Impairment of Goodwill

Goodwill represents an excess of the cost of business acquired over the fair market value of identifiable net assets at the date of acquisition. Goodwill is reviewed for impairment at least annually or whenever it is determined that one or more impairment indicators exist. We determine whether impairment has occurred by assigning goodwill to the reporting unit identified in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets,” and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If an impairment of goodwill has occurred, we recognize a loss for the difference between the carrying amount and the implied fair value of goodwill. To date, no impairment of goodwill has occurred.

Translation Methodology

Prior to January 1, 2007, the functional currency for all of our subsidiaries was the U.S. dollar, excluding UMC, macro-region South (including former subsidiary Kuban-GSM and other subsidiaries in the South macro-region) and BCTI where the functional currency was and remains the local currency. Starting from January 1, 2007, our subsidiaries in the Russian Federation introduced ruble tariffs for settlements with the majority of its customers. As a result of these changes, we reevaluated the functional currency criteria under SFAS No. 52, “Foreign Currency Translation,” and determined that, beginning January 1, 2007, the functional currency of our subsidiaries domiciled in Russia would be the ruble. The change was adopted prospectively beginning January 1, 2007 in accordance with SFAS No. 52. No restatement of comparative amounts will be made for the change in functional currency.

The financial statements of our subsidiaries in Russia as of January 1, 2007, will be translated into the U.S. dollar using the current rate method. Assets and liabilities will be translated at the rate of exchange prevailing at the balance sheet date. Stockholders’ equity will be translated at the applicable historical rate. Revenue and expenses will be translated at the monthly average rates of exchange. Translation gains and losses will be included as part of accumulated other comprehensive income.

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

For UMC and macro-region South, where the functional currency is the local currency, the Ukrainian hryvnia and the Russian ruble, respectively, all year-end balance sheet items have been translated into U.S. dollars at the period-end exchange rate. Revenues and expenses have been translated at the period-average exchange rate. In addition, a “new cost basis” for all non-monetary assets of macro-region South has been established as of January 1, 2003, when the Russian economy ceased to be considered hyperinflationary. A cumulative translation adjustment, related to the translation of UMC and macro-region South, in the amount of $89.9 million was reported as accumulated other comprehensive income in our audited consolidated balance sheet as of December 31, 2006.

Taxation

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of our tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

We believe that we have adequately provided for tax liabilities in our financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. See Note 23 to our audited consolidated financial statements.

We recognize deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and for the loss or tax credit carry-forwards using enacted tax rates expected to be in effect at the time these differences are realized. We record valuation allowances for deferred tax assets when it is likely that these assets will not be realized.

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments,” an amendment to SFAS No. 133, “Accounting for Derivative Instruments and Hedging activities” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS No. 155 addresses the application of SFAS No. 133 to beneficial interests in securitized financial assets and permits the remeasurement of fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It requires the evaluation of interests in securitized assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, and amends SFAS No. 140 eliminating the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 also clarifies certain other issues concerning the classification of derivatives. This Statement if effective for all financial instruments acquired or issued after the beginning of an entity’s

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fiscal year that starts after September 15, 2006 and is not expected to have a material impact on our financial position and results of operations.

In June 2006, the FASB issued Interpretation No. 48, or FIN No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109,” which is effective for the fiscal year beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including detailed roll-forward of tax benefits taken that do not qualify for financial statement recognition. We will adopt FIN No. 48 as of January 1, 2007. The cumulative effect of applying the provisions of the Interpretation will be reported as an adjustment to retained earnings as of January 1, 2007. The adoption of FIN No. 48 did not have a material effect on our consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair value measurement.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the disclosure requirements of fair value measurement. SFAS No. 157 is applicable to other accounting pronouncements that require or permit fair value measurement and, accordingly, does not require any fair value measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108. or SAB 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 eliminates the different practices surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on the financial statements and the related financial statement disclosures. SAB 108 must be applied to annual financial statements for the first fiscal year ending after November 15, 2006. We do not expect SAB 108 to have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” including an amendment of FASB Statement No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements, and (3) elects to apply the provisions of FASB Statement No. 157, “Fair Value Measurements.” We are currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, its adoption will have on our financial statements.

