Open Joint Stock Company
Far East Telecommunications Company

Consolidated Financial Statements

For the year ended 31 December 2006
with Independent Auditors' Report

OJSC Far East Telecommunications Company

Consolidated Financial Statements

For the year ended 31 December 2006

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Far East Telecommunications Company

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Far East Telecommunications Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

As described in Note 2, the cost of property, plant and equipment at the date of adopting International Financial Reporting Standards ("IFRSs"), 1 January 2003, was determined by reference to its fair value at that date. The fair value of property, plant and equipment was assumed by management to be equal to its carrying amount in the Group's previous GAAP financial statements. This assumption is not consistent with a measurement of fair value as envisaged by IFRS 1 *First-time Adoptions of International Financial Reporting Standards.* The effects of this departure from International Financial

Reporting Standards on the carrying amount of property, plant and equipment, depreciation, taxation, net profit and retained earnings as at and for the years ended 31 December 2006 and 31 December 2005 have not been determined.

Qualified Opinion

In our opinion, except for any effects of the matter described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
28 May 2007

OJSC Far East Telecommunications Company

Consolidated Balance Sheet as of 31 December 2006

(in thousands of Russian Roubles)

	Notes	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	11,785,204	11,048,301
Intangible assets and goodwill	**7**	1,031,218	812,444
Investments in associates	**10**	24,388	25,969
Long–term investments	**11**	7,109	7,432
Long–term accounts receivable and other assets	**12**	16,760	23,154
Long–term advances given	**13**	2,554,366	279,940
Total non-current assets		**15,419,045**	**12,197,240**
Current assets			
Inventories	**14**	337,584	382,858
Accounts receivable	**15**	1,027,444	826,569
Income tax receivable		549	6,414
Short–term investment	**11**	1,248	886
Other current assets	**16**	379,960	556,028
Cash and cash equivalents	**17**	184,459	158,331
Total current assets		**1,931,244**	**1,931,086**
TOTAL ASSETS		**17,350,289**	**14,128,326**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	**19**	4,365,706	4,365,706
Treasury shares		(5,681)	-
Retained earnings		2,637,719	2,479,030
Total equity attributable to equity holders of the parent		**6,997,744**	**6,844,736**
Minority interest		20,778	11,699
Total equity		**7,018,522**	**6,856,435**
Non-current liabilities			
Long–term borrowings	**20**	3,247,072	725,943
Long–term finance lease obligations	**21**	554,726	867,626
Pension liabilities	**24**	435,956	376,405
Long–term income tax payable	**23**	441	1,297
Long–term other taxes payable	**23**	1,014	3,721
Deferred income		101,528	124,233
Deferred income tax liability	**29**	902,557	840,546
Provision for tax liabilities	**32**	179,484	-
Total non-current liabilities		**5,422,778**	**2,939,771**
Current liabilities			
Accounts payable and accrued expenses	**22**	1,293,087	1,390,968
Payables to OAO Rostelecom		6,806	85,106
Income tax payable		29,479	46,533
Other taxes payable	**23**	106,130	378,945
Dividends payable		24,193	15,819
Provisions for tax liabilities	**32**	632,340	-
Short–term borrowings	**20**	2,021,499	338,596
Current portion of long–term borrowings	**20**	423,538	1,726,362
Current portion of long–term finance lease obligations	**21**	371,917	349,791
Total current liabilities		**4,908,989**	**4,332,120**
Total liabilities		**10,331,767**	**7,271,891**
TOTAL EQUITY AND LIABILITIES		**17,350,289**	**14,128,326**

OJSC Far East Telecommunications Company

Consolidated Income Statement

for the year ended 31 December 2006

(in thousands of Russian Roubles, except per share amounts)

	Notes	2006	2005
Revenues	**25**	**10,885,401**	**10,696,372**
Wages, salaries, other benefits and payroll taxes		(3,891,271)	(4,355,302)
Depreciation and amortization	**6,7**	(1,298,112)	(1,046,085)
Materials, repairs and maintenance, utilities		(941,465)	(928,591)
Taxes other than income tax		(186,178)	(190,411)
Interconnection charges		(954,436)	(1,815,902)
(Allowance for)/recovery of doubtful receivables	**15**	(39,865)	89,712
Gain/(loss) on disposal of property, plant and equipment		29,749	(70,135)
Provision for tax liabilities	**32**	(810,420)	-
Other operating expenses, net	**26**	(1,360,353)	(1,032,531)
Operating profit		**1,433,050**	**1,347,127**
Share of result of associates	**10**	(1,620)	(334)
Interest income		97,027	14,376
Interest expense	**27**	(639,171)	(475,511)
Other (losses)/gains from investments, net	**28**	(46,867)	218,748
Foreign exchange gain/(loss), net		19,262	(5,332)
Profit before income tax and minority interest		**861,681**	**1,099,074**
Income tax expense	**29**	(522,880)	(487,617)
Net profit for the year		**338,801**	**611,457**
Attributable to:			
Shareholders of the Company		328,557	613,035
Minority interest		10,244	(1,578)
Net profit for the year		**338,801**	**611,457**
Basic and diluted earnings per share (Russian Roubles)	**30**	2.592	4.837

OJSC Far East Telecommunications Company

Consolidated Statement of Cash Flows

for the year ended 31 December 2006

(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities:			
Profit before income tax and minority interest		861,681	1,099,074
Adjustments for:			
Other loss from investments, net		13,711	12,341
Foreign exchange (gain)/loss, net		(19,262)	5,332
Depreciation and amortization	**6,7**	1,298,112	1,046,085
(Gain)/loss on disposal of property, plant, and equipment		(29,749)	70,135
Share of result of associates	**10**	1,620	334
Losses/(gains) on sale of subsidiary, associates and other investments	**28**	46,867	(218,748)
Interest income		(97,027)	(14,376)
Interest expense	**27**	639,171	475,511
Allowance for/(recovery of) doubtful receivables		39,865	(89,712)
Allowance for inventories obsolescence and doubtful other assets		36,914	-
Provision for tax liabilities		810,420	-
Operating cash flows before changes in working capital		**3,602,323**	**2,385,976**
Increase in accounts receivable		(233,532)	(103,888)
Decrease in other current assets		185,500	55,035
Decrease in inventories		43,013	60,304
(Decrease)/increase in accounts payable, accrued expenses and advances received		(167,553)	214,774
(Decrease)/increase in taxes payable		(273,990)	46,385
Increase in pension liabilities		59,551	145,406
Cash flows generated from operations before income taxes and interest paid		**3,215,312**	**2,803,992**
Interest paid		(409,776)	(222,012)
Income tax paid		(474,543)	(272,854)
Cash flows from operating activities		**2,330,993**	**2,309,126**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(2,054,275)	(1,896,055)
Acquisition of intangible assets		(273,291)	(47,834)
Acquisition of Oracle E–Business Suite		-	(79,632)
Acquisition of Amdocs Billing Suite		(126,021)	(187,944)
Acquisition of subsidiaries and other investments		(2,342,479)	(279,579)
Proceeds from sale of associates and other financial assets		1,287	222,910
Proceeds from sales of property, plant and equipment		183,472	18,737
Loans given to employees and repayment received, net		-	(4,818)
Interest received		78,476	4,512
Dividends received		786	268
Cash flows utilized in investing activities		**(4,532,045)**	**(2,249,435)**

OJSC Far East Telecommunications Company

Consolidated Statement of Cash Flows

for the year ended 31 December 2006 (continued)

(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from financing activities:			
Proceeds from borrowings		5,921,764	1,398,247
Repayment of borrowings		(2,936,919)	(699,474)
Repayment of finance lease obligations		(430,283)	(815,723)
Repayment of vendor financing obligations		(172,604)	(10,000)
Proceeds from promissory notes issues		-	356,000
Repayment of promissory notes		-	(64,000)
Repayment of other non–current liabilities		-	2,436
Dividends paid		(154,778)	(198,056)
Cash flows from/(utilized in) financing activities		**2,227,180**	**(30,570)**
Net increase in cash and cash equivalents		**26,128**	**29,121**
Cash and cash equivalents at the beginning of the year		**158,331**	**129,210**
Cash and cash equivalents at the end of the year (see note 17)		**184,459**	**158,331**

OJSC Far East Telecommunications Company

Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

(in thousands of Russian Roubles)

	Share capital							
	Preference shares	**Ordinary shares**	**Treasury shares**	**Retained earnings**	**Unrealized gain/(loss) on available–for–sale investments**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2004 as restated	**1,081,053**	**3,284,653**	**-**	**2,093,212**	**158,829**	**6,617,747**	**-**	**6,617,747**
Profit for the year, as restated	-	-	-	613,035	-	613,035	(1,578)	611,457
Unrealized loss on available–for–sale investments	-	-	-	-	(158,829)	(158,829)	-	(158,829)
Total recognized income and expense for the year						454,206	(1,578)	452,628
Dividends to equity holders of parent	-	-	-	(227,217)	-	(227,217)	-	(227,217)
Acquisition of minority interest	-	-	-	-	-	-	13,277	13,277
Balance at 31 December 2005	**1,081,053**	**3,284,653**	-	**2,479,030**	-	**6,844,736**	**11,699**	**6,856,435**
Profit for the year	-	-	-	328,557	-	328,557	10,244	338,801
Total recognized income and expense for the year						328,557	10,244	338,801
Dividends to shareholders	-	-	-	(169,868)	-	(169,868)	-	(169,868)
Treasury shares acquired	-	-	(5,681)	-	-	(5,681)	-	(5,681)
Acquisition of minority interest	-	-	-	-	-	-	(1,165)	(1,165)
Balance at 31 December 2006	**1,081,053**	**3,284,653**	**(5,681)**	**2,637,719**	-	**6,997,744**	**20,778**	**7,018,522**

1. General Information

Authorization of Accounts

The consolidated financial statements of OJSC Far East Telecommunication Company (hereinafter "the Company") and its subsidiaries ("the Group") for the year ended 31 December 2006, was authorized by the General Director and the Chief Accountant on 28 May 2007.

The Company

The Company is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The Company's official address: 690950, Russia, Primorskiy Kray, Vladivostok, Svetlanskaya str.57.

The Company's principal activity is providing telephone services (including local, domestic long-distance and international long-distance calls), telegraph and data transmission services, rent of communication channels and wireless communication services on the territory of the Far East region of the Russian Federation.

Open joint-stock company Svyazinvest, controlled by the Russian Government, as a holding company, owned 51% of the Company's ordinary voting stock as of 31 December 2006.

Information of the Company's main subsidiaries is disclosed in Note 9. All subsidiaries are incorporated under the laws of the Russian Federation.

Presentation of Financial Statements

Consolidated financial statements of the Company are prepared on the basis of standalone financial statements of the parent and its subsidiaries and associates prepared under unified accounting policies.

The functional and presentation currency of the Company is Russian Rouble, which is the national currency of the Russian Federation.

Consolidated financial statements of the Company are presented in thousands of Russian Roubles.

Liquidity and Financial Resources

To date, the Company has significantly relied upon short-term and long-term financing to fund the improvement of its telecommunication network. This financing has historically been provided through bank loans, bonds, vendor financing, and finance leases.

As of 31 December 2006, the Company's current liabilities exceeded its current assets by RUR 2,977,745 thousand (31 December 2005: RUR 2,401,034 thousand). Profit before tax for the years ended 31 December 2006 and 2005 were RUR 861 681 thousand and RUR 1,099,074 thousand, respectively. Consequently, there is an uncertainty about the Company's ability to maintain its liquidity and to pay its existing debts as they fall due. In January 2007 the Company re-financed short term promissory notes payable of RUR 1,950,000 thousand with the long-term bank loan (see note 37).

If needed, management believes that certain projects may be deferred or curtailed in order to fund the Company's current operating needs.

Through 2007, the Company anticipates funding from a) cash generated from operations; b) placement of rouble bonds in the domestic market; c) financing from domestic and international lending institutions. Management believes that payment terms on certain current operations may be deferred in case of insufficiency of working capital.

2. Basis of Presentation of the Financial Statements

Basis of Preparation

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

These financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or any other adjustments that might be required if the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The Company has transitioned to IFRS as of 1 January 2003 using the provisions of IFRS 1 "First-time Adoption of International Financial Reporting Standards.

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. The Company has also applied the exemption permitted by IFRS 1 which allows an entity to recognize all cumulative actuarial gains and losses on employees defined benefit plans at the date of transition even if the corridor approach is used for latter actuarial gains and losses.

The Company engaged the independent appraisal in order to assess the fair value of property, plant and equipment. As a result of this appraisal carrying amount of property, plant and equipment could be amended.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2006.

The changes in the Company's accounting policies result from adoption of the following new or revised standards, applicable to the Company's operations:

- IAS 19 (amended in 2005) *Employee benefits*;
- IAS 21 (amended in 2005) *The Effects of Changes in Foreign Exchange Rates;*
- IAS 39 (amended in 2005) *Financial Instruments: Recognition and Measurement*.
- IFRIC Interpretation 4 *Determining whether an Arrangement contains a Lease*

The principal effects of these changes in policies are discussed below.

IAS 19 (revised) Employee benefits

Effective from 1 January 2006, the Company has adopted amendments to IAS 19. As a result, the Company discloses additional information, including information on trends in defined pension plan assets and liabilities, and assumptions related to costs components of defined pension plans. The aforementioned amendment has resulted in additional disclosures of information for the years ended 31 December 2005 and 2006, but has not had any impact on recognition and measurement of defined benefit plan assets and liabilities as the Company has not applied the new provision of the Standard which allows for the recognition of actuarial gains and losses outside of the income statement.

IAS 39 (revised) Financial Instruments: Recognition and Measurement
Amendments to IAS 39, introduced in 2005, included the following:

- A requirement to recognise financial guarantees provided by the Company;
- A provision allowing to classify the foreign currency risk of a highly probable forecast intragroup transaction, as a hedged item in a cash flow hedge provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss;
- A restriction to designate any financial asset or liability as at fair value through profit and loss.

These amendments had no material impact on financial statements of the Company.

IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease

The issue addressed in the interpretation is how to determine whether an arrangement is, or contains, a lease which should be accounted in accordance with IAS 17, if the arrangement comprises a transaction of a series of transactions that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments.

The adoption of the Interpretation effective from 1 January 2006 had no significant impact on the Company's financial statements for the years ended 31 December 2005 and 2006.

Amended IAS 21 did not have impact on the financial statements.

IFRSs and IFRIC Interpretations not yet effective

A number of IFRSs and IFRIC Interpretations have been issued but are not yet effective as at 31 December 2006, and have not been applied by the Company in these financial statements. Of these, the following pronouncements may potentially have an effect on the Company's operations and presentation of its financial statements:

- IFRS 7 *Financial Instruments: Disclosures;*
- IFRS 8 *Operating Segments*
- IAS 1 (amended in 2005) *Presentation of Financial Statements;*
- IFRIC 9 *Reassessment of Embedded Derivatives*;
- IFRIC 10 *Interim Financial Reporting and Impairment*;
- IFRIC 11 *Group and Treasury Share Transactions*;

IFRS 7 *Financial Instruments: Disclosures* replaces disclosure requirements of IAS 32. IFRS 7 becomes mandatory for the annual reporting periods, beginning on or after 1 January 2007.

IFRS 8 *Operating Segments,* which is effective for annual reporting periods beginning on or after 1 January 2009, introduces the "management approach" to segment reporting.

Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures requires disclosures about the aims, policies and procedures applied by the Company and its subsidiary for the purposes of capital management. These amendments become mandatory for the annual reporting periods beginning on or after 1 January 2007.

IFRIC 9 *Reassessment of Embedded Derivatives* clarifies that the Company must assess whether an embedded derivative should be separated from the underlying host contract and accounted for as a derivative when the Company enters the underlying host contract initially. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 8 becomes mandatory for annual reporting periods beginning on or after 1 June 2006.

(in thousands of Russian Roubles)

IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. IFRIC 10 becomes mandatory for annual reporting periods beginning on or after 1 November 2006.

The Company expects that adoption of the pronouncements listed above will have no significant impact on the Company’s financial statements in the period of initial application, except the following:

IFRS 7 will have a significant effect on disclosures in respect of financial instruments, presented in the notes to the financial statements;

IFRS 8 will require the Company to present detailed segmental disclosures based on information available to the Company’s key decision makers. Currently, the Company has not analysed the extent of potential additional disclosures which may be required.

2.2. Foreign currency transactions

The functional and presentation currency of the Company is the Russian Rouble, which is the national currency of the Russian Federation. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Assets and liabilities settled in Roubles but denominated in foreign currencies are recorded in the Company’s consolidated financial statements using the same principles as for assets and liabilities denominated in foreign currencies.
The exchange rates as of 31 December 2006 and 2005 were as follows:

As of 31 December	**2006**	**2005**
Roubles per US Dollar	26.3311	28.7825
Roubles per Euro	34.6965	34.1850
Roubles per Japanese Yen	0.2216	0.24529

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of the group of companies, i.e. the parent and its subsidiaries, presented as if the Company operated as a single economic entity.

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of purchase consideration over the fair value of the Company's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the income statement.

Acquisition of minority interests

The difference between the cost of the additional interest in a subsidiary and the minority interest's share of the assets and liabilities is reflected in the consolidated statement of shareholders' equity at the date of the purchase of the minority interest as a charge to retained earnings.

Investments in Associates

Associates are entities in which the Company generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Company's share of net assets of the associate. The Company's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in reserves is recognized in equity. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognize further losses, unless the Company is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.2 Accounting Policies, Changes in Accounting Estimates and Errors

Change in Accounting Policies

The Company accounts for a change in accounting policy resulting from the initial application of a Standard or an Interpretation IFRS in accordance with the specific transitional provisions, if any, in that Standard or Interpretation.

Changes in Accounting Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only or the period of the change and future periods, if the change affects both.

Prior Period Errors

Prior period error is corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

3.3. Investments and other financial assets

In accordance with IAS 39 investments are classified as either loans and receivables, available-for-sale investments or financial assets at fair value through profit or loss, as appropriate. When investments are recognized initially, they are measured at fair value. When investments are not classified as financial assets at fair value though profit or loss, then they are recognized at fair value plus any directly attributable transaction costs. At initial recognition the Company classified them appropriately.

All standard operations on purchase and sale of financial assets are recognised at the date of transaction, i.e. at the date when the Company accepts liability to purchase appropriate asset. Standard operations on purchase and sale of financial assets are those operations which anticipates delivery of assets in the period determined by the legislation or market manner.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-to-maturity, loans and receivables or investments at fair value through profit or loss. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognized in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of operations.

Quoted market bid prices are used to calculate the fair value of financial assets for which an active market exists; for the calculation the quoted market bid prices at the reporting date are used. Where no active market exists the fair value of financial assets is calculated based on discounted expected future cash flows, on recent transactions with similar financial assets executed at current market prices and on the market price of the similar financial assets.

3.4. Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as cash deposits and short-term investments with original maturities of three months or less.

3.5. Accounts Receivable

Trade receivables are recognized at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Company will not be able to collect the debts.

3.6. Value Added Tax

In accordance with the current tax legislation the value added tax (VAT) from purchasing of goods and services to be refunded by the off-set against VAT payable which charged on goods and services rendered by the Company.

VAT payable

Prior to 2006 VAT was payable into the budget after payments receipt from customers less input VAT on goods and services paid to the date. Furthermore, VAT related to the sale of goods and services (settlements on which were not finished to the reporting date) was also recognized as VAT payable in the balance sheet.

Starting from 2006 VAT is payable to the budget after the sale of goods and services and issuance of the invoice-factura, and after receipt of the prepayments from customers. Input VAT is deductible from VAT payable amount even if settlements on them were not finalized at the reporting date.

Allowance for doubtful receivable balances includes VAT related to those receivable balances.

(in thousands of Russian Roubles)

Reimbursable VAT

Reimbursable VAT arises when amount of input VAT exceed amount of output VAT.

Furthermore, prior to 2006 reimbursable VAT included input VAT related to unpaid purchase of goods and services and property, plant and equipment items not put into operations. However this amount was off-set against VAT payable after settlement and/or put in use of property, plant and equipment items.

3.7. Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises cost of raw materials and other materials, direct labour and other direct costs, as well as the corresponding share of production indirect cost (calculated on the basis of norms of production capacities usage), but does not include borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.8. Property, Plant and Equipment

3.8.1. Recognition and measurement

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use. Social assets are expensed on acquisition. Borrowings costs attributable to the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.8.2. Impairment

Management assesses indications of impairment at each balance sheet date, and when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use. Impairment losses are recognized in the income statement. Impairment losses recognised in previous periods are reversed, if there has been a change in the estimates, used to determine the recoverable amount.

3.8.3. Depreciation and Useful Life

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Years
Buildings	50 years
Constructions	20 years
Analogue switches	15 years
Digital switches	15 years
Other telecommunication equipment	15 years
Transportation equipment	5 years
Computers, office and other equipment	4-5 years
Land	not depreciated

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Based on the Russian licensing legislation and prior experience, management believes that the operating licenses will be renewed without significant cost, which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

3.8.4. Subsequent expenditure

Expenditure for continuing repairs and maintenance is charged to the income statement as incurred. Major renewals and improvements are capitalized, and the assets replaced are written off. Profit or loss from the assets write-off is charged to the income statement as incurred.

Major inspections expenses are capitalized to the balance cost if the recognition requirements are met.

3.8.5. Construction in Progress

Construction in progress is an asset, which is under construction or requires any other activities to bring it to the location and condition necessary for it to be capable of operating in the manner intended by management.

Construction in progress is recorded as the total of actual expenditures incurred less any impairment losses. Construction in progress is not depreciated.

3.8.6. Assets Received Free of Charge

Equipment related to main activity of the Company transferred to the Company free of charge outside the privatization process is capitalized at market value at the date of transfer. A corresponding income is fully recognized in the income statement, except where transfers of equipment relate to contributions from shareholders, in which case it is recognized in equity, when relate to rendering of future services to the transferee the Company recognises deferred revenue in the amount of the fair value of the equipment received, and amortises it to the income statement on the same basis that the equipment is depreciated.

Equipment contributions that will not generate any future economic benefit for the Company are not recognized.

3.9. Leases

Definition of the arrangement that contains lease is based on the terms of the arrangement, i.e. whether execution of the contract depends on utilization of asset and/or assets or the arrangement stipulates the right on the use of such asset.

Finance leases in terms of which the Group assumes substantially all the risks and rewards of ownership are recognized as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of outstanding liability. Finance charges are recognized in the statement of operations.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

3.10. Intangible Assets and Goodwill

3.10.1. Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Company’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Company's primary or the Company's secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The excess of the net fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition over the cost of an acquisition is recognized in profit or loss.

