom equipment.

MTS also entered into call and put option agreements with the existing shareholders of TAIF Telcom to acquire the remaining 47.3% of common shares and 50.0% of preferred shares of TAIF Telcom.

The exercise period for the call option on common shares was 48 months from the acquisition date and for the put option on common shares was 36 months following an 18 months period after the acquisition date. The call and put option agreements for the common shares stipulated a minimum purchase price of $49.0 million plus 8% per annum commencing from the acquisition date. The exercise period for the call option on preferred shares was 48 months following a 24 months period after the acquisition date and for the put option on preferred shares it was a 24 months period after the acquisition date. The call and put option agreements for the preferred shares stipulated a minimum purchase price of $10.0 million plus 8% per annum commencing from the acquisition date. Fair value of the option was $3.5 million at December 31, 2003.

The purchase price allocation for initial stake acquired was as follows:

Current assets	$	3,870
Non-current assets		48,391
License costs		68,407
Current liabilities		(26,099)
Non-current liabilities		(5,550)
Deferred taxes		(16,814)
Minority interest		(8,965)
Purchase price	$	63,240

License costs acquired are amortized over the remaining contractual terms of the licenses of approximately 4 years and customer base is amortized over the average remaining subscribers' life of approximately 38 months.

TAIF Telcom provides mobile services in the GSM-900/1800 standard in the Republic of Tatarstan and in the Volga region of Russia. At the date of acquisition, TAIF Telcom had approximately 240,000 subscribers (unaudited).

In September 2004, MTS exercised its option to acquire the remaining 47.3% of common shares and 50.0% of preferred shares in TAIF Telcom for cash consideration of $63.0 million, increasing its ownership to 100.0%. The Group received title to the acquired shares in October 2004. The purchase price allocation increased recorded license cost by $35,8 million, increased acquired customer base by $4.2 million; goodwill was recorded in the amount of $21.2 million. Goodwill is mainly attributable to economic potential of the market.

Acquisitions of various regional companies – In August 2003, the Group reached an agreement to acquire, in a series of related transactions, equity interests in five Russian regional mobile phone operators from MCT Corporation for a total of $71.0 million. The Group agreed to purchase a 43.7% stake in Uraltel (described above) and 100.0% of Vostok Mobile BV, which holds a 50.0% stake in Primtelefon.

The Group also agreed to purchase Vostok Mobile South, which holds 50.0% stakes in Astrakhan Mobile and Volgograd Mobile, as well as an 80.0% stake in Mar Mobile GSM. The Group also entered into agreements to acquire the remaining 20.0% of Mar Mobile GSM and another 2.95% stake in Uraltel from existing shareholders unrelated to MCT Corporation for approximately $1.0 million.

On August 26, 2003, the Group completed the acquisition of Vostok Mobile and recorded a 50.0% stake investment in Primtelefon using equity method of accounting.

On October 14, 2003, the Group completed the purchase of Vostok Mobile South and thus acquired a 50.0% stake in Volgograd Mobile and Astrakhan Mobile and an 80.0% stake in Mar Mobile GSM. Also, in a separate transaction the Group completed the acquisition of the remaining 20.0% stake in Mar Mobile GSM from existing shareholders unrelated to MCT Corporation, thus consolidating a 100.0% ownership in the company.

In August 2004, MTS acquired from UTK the remaining 50.0% stakes in Astrakhan Mobile and Volgograd Mobile, increasing its ownership to 100.0%. An acquisition price was paid in cash and amounted to $1.1 million and $2.9 million, respectively. Commencing from the date of acquisition financial results of both companies are consolidated into MTS financial statements. Astrakhan Mobile holds a 800/1800 MHz licenses covering Astrakhan region (population of approximately 1 million) and Volgograd Mobile holds a 800/1800 MHz licenses covering Volgograd region (population of approximately 2.7 million). As of July 31, 2004, two companies provided AMPS/DAMPS services to around 10 thousand subscribers (unaudited). The acquisition was accounted for using a purchase method of accounting. The allocation of purchase price for the first and second stakes in both companies resulted in increase in license cost by $16.5 million.

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

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

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

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

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

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

In February 2005, MTS acquired 74.0% stake in MTS-Komi Republic increasing its ownership to 100.0%. The consideration paid under the transaction amounted to $1.2 million. The acquisition was accounted for using the purchase method of accounting.

In December 2005, MTS acquired an additional 74.0% stake in MTS-Tver for $1.4 million. As a result of the transaction, MTS' ownership in the company increased to 100.0%. The acquisition was accounted for using the purchase method of accounting.

Pro forma results of operations (unaudited) – The following unaudited pro forma financial data for the years ended December 31, 2005 and 2004, give effect to the acquisitions of BCTI and other various regional companies as if they had occurred at January 1, 2004.

	December 31,	
	2005	**2004**
Pro forma:		
Net revenues	$ 5,038,735	$ 3,919,782
Net operating income	1,642,363	1,419,518
Net income	1,128,567	980,416
Earnings per share, basic and diluted	$ 0.57	$ 0.49

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 acquisitions had been consummated as of January 1, 2004, 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. The actual results of operations of these companies are included in the consolidated financial statements of the Group only from the respective dates of acquisition.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005 and 2004, comprised the following:

	December 31, 2005	December 31, 2004
U.S. dollar current accounts	$ 4,599	$ 107,172
U.S. dollar time deposits	751	45,295
Ruble current accounts	46,119	90,527
Ruble deposits	6,775	2,596
Hryvna current accounts	4,540	10,190
Uzbek som current accounts	920	715
Uzbek som deposit accounts	3,812	15,106
Turkmenian manat current accounts	10,651	-
Other	117	2,549
Total cash and cash equivalents	$ 78,284	$ 274,150

5. SHORT-TERM INVESTMENTS

Short-term investments, denominated in U.S. dollars, as of December 31, 2005, comprised the following:

	Annual interest rate	Maturity date	December 31, 2005
East-West United Bank S.A.	2.0%	February 15, 2006	23,100
Other			4,959
Total short-term investments			$ 28,059

In 2005, the deposit agreement with East-West United Bank S.A., a related party, whose shareholder is Sistema, was amended to change the maturity date from April 2005 to February 2006.

Short-term investments, denominated in U.S. dollars, as of December 31, 2004 comprised the following:

	Annual interest rate	Maturity date	December 31, 2004
OJSC Moscow Bank of Reconstruction and Development	8.4%	December 9, 2005	$ 30,000
East-West United Bank S.A.	2.0%	April 4, 2005	23,100
OJSC Moscow Bank of Reconstruction and Development	8.4%	October 10, 2005	10,000
OJSC Moscow Bank of Reconstruction and Development	8.4%	December 14, 2005	10,000
Other			260
Total short-term investments			$ 73,360

OJSC Moscow Bank of Reconstruction and Development is a related party (see also Note 17 Related parties).

6. TRADE RECEIVABLES, NET

Trade receivables as of December 31, 2005 and 2004, were as follows:

	December 31, 2005	December 31, 2004
Accounts receivable, subscribers	$ 147,138	$ 113,869
Accounts receivable, roaming	30,863	24,731
Accounts receivable, other	71,238	40,584
Allowance for doubtful accounts	(39,919)	(16,659)
Trade receivables, net	$ 209,320	$ 162,525

The following table summarizes the changes in the allowance for doubtful accounts for the year ended December 31, 2005, 2004 and 2003:

	December 31, 2005	December 31, 2004	December 31, 2003
Balance, beginning of the year	$ 16,659	$ 13,698	$ 6,270
Provision for doubtful accounts	50,407	26,459	32,633
Accounts receivable written off	(27,147)	(23,498)	(25,205)
Balance, end of the year	$ 39,919	$ 16,659	$ 13,698

7. INVENTORY AND SPARE PARTS

Inventory as of December 31, 2005 and 2004 comprised the following:

	December 31, 2005	December 31, 2004
Spare parts for base stations	$ 48,998	$ 14,775
Handsets and accessories	39,147	30,574
Other inventory	68,515	44,169
Total inventory and spare parts	$ 156,660	$ 89,518

Other inventory mainly consists of SIM cards and advertising materials. Obsolescence expense for the years ended December 31, 2005, 2004 and 2003 amounted to $9,112, $4,610, and $3,307, respectively, and was included in general and administrative expenses in the accompanying consolidated statements of operations. Spare parts for base stations included in inventory are expected to be utilized within 12 months period.

8. PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment as of December 31, 2005 and 2004 was as follows:

	December 31, 2005	December 31, 2004
Network, base station equipment (including leased network and base station equipment of $58,664 and $67,905, respectively) and related leasehold improvements	$ 3,534,574	$ 2,538,240
Office equipment, computers, software and other (including leased office equipment, computers and software of $402 and $1,613, respectively)	339,788	249,458
Buildings and related leasehold improvements	225,726	202,095
Vehicles	21,830	15,658
Property, plant and equipment, at cost	4,121,918	3,005,451
Accumulated depreciation (including accumulated depreciation on leased equipment of $27,424 and $30,304)	(1,350,783)	(901,416)
Equipment for installation	621,346	275,010
Construction in progress	1,090,198	855,273
Property, plant and equipment, net	$ 4,482,679	$ 3,234,318

Interest costs of $54.2 million and $33.2 million were capitalized in property, plant and equipment during the years ended December 31, 2005 and 2004, respectively.

Depreciation expenses during the years ended December 31, 2005, 2004 and 2003, amounted to $510.5 million, $385.7 million and $233.1 million, respectively, including depreciation expenses for leased property, plant and equipment in the amount of $7.7 million, $5.4 million and $7.6 million, respectively.

9. OTHER INTANGIBLE ASSETS

Intangible assets at December 31, 2005 and 2004 comprised the following:

		December 31, 2005			December 31, 2004		
	Useful lives	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	32 to 60 months	$ 110,360	$ (78,219)	$ 32,141	$ 94,632	$ (50,276)	$ 44,356
Rights to use premises	5 to 9 years	8,749	(2,573)	6,176	19,638	(12,393)	7,245
Radio frequencies	3 to 15 years	130,839	(31,227)	99,612	115,493	(31,494)	83,999
Numbering capacity with finite contractual life	5 to 10 years	65,763	(50,325)	15,438	52,630	(39,746)	12,884
Software and other	3 to 15 years	850,068	(342,754)	507,314	422,291	(175,490)	246,801
		1,165,779	(505,098)	660,681	704,684	(309,399)	395,285
Unamortized intangible assets							
Numbering capacity with indefinite contractual life		20,344	-	20,344	17,247	-	17,247
Total other intangible assets		$ 1,186,123	$ (505,098)	$ 681,025	$ 721,931	$ (309,399)	$ 412,532

As a result of a limited availability of local telephone numbering capacity in Moscow and the Moscow region, MTS has been required to enter into agreements for the use of telephone numbering capacity with several telecommunication operators in Moscow. Costs of acquiring numbering capacity with a finite contractual life are amortized over period of five to ten years in accordance with the terms of the contract entered into to acquire such capacity. Numbering capacity with indefinite contractual life is not amortized.

A significant component of MTS' rights to use premises was obtained in the form of contributions to its charter capital in 1993. These premises included MTS' administrative offices and facilities utilized for mobile switching centers. By December 31, 2005, these rights are fully amortized and written-off due to the expiration. In addition, simultaneously with acquisition of UMC in 2003, MTS obtained additional property rights in the amount of $8.7 million.

Amortization expense for the years ended December 31, 2005, 2004 and 2003 amounted to $202.3, $138.1 and $77.1 million, respectively. Based on the amortizable intangible assets existing at December 31, 2005, the estimated amortization expense is $173.5 million during 2006, $164.4 million during 2007, $141.0 million during 2008, $89.5 million during 2009, $27.5 million during 2010 and $64.8 million thereafter. 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.

10. DEFERRED CONNECTION FEES

Deferred connection fees for the years ended December 31, 2005 and 2004 were as follows:

	December 31,	
	2005	2004
Balance at beginning of the year	$ 92,748	$ 46,644
Payments received and deferred during the year	53,644	93,082
Amounts amortized and recognized as revenue during the year	(44,207)	(46,978)
Balance at end of the year	102,185	92,748
Less current portion	(44,361)	(45,083)
Non-current portion	$ 57,824	$ 47,665

MTS defers initial connection fees paid by subscribers for the first time activation of network service as well as one time activation fees received for connection to various value added services. These fees are recognized as revenue over the estimated average subscriber life (see Note 2).

11. DEBT

As at December 31, 2005 and 2004, debt comprised the following:

	Currency	Annual interest rate (actual rate at December 31, 2005)	December 31, 2005	December 31, 2004
9.75% Notes due 2008	USD	9.75%	$ 400,000	$ 400,000
8.38% Notes due 2010	USD	8.38%	400,000	400,000
8.00% Notes due 2012	USD	8.00%	399,052	-
Total notes, long-term			**$ 1,199,052**	**$ 800,000**
Syndicated loan	USD	LIBOR+2.50% (7.20%)	$ 460,000	$ 600,000
Citibank N.A.,ING Bank N.V. and Raiffeisen AG	USD	LIBOR+0.75% – 2.25% (5.29% – 6.79%)	200,000	-
HSBC Bank plc and ING BHF-BANK AG	USD	LIBOR+0.43% (5.13%)	171,816	77,003
ING Bank N.V.	USD	LIBOR+0.75% (5.14%)	150,000	-
Citibank International plc and ING Bank N.V.	USD	LIBOR+0.30% (5.00%)	111,009	-
EBRD	USD	LIBOR+3.10% (7.80%)	138,462	150,000
Commerzbank AG, ING Bank AG and HSBC Bank plc	USD	LIBOR+0.30% (5.00%)	92,826	-
ABN AMRO N.V.	USD/EUR	LIBOR+0.35% (5.05%) EURIBOR+0.35% (2.99%)	83,179	-
Barclays Bank plc	USD	LIBOR+0.13% – 0.15% (4.83% – 4.85%)	80,086	-
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	USD	LIBOR+0.30% (5.00%)	63,338	-
ING BHF Bank and Commerzbank AG	EUR	EURIBOR+0.65% (3.29%)	43,168	63,851
ING Bank (Eurasia)	USD	LIBOR+2.25%-4.15% (6.79%-8.69%)	20,000	46,667
Commerzbank Belgium S.A./N.V.	USD	LIBOR+0.40% (5.10%)	13,314	-
HSBC	USD	LIBOR+2.75% (7.23%)	7,500	17,500
West LB International	EUR	EURIBOR+2.00% (4.64%)	4,000	4,000
Nordea Bank Sweden	USD	LIBOR+0.40% (5.10%)	3,249	6,499
Ericsson	USD	LIBOR+4.00% (8.54%)	3,150	14,850
CSFB	USD	LIBOR+2.20% (6.74%)	-	140,000
KFW	EUR	EURIBOR+0.95% (3.59%)	-	1,478
Other debt		-	687	2,792
Total debt			**$ 1,645,784**	**$ 1,124,640**
Less current portion			**765,881**	**370,845**
Total long-term debt			**$ 879,903**	**$ 753,795**

Notes – On January 30, 2003, MTS Finance S.A. ("MTS Finance"), a 100% beneficially owned subsidiary of MTS, registered under the laws of Luxembourg, issued $400.0 million 9.75% notes at par. These notes are fully and unconditionally guaranteed by MTS OJSC and mature on January 30, 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears on January 30 and July 30, commencing on July 30, 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes' issue were $400.0 million and related issuance costs of $3.9 million were capitalized.

On October 14, 2003, MTS Finance issued $400.0 million notes bearing interest at 8.375% at par. The cash proceeds from the notes were $395.4 million and related issuance costs of approximately $4.6 million were capitalized. These notes are fully and unconditionally guaranteed by MTS OJSC and will mature on October 14, 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears on April 14 and October 14 of each year, commencing on April 14, 2004. The notes are listed on the Luxembourg Stock Exchange.

On January 27, 2005, MTS Finance issued $400.0 million 8.0% unsecured notes at 99.736%. These notes are fully and unconditionally guaranteed by MTS OJSC 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. Proceeds received from the notes were $398.9 million and related debt issuance cost of $2.5 million were capitalized.