Trend Information

Sales

In 2006, our revenues increased by 27.4% from $5,011.0 million to $6,384.3 million. Our subscriber base increased to 72.9 million subscribers as of December 31, 2006, from 58.2 million as of December 31, 2005, or by 25.3%. In 2005, our revenues increased by 28.9% from $3,887.0 million to $5,011.0 million. Our

subscriber base increased to 58.2 million subscribers as of December 31, 2005 from 34.2 million as of December 31, 2004, or by 70.2%. We expect further growth of our revenues and subscriber base in 2007.

Average monthly service revenue per subscriber in Russia fell from $12 in 2004 to $8 in 2005 due to the introduction of lower tariffs in the Moscow license area and generally lower tariffs in the regions, as well as penetration to mass-market. In the year ended December 31, 2006, average monthly service revenue per subscriber in Russia remained stable at $8 in 2006. Average monthly service revenue per subscriber was driven by higher use among subscribers in response to lower average prices per minute.

UMC experienced subscriber growth from 7.4 million subscribers at December 31, 2004 to 13.3 million at December 31, 2005 and to 20.0 million at December 31, 2006. We expect this trend to slow down in 2007 due the high market penetration of more than 103% in Ukraine at the end of 2006. The competition among mobile telecommunications providers intensified in 2006 as a result of the development of new national brands, Beeline and Life. Average monthly service revenue per subscriber decreased in 2006 to $7 from $10 in 2005 as a result of extensive mass-marketing campaigns in response to aggressive pricing policies implemented by our competitor Kyivstar, as well as low price offerings from Beeline and pricing promotions from Life, including free calls within the network and no call set up fees.

Uzdunrobita experienced subscriber growth from 0.6 million subscribers at December 31, 2005 to 1.5 million subscribers at December 31, 2006, an increase of 150%, and we expect this trend to continue in 2007 due to Uzdunrobita’s leading position in terms of subscribers and Uzbekistan’s low penetration rate of 10% at the end of 2006. Average monthly service revenue per subscriber peaked at $11 in 2006.

Turkmenistan experienced subscriber growth from 0.1 million subscribers at December 31, 2005 to 0.2 million at December 31, 2006, and we expect this trend to continue in 2007 due to Turkmenistan’s low penetration rate of 3.2% at the end of 2006.

Inventory

Overall, our inventory was $196.3 million at December 31, 2006, compared to $156.7 million at December 31, 2005 and $89.5 million at December 31, 2004. The increase is mainly explained by an increase in purchases made in 2006 as part of our capital expenditure spending to support expansion and network maintenance requirements. We expect our capital expenditures to remain stable in 2007.

Churn

We define churn as the total number of subscribers who cease to be a subscriber during the period (whether involuntarily due to non-payment or voluntarily), expressed as a percentage of the average number of our subscribers during that period. Our subscriber churn in Russia decreased from 27.5% in 2004 to 20.7% in 2005 and subsequently increased to 23.3% for the year ended December 31, 2006. We believe that subscriber churn is highly dependent on competition and the number of mass-market subscribers in our overall subscriber mix. Mass-market subscribers generally choose to prepay their mobile phone usage by purchasing pre-paid packages and are more likely to switch providers to take advantage of low-tariff promotions. As a result, competition for these subscribers will likely lead to sustained downward pressure on tariffs. In addition, we plan to implement a policy of not charging our existing subscribers when they switch to another one of our tariff plans and to launch special loyalty programs.

Off-balance Sheet Arrangements

We believe that our existing off-balance sheet arrangements do not have and are not reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Obligations under guarantee contracts

As of December 31, 2005 and 2006, our off-balance sheet arrangements consisted of debt guarantees issued to related parties as follows: