JSFC SISTEMA AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2003, 2002 and 2001

JSFC SISTEMA AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSFC Sistema:

We have audited the accompanying consolidated balance sheets of JSFC Sistema and subsidiaries (the "Group") as of December 31, 2003, 2002 and 2001, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2003, 2002 and 2001, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, as of January 1, 2002, the Group adopted Financial Accounting Standard ("FAS") No. 142, "Goodwill and Other Intangible Assets".

The adoption of FAS No. 142 resulted in recognition of a goodwill impairment charge of $21.5 million, which is classified as a cumulative effect of a change in accounting principle for the year ended December 31, 2002.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2001, MTS changed its method of accounting for recognition of subscriber acquisition costs. The Group's share of the cumulative effect of this change in the amount of $6.2 million (net of tax effect of $1.1 million) was charged to income for the year ended December 31, 2001.

Deloitte & Touche

June 10, 2004

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2003	2002	2001
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	6	$ 283,165	$ 157,267	$ 91,962
Short-term investments	7	278,850	164,315	86,187
Loans to customers and banks, net	8	364,982	160,744	226,860
Insurance-related receivables	9	69,855	50,140	30,878
Accounts receivable, net	10	182,251	69,553	54,172
Other receivables and prepaid expenses, net	11	567,125	81,687	65,870
Inventories	12	166,203	48,104	37,885
Deferred tax assets, current portion	26	53,964	9,358	4,542
Assets of discontinued operations	5	-	20,716	12,429
Total current assets		1,966,395	761,884	610,785
Property, plant and equipment, net	13	3,368,121	910,042	804,732
Advance payments for non-current assets		52,969	8,348	7,037
Long-term receivables	14	1,223	9,930	5,534
Long-term investments	15	41,393	32,273	24,766
Investments in affiliated companies	16	150,936	536,338	423,241
Goodwill	3	71,998	19,982	44,237
Licenses, net	17	669,988	-	-
Other intangible assets, net	18	446,381	26,042	11,411
Debt issuance costs, net	3	17,251	-	-
Deferred tax assets	26	5,575	23,492	26,641
TOTAL ASSETS		$ 6,792,230	$ 2,328,331	$ 1,958,384

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2003	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable		$ 234,871	$ 62,067	$ 56,905
Bank deposits and notes issued	19	173,748	171,293	202,796
Insurance-related liabilities	20	180,986	137,109	105,273
Taxes payable		117,142	25,375	24,215
Deferred tax liabilities, current portion	26	508	1,371	-
Accrued expenses and other current liabilities	21	607,083	129,573	79,594
Short-term notes payable	22	349,083	198,597	144,485
Current portion of long-term debt	24	844,106	106,843	71,904
Liabilities of discontinued operations	5	-	49,166	41,836
Total current liabilities		2,507,527	881,394	727,008
LONG-TERM LIABILITIES:				
Capital lease obligations	23	4,943	9,691	14,906
Long-term debt	24	1,475,921	265,880	289,790
Subscriber prepayments, net of current portion	25	103,059	66,935	54,875
Deferred tax liabilities	26	230,986	25,425	13,205
Postretirement benefits	27	8,590	6,277	6,810
Total long-term liabilities		1,823,499	374,208	379,586
Deferred revenue	28	115,363	89,894	73,043
TOTAL LIABILITIES		4,446,389	1,345,496	1,179,637
Minority interests in equity of subsidiaries		1,356,557	388,055	364,411
Commitments and contingencies	32	-	-	-
SHAREHOLDERS' EQUITY:				
Share capital (68,325,000 shares with par value of 0.1 RUR authorized, 8,100,000 shares issued and outstanding)	29	171	171	171
Additional paid-in capital	4,5	189,934	200,931	188,215
Retained earnings		783,258	396,211	230,235
Accumulated other comprehensive income/(loss)		15,921	(2,533)	(4,285)
TOTAL SHAREHOLDERS' EQUITY		989,284	594,780	414,336
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 6,792,230	$ 2,328,331	$ 1,958,384

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2003	2002	2001
Sales	30	$ 3,543,154	$ 720,905	$ 614,345
Revenues from financial services	30	216,761	168,601	106,191
TOTAL REVENUES		3,759,915	889,506	720,536
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,256,494)	(405,947)	(346,091)
Financial services related costs, exclusive of depreciation and amortization shown separately below		(131,533)	(115,520)	(78,692)
TOTAL COST OF SALES		(1,388,027)	(521,467)	(424,783)
Selling, general and administrative expenses		(689,057)	(141,401)	(95,272)
Depreciation and amortization		(520,976)	(72,042)	(59,978)
Goodwill impairment	3	(19,251)	-	-
Other operating (expenses)/income, net		(37,326)	12,762	(704)
Equity in net income of investees		465	124,625	96,635
Net gain on disposal of subsidiaries		-	3,787	4,452
OPERATING INCOME		1,105,743	295,770	240,886
Interest income		19,341	1,622	1,812
Interest expense		(198,346)	(53,111)	(39,737)
Currency exchange and translation (loss)/gain		(3,015)	5,113	2,482
Income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle		923,723	249,394	205,443
Income tax expense	26	(290,933)	(43,398)	(29,170)
Income from continuing operations before minority interests and cumulative effect of a change in accounting principle		$ 632,790	$ 205,996	$ 176,273

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2003	2002	2001
Minority interests		$ (402,120)	$ (35,109)	$ (28,953)
Income from continuing operations before cumulative effect of a change in accounting principle		230,670	170,887	147,320
Gain/(loss) from discontinued operations (net of income tax effect of $3,553, $1,492, and $475, respectively)	5	12,810	(3,156)	(5,886)
Gain on disposal of discontinued operations (net of income tax effect of $18,278 and nil, respectively)	5	143,567	19,725	-
Cumulative effect of a change in accounting principle (net of income tax effect of nil and $1,090, respectively)	3	-	(21,480)	(6,179)
NET INCOME		$ 387,047	$ 165,976	$ 135,255
Other comprehensive income/(loss):				
Change in unrealized gain on securities available for sale, net of income tax of nil		5,582	1,752	1,036
Translation adjustment, net of minority interest of $24,426 and income tax of nil	3	35,321	-	-
Income tax effect of changes in the functional currency, net of minority interest of $17,184	3	(22,449)	-	-
Comprehensive income		$ 405,501	$ 167,728	$ 136,291
Weighted average number of common shares outstanding		8,100,000	8,100,000	8,100,000
Earnings per share, basic and diluted:				
Income from continuing operations before cumulative effect of a change in accounting principle		$ 28.5	$ 21.1	$ 18.2
Gain/(loss) from discontinued operations		19.3	2.0	(0.7)
Cumulative effect of a change in accounting principle		-	(2.7)	(0.8)
Net income		47.8	20.5	16.7

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars)

	2003	2002	2001
OPERATING ACTIVITIES:			
Net income	$ 387,047	$ 165,976	$ 135,255
Adjustments to reconcile net income to net cash provided by operations:			
(Gain)/loss from discontinued operations	(12,810)	3,156	5,886
Depreciation and amortization	520,976	72,042	59,978
Goodwill impairment	19,251	-	-
Loss on disposal of property, plant and equipment	15,048	1,176	1,345
Gain on disposal of discontinued operations	(143,567)	(19,725)	-
Gain on disposal of subsidiaries	-	(3,787)	(4,452)
Gain on disposal of shares in affiliates	-	(9,100)	-
Cumulative effect of a change in accounting principle, net	-	21,480	6,179
Minority interests	402,120	35,109	28,953
Equity in net income of investees	(465)	(124,625)	(96,635)
Provision for deferred income taxes	(42,601)	12,216	(8,016)
Provision for doubtful accounts receivable	9,972	7,172	674
Allowance for loan losses	9,902	1,637	1,467
Inventory obsolescence charge	(797)	-	-
Changes in operating assets and liabilities, net of effects from purchase of businesses:			
Trading securities	(38,988)	(67,025)	(31,222)
Loans to banks	(121,444)	75,853	(88,180)
Insurance-related receivables	(19,715)	(19,262)	(21,983)
Accounts receivable	(47,005)	(17,407)	(14,666)
Other receivables and prepaid expenses	(101,632)	(15,420)	(32,142)
Inventories	(54,406)	(8,584)	(8,733)
Accounts payable	(1,600)	(2,631)	18,421
Insurance-related liabilities	43,877	31,836	56,211
Taxes payable	24,694	(812)	8,406
Accrued expenses, subscriber prepayments and other liabilities	136,567	49,874	7,214
Postretirement benefits	1,978	(533)	3,046
Net cash provided by operations	986,402	188,616	27,006
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,024,870)	(148,436)	(144,937)
Purchase of intangible assets	(134,424)	(2,323)	(308)
Purchase of businesses, net of cash acquired	(1,005,451)	(12,952)	(33,466)
Proceeds from disposal of subsidiaries, net of cash disposed	71,417	22,478	1,263
Purchase of long-term investments	(88,281)	(5,235)	(19,174)
Proceeds from sale of long-term investments	6,538	16,425	2,752
Purchase of short-term investments	(102,165)	(22,853)	(7,807)
Proceeds from sale of short-term investments	312	8,895	31,523
Proceeds from sale of property, plant and equipment	4,384	3,870	1,704
Net increase in loans to customers	(92,696)	(11,374)	(79,693)
Net cash used in investing activities	(2,365,236)	(151,505)	(248,143)

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars)

	2003	2002	2001
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings, net	120,772	74,072	-
Principal payments on short-term borrowings, net	-	-	(9,035)
Net (decrease)/increase in deposits from customers	(15,294)	(33,540)	115,465
Net increase/(decrease) in bank promissory notes issued	56,449	(7,402)	19,301
Proceeds from sale of common stock	-	-	72,564
Proceeds from grants	7,390	3,202	15,086
Payments to shareholders of subsidiaries, net	(63,069)	-	-
Proceeds from long-term borrowings	2,182,802	133,697	260,107
Principal payments on long-term borrowings	(758,784)	(132,905)	(205,750)
Principal payments on capital lease obligations	(25,534)	(8,930)	(15,395)
Net cash provided by financing activities	$ 1,504,732	$ 28,194	$ 252,343
INCREASE IN CASH AND CASH EQUIVALENTS	$ 125,898	$ 65,305	$ 31,206
CASH AND CASH EQUIVALENTS, beginning of year	157,267	91,962	60,756
CASH AND CASH EQUIVALENTS, end of year	$ 283,165	$ 157,267	$ 91,962
CASH PAID DURING THE YEAR FOR:			
Interest, net of amounts capitalized	$ (146,863)	$ (50,456)	$ (42,186)
Income taxes	(335,636)	(29,407)	(33,681)
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Property, plant and equipment contributed free of charge	$ 18,793	$ 21,337	$ 12,736
Equipment acquired through vendor financing	17,093	8,522	18,314
Equipment acquired under capital lease	17,709	10,106	29,670

In addition, non-cash investing activities during 2003, 2002 and 2001 included acquisitions and dispositions of subsidiaries and affiliates, as described in Notes 4 and 5.

See notes to consolidated financial statements.

JSFC SISTEMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/ (loss)	Total
Balances at January 1, 2001	**$ 171**	**$ 186,858**	**$ 94,980**	**$ (5,321)**	**$ 276,688**
Change in unrealized gain on securities available for sale, net of income tax of nil	-	-	-	1,036	1,036
Capital transactions of subsidiaries	-	1,357	-	-	1,357
Net income	-	-	135,255	-	135,255
Balances at December 31, 2001	**$ 171**	**$ 188,215**	**$ 230,235**	**$ (4,285)**	**$ 414,336**
Change in unrealized gain on securities available for sale, net of income tax of nil	-	-	-	1,752	1,752
Capital transactions of subsidiaries	-	12,716	-	-	12,716
Net income	-	-	165,976	-	165,976
Balances at December 31, 2002	**$ 171**	**$ 200,931**	**$ 396,211**	**$ (2,533)**	**$ 594,780**
Change in unrealized gain on securities available for sale, net of income tax of nil	-	-	-	5,582	5,582
Translation adjustment, net of minority interest of $24,426 and income tax of nil (Note 3)	-	-	-	35,321	35,321
Income tax effect of changes in the functional currency, net of minority interest of $17,184 (Note 3)	-	-	-	(22,449)	(22,449)
Capital transactions of subsidiaries (Notes 4, 5)	-	(10,997)	-	-	(10,997)
Net income	-	-	387,047	-	387,047
Balances at December 31, 2003	**$ 171**	**$ 189,934**	**$ 783,258**	**$ 15,921**	**$ 989,284**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The controlling shareholder of JSFC Sistema is Vladimir P. Evtushenkov. Minority holdings are owned by certain top executives and former top executives of the Group.

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

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

Operating Entities	Short Name	Principal activity
Sistema-Hals and subsidiaries	Sistema-Hals	Development and marketing of real estate projects in Moscow
Sistema Mass Media and subsidiaries	Sistema Mass Media	Production and distribution of periodicals, publishing activities, broadcasting, advertising
Concern Media Center SMM and subsidiaries	Media-Center	
Concern RTI Systems and subsidiaries	Concern RTI	Manufacturing of radiotechnical equipment, research and development
ECU GEST HSA and subsidiaries	ECU GEST	Securities transactions, investing in real estate projects

During 1998-2002 the Group acquired ownership interests in a number of entities involved in manufacturing of radiotechnical equipment and related research and development activities, for an aggregate consideration of approximately $4.5 million. In 2000 the Group established Concern RTI, a 100% subsidiary, and contributed its interests in the voting stock of the radiotechnical business line entities into the share capital of Concern RTI. Prior to 2003, most of the Concern RTI's subsidiaries operated under governmentally imposed restrictions. Such restrictions precluded consolidation of Concern RTI in the Group's financial statements. In those periods the Group accounted for its investments in Concern RTI at cost of acquisition, net of impairment charges. In 2003, most of these restrictions have been waived (except as relates to NIIDAR, a Research and Development Institute of Long-Distance Radio Communications) and the Group started consolidating operations of the radiotechnical business line effective January 1, 2003 (except for operations of NIIDAR, that is continued to be accounted for at cost, net of impairment charges). Revenues and net income of the radiotechnical business line for the year ended December 31, 2003 amounted to $29.1 million and $0.6 million, respectively. Consolidation of operations of the radiotechnical business line effective January 1, 2001, would have immaterial effect on the consolidated net income for the years ended December 31, 2002 and 2001.

2. WORKING CAPITAL

As of December 31, 2003 the Group had a net working capital deficit of $541.1 million. Management believes, on the basis of cash flow forecasts, that the total facilities available to the Group will be sufficient to cover all of the Group's current obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation – The consolidated financial statements include the accounts of JSFC Sistema, as well as entities, where JSFC Sistema, directly or indirectly, owns a majority voting interest, or has operating and financial control in accordance with charter documents. All significant intercompany transactions, balances and unrealized gains (losses) on transactions have been eliminated.

The ownership interest of JSFC Sistema and proportion of voting power of the Group and related parties in the significant subsidiaries as of December 31, 2003, 2002 and 2001 are as follows:

Operating entities	**Ownership interest**			**Proportion of voting power**		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
MTS	51% [1]	Affiliate	Affiliate	51%	Affiliate	Affiliate
Ukrainian Mobile Communications (“UMC”), subsidiary of MTS	51% [1]	-	-	100%	-	-
Telecom XXI, subsidiary of MTS	51% [1]	Affiliate	Affiliate	100%	Affiliate	Affiliate
Kuban-GSM, subsidiary of MTS	51% [1]	Affiliate	-	100%	Affiliate	-
Telecom-900, subsidiary of MTS	51% [1]	Affiliate	Affiliate	100%	Affiliate	Affiliate
SCS-900, subsidiary of MTS	45% [1]	Affiliate	Affiliate	89%	Affiliate	Affiliate
FECS-900, subsidiary of MTS	30% [1]	Affiliate	Affiliate	60%	Affiliate	Affiliate
Uraltel, subsidiary of MTS	51% [1]	Affiliate	Affiliate	100%	Affiliate	Affiliate
Recom, subsidiary of MTS	27% [1]	Affiliate	Affiliate	54%	Affiliate	Affiliate
BM-Telecom, subsidiary of MTS	51% [1]	Affiliate	-	100%	Affiliate	-
TAIF-Telcom, subsidiary of MTS	27% [1]	-	-	53%	-	-
Dontelecom, subsidiary of MTS	51% [1]	Affiliate	-	100%	Affiliate	-
Sibchallenge, subsidiary of MTS	51% [1]	-	-	100%	-	-
Tomsk Cellular Communications, subsidiary of MTS	51% [1]	-	-	100%	-	-
MGTS	56%	56%	56%	56%	56%	56%
MTU-Inform, subsidiary of MGTS	76% [1]	76% [1]	76% [1]	99%	99%	99%
Personal Communications (“P-Com”), subsidiary of MTU-Inform	63% [1]	63% [1]	72% [1]	83%	83%	91%
MTU-Intel	87% [1]	87% [1]	48% [1]	100%	100%	100%
Golden Line, subsidiary of MTU-Intel	87% [1]	87% [1]	Affiliate	100%	100%	Affiliate
Comstar	77% [1]	Affiliate	Affiliate	100%	Affiliate	Affiliate
Telmos	62% [1]	62% [1]	62% [1]	80%	80%	80%
Rosno	47%	47%	47%	51%	51%	51%
MBRD	59% [1]	52% [1]	47% [1]	86%	86%	86%
Intourist	91%	91%	55%	91%	91%	75%
Detsky Mir	71%	71%	71%	75%	74%	71%
DM-Center	100%	53% [1]	53% [1]	100%	100%	100%
NIIME and Plant Micron (“Micron”), subsidiary of CSC	57% [1]	56% [1]	63% [1]	72%	70%	63%
STROM telecom, subsidiary of CSC	80% [1]	80% [1]	Affiliate	100%	100%	Affiliate
Sistema-Hals	99% [1]	98% [1]	97% [1]	100%	100%	100%
Nasha Pressa, subsidiary of Media-Center	100% [1]	100% [1]	-	100%	100%	-
Concern RTI	100%	100%	100%	100%	100%	100%
ECU GEST	99%	99%	59%	99%	99%	59%

[1] – Including indirect ownership.

As of December 31, 2003, 2002 and 2001 the Group’s ownership structure included interests in certain subsidiaries owned by entities, related by means of common control. Net assets and operating results of these subsidiaries related to such holdings are accounted for as minority interest.

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

MGTS's non-convertible non-cumulative preferred shares carry guaranteed dividend rights amounting to the higher of 10% of the income of MGTS as disclosed in the Russian statutory accounting reports and the dividends paid on common shares. In the event of MGTS liquidation, preferred shareholders receive the par value of their shares, or the amounts payable to common shareholders, if higher. Where the preferred dividend is not paid in any year the preferred shares carry voting rights, that are otherwise limited to resolutions regarding liquidation or reorganization of MGTS, changes to dividend levels of preferred shares, and issuance of additional preferred stock. Dividends on MGTS's preferred shares are recorded in the statements of operations when declared.

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

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

Foreign Currency Translation – The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("FAS") No. 52, "Foreign Currency Translation". Due to a highly inflationary economy in the RF in 2002, the U.S. dollar (the Group's reporting currency) has been designated as the Group's functional currency. Accordingly, all foreign currency amounts were translated into U.S. dollars ("USD") using the remeasurement method.

Starting from January 1, 2003, the Russian economy ceased to be considered highly inflationary for accounting purposes. Management has determined that for the fiscal year beginning January 1, 2003 the functional currency of MGTS, Rosno, Kuban-GSM, Micron, Detsky Mir, DM-Center, Sistema Mass Media, Media-Center and Concern RTI is the Russian Rouble ("RUR"), the functional currency of UMC is the Ukrainian Hryvna ("UAH") and the functional currency of STROM telecom is the Czech Krona. Accordingly, the reporting currency amounts for these subsidiaries were translated into their functional currency at the exchange rate current at January 1, 2003. These amounts became the new accounting basis for the non-monetary assets and liabilities. Management believes that USD is still the appropriate functional currency for the other subsidiaries of the Group due to pervasive use of the U.S. dollar in their operations.

Pursuant to Emerging Issues Task Force ("EITF") Issue No. 92-8, "Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary", the differences between the new functional currency bases of non-monetary assets and liabilities and their tax basis represent temporary differences, for which deferred taxes must be recognized. Income tax effect of changes in the functional currency amounting to $22.4 million, net of minority interest of $17.2 million, was reported as other comprehensive loss for the year ended December 31, 2003.

The Group has selected the USD as its reporting currency and has translated financial statements of subsidiaries with a different functional currency into USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting cumulative translation adjustment in amount of $35.3 million, net of minority interest of $24.4 million, is recorded as a separate component of other comprehensive income.

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

Revenue Recognition – The Telecommunications Segment of the Group earns revenues from provision of wireless telecommunication services, local telephone and data transmission services and usage of its

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

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

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

(iii) Upfront fees received for installation and activation of wireless, wireline and data transmission services are deferred and recognized over the expected customer relationship period. The Group estimates that average expected term of the subscriber relationship for MTS's subscribers is 39 months in Russia and 47 months in Ukraine. The customer relationship period for residential wireline voice phone subscribers is 15 years. For all other categories of subscribers the customer relationship period is estimated at 3 to 5 years.

(iv) The Group recognizes revenues from the prepaid phone cards in the period when customer uses time under the phone card. Unused time on sold cards is not recognized as revenues until the related services have been provided to the customer or the prepaid phone card has expired. In 2002, MTS introduced a new line of 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.

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

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

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

Local telephone services, provided by MGTS, totaling approximately 6%, 20% and 24% of consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively, are regulated tariff services, and changes in rate structure is subject to Ministry of Antimonopoly Policy approval.

MGTS is required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and is entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounts for such revenues upon collection.

STROM telecom's arrangements with its customers typically include multiple elements, such as equipment and software development, installation services and post-contract customer support. In accordance with the Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition," the aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each element of an arrangement are recognized as revenue when the following criteria have been met:

a) a written contract for the delivery of an element has been executed, b) the Group has delivered the product to the customer, c) the fee receivable is fixed or determinable, and d) collectibility of

the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract customer support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as services are performed.

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

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

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

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

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

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

Financial Instruments – The Group's financial instruments include cash, short-term investments and long-term investments, receivables, payables and debt. Except as described below, the estimated fair value of such financial instruments as of December 31, 2003 approximate their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of December 31, 2003 ranged from 101.3% to 110.2% of the principal amount. As of December 31, 2003, fair value of other fixed rate debt including capital lease obligation, and variable rate debt approximated carrying value.

As of January 1, 2001 the Group adopted Financial Accounting Standard ("FAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". This statement requires that all derivatives, including some embedded derivatives, be measured at fair value and recognized as either assets or liabilities on balance sheets. Changes are recorded in comprehensive income, depending on the designated use of the instruments. During the years ended December 31, 2003, 2002 and 2001, the Group did not enter into significant derivative contracts.

MBRD also enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets. During the years ended December 31, 2003, 2002 and 2001, the Group did not enter into material repo or reverse repo agreements.

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

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

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

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

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

Subscriber Acquisition Costs – Effective January 1, 2001 MTS (then an affiliate of the Group) changed its accounting principle regarding recognition of subscriber acquisition costs. Prior to 2001, MTS capitalized these costs to the extent of any revenues that had been deferred from the acquisition of a subscriber and amortized on a straight-line basis over the estimated average subscriber life. The Group now expenses such costs as incurred. This change of accounting principle was made to facilitate comparison of MTS's results with other telecommunication companies. The Group's share of the cumulative effect of this change in the amount of $6.2 million (net of tax effect of $1.1 million) was charged to income in 2001.

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

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

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

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

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

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

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

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

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

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

Goodwill and Other Intangible Assets – As of January 1, 2002, the Group adopted FAS No. 142, "Goodwill and Other Intangible Assets". This Standard eliminates goodwill amortization from the consolidated statement of operations and requires an evaluation of goodwill for impairment (at the reporting unit level) upon adoption of this Standard, as well as subsequent evaluations on an annual basis, and more frequently if circumstances indicate a possible impairment. This impairment test is comprised of two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of the fair value of the applicable reporting unit to its carrying value, including goodwill. If the carrying value exceeds fair value, a second step is performed, which compares the implied fair value of the applicable reporting unit's goodwill with the carrying amount of that goodwill, to measure the amount of goodwill impairment, if any. Upon adoption, the Group performed a transitional impairment test on its two reporting units with significant amounts of goodwill assigned: P-Com (Telecommunications Segment) and MBRD (Banking Segment). The carrying amount of goodwill in other reporting units was immaterial. As a result of this impairment test, the Group recorded an impairment charge for goodwill assigned to MBRD of $21.5 million, which was classified as a cumulative effect of a change in accounting principle for the year ended December 31, 2002.

In May 2003, the Group announced its intention to curtail further investments in P-Com, a provider of telecommunication services in CDMA-800 standard. Concurrently, the Group performed an impairment test of goodwill assigned to P-Com and recorded an impairment charge of $19.3 million, which was charged to operating expenses.

For purposes of these impairment tests the fair value of MBRD and P-Com was determined based on a present value technique.

Subsequent impairment tests will be performed, at a minimum, in the fourth quarter of each year, in conjunction with the Group's annual planning process.

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

	(000's)			
	Telecom-munications	**Banking**	**Corporate and Other**	**Total**
Balance as of January 1, 2002	$ 22,122	$ 21,480	$ 635	$ 44,237
Transitional impairment charge	-	(21,480)	-	(21,480)
Goodwill written off related to disposal of a non-controlling interest in a subsidiary	(2,775)	-	-	(2,775)
Balance as of December 31, 2002	19,347	-	635	19,982
Purchase price allocation	71,247	-	-	71,247
Impairment charge	(19,251)	-	-	(19,251)
Balance as of December 31, 2003	**$ 71,363**	**$ -**	**$ 635**	**$ 71,998**

Costs of licenses for providing telecommunications services are capitalized as a result of purchase price allocated to licenses acquired in business combinations (Note 4) and licenses purchased directly from government organizations, which require license payments. As the Group and the telecommunications industry do not have sufficient experience with the renewal of licenses, license costs are being amortized, subject to periodic review for impairment, on the straight-line basis over the term of the license commencing from the date such license area becomes commercially operational.

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

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

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

Investments in corporate shares where the Group owns more than 20% of voting shares, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, including investments in entities of the radiotechnical business line (Note 1), as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at cost of acquisition. Management periodically assesses realizability of the carrying values of such investments and records impairment charges, if required.

Trading and available-for-sale securities held by the Group are stated at market value. Unrealized holding gains and losses for trading securities are included in earnings. Unrealized holding gains and losses for available-for-sale securities, net of tax effect, are reported in other comprehensive income.

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related loans. Debt issuance costs as of December 31, 2003, amounted to $17.3 million, net of accumulated depreciation of $5.8 million.

Impairment of Long-lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. For the years ended December 31, 2003, 2002 and 2001, no such impairments have occurred.

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

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

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

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

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

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

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

Income Taxes – Income taxes have been computed in accordance with RF laws. In accordance with legislation, effective January 1, 2002, income tax rate equals 24%. Income tax rate on dividends paid within Russia is 6%. The foreign subsidiaries of the Group are paying income taxes in their jurisdictions. Income tax rate in the Ukraine and in the Czech Republic equals 25% and 31%, respectively.

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

Stock-Based Compensation – The Group accounts for stock options issued to employees, non-employee directors and consultants of MTS following the requirements of FAS No. 123, "Accounting for Stock-Based Compensation" and FAS No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure, an amendment to FASB Statement No. 123." These statements allow measuring compensation to employees and non-employee directors based on the intrinsic value of options on the measurement date, calculated as a difference between the fair market value of stock and exercise price at that date. Compensation to consultants is measured based on the fair value of options on the measurement date as determined using a Black-Scholes option-pricing model.

During the years ended December 31, 2003, 2002 and 2001, MTS made several grants pursuant to its stock option plan to its employees and directors. These options are generally vested over a two year period from the date of the grant, contingent on continued employment with MTS. A summary of the status of MTS stock option plan is presented below:

	Shares of MTS		**Weighted average exercise price**
Outstanding at January 1, 2001	-		-
Granted	1,829,221	$	1.31
Outstanding at December 31, 2001	1,829,221		1.31
Granted	2,846,681		1.49
Forfeited	(27,481)		1.31
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**

None of the options outstanding at December 31, 2003, 2002 and 2001 were exercisable. Options outstanding at December 31, 2003, have exercise price ranging from $1.49 to $2.43 per share and their weighted average remaining contractual life was approximately one year at December 31, 2003.

During the year ended December 31, 2003, 19,776 stock options were forfeited, and 1,746,310 options were exchanged for cash consideration of $2.9 million that was included in operating expenses in the consolidated statements of operations. Since the date of the grant total options amounting to 1,913, nil and 45,344 related to 2003, 2002 and 2001 grants, respectively have been forfeited.

Fair values of options granted in the years ended December 31, 2003, 2002 and 2001 were $1.02, $0.50 and $0.36 per share, respectively, and were estimated using the Black-Scholes option pricing model. The risk free rates applied for the years ended December 31, 2003, 2002 and 2001 were 5.2%, 6.1%, and 15.5%, respectively. The following assumptions were applied to options granted in the years ended December 31, 2003, 2002 and 2001, respectively: (i) expected dividend yield of approximately 3.0%; (ii) expected volatility rates of 40.0%, 50.0% and 45.0%, and (iii) expected lives of 2 years.

If the Group had elected to recognize compensation costs based on the fair values of options at the date of the grant, net income and earnings per share amounts for the years ended December 31, 2003, 2002 and 2001 would have been as follows:

		(000's)	
	2003	**2002**	**2001**
Net income as reported	$ 387,047	$ 165,976	$ 135,255
Pro forma effect of the application of fair value method of accounting for stock options	(371)	(188)	(129)
Pro forma net income	386,676	165,788	135,126
Earnings per share, basic and diluted			
As reported	$ 47.8	$ 20.5	$ 16.7
Pro forma	$ 47.7	$ 20.5	$ 16.7

Retirement and Post-Retirement Benefits – 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. 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%, respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

During the years ended December 31, 2003 and 2002, the Group established and managed a defined contribution plan to provide eligible employees with additional income upon retirement. The Group's contributions to the plan totaled $1.7 million and $2.0 million for the years ended December 31, 2003 and 2002, respectively.

In addition, MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (Note 27).

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

Borrowing Costs – Borrowing costs were recognized as an expense in the period in which they were incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs during the years ended December 31, 2003, 2002 and 2001 amounted to $1.2 million, $0.8 million and $1.5 million, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2003, 2002 and 2001 were $120.0 million, $10.3 million and $7.5 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Earnings per Share – Basic earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the year ended December 31, 2003, 2002 and 2001. Diluted EPS reflect the potential dilution of MTS' stock options, granted to employees. There are 4,797,410 MTS' stock options outstanding as at December 31, 2003.

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

Disposition of Subsidiaries – As of January 1, 2002 the Group adopted FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of the superseded FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". While it supersedes APB Opinion No. 30, "Reporting the Results of operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", it retains the presentation of discontinued operations but broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. Under FAS No. 144 there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there is a range of cash flows that may be generated by the asset being tested for impairment. FAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

New Accounting Pronouncements – In June 2001, FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations". FAS No. 143 requires that the fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's useful life. Changes in the liability resulting from the passage of time will be recognized as operating expense. The Group adopted SFAS No. 143 effective January 1, 2003. The adoption of FAS No. 143 did not have a material impact on the Group's results of operations or its financial position.

In April 2002, FASB issued FAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This Standard rescinds FAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt", and an amendment of that Standard, Standard No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" to address classification of gains and losses from extinguishment of debt in the statement of operations. This Standard also amended Standard No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption of FAS No. 145 did not have a material impact on the Group's results of operations or its financial position.

In June 2002, FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires the recognition of a liability when incurred for costs associated with an exit or disposal activity. The fundamental conclusion reached by the FASB in this Statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. FAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Group adopted the provisions of FAS No. 146 effective January 1, 2003. The adoption of FAS No. 146 did not have a material impact on the Group's results of operations or its financial position.

In November 2002, FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantee. FIN 45 also requires additional disclosure requirements about the guarantor's obligations under certain guarantees that it has

issued. The Group adopted initial recognition and measurement provisions of this interpretation on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on the Group's financial position or results of operations.

In November 2002, the EITF issued a final consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on when and how an arrangement involving multiple deliverables should be divided in separate units of accounting. The Group adopted the requirements of EITF Issue No. 00-21 prospectively for arrangements entered into after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on the Group's financial position or results of operations.

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

In April 2003, FASB issued FAS No. 149, "Amendments of FASB Statements No. 133 on Derivative Instruments and Hedging Activities." FAS No. 149 clarifies under what circumstances a contract with an initial investment meets the characteristic of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying and certain other existing pronouncements. The Group adopted the requirements of FAS No. 149 for contracts entered into or modified and for hedging relationships designated after June 30, 2003. The adoption of FAS No. 149 did not have a material impact on the Group's financial position or results of operations.

In May 2003, FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". FAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) certain classes of freestanding financial instruments that embody obligations for the issuer, including mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets and certain obligations to issue a variable number of shares. The Group adopted the requirements of FAS No. 150 effective July 1, 2003. The adoption of FAS No. 150 did not have a material impact on the Group's financial position or results of operations.

In November 2003, the EITF reached a final consensus on Issue No. 03-10, "Application of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor', by Resellers to Sales Incentives Offered to Consumers by Manufacturers." The consensus was reached that consideration received by a reseller from the vendor in exchange for vendor sales incentives tendered by consumers should not be reported as a reduction of the cost of the reseller's purchases from the vendor but instead should be shown as revenue. EITF Issue No. 03-10 is effective for reporting periods beginning after November 25, 2003. The Group does not anticipate that the adoption of Issue No. 03-10 will have a material impact on the Group's results of operations or financial position.

In December 2003, the U.S. Securities Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition". SAB 104 updates portions of the interpretive guidance

included in Topic 13 of the codification of Staff Accounting Bulletins in order to make this interpretive guidance consistent with current authoritative accounting guidance and SEC rules and regulations. The Group believes it is following the guidance of SAB 104.

In March 2004, the EITF reached a consensus on Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share". This Issue defines participating security and clarifies some practical issues related to including participating securities in the calculation of EPS. EITF Issue No. 03-6 is effective for reporting periods beginning after March 31, 2004. The Group does not anticipate that the adoption of Issue No. 03-6 will have a material impact on the Group's financial position or results of operations.

Reclassifications – Certain other reclassifications of prior years' amounts have been made to conform to the presentation adopted for 2003.

4. ACQUISITIONS

Acquisition of MTS

In March 2003, the Group entered into a call option agreement to acquire 199,332,614 shares of MTS, representing 10% of its outstanding share capital. In connection with the call option, the Group also entered into an agreement with T-Mobile, a shareholder of MTS. Under the shareholders' agreement, T-Mobile undertakes to vote when necessary to ensure (in so far that it is able) that the Group will have a majority of the members of the MTS board of directors. However, certain actions will require T-Mobile's approval, including new issuances of MTS shares, actions which would dilute T-Mobile's shareholding in MTS and acquisitions by MTS with a value between 25% and 50% of the balance sheet value of MTS' total assets, in accordance with Russian accounting standards. Under the agreement, both the Group and T-Mobile have a right of first refusal with respect to sales of MTS shares by the other party to third parties, subject to certain exceptions. The Group and T-Mobile agreed to consult each other with respect to any dividend policy of MTS, with the expectation that annual distributions of not less than the equivalent of 25% of MTS' net profits (as determined under Russian accounting standards) will be made as dividends, including dividends with respect to MTS' fiscal year 2002.

In April 2003, the Group exercised its option with T-Mobile to purchase an additional 6% of the outstanding common stock of MTS and T-Mobile's 49% interest in Invest-Svyaz-Holding, a subsidiary of the Group holding 8% of the outstanding common stock of MTS, for $370.0 million in cash. Additionally, $0.8 million was paid in legal fees. As a result of this transaction, the Group's share in MTS increased to 50.6%.

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

		(000's)
Current assets	**$**	687,587
Non-current assets		1,983,412
License costs		497,738
Acquired customer base		113,979
Goodwill		67,615
Trademarks		41,780
Roaming contracts		35,220
Current liabilities		(588,374)
Non-current liabilities		(874,238)
Deferred taxes		(164,726)
Minority interest		(900,423)
Carrying value of the Group's investment in MTS as of the date of acquisition		(528,810)

Purchase price allocation	**$**	**370,760**

In accordance with FAS No. 141 "Business Combinations," the Group recognized $67.6 million of goodwill primarily relating to workforce-in-place and expectation of MTS, due to its established status on the telecommunications market, being able to prolong its operating licenses beyond their current terms for a consideration lower than their market value.

Acquisition of UMC

In March 2003, MTS acquired 58% of the outstanding voting interest of UMC, a provider of wireless telecommunication services in Ukraine, for the cash consideration of $199.0 million. 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. The purchase price allocation was as follows:

		(000's)
Current assets	$	82,293
Non-current assets		272,721
License costs		82,200
Acquired customer base		30,927
Current liabilities		(63,551)
Non-current liabilities		(78,580)
Deferred taxes		(27,425)
Minority interest		(99,581)
Purchase price allocation	**$**	**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 within one year. The amount payable accrued interest of 9% per annum and was paid in April 2004.

MTS also had an option agreement with Ukrtelecom to purchase its remaining 26% stake in UMC, exercisable from February 5, 2003 to November 5, 2005, with an exercise price of $87.6 million.

In June 2003 MTS exercised this call option. As a result of the transaction, the Group's voting power in UMC has increased from 58% to 84%.

In addition, MTS entered into a put and call option agreement for the purchase of remaining 16% 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. In July 2003, the Group exercised its rights under the put and call option agreement for a cash consideration of approximately $91.7 million.

UMC is one of the two leading operators in Ukraine, operating under nationwide GSM-900/1800 and NMT 450 licenses.

Acquisition of Minority Interest in Kuban-GSM

In September 2003, MTS acquired 100% of Kubtelesot for cash consideration of $107.0 million. Kubtelesot owned 47.3% of Kuban-GSM, and the Group's purchase of this stake increased its voting power in Kuban-GSM to 100%.

Kuban-GSM operates in thirteen major cities throughout the south of the European part of RF, including Sochi, Krasnodar and Novorossiisk.

Acquisition of TAIF-Telcom

In April 2003, the Group acquired 51% of the common shares of TAIF-Telcom, a provider of mobile telecommunication services in the Republic of Tatarstan, RF and in the Volga region of Russia, for cash consideration of $51.0 million and 50% of the preferred shares of TAIF-Telcom for cash consideration of $10.0 million. In May 2003, the Group acquired an additional 2% of the common shares of TAIF-Telcom for cash consideration of $2.3 million. In connection with the acquisitions, the Group also assumed indebtedness of approximately $16.6 million that is collateralized by telecom equipment. As a result of this transaction the Group acquired 53% voting interest in TAIF- Telcom.

The Group also entered into call and put option agreements with the existing shareholders of TAIF-Telcom to acquire the remaining 47% of common shares and 50% of preferred shares of TAIF-Telcom. The exercise period for the call option on common shares is 48 months from the acquisition date and for the put option on common shares is 36 months following an 18 month period after the date of acquisition. The call and put option agreements for the common shares stipulate 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 is 48 months following a 24 month period after the date of acquisition and for the put option on preferred shares it is a 24 month period after the date of acquisition. The call and put option agreements for the preferred shares stipulate a minimum purchase price of $10.0 million plus 8% per annum commencing from the acquisition date.

The purchase price allocation was as follows:

		(000's)
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 allocation	**$**	**63,240**

TAIF-Telcom provides mobile services in the GSM-900/1800 standard in the Republic of Tatarstan and in the Volga region in Russia.

Acquisition of Sibchallenge

In August 2003, MTS completed the purchase of 100% 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 provides mobile telecommunication services in the Krasnoyarsk region of Siberia, the Republic of Khakasiya, and in the Taimyr Autonomous region.

The purchase price allocation was as follows:

		(000's)
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 allocation	**$**	**47,454**

Acquisition of Tomsk Cellular Communications

In September 2003, MTS purchased 100% of Tomsk Cellular Communications ("TSS") for cash consideration of $47.0 million. TSS holds licenses to provide mobile telecommunication services in the Tomsk region.

The purchase price allocation was as follows:

		(000's)
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 allocation	**$**	**47,000**

Acquisition of Comstar and Kosmos-TV

In September and October 2002, the Group acquired senior discounted notes of Metromedia International Group, a U.S.-based company with interests in telecommunications and mass media businesses in RF, for $34.3 million. The par value of the notes acquired by the Group equaled $56.7 million. In April 2003, the Group disposed of the notes to a third party as an advance for acquisition of 50% of the voting shares of Comstar, an affiliate of the Group and 50% of the voting shares and debt of $23.3 million (including accrued interest of $4.8 million) of Kosmos-TV, a provider of satellite television services, operating in Moscow.

In December 2003, the Group acquired 50% of voting shares of Comstar, 50% of voting shares of Kosmos-TV and debt of $23.3 million in exchange for the notes with the fair value of $20.8 million, $7.2 million and $6.3 million, respectively. This transaction increased the Group's voting power in Comstar to 100% and resulted in obtaining control over Comstar operations by the Group.

The purchase price allocation was as follows:

		(000's)
Current assets	$	23,645
Non-current assets		53,165
Current liabilities		(16,983)
Non-current liabilities		(6,540)
Carrying value of the Group's investment in Comstar as of the date of acquisition		(32,495)
Purchase price allocation	**$**	**20,792**

Other Acquisitions

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 44% stake in Uraltel and 100% of Vostok Mobile BV, which holds a 50% stake in Primtelefon.

In August 2003, the Group completed the acquisition of Vostok Mobile BV and recorded a 50% stake investment in Primtelefon using the equity method of accounting.

In October 2003, the Group completed the purchase of Vostok Mobile South and thus acquired a 50% stake in Volgograd Mobile and Astrakhan Mobile and an 80% stake in Mar Mobile GSM. Also, in a separate transaction the Group completed the acquisition of the remaining 20% stake in Mar Mobile GSM from existing shareholders unrelated to MCT Corporation, thus consolidating a 100% ownership in the company.

During the year ended December 31, 2003, the Group increased its ownership interests in MBRD from 52% to 59%, in DM-Center from 53% to 100% and in Bolshaya Ordynka from 0% to 70% by acquiring their shares from related parties for an aggregate cash consideration of less than $0.1 million. The aggregate effect of such transactions on the Group's equity amounted to a net decrease of $2.7 million, which was charged to additional paid-in capital.

Pro forma results of operations (unaudited)

The following unaudited pro forma financial data for the years ended December 31, 2003 and 2002 give effect to the acquisition of MTS, UMC, Kuban-GSM, TAIF-Telcom, Sibchallenge, TSS and Comstar as if they had occurred at January 1, 2002:

	(000's)	
	December 31, 2003	**December 31, 2002**
Net revenues	$ 3,759,915	$ 2,625,516
Income from continuing operations before cumulative effect of a change in accounting principle	277,579	178,603
Net income	433,956	173,692
Earnings per share, basic and diluted:	$ 53.6	$ 21.4

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

5. DISPOSITIONS AND CAPITAL TRANSACTIONS OF SUBSIDIARIES

In December 2002, the Group disposed of non-controlling interest of 7.6% in Micron to a minority shareholder of Corona-Semiconductor, Micron's subsidiary, in exchange for settlement of a debt of $2.8 million and a receivable of RUR 140.2 million (equivalent of $4.8 million as of December 31, 2003). As a result of this transaction, the Group recognized a net gain of $6.4 million that was included in results of operations for the year ended December 31, 2002.

In 2002 and 2003, the Group disposed of its oil business line through a series of transactions as described below.

In 2002 and 2003, the Group disposed of its interests in FPK Kedr-M, a network of 30 gasoline stations located in Moscow, to a third party. The deal was structured to be executed in two stages. In December 2002, the Group sold 50% of Kedr-M's voting shares and recognized gain on disposal, classified as gain on disposal of discontinued operations, in amount of $19.7 million. Sale of the remaining 50% of the Group's shares in Kedr-M to the same buyer for cash consideration of $22.5 million was closed in February 2003.

In May 2003, the Group acquired 33% of common voting shares of Belkamneft, an oil extraction company, operating in Udmurtia, RF, for $32.6 million in cash. In June 2003, the Group contributed its interest in Belkamneft into the share capital of United Oil Company ("ONK"), a newly created

entity, in exchange for 50% ownership. The other shareholders of ONK contributed to its share capital the equivalent number of Belkamneft's voting shares. During 2003 the Group acquired 100% of Consortium-12, an oil extraction company in Udmurtia, RF, and Baikal Oil, an oil trader in Bashkortostan, RF, and a shareholder of ONK, for cash consideration of $135.0 million.

Additionally, the Group increased its ownership in Sistema-Neft, a holding company of the Group's oil business line from 76% to 100% by acquiring its shares from a party under common control for an aggregate cash consideration of $19.2 million. As a result of this transaction, the Group's equity decreased by the same amount, which was charged to additional paid-in capital.

In December 2003, the Group sold its interests in ONK, Consortium-12, Baikal Oil and Sistema-Neft and subsidiaries to a third party for total cash consideration of $292.5 million and a promissory note with fair value of $15.9 million maturing in 2004.

The results of oil business line and gain on disposal of oil assets in amount of $143.6 million, net of income tax effect of $18.3 million were classified as discontinued operations in the consolidated statements of operations.

Assets and liabilities of discontinued operations as of December 31, 2002 and 2001 consisted of the following:

	(000's) 2002	2001
Current assets	$ 14,080	$ 3,765
Non-current assets	6,636	8,664
Total assets of discontinued operations	**20,716**	**12,429**
Current liabilities	35,166	16,200
Non-current liabilities	14,000	25,636
Total liabilities of discontinued operations	**$ 49,166**	**$ 41,836**

During the year ended December 31, 2003, the Group sold shares of several immaterial subsidiaries to related parties for an aggregate consideration of approximately $10.0 million. The amount of the consideration received, net of minority interest, was credited to additional paid-in capital.

6. CASH AND CASH EQUIVALENTS

Cash equivalents amounting to $56.1 million, $42.1 million and $23.5 million as of December 31, 2003, 2002 and 2001, respectively, are comprised primarily of term deposits with banks with original maturities less than 90 days. Within the amounts as of December 31, 2003 and 2002, $44.3 million and $4.3 million, respectively, represent the Group's deposit with East-West United Bank, an affiliate of the Group.

Also included in cash as of December 31, 2003, 2002 and 2001 are $45.7 million, $19.4 million, and $22.5 million respectively, which represent the MBRD's minimum reserve deposit required by the Central Bank of RF ("CBR").

7. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2003, 2002 and 2001 consisted of the following:

(000's)

	2003	2002	2001
Trading securities:			
RF Eurobonds	$ 54,394	$ 30,210	$ 24,973
Metromedia notes (Note 4)	-	34,298	-
Corporate bonds	19,696	12,856	4,212
Municipal bonds	4,012	-	-
Corporate shares	2,250	6,888	6,393
Other trading securities	10,998	2,408	1,028
	91,350	86,660	36,606
Other short-term investments:			
Credit linked notes	38,170	-	-
Promissory notes from third parties	95,881	24,480	28,040
Promissory notes from related parties	20,946	33,956	15,131
Bank deposits with original maturities exceeding 90 days	24,040	16,971	-
Other short-term investments	8,463	2,248	6,410
	187,500	77,655	49,581
Total	**$ 278,850**	**$ 164,315**	**$ 86,187**

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from 2005 to 2030 and coupon rates of 9-13% per annum.

Corporate bonds denominated in RUR represent bonds issued by major Russian companies with maturity dates from 2004 to 2008 and coupon rates of 8-17% per annum.

Municipal bonds are RUR-denominated securities issued by local authorities of Moscow. These bonds have maturity dates from 2004 to 2005 and coupon rates of 10-15% per annum.

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

The weighted average interest rate on promissory notes from third parties as of December 31, 2003 was 8%, while promissory notes from related parties are mostly interest-free. Most of the notes mature within 1 year from the latest balance sheet date.

The effective interest rate on bank deposits with original maturities exceeding 90 days as of December 31, 2003 was 11% for RUR-denominated deposits, and 8% on deposits in USD.

8. LOANS TO CUSTOMERS AND BANKS, NET

Loans to customers and banks, net of allowance for losses, as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Loans to customers	$ 231,918	$ 139,222	$ 127,848
Loans to banks	147,518	26,074	101,927
	379,436	165,296	229,775
Less allowance for loan losses	(14,454)	(4,552)	(2,915)

	2003	2002	2001
Total	**$ 364,982**	**$ 160,744**	**$ 226,860**

Loans to customers as of December 31, 2003, 2002 and 2001 included loans to related parties of $151.6 million, $96.9 million and $115.0 million, respectively.

9. INSURANCE-RELATED RECEIVABLES

Insurance-related receivables as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Receivables from insurance operations	$ 44,612	$ 29,517	$ 15,902
Advances to health care providers	25,243	20,623	14,976
Total	**$ 69,855**	**$ 50,140**	**$ 30,878**

10. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Trade receivables	$ 211,333	$ 79,423	$ 60,241
Less: provision for doubtful accounts	(29,082)	(9,870)	(6,069)
Total	**$ 182,251**	**$ 69,553**	**$ 54,172**

Included in trade receivables as of December 31, 2003, 2002 and 2001 are receivables for services provided to the Group's affiliates and parties related by means of common control in the amounts of $4.3 million, $15.0 million and $9.2 million, respectively. Management anticipates no losses in respect of receivables from related parties.

11. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Recoverable VAT	$ 278,441	$ 40,092	$ 26,096
Receivables for sale of oil assets (Note 5)	153,500	-	-
Advances to suppliers	58,266	13,445	17,237
Prepaid expenses	15,897	9,283	2,755
Deferred policy acquisition costs	9,410	6,906	11,759
Other taxes prepaid	11,728	5,038	1,431
Receivables for sale of Micron shares	4,759	-	-
Other	39,406	11,874	8,172
Less: provision for doubtful accounts	(4,282)	(4,951)	(1,580)
Total	**$ 567,125**	**$ 81,687**	**$ 65,870**

Policy acquisition costs' amortization charge for the years ended December 31, 2003, 2002 and 2001, was $22.5 million, $24.8 million and $19.6 million, respectively.

12. INVENTORIES

Inventories as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Raw materials and spare parts	$ 51,216	$ 17,971	$ 14,355
Work-in-progress	15,643	7,663	5,622
Finished goods and goods for resale	62,693	11,469	12,266
Project costs – construction, net of progress billings	36,651	11,001	5,642
Total	**$ 166,203**	**$ 48,104**	**$ 37,885**

Inventories with a book value of $1.9 million, $3.2 million and $1.3 million as of December 31, 2003, 2002 and 2001, respectively, were pledged as collateral in respect of loans from banks.

13. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Land	$ 3,894	$ 3,409	$ 4,631
Buildings and leasehold improvements	439,838	224,183	177,225
Switches, transmission devices, network and base station equipment	2,223,603	497,416	451,595
Other plant, machinery and equipment	412,519	247,117	172,486
Construction in progress and equipment for installation	764,178	80,757	91,988
	3,844,032	1,052,882	897,925
Less: accumulated depreciation	(475,911)	(142,840)	(93,193)
Total	**$ 3,368,121**	**$ 910,042**	**$ 804,732**

Depreciation expense for the years ended December 31, 2003, 2002 and 2001 amounted to $335.3 million, $70.4 million and $58.1 million, respectively.

14. LONG-TERM RECEIVABLES

Long-term receivables as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Lease rental receivable – long-term portion	$ 1,223	$ 6,890	$ 2,701
Receivable from sale of Combellga shares	-	2,710	2,412
Other long-term receivables	-	330	421

	2003	2002	2001
Total	**$ 1,223**	**$ 9,930**	**$ 5,534**

During 1999, the Group disposed of its 10% holding in ZAO Combellga, a Moscow telecommunications operator. In April 2002, the Group agreed to defer repayment of $3.1 million outstanding on the respective note receivable to April 2005. In December 2003, the note receivable was settled for the amount of $3.9 million, which included principal amount and interest accrued.

The Group has entered a number of agreements for the leasing of network equipment and a billing system from a related party. The leases meet the criteria for direct financing capital leases and the future minimum rentals receivable are as follows:

	(000's)
2004	$ 6,580
2005	1,001
2006	536
Less: amount representing interest	(1,201)
Less: current portion of lease receivable	(5,693)
Lease rental receivable – long-term portion	**$ 1,223**

15. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2003, 2002 and 2001 consisted of the following:

	(000's)		
	2003	**2002**	**2001**
Loans and promissory notes from related parties	$ 14,279	$ 17,721	$ 13,444
Loans and promissory notes from third parties	6,836	-	-
Mutual investment funds	9,616	-	-
Other	10,662	14,552	11,322
Total	**$ 41,393**	**$ 32,273**	**$ 24,766**

Loans and promissory notes from parties related by means of common control are mostly RUR denominated and interest-free. Majority of such loans and promissory notes mature from 2004 to 2006.

16. INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies as of December 31, 2003, 2002 and 2001 consisted of the following:

	(000's)					
	2003		**2002**		**2001**	
	Voting power, %	**Carrying value**	**Voting power, %**	**Carrying value**	**Voting power, %**	**Carrying value**
MTS	Consolidated		41%	$ 474,587	41%	$ 352,395
Telecom-900	Consolidated		-	-	19%	6,270
Golden Line	Consolidated		Consolidated		50%	4,435
Comstar	Consolidated		50%	32,906	50%	32,450
Primtelefon	50%	$ 31,174	-	-	-	-
East-West United Bank	30%	8,382	30%	6,092	25%	3,215

ZETA Telecom	49%	7,390	49%	6,882	49%	7,000
Kosmos TV	50%	7,239	-	-	-	-
MTS Belarus	49%	5,884	-	-	-	-
Astrakhan Mobile and Volgograd Mobile	50%	5,806	-	-	-	-
MCC	24%	4,862	24%	4,330	24%	6,730
Mosdachtrest	44%	4,024	44%	3,297	44%	3,007
Loans to MTS Belarus	-	51,481	-	-	-	-
Loans to Astrakhan Mobile and Volgograd Mobile	-	6,850	-	-	-	-
Acquired debt of Kosmos TV (Note 4)	-	6,333	-	-	-	-
Other investments and loans to investees	Various	11,511	Various	8,244	Various	7,739
Total		**$ 150,936**		**$ 536,338**		**$ 423,241**

Investments in affiliates include $51.5 million in loans to MTS Belarus bearing interest at 3% to 11% per annum. Based on projected cash flows of MTS Belarus, the Group has concluded that no impairment of the Group's investments in Belarus is required as of December 31, 2003.

17. LICENSES, NET

Licenses, net of accumulated amortization, as of December 31, 2003 consisted of the following:

	(000's)
Operating licenses	$ 773,073
Less: accumulated amortization	(103,085)
Total	**$ 669,988**

Amortization expense for licenses for the year ended December 31, 2003 amounted to $103.1 million. Based on the licenses existing at December 31, 2003, the estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	(000's)
2004	$ 140,307
2005	136,108
2006	131,508
2007	97,408
2008	66,398
Thereafter	98,259
	$ 669,988

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

18. OTHER INTANGIBLE ASSETS, NET

Intangible assets, other than goodwill and licenses, net of accumulated amortization, as of December 31, 2003, 2002 and 2001 consisted of the following:

December 31, 2003	**December 31, 2002**	**December 31, 2001**

	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value
Amortized intangible assets:									
Acquired customer base	$ 137,747	(28,877)	108,870	$ 1,599	(178)	1,421	-	-	-
Numbering capacity with finite contractual life, rights to use premises, software and other	319,498	(53,007)	266,491	4,365	(2,017)	2,348	$ 2,100	(1,875)	225
	457,245	(81,884)	375,361	5,964	(2,195)	3,769	2,100	(1,875)	225
Unamortized intangible assets:									
Numbering capacity with indefinite contractual life	28,855	-	28,855	12,415	-	12,415	11,186	-	11,186
Trademarks	42,165	-	42,165	9,858	-	9,858	-	-	-
Total intangible assets	**$ 528,265**	**(81,884)**	**446,381**	**$ 28,237**	**(2,195)**	**26,042**	**$ 13,286**	**(1,875)**	**11,411**

Amortization expense recorded on the intangible assets for the years ended December 31, 2003, 2002 and 2001 amounted to $82.6 million, $1.6 million and $1.0 million, respectively. The estimated amortization expense for each of the five succeeding years is as follows:

	(000's)
2004	$ 144,110
2005	111,409
2006	67,849
2007	20,220
2008	6,803
Thereafter	24,970
	$ 375,361

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.

19. BANK DEPOSITS AND NOTES ISSUED

Bank deposits and notes issued as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	**(000's) 2002**	**2001**
Deposits repayable on demand	$ 57,981	$ 63,553	$ 59,055
Term deposits	67,446	85,868	123,906
Bonds issued	-	9,439	-
Promissory notes issued	48,321	12,433	19,835
Total	**$ 173,748**	**$ 171,293**	**$ 202,796**

Bank deposits and notes issued as of December 31, 2003, 2002 and 2001 include deposits from and promissory notes issued to related parties for $30.2 million, $54.5 million and $105.0 million, respectively.

In August 2002, MBRD issued 1-year RUR-denominated bonds with a face value of 300 million RUR. The bonds were traded on the MICEX, carried a coupon rate of 18.8% and were repaid in August 2003.

20. INSURANCE-RELATED LIABILITIES

Insurance-related liabilities as of December 31, 2003, 2002 and 2001 consisted of the following:

		(000's)	
	2003	2002	2001
Unearned premium provision, net of reinsurance	$ 72,511	$ 59,163	$ 48,769
Loss provision, net of reinsurance	39,349	24,154	17,525
Undisbursed MGFOMS funds	38,140	36,063	24,806
Other insurance related liabilities	30,986	17,729	14,173
Total	**$ 180,986**	**$ 137,109**	**$ 105,273**

Usage of MGFOMS funds in the amount of $38.1 million, accumulated and undisbursed by Rosno as of December 31, 2003 is limited to payments for medical facilities and care provided to RF citizens by medical centers under MGFOMS's obligatory medical insurance program.

21. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2003, 2002 and 2001 consisted of the following:

		(000's)	
	2003	2002	2001
Subscriber prepayments, current portion (Note 25)	$ 255,988	$ 54,209	$ 34,974
Payables for purchase of oil assets (Note 5)	96,530	-	-
Payroll and other accrued expenses	39,836	12,032	9,322
Accrued interest on loans	50,726	7,980	5,868
Customers' advances	38,586	11,292	9,659
Payables for purchase of UMC shares (Note 4)	27,500	-	-
Current portion of long-term capital lease obligations (Note 23)	11,387	26,973	4,089
Dividends payable	10,841	4,337	2,573
Tax and legal contingencies	27,179	6,000	6,000
Other	48,510	6,750	7,109
Total	**$ 607,083**	**$ 129,573**	**$ 79,594**

22. SHORT-TERM NOTES PAYABLE

Short-term notes payable as of December 31, 2003, 2002 and 2001 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2003)	2003	(000's) 2002	2001

Credit linked notes	USD	10.8%	$ 100,000	$ 15,000	$ 10,000
Credit Suisse First Boston	USD	LIBOR+3.5% (4.7%)	35,000	-	-
Trust Bank	USD	8.0%	25,000	10,000	-
Deutsche Bank	USD	Russian Interbank Refinancing Rate+5.5% (14.5%)	15,280	-	20,000
AVAL Bank	UAH	10.0%-16.0%	10,890	-	-
Commerzbank Eurasia	USD	LIBOR+5.0% (6.2%)	10,000	17,000	4,750
Sberbank	RUR	15.0%-18.0%	3,828	4,488	3,215
USD promissory notes issued	USD	-	-	21,809	-
RUR promissory notes issued	RUR	-	-	-	12,872
Dresdner Bank	USD	-	-	10,000	-
Donau Bank	USD	-	-	9,864	-
Renaissance Nominees Ltd.	USD	-	-	5,000	-
Loans and promissory notes payable to related parties	Various	Various	134,574	90,538	84,222
Other	Various	Various	14,511	14,898	9,426
Total			**$ 349,083**	**$ 198,597**	**$ 144,485**

Credit Linked Notes – In February 2003, the Group borrowed $100.0 million at 10.75% per annum under a credit linked note program. The Group has repurchased $38.2 million of the credit linked notes during the year ended December 31, 2003 (Note 7). The notes were repaid in February 2004.

Credit Suisse First Boston – In May and December 2003, the Group entered into loan agreements with Credit Suisse First Boston for an aggregate amount of $35.0 million. The interest rate on the loans was LIBOR+3.5%. The loans were repaid in January 2004.

Trust Bank – In October 2003, the Group entered a loan agreement with Trust Bank for $25.0 million. The loan bears interest at 9.5% per annum and is due in July 2004.

Deutsche Bank **–** In February 2003, the Group borrowed $15.3 million from Deutsche Bank with an interest rate determined as the Russian interbank refinancing rate plus 5.5%. The loan was repaid in January 2004.

AVAL Bank **–** On December 31, 2003, the Group had a balance of $10.9 million of overdraft with AVAL bank. The short-term overdraft facility is limited to 110.0 million hryvnas (equivalent of $20.0 million as of December 31, 2003), bears interest at 10-16% per annum and matures in June 2004.

Commerzbank Eurasia **–** In November 2003, the Group entered a loan agreement with Commerzbank Eurasia for the amount of $10.0 million. The loan bears interest at LIBOR+5% and is due in November 2004.

Sberbank – The Group has entered several short-term loans with Sberbank. The outstanding balance under the loans as of December 31, 2003 is $3.8 million. The loans bear interest of 15%-18% and mature in 2004.

Sberbank loans are collateralized by pledge of PP&E with the carrying value of approximately $6.0 million. Other short-term loans are unsecured.

23. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of December 31, 2003, 2002 and 2001 consisted of the following:

		(000's)	
	2003	**2002**	**2001**

Capital lease obligations	$	16,330	$	36,664	$	18,995
Less: current portion of capital lease obligations (Note 21)		(11,387)		(26,973)		(4,089)
Total	$	**4,943**	$	**9,691**	$	**14,906**

During 2001-2003 the Group entered several lease agreements for telecommunications equipment and vehicles. Most of the agreements expire in 2004-2006 and assume transfer of ownership for leased assets to the Group at the end of the lease term. JSFC Sistema guaranteed $8.2 million under the lease agreements entered by the Group's subsidiaries.

The net book value of leased assets comprised $23.2 million, $36.7 million and $35.9 million as of December 31, 2003, 2002 and 2001, respectively. Rent expense, recorded within income from continuing operations, was $4.2 million, $3.0 million and $2.8 million in 2003, 2002 and 2001, respectively. Future minimum payments under the lease agreements and lease commitments are disclosed in Note 32.

24. LONG-TERM DEBT

Long-term debt as of December 31, 2003, 2002 and 2001 consisted of the following:

				(000's)	
	Currency	**Annual interest rate (Actual at December 31, 2003)**	**2003**	**2002**	**2001**
Sistema Finance Notes	USD	10.3%	$ 348,561	-	-
MTS Notes due 2010	USD	8.4%	400,000	-	-
MTS Notes due 2008	USD	9.8%	400,000	-	-
MTS Notes due 2004	USD	11.0%	299,640	-	-
Floating Rate Notes due 2004	USD	LIBOR+4.0% (5.2%)	298,196	-	-
Sistema Finance Investments Bonds	RUR	15.0%	40,747	$ 37,488	-
MGTS Bonds	RUR	11.3%-12.3%	52,643	38,393	$ 44,789
Micron Bonds	RUR	15.0%	7,541	2,613	684
TAIF-Telcom Bonds	RUR	20.6%	4,074	-	-
Total Corporate Bonds			**1,851,402**	**78,494**	**45,473**
ING-Bank	USD	LIBOR+4.2% (5.4%)	60,000	10,000	-
Deutsche Telecom	USD	LIBOR+0.3%-7% (1.5%-8.2%)	57,981	50,000	50,000
Hermes Credit Facility	EUR	EURIBOR+0.7% (2.8%)	55,550	-	-
Sberbank	RUR	12.0%	34,732	61,285	72,854
Raiffeisenbank	USD	LIBOR+5.0%-7.0% (6.2%-8.2%)	33,036	29,886	-
Vendor Financing	Various	Various	25,033	32,992	37,690
HSBC	USD	LIBOR+2.8% (3.9%)	25,000	-	-
Ericsson Project Finance	USD	LIBOR+4% (5.2%)	23,400	34,412	38,958
Commerzbank (Eurasia)	USD	LIBOR+1.4%-3.5% (2.6-4.7%)	19,958	-	-
Citibank	USD	LIBOR+1.6%-5.0% (2.8%-6.2%)	18,616	7,577	9,427
Vneshtorgbank	USD	10.0%	17,297	21,565	11,899
Dresdner Bank	USD	LIBOR+3.2%-3.4% (4.4%-4.6%)	15,400	-	-
International Moscow Bank	RUR	13.4%	10,864	-	-
Vnesheconombank	USD	7.0%	6,974	-	-

TDC Mobile International	USD	LIBOR+5%-7% (6.2%-8.2%)	6,838	-	-
WestLB International	EUR	EURIBOR+2% (4.2%)	5,092	-	-
Loans from related parties	Various	Various	31,898	38,859	72,820
Other	Various	Various	20,956	7,653	22,573
			2,320,027	372,723	361,694
Less amounts maturing within one year			(844,106)	(106,843)	(71,904)
Total			**$ 1,475,921**	**$ 265,880**	**$ 289,790**

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

In October 2003, MTS Finance, a subsidiary of the Group, issued $400.0 million notes bearing interest at 8.375% at par. The cash proceeds, net of issuance costs of approximately $4.6 million, amounted to $395.4 million. These notes are fully and unconditionally guaranteed by MTS and will mature in October 2010. MTS Finance is required to make interest payments on the notes semi-annually in arrears in April and October of each year, commencing April 2004. The notes are listed on the Luxembourg Stock Exchange. These notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, limitations on MTS's ability to enter into sale leaseback transactions, restriction on any merger, consolidation or disposition of assets, restrictions on the sales of any licenses. In addition, these notes provide the holders a right to require MTS Finance to redeem all of the notes outstanding at 101% of the principal amount of the notes plus accrued interest upon any change in control, as defined.

In August 2003, MTS Finance issued $300.0 million notes bearing interest at floating rate of 3-month LIBOR+4% (5.2% as of December 31, 2003) at 99% of par. These notes are fully and unconditionally guaranteed by MTS and mature in August 2004. MTS Finance is required to make interest payments on the notes quarterly, commencing November 2003. The notes are listed on the Luxembourg Stock Exchange. Proceeds received from the notes, net of underwriting discount, were $297.0 million and related debt issuance costs of $1.8 million were capitalized (see also Note 33).

In November 2002, Sistema Finance Investments, a subsidiary of the Group, issued RUR denominated bonds with face value of 1,200.0 million RUR (equivalent of $40.7 million as of December 31, 2003). The bonds are traded on MICEX, mature in November 2004 and carry a coupon rate of 17.75% during the first year of trading and of 15% during the second year.

In the fourth quarter of 2001, MGTS issued RUR denominated bonds (second issue) with face value of 1,000 million RUR (equivalent of $33.4 million as of December 31, 2003) due in 2004. Interest is payable semiannually. The issue has a floating interest rate, which is set for each coupon payment not later than 6 days before the date of the prior coupon payment. Interest (11.3% as of December 31, 2003) should not be less than the weighted average interest rate of OFZ as at the date the interest rate is fixed. As of December 31, 2003 MGTS has repurchased on the open market approximately 44% of the second issue.

In February 2003, MGTS issued 2-year RUR denominated bonds (third issue) in the amount of 1,000.0 million RUR (equivalent of $33.4 million as of December 31, 2003). The bonds carry coupon

of 12.3% during the first year of trading and 17.0% during the second year. Prior to the placement of the third issue MGTS repurchased on the open market the first issue of its bonds. The repurchase of the bonds did not have a material effect on the Group's financial results.

In the fourth quarter of 2001, Micron issued RUR denominated bonds with face value of 150.0 million RUR (equivalent of $4.7 million as of December 31, 2003). Interest is payable semiannually. The interest rate is set at 26.7% while two-thirds of the interest is covered by the municipal government. The bonds were repaid in 2003.

In July 2003, Micron issued RUR denominated bonds with face value of RUR 300.0 million (equivalent of $9.9 million as of December 31, 2003) due in January 2005. Interest is payable semiannually. The interest rate is set at 15% per annum, while two-thirds of the interest payments are covered by the municipal government. As of December 31, 2003 the Group has repurchased on the open market approximately 26% of Micron bonds issued.

ING Bank **–** In September 2003, UMC entered into a $60.0 million syndicated credit facility with ING Bank (Eurasia), Standard Bank and Commerzbank Aktiengesellschaft with an interest rate of LIBOR+4.2% (5.3% as of December 31, 2003). The loan is guaranteed by MTS. The proceeds were used by UMC to refinance its existing indebtedness. The loan is payable in 8 equal quarterly installments starting from September 2004. As of December 31, 2003 the principal outstanding under this credit facility is $60.0 million.

Deutsche Telecom **–** The Group obtained a loan of $50.0 million from Deutsche Telecom due in 2004. Interest of LIBOR+0.3% per annum (1.5% as of December 31, 2003) is payable semiannually. The Group pledged 5% of MTS common shares under the agreement. The loan was provided to the Group through a related party.

Hermes Credit Facility **–** In December 2003, UMC entered into Hermes Credit Facility with ING BHF Bank and Commerzbank to finance the acquisition of GSM equipment from Siemens AG. The aggregate amount available under this credit facility is EUR 47.4 million (equivalent of $59.3 million as of December 31, 2003). The loan is guaranteed by MTS and bears interest at EURIBOR+0.7% (2.8% as of December 31, 2003). The amount outstanding will be redeemable in 10 equal semi-annual installments, commencing July 2004. The balance outstanding as of December 31, 2003 was EUR 44.5 million (equivalent of $55.6 million as of December 31, 2003).

Sberbank **–** In December 2000, MGTS signed a credit facility with Sberbank for a total amount equivalent to $90.0 million to refinance its obligations under Eurobond borrowings. The loan was received in three tranches during the first quarter of 2001. In September 2002, MGTS prolonged repayment of $30.6 million of the principal to the first quarter of 2005. The remaining balance was repaid in 2003. The interest rate on the prolonged loan was 18% during the first six months and 12% during the second six months of 2003. Equipment with fair value of $87.3 million is pledged to collateralize the outstanding balance as of December 31, 2003.

Raiffeisenbank **–** In September 2002, MGTS entered a credit line with Raiffeisenbank limited to $15.0 million. The equipment pledged under the credit line as of December 31, 2003 is valued at $22.5 million. In addition, MGTS is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The loan bears interest of LIBOR+5% (6.2% as of December 31, 2003) and matures in 2007. As of December 31, 2003, approximately $15.0 million was outstanding under this credit line.

In November 2002 the Group entered a credit line with Raiffeisenbank (Austria) limited to $20.0 million. The building pledged under the credit line as of December 31, 2003 is valued at $22.7 million. In addition, the Group is required to maintain monthly gross cash flows with the bank of not less than $1.5 million. The loan bears interest of LIBOR+7% per annum (8.2% as of December 31, 2003) and matures in 2007. As of December 31, 2003, approximately $18.0 million was outstanding under this credit line.

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

HSBC – In October 2003, TAIF-Telcom entered into a $25.0 million credit facility with HSBC Bank LLC which is guaranteed by MTS. The facility bears interest at LIBOR+2.8% (3.9% as of December 31, 2003) and is redeemable in ten equal quarterly installments commencing June 2004. The loan is subject to certain restrictive covenants including, but not limited to, restriction on the amount of dividends paid by TAIF-Telcom until MTS owns 100% of its outstanding common stock. As of December 31, 2003 the outstanding balance is $25.0 million.

Ericsson Project Finance – In December 1996, Rosico, then a subsidiary of the Group, entered into a credit agreement with Ericsson Project Finance AB which provides for a credit facility with an aggregate principal amount of $60.0 million. The loan bears interest of LIBOR plus 4% per annum (5.2% as of December 31, 2003). The loan is collateralized by a pledge of 16.8% of MGTS voting shares held by the Group. In February 2003, Ericsson Project Finance AB assigned all of its rights and obligations under the loan to Salomon Brothers Holding Company, Inc.

Commerzbank (Eurasia) – InvestSvyazHolding, a subsidiary of the Group, entered in a number of credit line facilities with Commerzbank (Eurasia) for a total amount of $21.6 million. As of December 31, 2003, approximately $20.0 million was outstanding under these credit line facilities. The loans are guaranteed by MTS.

Citibank – In July 2001, an uncollateralized bank loan was provided to MGTS by Citibank at LIBOR+1.6% (2.8% as of December 31, 2003) for the purchase of equipment. The loan is guaranteed by Export Guarantee and Insurance Corporation, Czech Republic and JSFC Sistema. In September 2003, MGTS received a loan from Citibank for the purchase of equipment in the amount of $6.1 million. The loan bears interest of LIBOR+5% (6.2% as of December 31, 2003), and is repayable in 8 semi-annual installments. The loan is collateralized by pledge of equipment in the amount of $5.4 million and by deposit in Citibank and guaranteed by Export Guarantee and Insurance Corporation, Czech Republic. As of December 31, 2003, approximately $8.6 million was outstanding under these loans.

Vneshtorgbank – In 2001 the Group received three loans from Vneshtorgbank maturing in 2002-2003 to finance working capital. The loans are collateralized by pledge of equipment valued by the parties at $15.4 million. All loans have fixed interest rates and the weighted average interest rate on these loans is 16.1%. During the year ended December 31, 2002, the Group also received a number of loans from Vneshtorgbank maturing in 2003-2007 to finance working capital. The loans are collateralized by pledge of equipment valued by the parties at $7.6 million and collateralized by a pledge of shares of MGTS. The weighted average interest rate on the Vneshtorgbank loans outstanding as of December 31, 2003 was 10.0% per annum.

International Moscow Bank – In June 2003, the Group entered into a credit facility with the International Moscow Bank for RUR 350.0 million (equivalent of $11.9 million as of December 31, 2003). Amounts borrowed under this facility mature in June 2005 and have an interest rate of 13.4% until June 2004. The interest rate thereafter will be fixed under a separate agreement. As of December 31, 2003, approximately $10.9 million was outstanding under this facility.

Debt Assumed by Acquisition of MTS, UMC, TAIF-Telcom and Comstar

Corporate Bonds – In December 2001, MTS Finance, a subsidiary of the Group, issued $250.0 million 10.95% notes at 99.25% of par. Proceeds received from the notes, net of underwriting discount, were $248.0 million. In March 2002, MTS Finance issued additional $50.0 million 10.95% notes at 101.62% of par. Proceeds received from these notes, including the offering premium, were $50.8 million. All the notes are guaranteed by MTS and mature in December, 2004. MTS Finance makes interest

payments on the notes semi-annually in arrears. The notes are listed on the Luxembourg Stock Exchange. In May 2002 these notes were registered with the SEC under the Securities Act of 1933.

In January 2003, MTS Finance issued $400.0 million 9.75% notes at par. These notes are guaranteed by MTS and mature in January, 2008. MTS Finance is required to make interest payments on the notes semi-annually in arrears. The notes are listed on the Luxembourg Stock Exchange.

In April 2000, TAIF-Telcom issued RUR denominated bonds for approximately $4.0 million. The bonds mature in February 2007 and bear interest at 20% per annum, adjustable for the change in USD exchange rate and payable on a quarterly basis (20.6% per annum as of December 31, 2003).

Deutsche Telecom and TDC Mobile International – UMC had an uncollateralized long-term revolving USD denominated credit facility agreements with Deutsche Telekom and TDC Mobile International. The maximum borrowing limit under the agreements is $54.0 million. These credit agreements were amended in connection with the Group's purchase of a majority stake in UMC to provide for UMC's repayment of the outstanding amounts under these facilities. The credit facilities bear interest at LIBOR+5% (6.2% as of December 31, 2003) and LIBOR +7% (8.2% as of December 31, 2003), respectively, and are redeemable in five equal quarterly instalments commencing April 2003. As of December 31, 2003, UMC had $7.9 million liability to Deutsche Telekom and $6.8 million liability to TDC Mobile International under the facilities. The amounts outstanding under these facilities were guaranteed by MTS. The debt was fully repaid in April 2004.

Dresdner Bank – In December 2001 and April 2002, UDN-900, a subsidiary of MTS, entered into credit agreements with Dresdner Bank, expiring on April 2004. As of December 31, 2003, the amount outstanding under this agreement was $5.4 million. The borrowing bears interest at LIBOR+3.2% (4.4% as of December 31, 2003) per annum and is guaranteed by MTS.

In October 2002, MSS, a subsidiary of MTS, entered into a credit agreement with Dresdner Bank to borrow up to $10.0 million. As of December 31, 2003, $10.0 million was outstanding under this agreement. Borrowing under this agreement bears interest of LIBOR+3.4% (4.6% as of December 31, 2003) per annum and matures in October 2004. The loan is guaranteed by MTS.

Citibank – In November 2002, Telecom XXI entered into a credit facility with Citibank. Amounts borrowed under the credit facility and outstanding as of December 31, 2003 must be repaid in June 2004 and bear interest of LIBOR+3.5% (4.7% as of December 31, 2003) per annum. Overdue amounts bear an additional 3% per annum. As of December 31, 2003, $10.0 million was outstanding under this facility. The loan is guaranteed by MTS.

Vnesheconombank – In 1994, Comstar entered a loan facility with Vnesheconombank bearing interest at 7.0% per annum. As of December 31, 2003, the amount of borrowings under this facility was approximately $7.0 million. The loan is guaranteed by MGTS.

WestLB International – In July 2002, MTS-P, a wholly owned subsidiary of MTS, entered into a credit facility agreement with WestLB International S.A. As of December 31, 2003, the amount of borrowings under this agreement was $5.0 million. Amounts outstanding under this agreement bear interest of EURIBOR+2% (4.2% as of December 31, 2003) per annum for the first two years for each advance and 4% per annum for the remaining interest periods for each advance until maturity. Final maturity of this agreement is December 2006. The loan is guaranteed by MTS.

The loan repayments over the five-year period beginning on December 31, 2003 are as follows:

		(000's)
2004	**$**	844,106
2005		193,525
2006		60,136
2007		22,479

2008	768,724
Thereafter	431,057
Total	$ **2,320,027**

25. SUBSCRIBER PREPAYMENTS

Subscriber prepayments as of December 31, 2003, 2002 and 2001 consisted of the following:

	2003	(000's) 2002	2001
Current portion (Note 21)			
Connection fees	$ 60,609	$ 27,782	$ 20,503
Advances and customers' deposits	195,379	26,427	14.471
	255,988	54,209	34,974
Non-current portion			
Connection fees	103,059	66,935	54,875
Total	$ **359,047**	$ **121,144**	$ **89,849**

26. INCOME TAX

The Group's provision for income taxes is as follows for the years ended December 31, 2003, 2002 and 2001:

	2003	(000's) 2002	2001
Current provision	$ 333,534	$ 31,182	$ 37,186
Deferred (benefit)/provision	(42,601)	12,216	(8,016)
Total income tax expense	$ **290,933**	$ **43,398**	$ **29,170**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate (24% in 2003 and 2002 and 35% in 2001) to net income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle. The items causing this difference are as follows:

	2003	(000's) 2002	2001
Income tax provision computed on income from continuing operations before taxes at statutory rate	$ 221,694	$ 59,855	$ 71,905
Adjustments due to:			
Change in valuation allowance	91	(4,844)	(15,212)
Non-deductible items	42,366	12,496	24,054
Non-taxable items	-	(1,589)	(8,708)
Taxable losses not carried forward	7,566	3,140	4,855
Currency exchange and translation differences	18,083	(2,323)	2,010
Investment allowance	-	-	(12,360)
Goodwill amortization	-	-	(6,721)
Effect of change in income tax rate	-	-	(9,594)
Effect of rates different from standard	1,133	(23,337)	(21,059)
Income tax expense	$ **290,933**	$ **43,398**	$ **29,170**

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

	2003	(000's) 2002	2001
Deferred tax assets			
Subscriber and customer prepayments	$ 40,014	$ 18,325	$ 9,942
Property, plant and equipment	21,191	-	-
Allowance for doubtful accounts	20,338	3,233	2,750
Deferred revenues	19,070	12,188	12,855
Tax losses carried forward	8,795	9,129	14,783
Accrued expenses	3,434	4,862	4,266
Postretirement benefits	1,175	1,062	1,634
Insurance reserves	-	1,031	3,319
Inventory obsolescence	-	866	673
Capital lease obligations	-	112	2,296
Other	2,187	1,263	1,125
	116,204	52,071	53,643
Less: valuation allowance	(9,142)	(4,336)	(12,178)
Total deferred tax assets	**107,062**	**47,735**	**41,465**
Deferred tax liabilities			
Intangible assets	(191,249)	-	-
Property, plant and equipment	(71,357)	(13,693)	-
Undistributed earnings of affiliates	(4,462)	(24,924)	(16,979)
Other	(11,949)	(3,064)	(6,508)
Total deferred tax liabilities	**$ (279,017)**	**$ (41,681)**	**$ (23,487)**
Net deferred tax assets, current	$ 53,964	$ 9,358	$ 4,542
Net deferred tax assets, long term	5,575	23,492	26,641
Net deferred tax liabilities, current	(508)	(1,371)	-
Net deferred tax liabilities, long term	(230,986)	(25,425)	(13,205)

The Group does not record a deferred tax liability related to undistributed earnings of its subsidiaries, as it intends to permanently reinvest these earnings.

27. POSTRETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently such benefits include bonus payments of a fixed amount to retiring employees with at least five years of service (5,700 RUR or 11,400 RUR per employee, or approximately 180 and 360 USD, respectively, at the exchange rate as of December 31, 2003, depending on actual years of service); lifetime payments of a fixed amount to employees retiring with at least fifteen years of service (1,200 RUR per employee, or approximately 40 USD at the exchange rate as of December 31, 2003, for the year 2003); and discounted telephone service to employees retiring with at least thirty years of service. An employee is withdrawn from the benefit plan if their employment with MGTS is discontinued prior to retirement.

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

		(000's)
2004	$	1,469
2005		423
2006		397
2007		373
2008		352
2009 – 2013		1,291
Thereafter		592
Total	**$**	**4,897**

MGTS's defined benefit plan is unfunded. For the years ended December 31, 2003, 2002 and 2001 the net periodic benefit costs recognized and the contributions paid by MGTS under the plan were not material.

28. DEFERRED REVENUE

Deferred revenue is comprised of property, plant and equipment contributions and grants received by the Group and for the years ended December 31, 2003, 2002 and 2001 was as follows:

				(000's)		
		2003		2002		2001
Deferred revenue at the beginning of the year	$	89,894	$	73,043	$	49,383
Contributions received during the year		26,183		24,539		27,822
Currency translation effect		9,705		-		-
		125,782		97,582		77,205
Deferred revenue amortized		(10,419)		(7,688)		(4,162)
Deferred revenue at the end of the year	**$**	**115,363**	**$**	**89,894**	**$**	**73,043**

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

29. SHARE CAPITAL

At January 1, 2001, JSFC Sistema had 4,016 voting common shares authorized and 324 shares issued and outstanding with a par value of 2,500 RUR.

In March 2002, JSFC Sistema effected a split of all outstanding shares into 8,100,000 shares with a par value of 0.1 RUR. The number of authorized common shares was increased to 68,325,000. The computations of basic and diluted earnings per share for all periods presented were adjusted retroactively to reflect the increase in the number of common shares outstanding as a result of the stock split.

30. SEGMENT INFORMATION

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 is as follows:

	For the year ended December 31, 2003					
	Telecom-munications	**Technology**	**Insurance**	**Banking**	**Corporate and Other**	**Total**
Net sales to external customers [a]	3,246,813	57,609	169,569	47,192	238,732	3,759,915
Intersegment sales	755	28,333	18,360	10,321	10,926	68,695
Income/(loss) from equity affiliates	439	-	(509)	490	45	465
Interest income	22,834	-	-	-	6,634	29,468
Interest expense	(161,911)	(2,772)	-	-	(41,719)	(206,402)
Net interest revenue [b]	-	-	-	2,697	-	2,697
Depreciation and amortization	(506,644)	(2,862)	(3,115)	(620)	(7,735)	(520,976)
Goodwill impairment	(19,251)	-	-	-	-	(19,251)
Operating income/(loss)	1,103,282	(3,348)	17,111	2,567	(16,131)	1,103,481
Income tax expense	(293,983)	1,571	(3,858)	(3,116)	8,453	(290,933)
Investments in affiliated companies	56,298	666	-	3,875	21,665	82,504
Segment assets	5,204,668	103,568	239,273	595,516	651,718	6,794,743
Capital expenditures	1,152,216	9,209	7,310	2,994	41,160	1,212,889

	For the year ended December 31, 2002					
	Telecom-munications	**Technology**	**Insurance**	**Banking**	**Corporate and Other**	**Total**
Net sales to external customers [a]	482,506	58,521	137,357	31,244	179,878	889,506
Intersegment sales	217	17,649	3,378	5,416	1,216	27,876
Income from equity affiliates	122,638	-	-	1,585	402	124,625
Interest income	1,944	-	-	-	3,885	5,829
Interest expense	(37,652)	(3,607)	-	-	(14,912)	(56,171)
Net interest revenue [b]	-	-	-	7,219	-	7,219
Depreciation and amortization	(62,357)	(2,919)	(1,800)	(287)	(4,679)	(72,042)
Operating income/(loss)	279,837	5,533	2,583	8,804	(1,507)	295,250
Income tax expense	(34,288)	(3,427)	(704)	(1,069)	(3,910)	(43,398)
Investments in affiliated companies	538,222	-	697	6,092	6,464	551,475
Segment assets	1,478,924	63,446	165,150	283,045	338,393	2,328,958
Capital expenditures	128,694	5,448	5,945	1,577	49,060	190,724

	For the year ended December 31, 2001					
	Telecom-munications	Technology	Insurance	Banking	Corporate and Other	Total
Net sales to external customers [a]	$421,156	$29,879	$89,001	$17,190	$163,310	$720,536
Intersegment sales	-	-	959	1,882	7,766	10,607
Income/(loss) from equity affiliates	96,328	-	(9)	-	316	96,635
Interest income	877	-	-	-	1,141	2,018
Interest expense	(34,272)	(321)	-	-	(7,026)	(41,619)
Net interest revenue [b]	-	-	-	6,236	-	6,236
Depreciation and amortization	(53,646)	(1,909)	(623)	(379)	(3,421)	(59,978)
Operating income/(loss)	236,002	(639)	(13,959)	5,979	15,179	242,562
Income tax expense	(26,830)	(1,821)	3,012	(1,163)	(2,368)	(29,170)
Investments in affiliated companies	415,075	-	732	3,215	4,256	423,278
Segment assets	1,284,568	41,642	119,786	325,237	187,151	1,958,384
Capital expenditures	170,113	1,715	10,920	883	22,334	205,965

[a] – Interest income and expenses of the Insurance and Banking Segments are presented as revenues from financial services in the Group's consolidated financial statements.

[b] – The Banking Segment derives a majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

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

		(000's) 2003		2002		2001
Total segment interest income	$	29,468	$	5,829	$	2,018
Intersegment eliminations		(10,127)		(4,207)		(206)
Consolidated interest income	**$**	**19,341**	**$**	**1,622**	**$**	**1,812**
Total segment interest expense	$	(206,402)	$	(56,171)	$	(41,619)
Intersegment eliminations		8,056		3,060		1,882
Consolidated interest expense	**$**	**(198,346)**	**$**	**(53,111)**	**$**	**(39,737)**
Total segment operating income	$	1,103,481	$	295,250	$	242,562
Intersegment eliminations		2,262		520		(1,676)
Interest income		19,341		1,622		1,812
Interest expense		(198,346)		(53,111)		(39,737)
Currency exchange and translation (loss)/gain		(3,015)		5,113		2,482
Consolidated income from continuing operations before income tax, minority interests and cumulative effect of a change in accounting principle	**$**	**923,723**	**$**	**249,394**	**$**	**205,443**

		(000's) 2003		2002		2001
Total segment assets	$	6,794,743	$	2,328,958	$	1,958,384
Intersegment eliminations		(2,513)		(627)		-
Consolidated segment assets	**$**	**6,792,230**	**$**	**2,328,331**	**$**	**1,958,384**

For the year ended December 31, 2003 the Group's revenues derived from Ukraine were $450.3 million. Long-lived assets of the Group's entity domiciled in Ukraine were $648.8 million as of December 31, 2003.

During the years ended December 31, 2003, 2002 and 2001 the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues.

31. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates and companies related by means of common control. During the years ended December 31, 2003, 2002 and 2001 the Group entered into transactions with related parties as follows:

		(000's)	
	2003	**2002**	**2001**
Telecommunication services provided	-	$ (58,931)	$ (56,473)
Consulting services provided	$ (10,768)	(17,177)	(14,157)
Revenues from financial services	(11,730)	(7,154)	(6,211)
Financial services related costs	-	8,618	3,596
Interest expense	1,457	2,113	-
Insurance premium received	(4,659)	(2,229)	(1,700)
Claims paid	9,201	1,902	3,612
Purchases of goods for resale	-	6,543	3,606
Advertising expenses	16,002	-	-
Other	829	(2,542)	(1,728)

Related party balances as of December 31, 2003, 2002 and 2001 are disclosed in the corresponding notes to the financial statements.

32. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts, which expire in various years through 2023.

Future minimum rental payments under capital and operating leases in effect as of December 31, 2003, are as follows:

	(000's)	
	Capital leases	**Operating leases**
2004	$ 12,476	$ 23,048
2005	3,826	11,447
2006	1,076	9,657
2007	32	7,378
2008	33	5,426
Thereafter	275	41,712
Less: amount representing interest	(1,388)	-
Total	**$ 16,330**	**$ 98,668**

Capital Commitments – As of December 31, 2003, MTS had executed non-binding purchase agreements in the amount of approximately $266.1 million to subsequently acquire property, plant and equipment.

In December 2003, MGTS signed an agreement to acquire telecommunications equipment and related services from a foreign vendor. The vendor financing amounting to $4.6 million will bear interest of LIBOR+3% and be repayable in 7 equal quarterly installments starting February 2004.

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

In July 2003, Sistema-Hals entered into an agreement with Siemens Real Estate to develop an office building in Moscow, which will become Siemens AG headquarters in Russia. Under this agreement Sistema-Hals is responsible for obtaining all necessary permits, planning and overall control of the construction process. The building is expected to be completed in late 2005. The cost of the project is approximately Euro 66.8 million (equivalent of $83.5 million as of December 31, 2003).

Disposition of Subsidiaries – In December 2003, the Group co-founded Sky Link, a new mobile operator developing cellular network in CDMA-450 standard. The Group agreed to contribute its interests in P-Com and MCC to the share capital of Sky Link in exchange for 50% ownership in Sky Link. Transfer of shares is expected to be completed in 2004. Assets and liabilities of P-Com as of December 31, 2003 amounted to $59.0 million and $42.5 million, respectively. The carrying value of the Group's equity investment in MCC was $4.9 million as of December 31, 2003.

Operating Licenses – When MTS commenced its operations in 1994, licenses generally contained certain provisions for unspecified fees to be paid for utilization of frequencies. Most of MTS current licenses now provide for payments to be made for finance telecommunication infrastructure improvements, which in the aggregate could total approximately $110.2 million, as of December 31, 2003. However, a decision on the terms and conditions of such payments has not been finalized. Accordingly, MTS has not made any payments to date pursuant to any of current operating licenses. Further, management believes that MTS will not be required to make any such payments. If such payments would be required in the future, management believes that it would be limited to purchasing certain equipment for its own use in the related license area. In relation to these uncertainties, the Group has not recorded a contingent liability in the consolidated financial statements.

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

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

Issued Guarantees – As of December 31, 2003, MTS has issued guarantees on behalf of MTS-Belarus, an equity investee, for the total amount of $14.5 million. The guarantees expire by August 2005.

MGTS is a guarantor under the credit facility with a limit of $4.2 million provided to RTK-Leasing, by Vneshtorgbank. The facility is to be settled prior to July 2004. The guarantee amounted to $1.5 million and $3.1 million as of December 31, 2003 and 2002, respectively.

In December 2002 MTU-Inform and Alfabank signed a guarantee agreement. According to the agreement MTU-Inform guaranteed a loan of $4.0 million provided to Golden Line by Alfabank. The loan matures in November, 2005. In addition, MTU-Inform pledged equipment with a fair value of $4.7 million.

In December 2003 MTU-Inform pledged telecommunication equipment with the fair value of $17.4 million under a loan provided by MBRD to Sky Link. The amount of the loan as of December 31, 2003 is $15.7 million. The loan is to be settled in December 2004.

Additionally, MBRD and JSFC Sistema guaranteed loans for several companies, including related parties, which totaled $7.5 million as of December 31, 2003.

These guarantees would require payment of the Group only in the event of default on payment by the respective debtor. Under these guarantees the Group could be potentially liable for a maximum amount of $66.0 million in case of the borrower's default under the obligations. As of December 31, 2003, no event of default has occurred under any of the guarantees issued by the Group.

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

Minimum Capital Requirements – The Law on insurance in Russia sets minimum share capital requirements for insurance organizations, depending on the type of insurance premiums they are writing. The minimum capital requirement for insurance organizations conducting reinsurance operations is set at 120.0 million RUR (equivalent of $4.0 million as of December 31, 2003). As of December 31, 2003, Rosno's statutory share capital amounted to 432.0 million RUR (equivalent of $14.7 million as of December 31, 2003).

The Central Bank of Russia sets minimum share capital requirements for banks. Effective December 1, 2003, the minimum capital requirement is set at Euro 5.0 million for each newly-founded bank. As of December 31, 2003, MBRD's share capital amounted to 400.0 million RUR (equivalent of $13.6 million as of December 31, 2003).

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 legal, and economic reforms.

On January 1, 2004, a new Law on telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The Group cannot predict with any certainty how the new law will affect it. The new law creates a new interconnect pricing regime in 2004 that should be more transparent and unified and it creates a universal service charge calculated as a percentage of revenue which will be introduced from 2005. The new law may increase the regulation of the Group's operations and until the time when appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted and effective January 1, 2002 new regulations, relating to federal income tax were enacted. The new tax system is generally intended to reduce the number of taxes, the overall tax burden on businesses, and to simplify the tax laws.

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (income tax), and payroll (social) taxes, together with others. The government's policy on implementation of these regulations is often inconsistent or nonexistent.

The tax authorities are currently challenging the application by MGTS, the subsidiary of the Group, of certain provision of the tax legislation, including application of the investment allowance for income tax purposes in 2001. The tax inspection assessment amounted to the equivalent of $5.1 million at the rate current at balance sheet date. The Group will contest the assessment on the grounds that application of the investment allowance was in compliance with tax laws in effect at the time. No accrual has been made in the accompanying financial statements with respect of this claim.

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.

In February 2003, a fire occurred in one of MGTS' switching stations, damaging approximately 40,000 telephone lines. In addition to disrupting part of MGTS' network, equipment of certain alternative fixed-line communications providers was also affected, including that of Telmos, MTU-Inform and MTU-Intel. In particular, 40,000 out of Telmos' 50,000 telephone lines were damaged. Damages from the fire were recorded in other operating expenses in amount of $8.6 million. The Group entered in coverage litigation with a third party insurer seeking compensation of damages in amount of $5.4 million. The trial is suspended until completion of the expert examination. Due to the uncertainty of the Group receiving compensation, the Group has not recorded a receivable from the insurer in the financial statements as of December 31, 2003.

33. SUBSEQUENT EVENTS

Additional Debt Issuance

In January 2004, the Group issued $350.0 million of 8.875% notes, due in January 2011. The notes are issued through a subsidiary of the Group domiciled in Luxembourg. JSFC Sistema is a guarantor of the notes. Interest payments on the notes are due semi-annually in January and July of each year, commencing July 2004. On or prior to January 2007, the Group may redeem up to 35% of the notes with the net proceeds of offerings of JSFC Sistema's common equity at 108.9% of the principal amount. The notes are listed on the London Stock Exchange.

In April 2004, MTS entered into a short-term loan facility with Credit Suisse First Boston International in the amount of $200.0 million. Amounts outstanding under the loan facility agreement bear interest at LIBOR+2.3% per annum. In May 2004 the Group used the proceeds from the facility to redeem all of the outstanding $300.0 million floating rate notes, issued in August 2003 in the principal amount plus accrued interest thereon to the date of redemption.

In April 2004, MGTS issued 5-year RUR-denominated bonds in the amount of RUR 1,500 million (approximately $50.9 million). The bonds carry a coupon of 10% per annum. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006.

Acquisition of Companies

In March 2004, MTS acquired an additional 11% shares in SCS-900. The value of consideration equals $8.5 million. SCS provides mobile telecommunication services in the Novosibirsk region and Altay Republic.

In April 2004, MTS acquired an additional 40% stake in FECS-900, increasing its ownership in the company to 100%. The value of consideration equals $8.3 million. FECS-900 provides mobile telecommunication services in the Khabarovsk region.

In April 2004, MTS acquired an additional 7.5% stake in MSS, increasing its ownership in the company to 91.0%. The value of consideration paid equals $2.2 million. MSS provides mobile telecommunication services in the Omsk region.

Other

In March 2004, at the open tender organized by the State Committee for Radio Frequencies and the Ministry of Defense MTS acquired additional GSM-900/1800 frequency licenses to operate in 11 new regions of Russia. MTS has also received GSM-900 license extensions to existing licenses in several regions. The term of the GSM-900/1800 license for the Moscow Region has been extended until December 2008. Total purchase consideration paid for the licenses and extensions identified above was less than $0.1 million.

In May 2004, the Group announced completion of the operational merger of its three digital operators, including MTU-Inform, Comstar and Telmos. The completion of the legal merger is expected in 2005. The merged company will operate under the name of "Comstar United Telesystems".

In June 2004, the General Prosecutor of Ukraine filed a claim against MTS and others in the Kiev Commercial Court seeking to unwind the sale by Ukrtelecom of its 51% stake in UMC to MTS. The complaint also seeks an order that would prohibit MTS from alienating 51% of its stake in UMC until the claim is resolved. As of the date of these statements MTS has started the process of evaluating the claim. The Company believes that it acquired UMC in full compliance with Ukrainian law and intends to vigorously defend its acquisition of UMC.