Subject to certain exceptions and qualifications, the indentures governing the notes contain covenants limiting the Group's ability to:

- Incur debt;
- Create liens;
- Lease properties sold or transferred by the Group;
- Enter into loan transactions with affiliates;
- Merge or consolidate with another person or convey its properties and assets to another person; and
- Sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas.

In addition, if the Group experiences certain types of mergers, consolidations or other changes in control, noteholders will have the right to require the Group to redeem the notes at 101% of their principal amount, plus accrued interest. The Group 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 Sistema, the shareholder of the Group.

If the Group fails to meet these covenants, after certain notice and cure periods, the noteholders can accelerate the debt to be immediately due and payable.

Management believes that the Group is in compliance with all restrictive debt covenants provisions during the three year period ended December 31, 2005.

Syndicated loan – In July 2004, MTS OJSC entered into a $500.0 million syndicated loan agreement ("Syndicated Loan") with international financial institutions: ING Bank N.V., ABN AMRO Bank N.V., HSBC Bank PLC, Raiffeisen Zentralbank Oesterreich AG ZAO, Bank Austria Creditanstalt AG, Commerzbank Aktiengesellschaft and others. The credit facility bears interest of LIBOR+2.50% per annum and matures in 3 years. The proceeds were used by MTS OJSC for corporate purposes, including refinancing of its existing indebtedness. In September 2004, MTS extended the total amount available under the Syndicated Loan for an additional $100.0 million to the total amount of $600.0 million. Commitment fee for the Syndicated Loan amounted to $0.5 million. The debt issuance costs in the amount of $10.2 million were capitalized. As of December 31, 2005 and 2004, the outstanding balances under the Syndicated Loan were $460.0 million and $600.0 million, respectively. The loan facility is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants.

Citibank N.A., ING Bank N.V. and Raiffeisen AG – In December 2005, UMC signed an agreement with Citibank N.A., ING bank N.V. and Raiffeisen Zentralbank Osterreich AG, for a $200.0 million aggregated loan facility to be made available in two tranches of $103.0 million and $97.0 million. These funds will be used for general corporate purposes, including financing of capital expenditure and refinancing of existing indebtedness. The amount outstanding under the first tranche is guaranteed by MTS OJSC. The first and the second tranche bear interest at LIBOR+0.75% and LIBOR+2.25% per annum, respectively. The commitment fee is calculated on a daily basis at the rate of 45% of the applicable margin established for each tranche. The loan is subject to certain restrictive covenants including financial ratios and covenants limiting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. Each tranche is redeemable in four equal installments within a year after the signing date. As of December 31, 2005, the outstanding balances under the loan were $103.0 million and $97.0 million, respectively.

In March 2006, MTS OJSC guaranteed the amount outstanding under the second tranche and the lenders agreed to reduce the interest rate applicable to it to LIBOR+0.75% per annum.

HSBC Bank plc and ING BHF BANK AG – In October 2004, MTS OJSC entered into two credit facility agreements with HSBC Bank plc and ING BHF-BANK AG for the total amount $121.4 million. The facilities also allow uncommitted additional borrowing up to $36.5 million. In April 2005, the lenders agreed to increase the amount of available credit facility by $28.3 million. The funds received under the facilities were used to purchase telecommunication equipment and software from Siemens AG and Alcatel SEL AG for technical upgrade and expansion of network. The facility bears interest at LIBOR+0.43% per annum. A commitment fee of 0.20% per annum and an arrangement fee of 0.25% will be paid in accordance with the loan agreement. The principal and interest amounts are to be repaid in seventeen equal half year installments, starting July 2005 for the first agreement and September 2005 for the second one. The debt issuance costs in the amount of $25.9 million were capitalized. As of December 31, 2005 and 2004, the outstanding balances under these agreements were $171.8 million and $77.0 million, respectively. The facilities mature in July and September 2013 and are subject to certain restrictive covenants, including, but not limited to, covenants restricting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. The available credit facility as of December 31, 2005, was $3.8 million.

ING Bank N.V. – In November 2005, MTS Finance entered into a credit facility agreement with ING Bank N.V. which allows it to borrow up to $150.0 million. These funds will be used for general corporate purposes. The loan bears interest of LIBOR+0.75% per annum. The arrangement fee totaled $0.8 million. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. The facility matures in 6 months after the first utilization of available loan amount. As of December 31, 2005, $150.0 million was outstanding under the facility.

Citibank International plc and ING Bank N.V. – In December 2005, MTS OJSC signed an agreement with Citibank International plc and ING Bank N.V. for a $130.8 million committed credit facility and a $36.6 million uncommitted additional facility. These funds will be used to purchase telecommunication equipment from Ericsson AB. The loan bears interest of LIBOR+0.30% per annum. An arrangement fee of 0.20% of the original facility amount and agency fee of $0.01 million per annum will be paid in accordance with the agreement. The commitment fee is 0.10% per annum on the undrawn facility. The loan is subject to certain covenants, including, but not limited to, covenants restricting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over 9 years. As of December 31, 2005, the balance outstanding under the loan was $111.0 million. The available credit facility as of December 31, 2005, was $19.7 million.

EBRD – In December 2004, MTS OJSC entered into a credit facility agreement with European Bank for Reconstruction and Development ("EBRD") for the total amount of $150.0 million. The facility bears interest at LIBOR+3.10% per annum. A commitment fee of 0.50% per annum should be paid in accordance with the credit agreement. The final maturity of this agreement is December 15, 2011. The debt issuance costs in the amount of $1.5 million were capitalized. As of December 31, 2005 and 2004, the balances outstanding under the loan were $138.5 million and $150.0 million, respectively. The loan is subject to certain restrictive covenants including, but not limited to, certain financial ratios. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants.

Commerzbank AG, HSBC Bank plc and ING Bank Deutschland AG – In October 2005, MTS OJSC entered into an agreement with Commerzbank AG, HSBC Bank plc and ING Bank Deutschland AG for a $125.8 million committed credit facility. The agreement also allows the Company to borrow up to $28.3 million under an uncommitted additional facility. These funds will be used to purchase telecommunication equipment from Siemens AG. The loan bears interest of LIBOR+0.30% per annum. An arrangement fee of 0.20% of the original facility amount and $0.01 million per annum will be paid in accordance with the agreement. The commitment fee is 0.10% per annum on the

undrawn facility. The loan is subject to certain covenants, including, but not limited to, covenants restricting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over 9 years. As of December 31, 2005, the balance outstanding under the loan was $92.8 million. The available credit facility as of December 31, 2005, was $33.0 million.

ABN AMRO N.V. – In November 2004, MTS OJSC signed a loan agreement with ABN AMRO Bank N.V. for $56.6 million and EUR 8.4 million ($9.9 million as of December 31, 2005). In March 2005, the agreement was amended to expand the EUR facility up to EUR 31.3 million ($37.2 million as of December 31, 2005).These funds were used to acquire telecommunication equipment from Ericsson AB to expand the network. The loan is repayable on a biannual basis in equal installments over 9 years and has an interest rate of USD LIBOR/EURIBOR+0.35% per annum. The debt issuance costs in the amount of $9.8 million have been capitalized. The loan is subject to certain covenants, including, but not limited to, covenants restricting the Group's ability to make any substantial change to general nature or scope of its business. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. As of December 31, 2005 and 2004, $83.2 million and $nil, respectively, were outstanding under the facility.

Barclays Bank plc – In February 2005, MTS OJSC entered into a credit facility with Barclays Bank plc to finance the acquisition of equipment from Motorola Limited. The facility allows borrowing up to $25.7 million and uncommitted additional borrowing of up to $64.3 million. In December 2005, the agreement with Barclays Bank plc was amended to increase the amount of available uncommitted additional facility by $23.3 million. The original facility bears interest of LIBOR+0.15% per annum and additional uncommitted facility bears interest of LIBOR+0.13% per annum. An arrangement fee of 0.4% of the original facility amount and of 0.4% of each additional commitment facility amount will be paid in accordance with the agreement. The commitment fee is 0.175% per annum. The debt issuance costs in the amount of $10.4 million have been capitalized. The facilities are redeemable in equal semi-annual installments by January 31, 2014. The loan is subject to certain covenants, including, but not limited to, covenants restricting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. As of December 31, 2005, the outstanding balance under the facility was $80.1 million. The available credit facility as of December 31, 2005, was $31.7 million.

HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank – In November 2005, MTS OJSC entered into credit facility with HSBC Bank plc, ING Bank Deutschland AG and Bayerische Landesbank for up to $123.8 million and up to $17.3 million of uncommitted additional borrowing. The funds received will be used to finance the acquisition of telecommunication equipment from Alcatel SEL AG. The loan bears interest of LIBOR+0.30% per annum. An arrangement fee of 0.20% of the original facility amount and an agency fee of $0.01 million per annum will be paid in accordance with the agreement. The commitment fee is 0.10% per annum on the undrawn facility. The debt issuance costs in the amount of $19.3 million were capitalized. The loan is subject to certain covenants, including, but not limited to, covenants restricting the Group's ability to convey or dispose its properties and assets to another person. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. The facilities are repayable on a biannual basis in equal installments over 9 years. As of December 31, 2005, the outstanding amount under the loan was $63.3 million. The available credit facility as of December 31, 2005, was $60.5 million.

ING BHF Bank and Commerzbank AG – On December 30, 2003, UMC entered into a credit facility with ING BHF Bank and Commerzbank AG to finance the acquisition of telecommunication equipment from Siemens AG. The aggregate amount available under this credit facility is EUR 47.4 million ($56.3 million as of December 31, 2005). In 2004, the agreement was amended to increase the amount available under the facility by EUR 9.2 million ($10.9 million as of December 31, 2005). The loan is guaranteed by MTS OJSC and bears interest at EURIBOR+0.65% per annum. The amount outstanding is redeemable in 10 equal semi-annual installments starting on July 31, 2004. At December 31, 2005 and 2004, the amounts outstanding under the loan were $43.2 million and $63.9 million, respectively.

ING Bank ("Eurasia") – In September 2003, UMC entered into a $60.0 million syndicated credit facility with ING Bank ("Eurasia") ZAO, ZAO Standard Bank and Commerzbank AG with an interest rate of LIBOR + 2.25% – 4.15% per annum. The loan is guaranteed by MTS OJSC. 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 December 31, 2005 and 2004, $20.0 million and $46.7 million were outstanding, respectively, under this credit facility.

Commerzbank Belgium S.A./N.V. – In October 2004, MTS OJSC entered into a loan agreement with Commerzbank Belgium S.A./N.V. The aggregate amount under the agreement is $18.3 million. The loan proceeds were used to finance the purchase of telecommunication equipment from Alcatel Bell N.V. and bears interest of LIBOR+0.4% per annum. 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 agreement. Related debt issuance costs amounted to $1.3 million were capitalized. As of December 31, 2005 and 2004, the outstanding balances were $13.3 million and $nil, respectively. The available credit facility as of December 31, 2005 was $5.0 million.

HSBC Bank LLC – In October 2003, TAIF Telcom entered into a $25.0 million credit facility with HSBC Bank LLC, which is guaranteed by MTS OJSC. The facility bears interest at LIBOR+2.75% per annum and is redeemable in ten equal quarterly installments commencing on June 2004. The funds were used to purchase telecommunication equipment and general corporate purposes. The loan is subject to certain restrictive covenants including, but not limited to, restriction on the Group's ability to encumbrance on its properties and assets. Management believes that as of December 31, 2005, the Group is in compliance with all existing covenants. As of December 31, 2005 and December 31, 2004, the outstanding balances under the credit facility were $7.5 million and $17.5 million, respectively.

West LB International – In July 2002, MTS-P entered into a credit facility agreement with West LB International S.A. Amounts outstanding under this agreement bear interest of EURIBOR+2.00% per annum for the first two years for each advance and 4.00% per annum for the remaining interest periods for each advance until maturity. The final maturity of this agreement is December 28, 2006. The loan is guaranteed by MTS OJSC. The balance outstanding under the loan was $4.0 million as of December 31, 2005 and 2004.

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+0.40% per annum and mature in October 2006. The loan is guaranteed by MTS OJSC. As of December 31, 2005 and 2004, the amounts outstanding under the loan were $3.2 million and $6.5 million, respectively.

Ericsson debt restructuring – In December 1996, Rosico, a wholly-owned subsidiary merged into MTS OJSC in June 2003, entered into a credit agreement with Ericsson Project Finance AB ("Ericsson") that provided for a credit facility with an aggregate principal amount of $60.0 million and had a maximum term of five years (the "Ericsson Loan"). The loan was repayable in ten equal consecutive quarterly payments of $6.0 million commencing in 1999. On July 24, 2001, MTS, Rosico and Ericsson signed an amendment to the credit agreement rescheduling Rosico principal payments in nineteen consecutive quarterly installments. The amounts advanced under the agreement bear interest of LIBOR + 4.00%. If Rosico fails to pay any amount under this facility, the overdue interest would bear interest at a rate of additional 6.00% per annum. The credit agreement contains covenants restricting Rosico's ability to encumber its present and future assets and revenues without the lender's express consent.

Concurrent with the Group's acquisition of Rosico, Sistema agreed to fund the full and timely repayment of the Ericsson Loan and to indemnify Rosico and MTS for any costs incurred by either Rosico or MTS in connection with the repayment of the Ericsson Loan. During 2000, Sistema and MTS agreed on a method that would allow Sistema to fund its obligation in a manner that minimizes the total costs of meeting this obligation (including related tax costs). Under this method, MTS enters into a long-term, ruble-denominated promissory notes with 0% interest and maturities from 2049 to 2052 to repay a portion of the funding from Sistema. The carrying value of these notes is insignificant at December 31, 2005 and December 31, 2004. The Group records interest expense on these notes over the term such that the full amount of the obligation will be reflected as a liability at the date of repayment.

Through December 31, 2005, Sistema has made payments under this obligation in the amount of $60.0 million, $56.9 million of which are repayable in the form of long-term, ruble denominated promissory notes with 0% interest. Amounts receivable from Sistema under this indemnification are recorded as shareholder receivable in the accompanying consolidated balance sheets.

On February 25, 2003, Ericsson assigned all of its rights and obligations under the Ericsson Loan to Salomon Brothers Holding Company, Inc.

As of December 31, 2005 and 2004, $3.2 million and $14.9 million were outstanding, respectively, under the Ericsson Loan.

CSFB – In October 2004, MTS Finance entered into a short-term loan facility with CSFB for the total amount of $140.0 million. Amounts outstanding under the loan agreement bore interest at LIBOR+2.20% per annum. The debt was fully repaid in April 2005.

KFW – On December 21, 1998, UMC entered into two loan agreements with KFW, a German bank, for EUR 1.9 million and EUR 10.9 million. These loans bore interest at EURIBOR+0.95% per annum and matured on March 31, 2004 and February 28, 2005, respectively. As of December 31, 2005, the debt was fully repaid.

The following table presents aggregate scheduled maturities of debt principal outstanding as of December 31, 2005:

Payments due in the year ended December 31,		
2006	$	765,881
2007		290,815
2008		510,693
2009		104,526
2010		498,359
Thereafter		674,562
	$	2,844,836

In December 2004, the Group 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 December 31, 2005, the Group recorded a asset of $3.6 million in relation to these contracts in the accompanying consolidated balance sheet and an income of $2.8 million, net of tax of $0.8 million, as other comprehensive income in the accompanying consolidated statement of changes in shareholders equity in relation to the change in fair value of these agreements. In 2005, there were no amounts reclassified from other comprehensive income to income due to hedge ineffectiveness.

12. CAPITAL LEASE OBLIGATIONS

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2005:

Payments due in the year ended December 31,		
2006	$	3,413
2007		2,484
2008		676
2009		7
2010		5
Thereafter		2
Total minimum lease payments (undiscounted)		6,587
Less amount representing interest		(866)
Present value of net minimum lease payments		5,721
Less current portion of lease payable		(2,793)
Non-current portion of lease payable	$	2,928

For a schedule by years of future minimum lease payments under capital leases to Invest-Svyaz-Holding, a related party, together with the present value of the net minimum lease payments as of December 31, 2005 (see Note 17 Related parties).

13. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2005 and 2004, comprised the following:

	December 31,			
	2005		2004	
Accrued payroll and vacation	$	60,732	$	44,673
Interest payable on debt		51,403		31,177
VAT		34,139		32,174
Taxes other than income		28,553		23,706
Accruals for advertising services		6,728		4,782
Other accruals		94,736		44,165
Total accrued liabilities	$	276,291	$	180,677

14. INCOME TAX

MTS' provision for income taxes was as follows for the year ended December 31, 2005, 2004 and 2003:

	December 31,					
	2005		2004		2003	
Current provision for income taxes	$	475,549	$	430,687	$	285,481
Deferred income tax benefit		(64,959)		(76,023)		(43,001)
Total provision for income taxes	$	410,590	$	354,664	$	242,480

The statutory income tax rate in Russia in 2003-2005 was 24%. From January 1, 2004, UMC statutory income tax rate changed from 30% to 25% as a result of changes in Ukranian tax legislation.

The statutory income tax rate reconciled to MTS' effective income tax rate is as follows for the year ended December 31, 2005, 2004 and 2003:

	December 31,		
	2005	2004	2003
Statutory income tax rate for year	24.0%	24.0%	24.0%
Adjustments:			
Expenses not deductible for tax purposes	3.0	1.0	2.3
Effect of higher tax rate of UMC	0.3	0.2	0.9
Currency exchange and transaction gains (losses)	(0.8)	1.2	1.6
Other	(0.2)	(0.6)	0.4
Effective income tax rate	26.3%	25.8%	29.2%

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities at December 31, 2005 and 2004:

	December 31,	
	2005	2004
Assets/(liabilities) arising from tax effect of:		
Deferred tax assets		
Depreciation of property, plant and equipment	$ 64,113	$ 48,829
Deferred connection fees	24,784	22,598
Subscriber prepayments	23,153	18,151
Accrued expenses	33,803	18,934
Allowance for doubtful accounts	7,027	5,220
Inventory obsolescence	7,122	2,759
Loss carryforward (Rosico and MSS)	-	7,171
Other	8,013	4,328
	168,015	127,990
Valuation allowance	-	(7,171)
Total deferred tax assets	168,015	120,819
Deferred tax liabilities		
Licenses acquired	$ (140,167)	$ (160,358)
Depreciation of property, plant and equipment	(42,394)	(31,429)
Customer base	(7,584)	(10,746)
Other intangible assets	(20,428)	(20,226)
Debt issuance cost	(17,836)	(3,829)
Other	(14,684)	(4,771)
Total deferred tax liabilities	(243,093)	(231,359)
Net deferred tax liability	(75,078)	(110,540)
Net deferred tax assets, current	$ 83,336	$ 49,850
Net deferred tax liability, long-term	$ (158,414)	$ (160,390)

As of December 31, 2004, the Group had taxable loss carryforward in the amount of $29.9 million related to operations of Rosico, that resulted in deferred tax assets in the amounts of $7.2 million. While Rosico was merged into MTS OJSC in June 2003, the Group recorded a valuation allowance for the entire amount of the available tax loss carryforward related to Rosico as of December 31, 2004, as MTS OJSC had not yet performed all procedures necessary to determine what amounts will be available for deductions in the future as of that date. As of December 31, 2005, the possibility of the claim for the tax loss carryforward was assessed as remote and therefore no deferred tax asset was recorded.

The Group does not record a deferred tax liability related to undistributed earnings of UMC, Uzdunrobita and BCTI, as it intends to permanently reinvest these earnings. The undistributed earnings of UMC amounted to $994.0 million (unaudited) and $559.5 million as of December 31, 2005 and 2004, respectively.

15. SHAREHOLDERS' EQUITY

In accordance with Russian laws, earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations, denominated in rubles, after certain deductions. Net income of MTS OJSC for the years ended December 31, 2005, 2004 and 2003 that is distributable under Russian legislation totaled 12,544 million rubles ($444.4 million), 15,209 million rubles ($527.9 million) and 13,423.0 million rubles ($437.4 million), respectively.

16. STOCK BONUS AND STOCK OPTION PLANS

In 2000, MTS established a stock bonus plan and stock option plan ("the Option Plan") for selected officers, key employees and key advisors. During its initial public offering in 2000 (see Note 1) MTS allotted 9,966,631 shares of it common stock to fund the Option Plan.

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

	Shares	Weighted average exercise price, U.S. dollar
Outstanding at December 31, 2002	4,648,421	1.42
Granted	1,952,632	2.43
Exercised	(37,557)	1.31
Exchanged for cash award	(1,746,310)	1.31
Forfeited	(19,776)	1.31
Outstanding at December 31, 2003	4,797,410	1.87
Granted	1,665,256	5.95
Exercised	(2,726,966)	1.49
Forfeited	(204,730)	1.92
Outstanding at December 31, 2004	3,530,970	4.09
Granted	1,778,694	6.89
Exercised	(1,801,622)	2.43
Forfeited	(320,802)	5.25
Outstanding at December 31, 2005	3,187,240	6.47

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

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

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

According to the terms of 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 market price at the date of grant is shown as unearned compensation in the consolidated statements of changes in shareholders' equity and is amortized to expense over the vesting period of two years. This amount historically had been insignificant to the consolidated financial statements.

The Group's Option Plan does not routinely allow a grantee to receive cash in lieu of shares, however due to the lack of liquidity for the Group's stock in the Russian market, 1,746,310 options were cancelled by MTS in 2003 and exchanged for a cash award of $2.9 million.

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

	2005	2004	2003
Risk free rate	4.7%	4.5%	5.2%
Expected dividend yield	3%	3%	3%
Expected volatility	40.0%	48.8%	40.0%
Expected life (years)	2	2	2
Fair value of options (per share)	$1.74	$2.36	$1.02

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

17. RELATED PARTIES

Related party balances as of December 31, 2005 and 2004, comprised the following:

	December 31,	
	2005	2004
Accounts receivable:		
Rosno for insurance	$ 3,663	$ 9,065
Maxima for advertising	1,689	884
Mediaplanning for advertising	1,400	-
MTT for interconnection	862	1,497
Kvazar-Micro for information systems consulting	-	2,161
T-Mobile for roaming	-	1,198
Receivables from investee companies	-	2,963
Other	47	-
Total accounts receivable, related parties	$ 7,661	$ 17,768
Accounts payable:		
Strom Telecom for software	$ 25,378	$ 7,070
Kvazar-Micro for information systems consulting	6,564	-
MTT for interconnection	4,262	2,964
MTU-Inform for interconnection	2,430	2,398
Maxima for advertising	1,082	-
MGTS for interconnection	588	607
T-Mobile for roaming	-	1,580
Other	525	2,390
Total accounts payable, related parties	$ 40,829	$ 17,009

Transactions with major related parties are described below.

Moscow Bank of Reconstruction and Development ("MBRD") – Starting August 2000, MTS has been maintaining certain bank and deposit accounts with MBRD, whose major shareholder is Sistema. As of December 31, 2005 MTS' cash position at MBRD amounted to $18.0 million in current accounts. As of December 31, 2004, MTS' cash position at MBRD amounted to $72.0 million in current accounts. The related interest accrued and collected on the deposits for the years ended December 31, 2005 and 2004 amounted to $5.4 million and $6.8, respectively, and was included as a component of interest income in the accompanying consolidated statements of operations.

Borrowing transactions with MBRD are described in Note 11.

Rosno OJSC ("Rosno") – MTS arranged medical insurance for its employees and property insurance with Rosno, whose significant shareholder is Sistema. Insurance premium paid to Rosno for the years ended December 31, 2005, 2004 and 2003 amounted to $12.6 million, $7.6 million and $16.9 million, respectively. Management believes that all of the insurance contracts with Rosno have been entered into at market terms.

Maxima Advertising Agency ("Maxima") – In 2005, 2004 and 2003, MTS Group had agreements for advertising services with Maxima, a subsidiary of Sistema. Advertising costs related to Maxima for the years ended December 31, 2005, 2004 and 2003 amounted to $58.6 million, $48.9 million and $23.7 million, respectively. Management believes that these agreements are at market terms.

Kvazar-Micro Corporation ("Kvazar") – Kvazar, a Ukrainian based company providing solutions, services, and business consulting in the field of information and communication technologies. Since July 2004, Sistema is a controlling shareholder in Kvazar. In 2004, MTS signed agreements for software implementation services with Kvazar. Pursuant to agreements with Kvazar, in year 2005 and 2004 MTS purchased software systems and related equipment in total amount of approximately $62.0 million and $9.7 million, respectively. Management believes that these agreements are at market terms.

Telmos – In 2005, 2004 and 2003, MTS had interconnection arrangements with, and received domestic and international long-distance services from Telmos, a subsidiary of Sistema. Interconnection and line rental expenses for the years 2005, 2004 and 2003 comprised $1.2 million, $1.6 million and $1.6 million, respectively. Management believes that these arrangements are at market terms.

Moscow City Telephone Network ("MGTS") – In 2005, 2004 and 2003, MTS had line rental agreements with MGTS and rented a cable plant from MGTS for the installation of optic-fiber cable. MTS also rented buildings for administrative offices as well as premises for switching and base station equipment. Rental expenses for the years 2005, 2004 and 2003 amounted to $8.3 million $5.9 million and $4.5 million, respectively. Management believes that all these transactions were made at market terms. Sistema is the majority shareholder of MGTS.

MTU-Inform – In 2005, 2004 and 2003, MTS had interconnection and line rental agreements with MTU-Inform, a subsidiary of Sistema. Interconnection and rental expenses for the years 2005, 2004 and 2003, were $24.0 million $25.7 million and $23.3 million, respectively. In 2003 MTS also purchased telephone numbering capacity from MTU-Inform for $2.0 million. Management believes that these agreements are at market terms.

Comstar – In 2005, 2004 and 2003, MTS had interconnection and line rental agreements with Comstar, a subsidiary of Sistema. Cost of interconnecton and line rental services rendered by Comstar for the years 2005, 2004 and 2003 amounted to $4.7 million, $3.1 million and $3.6 million, respectively. Management believes that these agreements are at market terms.

T-Mobile – In 2005, T-Mobile ceased to be a related party (see Note 1). In 2004 and 2003, the Group had non-exclusive roaming agreements with T-Mobile, a shareholder of the Group. Roaming expenses for the years ended December 31, 2004 and 2003 amounted to $6.1 million and $1.7 million, respectively. Management believes that these agreements are at market terms.

Invest-Svyaz-Holding – In 2005 and 2004, MTS entered into agreements with Invest-Svyaz-Holding, a shareholder of MTS and a wholly-owned subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases in compliance with requirements of SFAS No. 13, "Accounting for Leases." The present value of future lease payments due within one year are classified as current liabilities and the remaining balance as long-term liabilities. The interest rate implicit in these leases varies from 14% to 44%, which management believes are market terms.

The following table summarizes the future minimum lease payments under capital leases to Invest-Svyaz-Holding together with the present value of the net minimum lease payments as of December 31, 2005:

Payments due in the year ended December 31,	
2006	$ 3,233
2007	653
2008	-
Total minimum lease payments (undiscounted)	3,886
Less amount representing interest	(540)
Present value of net minimum lease payments	3,346
Less current portion of lease obligations	(2,740)
Non-current portion of lease obligations	$ 606

In addition to the above lease transactions, the Group guarantees debt of Invest-Svyaz-Holding in the amount of $3.5 million to a third party, which is used by Invest-Svyaz-Holding primarily to finance its leases to the Group (see Note 22 Commitments and contingencies).

For the year ended December 31, 2005 principal and interest paid to Invest-Svyaz-Holding were $6.1 million and $2.0 million, respectively. Principal and interest paid to Invest-Svyaz-Holding for the year ended December 31, 2004 were $6.4 million and $4.1 million, respectively. Principal and interest paid for the year ended December 31, 2003 were $5.4 million and $3.3 million, respectively. Management believes that these agreements are at market terms.

Strom Telecom – During 2005, 2004 and 2003 the Group entered into a number of agreements with Strom Telecom, an subsidiary of Sistema for a total amount up to $166.5 million, $116.5 million and $32.3 million, respectively. Pursuant to these contracts, the Group purchased in 2005, 2004 and 2003 billing systems and communication software support systems for approximately $179.2 million, $9.1 million and $23.7 million, respectively. Advances paid under these agreements and outstanding as of December 31, 2005 and 2004, amount to $45.7 million and $51.0 million, respectively.

Mediaplanning – During 2005 and 2004, MTS entered into a number of agreements to purchase advertising services with Mediaplanning, a subsidiary of Sistema. Related advertising costs recorded for the year ended December 31, 2005 and 2004, amounted to $21.5 million and $11.3 million, respectively.

MTT – In 2005 and 2004, MTS had interconnection and line rental agreements with MTT, a subsidiary of Sistema. Interconnection expenses for the year 2005 and 2004 amounted to $41.1 million and $16.1 million, respectively. Management believes that these agreements are at market terms.

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2005, 2004 and 2003, consisted of the following:

	December 31,		
	2005	2004	2003
Salaries and social contributions	$ 336,203	$ 256,989	$ 156,808
General and administrative	100,257	72,586	42,530
Repair and maintenance	90,609	81,538	39,406
Rent	79,869	54,054	31,968
Taxes other than income	62,102	50,033	40,432
Billing and data processing	37,287	28,238	22,067
Consulting expenses	26,486	19,694	11,361
Insurance	16,804	7,554	7,351
Inventory obsolescence expense	9,112	4,610	3,307
General and administrative expenses	$ 758,729	$ 575,296	$ 355,230

19. INVESTMENTS IN AND ADVANCES TO ASSOCIATES

At December 31, 2005 and 2004, the Group's investments in and advances to associates comprised the following:

	December 31,	
	2005	2004
MTS Belarus – equity investment	66,288	27,699
MTS Belarus – loans receivable	$ 41,341	$ 51,894
Receivables from other investee companies	330	1,642
Total investments in and advances to associates	$ 107,959	$ 81,235

MTS Belarus – As of December 31, 2005 and 2004, the Group provided MTS Belarus with a total of $41.3 million and $51.9 million in loans, respectively. These loans bear interest of 3.00% to 11.00% per annum. In addition, the Group guarantees the debt of MTS Belarus in the amount of $9.0 million to Citibank International plc (see Note 22 Commitments and contingencies).

The Company's share in net income of associates is included in other income in the accompanying consolidated statements of operations. For the years ended December 31, 2005, 2004 and 2003, this share amounted to $42.4 million, $24.1 million and $2.7 million, respectively.

20. OTHER INVESTMENTS

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

Concurrently with the purchase of 51.0% stake, the Group entered into a put and call option agreement with the shareholder of Tarino to acquire the remaining 49.0% interest in Tarino. The call option is exercisable by the Group from November 22, 2005 to November 17, 2006, and the put option is exercisable by the seller from November 18, 2006 to December 8, 2006. The call and put option price is $170.0 million. The put and call option was recorded at fair value, which approximated $nil at December 31, 2005, in the consolidated balance sheet.

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

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

Currently, MTS is working with Tarino Limited's 49% shareholder to recover ownership and operational control of Bitel. Also, there is on-going litigation in the British Virgin Islands and arbitration in the United Kingdom related to Tarino's ownership of Bitel. These matters are likely to be subject of continued and/or new legal disputes and litigation, including concerning the agreements with respect to Tarino Limited. It is not possible at this time to predict the outcome or resolution of any such disputes or litigation; however, MTS believes that its position is meritorious. The Group's management believes that no impairment of its investment in Bitel has occurred as at December 31, 2005.

21. OPERATING LICENSES

In connection with providing telecommunication services, the Group has been issued various operating GSM licenses by the Russian Ministry of Information Technologies and Communications. In addition to the licenses received directly from the Russian Ministry of Information Technologies and Communications, the Group was granted access to various telecommunication licenses through acquisitions. In foreign subsidiaries, the licenses are granted by the local Communication Ministries. At December 31, 2005 and 2004, recorded values of the Group's telecommunication licenses were as follows:

	December 31, 2005	December 31, 2004
Moscow license area	$ 258,226	$ 255,812
Krasnodar and Adigeya regions	124,396	124,396
Tatarstan Republic	104,159	104,159
Five regions of Asian Russia	91,202	91,202
North-Western region	74,639	74,639
Seven regions of European Russia	62,266	19,503
Ukraine	61,717	56,322
Krasnoyarsk region, Taimyr region and Khakassia Republic	52,625	52,625
Turkmenistan	50,503	-
Tomsk region	49,282	49,282
Bashkortostan Republic	48,932	48,932
Far East	48,107	48,107
Uzbekistan	40,861	40,861
Other	97,338	107,096
Licenses, at cost	1,164,253	1,072,936
Accumulated amortization	(561,137)	(385,664)
Licenses, net	$ 603,116	$ 687,272

Amortization expense for the years ended December 31, 2005, 2004 and 2003, amounted to \$194.3 million, \$151.9 million and \$105.7 million, respectively.

Based on the amortizable operating licenses existing at December 31, 2005, the estimated future amortization expenses are \$207.8 million during 2006, \$163.1 million during 2007, \$102.0 million during 2008, \$41.8 million during 2009, \$37.4 million during 2010 and \$51.0 million thereafter. 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.

Each of the Group's licenses, except the licenses covering the Moscow license area and Uzbekistan, contains a requirement for service to be commenced and for subscriber number and territorial coverage targets to be achieved by a specified date. 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. Management believes that the Group is in compliance with all material terms of its licenses.

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

22. COMMITMENTS AND CONTINGENCIES

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

Operating leases – The Group has entered into lease agreements of space for telecommunication equipment and offices, which expire in various years up to 2054. Rental expenses under these operating leases of $73.2 million, $54.0 million and $32.0 million for the years ended December 31, 2005, 2004 and 2003, respectively, are included in operating expenses in the accompanying statements of operations. Future minimum lease payments due under non-cancelable leases at December 31, 2005 are as follows:

Payments due in the years ended December 31,		
2006	$	54,155
2007		23,780
2008		19,782
2009		16,311
2010		11,722
Thereafter		34,308
Total	$	160,058

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 consolidated subsidiaries. These license agreements stipulated that certain fixed "contributions" be made to a fund for the development of telecommunication networks in the Russian Federation. According to the terms of licenses, such contributions were to be made during the license period upon the decision and as defined by the Board of Directors of the Association of GSM-900 Operators ("the Association"). The Association is a nongovernmental, not-for-profit association, and their Board of Directors comprises representatives of the major cellular communications companies, including MTS. On January 1, 2004, a new Federal Law on Communications came into effect in the Russian Federation. According to the Law the Group was required to update operating licenses as requirements to make certain fixed contributions discussed above has been abandoned with the new Law on Communications. As of December 31, 2005, MTS' potential liability according to the terms of licenses, that still provide for the payment of such fees, could total approximately $18.1 million.

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

Issued guarantees – As of December 31, 2005, the Group has issued guarantees to third party banks for the loans taken by Invest-Svyaz-Holding, a shareholder of the Group for a total amount of $3.5 millions (see also Note 18). The guarantees expire by May 2006. The Group issued additional guarantees on behalf of MTS-Belarus, an equity investee, for the total amount of $9.0 million. The guarantees expire by April 2007. The issued guarantees are recorded at fair value in the accompanying consolidated balance sheet.

As of December 31, 2005, no event of default has occurred under any of the guarantees issued by the Group.

Contingencies – The Russian economy, while deemed to be of market status beginning in 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 supervisory, legal, and economic reforms.

The new Federal Law on Communications sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. In addition, the law created a universal service fund ("USF") charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. The Company has incurred approximately $30.3 million in USF charges for May through December 2005 which is recorded in other operating expenses. In addition, a recent amendment to the Federal Law on Communications which is planned to become effective July 1, 2006 will implement the "calling party pays," or CPP, principle prohibiting mobile operators from charging their subscribers for incoming calls. Generally, operators charge subscribers for incoming calls. Under the new system, fixed line operators will begin charging their subscribers for such calls and transfer a percentage of the charge to mobile operators terminating such calls while mobile operators will not. The introduction of CPP may have a negative impact on the Group's service revenues depending on the settlement rate between mobile and fixed line operators set by the government. While the impact of this regulatory change at this point is uncertain due to the insufficient information made available to the market by the regulator, management believes it will not have a material adverse effect for the Group.

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

In March 2005, the Russian tax authorities audited MTS OJSC's compliance with tax legislation for the year ended December 31, 2002. Based on the results of this audit, the Russian tax authorities assessed that 372,153 thousand rubles (approximately $12.9 million as at December 31, 2005) of additional taxes, penalties and fines were payable by the Group. The Group has prepared and filed with the Arbitrary Court of Moscow a petition to recognize the tax authorities' resolution to be partially invalid. The amount of disputed taxes and fines equals 281,504 thousand rubles (approximately $9.8 million). The Group has already passed three court hearings which resulted in court judgments in favour of the Group , while one sitting remains. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2005, tax declarations of the Group for the preceding three fiscal years were open for further review.

There are regulatory uncertainties in Ukraine related to treatment for VAT purposes of contributions payable to the Ukrainian pension fund ("Pension Fund") in respect of the consumption of telecommunication services by customers. The additional VAT calculated on the Pension Fund contribution could be up to $38.1 million as of December 31, 2005. This amount includes $13.5 million which was claimed by the tax authorities during their recent tax audit. In 2005, UMC initiated a litigation case in respect of this issue against the tax authorities, and has received favorable rulings from the courts of two instances, which are expected to become subject to further appeal from the tax authorities. Management believes that VAT was not applicable to the Pension Fund contribution during the period under review. Further, management believes that UMC is in line with industry practice and intends to defend its position. As of December 31, 2005, no VAT in relation to the above had been accrued in the Group's consolidated financial statements or paid to the tax authorities.

During 2005, a number of amendments to the Law on VAT were introduced, which resulted in uncertainty in respect of treatment of Pension Fund charges for the purposes of VAT and corporate income tax. As a result of this uncertainty, the accompanying consolidated financial statements reflect a provision for VAT charges of $6.0 million, which is included within accrued liabilities. The maximum exposure of this risk on UMC's income tax position as of December 31, 2005, amounts to $7.5 million plus penalties of up to 100% of tax liability. No provision was created in the accompanying consolidated financial statements as a result of this risk.

In the ordinary course of business, MTS may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which MTS operates. In the opinion of management, the MTS'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 MTS.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

The Group's operations in Turkmenistan are subject to certain restrictions in accordance with local regulatory environment including, but not limited to, hard currency sale on the local market and hard currency repatriation. The effect of those restrictions on the financial statements is not material.

23. 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.

As a result of reorganization of the Group's management structure started in 2004 there was created a new intermediate management level named macro-regions, which is intended to replace the legal entities-based management structure. Each macro-region ("MR") consists of 3 to 8 operational regions, excluding macro-region Moscow, that consists of one region. Commencing January 2005, the Group's business is organized and managed by ten Russian macro-regions and foreign subsidiaries. Management of the Group regularly reviews certain operational and financial information by macro-regions, therefore segment information below is presented on macro-regional basis. Discrete financial information on this basis is available starting from 2005. The Group has restated the corresponding items of segment information for the year 2004, however it is impracticable to do so for the year 2003.

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.

At December 31, 2005, the Group has several operating segments, of which six are reportable segments – macro-regions Moscow, North-West, South, Siberia, Far East and Ukraine.

	Year ended December 31, 2005	Year ended December 31, 2004
Revenue:		
MR Moscow	$ 1,867,435	$ 1,693,685
MR Ukraine	1,201,827	832,313
MR North-West	384,743	347,881
MR South	347,819	260,173
MR Siberia	296,353	225,188
MR Far East	282,925	110,562
Other	1,054,871	810,855
Intercompany eliminations	(424,955)	(393,663)
Total revenue	$ 5,011,018	$ 3,886,994
Depreciation and amortization:		
MR Moscow	$ 224,653	$ 194,873
MR Ukraine	153,795	124,935
MR North-West	86,244	64,036
MR South	91,407	81,749
MR Siberia	54,846	39,548
MR Far East	42,776	15,572
Other	257,944	158,333
Intercompany eliminations	(4,552)	(3,317)
Total depreciation and amortization	$ 907,113	$ 675,729
Operating income:		
MR Moscow	$ 630,300	$ 585,735
MR Ukraine	431,292	317,860
MR North-West	131,397	126,791
MR South	80,929	67,209
MR Siberia	71,376	71,437
MR Far East	78,510	37,856
Other	213,861	217,021
Intercompany eliminations	(5,634)	(4,846)
Total operating income	$ 1,632,031	$ 1,419,063
Total operating income	$ 1,632,031	$ 1,419,063
Currency exchange and transaction gains	(10,319)	(6,529)
Interest income	(24,828)	(21,792)
Interest expense	132,474	107,956
Equity in net income of associates	(42,361)	(24,146)
Other expenses /(income)	13,211	(9,310)
Income before provision for income taxes and minority interest	$ 1,563,854	$ 1,372,884
Additions to long-lived assets:		
MR Moscow	$ 632,659	$ 493,086
MR Ukraine	719,279	303,761
MR North-West	150,570	158,494
MR South	144,449	198,287
MR Siberia	112,062	90,277
MR Far East	90,326	241,716
Other	488,891	343,529
Total additions to long-lived assets	$ 2,338,236	$ 1,829,150

	December 31,	
	2005	2004
Goodwill:		
MR Moscow	$ -	$ -
MR Ukraine	8,000	8,000
MR North-West	-	-
MR South	26,302	-
MR Siberia	-	-
MR Far East	33,494	30,590
Other	87,425	69,739
Total goodwill	$ 155,221	$ 108,329
Long-lived assets:		
MR Moscow	$ 1,855,619	$ 1,434,101
MR Ukraine	1,390,966	838,020
MR North-West	398,739	344,691
MR South	430,197	362,772
MR Siberia	294,195	227,112
MR Far East	292,414	248,566
Other	1,306,951	1,024,597
Intercompany eliminations	(47,040)	(37,408)
Total long-lived assets	$ 5,922,041	$ 4,442,451
Total assets:		
MR Moscow	$ 2,729,964	$ 2,348,288
MR Ukraine	1,560,762	993,997
MR North-West	458,829	418,131
MR South	491,352	498,695
MR Siberia	448,320	307,408
MR Far East	384,020	303,384
Other	1,934,150	1,172,691
Intercompany eliminations	(461,617)	(461,407)
Total assets	$ 7,545,780	$ 5,581,187

For comparative purposes the segment information is presented below on a prior years basis.

	Year ended December 31,		
	2005	2004	2003
Revenue:			
MTS OJSC	$ 2,360,542	$ 2,129,544	$ 1,471,198
UMC(1)	1,201,827	832,313	394,038
Telecom XXI (2)	382,897	297,194	210,460
Kuban GSM (2)	270,157	225,350	168,401
Other	1,220,550	796,256	432,770
Intercompany eliminations	(424,955)	(393,663)	(130,669)
Total revenue	$ 5,011,018	$ 3,886,994	$ 2,546,198
Depreciation and amortization:			
MTS OJSC	$ 331,642	$ 253,485	$ 199,946
UMC	153,795	124,935	66,392
Telecom XXI	86,138	57,265	36,782
Kuban GSM	67,927	68,140	32,299
Other	272,163	175,221	82,185
Intercompany eliminations	(4,552)	(3,317)	(1,688)
Total depreciation and amortization	$ 907,113	$ 675,729	$ 415,916
Operating income:			
MTS OJSC	$ 672,666	$ 728,101	$ 527,837
UMC	431,292	317,860	131,704
Telecom XXI	131,318	104,936	80,632
Kuban GSM	99,904	74,622	74,599
Other	302,485	198,390	123,577
Intercompany eliminations	(5,634)	(4,846)	(15,751)
Total operating income	$ 1,632,031	$ 1,419,063	$ 922,598
Total operating income	$ 1,632,031	$ 1,419,063	$ 922,598
Currency exchange and transaction gains	(10,319)	(6,529)	(693)
Interest income	(24,828)	(21,792)	(18,076)
Interest expense	132,474	107,956	106,551
Equity in net income of associates	(42,361)	(24,146)	(2,670)
Other expenses/(income)	13,211	(9,310)	6,090
Income before provision for income taxes and minority interest	$ 1,563,854	$ 1,372,884	$ 831,396
Additions to long-lived assets:			
MTS OJSC	$ 760,471	$ 679,023	$ 389,446
UMC (1)	719,279	303,761	900,465
Telecom XXI	214,207	62,333	174,128
Kuban GSM	50,570	69,689	172,949
Other	593,709	714,344	393,526
Total additions to long-lived assets	$ 2,338,236	$ 1,829,150	$ 2,030,514

(1) Acquired in March 2003.
(2) merged with MTS OJSC on July 1, 2005

	December 31,	
	2005	2004
Long-lived assets:		
MTS OJSC	$ 2,371,664	$ 1,891,869
UMC, including goodwill in the amount of $8,398 as of December 31, 2005 and 2004	1,390,966	838,020
Telecom XXI	398,217	295,505
Kuban GSM	263,684	279,883
Other, including goodwill in amounts of $146,823 and $100,329 as of December 31, 2005 and 2004, respectively	1,544,550	1,174,582
Intercompany eliminations	(47,040)	(37,408)
Total long-lived assets	$ 5,922,041	$ 4,442,451
Total assets:		
MTS OJSC	$ 5,224,821	$ 2,717,814
UMC	1,560,762	993,997
Telecom XXI	456,469	363,888
Kuban GSM	317,841	393,656
Other	447,504	1,573,239
Intercompany eliminations	(461,617)	(461,407)
Total assets	$ 7,545,780	$ 5,581,187

24. SUBSEQUENT EVENTS

Merger – On March 31, 2006, the Russian registration authority approved the merger of nine wholly-owned MTS subsidiaries in Russia into MTS OJSC. These subsidiaries are Gorizont RT, TAIF Telcom, MTS-RTK, Sibchallenge, Tomsk Cellular Communications ("TSS"), BM Telekom, Far East Cellular Systems-900 ("FECS – 900"), Siberian Cellular Systems – 900 ("SCS-900") and Uraltel. The merger was completed in line with the Group's strategy to consolidate administratively all its majority-owned subsidiaries and improve management efficiency.

HSBC Bank PLC – In January 2006, MTS OJSC entered into a credit facility agreement with HSBC Bank PLC. The facility allows borrowing of up to $100.0 million. The funds received will be used for general corporate purposes. The loan bears interest of LIBOR+0.75% per annum. An arrangement fee in the amount of $0.6 million should be paid in accordance with the agreement. The facility should be repaid by July 2006.

Syndicated loan – On April 21, 2006, MTS OJSC signed a syndicated loan facility with international financial institutions: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bayerische Landesbank, HSBC Bank plc, ING Bank N.V., Raiffeisen Zentralbank Oesterreich AG, Sumitomo Mitsui Banking Corporation Europe Limited. The facility allows the Group to borrow up to $1,330.0 million and is available in two tranches of $630.0 million and $700.0 million. The proceeds will be used by OJSC MTS for general corporate purposes, including acquisitions and refinancing of existing indebtedness. The first tranche bears interest of LIBOR+0.80% per annum and matures in 3 years. The second tranche matures in April 2011, bears interest of LIBOR+1.00% per annum within the first three years and LIBOR + 1.15% per annum thereafter and is repayable in 13 equal quarterly installments, commencing in April, 2008. The loan is subject to certain restrictive covenants, including, but not limited to, certain financial ratios, limitations on dispositions of assets and limitations on transactions with associates.