3.10.2 Licenses

Cost of licenses paid to the Government for permission to provide telecommunication services is recognized as intangible assets. The licenses are recorded at purchase cost less accumulated depreciation and any impairment in value.

3.10.3. Software and Other Intangible Assets

Software and other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

3.10.4 Useful Life and Amortization of Intangible Assets

The Company assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The cost of licenses and software is amortized on a straight-line basis over the estimated useful life equal to the term of the licenses or the right to use the software. Useful life of other intangible assets is approximately 10 years.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.11. Loans and Borrowings Received

Loans and Borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

3.12. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

3.13. Shareholders' Equity

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than a business combination, are shown as a deduction in equity from the proceeds. as a deduction to the share capital. The amount in excess of the nominal value of issued shares is recognized as an additional paid in capital.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity until their subsequent sale or additional issue. The gain or loss on purchase, sale or cancellation of treasury shares is not recognized in the statements of operations. The consideration received from subsequent sale or additional issue of shares is included into share capital.

Minority Interest

Minority interest is the interest in subsidiaries not held by the Company. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in net assets since the date of the combination. Minority interest is presented within equity.

Losses attributable to the minority interest do not exceed minority interest in subsidiaries' equity except for situations when minority shareholders are liable to finance losses. All such losses are distributed between shareholders.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared at a shareholders' meeting before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.14. Trade and other accounts payable

Trade and other accounts payable are recognised at amortized cost. Trade and other accounts payable are included in current liabilities except for the cases when repayment is expected more than 12 months after the reporting date.

3.15. Employee Benefits

3.15.1. Current Employment Benefits

Wages and salaries paid to employees are recognized as expense in current period. The Company accrues provision for unused vacation.

3.15.2. Unified Social Tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax (“UST”) calculated by the Company by the application of a regressive rate to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (state pension fund, social and medical insurance funds).

The Company’s contributions relating to the UST are expensed in the year to which they relate.

3.15.3. Pensions and Other Post-Employment Benefits

Under collective bargaining agreements and internal regulations on additional pension benefits, the Company also provides additional benefits for its active and retired employees by using post-employment defined benefit plans. The majority of the Company’s employees are eligible to participate under such post-employment benefit plans based upon a number of factors, including years of service, age, and compensation.

The Company has only defined benefit pension plans.

In accordance with the defined benefit pension plans the Company’s liability is in provision of the employees with defined benefits. In this case actuarial and investment risks are laid on the Company.

3.15.3.1. Defined benefit plans

The Company determines the present value of the defined benefit obligation and the fair value of any plan assets on each reporting date separately for each plan. The obligations are valued by professionally qualified independent actuaries hired by the Company using the projected unit credit method. The assets of the defined benefit plans are valued by professionally qualified actuaries or independent appraisers.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Upon introduction of a new plan or improvement of an existing plan past service cost is recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits vest immediately past service costs are immediately expensed.

Gains or losses on the curtailment or settlement of pension benefit obligations are recognized when the curtailment or settlement occurs.

3.16. Taxes

3.16.1. Income Taxes

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted.

3.17. Revenue Recognition

Revenue is recognized to the extent that is probable that economic benefits will flow to the Company and revenue can be reliably measured.

Revenue is recognized in the amount of cash or cash equivalents received in the form of cash or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an effective interest rate.

Revenue from service contracts is accounted for when the services are provided. Revenue from timed calls and data transfer services is measured primarily by the volume of traffic processed in the period.

Revenue arising from separable installation and connection activities is recognised when it is earned, upon activation.

Interest income is recognized on accrual basis.

Dividend income is recognized on the date that the Company's right to receive payment is established.

Net gain/loss on disposal of property, plant and equipment is recognized when all risks and rewards are transferred to the buyer or its agent.

Revenues from lease and other services are recognized in period when such services were rendered.

3.18. Earnings per Share

The Company calculates basic earnings per share amounts for profit or loss attributable to equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of participating equity instruments outstanding (the denominator) during the period.

The Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (see Note 30).

3.19. Contingent Assets and Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The Company does not recognize a contingent liability. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The Company does not recognize a contingent asset. A contingent asset is disclosed where an inflow of economic benefits is probable.

3.20. Segment Information

The Company comprises the following business segments:

- fixed line (wire) telecommunications,
- mobile (wireless) telecommunications.

Management believes that the Company operates in one geographical segment on the territory of the Far East region of the Russian Federation. Management estimates results of operations and makes investment and strategic decisions based on analysis of the Company results in whole.

3.21. Events After the Balance Sheet Date

The Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Adjusting events are those that provide evidence of conditions that existed at the balance sheet date, also estimates and judgments made by Management in situation of uncertainty and incompleteness of information on the balance sheet date.

If non-adjusting events after the balance sheet date are material, their nondisclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the Company discloses the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made for each material category of non-adjusting event after the balance sheet date.

4. Significant accounting judgments and estimates

4.1 Judgements

In applying the accounting policies, management has made the following judgments, estimates and assumptions besides the accounting estimates, which most significantly affect the amounts reported in the financial statements:

Lease classification

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operational lease. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement, but not its legal form.

Revenue recognition

Agency fees relates to the sale of services where the Company acts as an agent in the transaction rather than as the principal. In the absence of specific guidance in IFRSs on distinguishing between an agent and a principal, management considered the following factors:

- Although the Company collects the revenue from the final customer, all credit risk is borne by the supplier of the goods.
- The Company cannot vary the selling prices set by the supplier by more than 1%

4.2 Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of property, plant and equipment

The Company estimates remaining useful lives of its property, plant and equipment at least once a year at the financial year end. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a significant impact on the carrying value of property, plant and equipment and depreciation, charged to the income statement.

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated.

Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2006 the value of goodwill equals nil (2005 – nil). Refer to Note 7 for further details.

Allowance for impairment of receivables

Management records an allowance for bad and doubtful debts to account for estimated losses resulting from the customers' inability to settle the liabilities. To estimate if the allowance is sufficient, management evaluates ageing of the debts, the experience of bad debt write-off, customers' creditworthiness and changes in payment terms. If the customers' financial position continues to deteriorate, the actual amount of bad debt write-off may exceed the estimation. As at 31 December 2006 the bad debt allowance equaled RUR 222,510 thousand (2005 – RUR 248,655 thousand).

Pension liabilities

Pension liabilities are usually provided for by plans which are classified and accounted for as defined benefit pension plans. The discounted value of the pension plan liabilities and the related current service costs are determined on the basis of actuary valuations which use demographic and financial assumptions, including mortality rates for the service period and thereafter, staff turnover rates, discount rates, future salary and pension levels, and to a lesser extent the expected income on the pension plan's assets. If adjustments to the key assumptions are required, it will have a significant impact on the future expenses in respect of pension obligations. Refer to Note 24 for further details.

(in thousands of Russian Roubles)

Litigation and claims

Management makes significant judgments in estimation and recognition of provisions and risks of contingent liabilities related to existing litigation and other unsettled claims, which are expected to be settled by negotiations, mediation, trial or Government interference, and other contingencies. Management judgment is required to estimate the probability of success of a claim against the Company, or probability that a material liability may arise, and while estimating the possible amount of a final settlement.

Due to uncertainty inherent in the process of estimation, actual expenses may differ from the initial estimation of the provision. Such initial estimations may change as new information is obtained, initially from in-house specialists, if these are available in the Company, or from external experts, such as actuaries or lawyers. Reconsideration of such estimations may have a significant influence on future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Interpretation of tax legislation by the tax authorities in respect of transactions and activities of the Company may differ from management's interpretation. Consequently, the tax authorities may challenge the transactions, and assess significant additional taxes, penalties and interest. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. In certain circumstances earlier periods may be subject to inspections. Management believes that as at the 31 December 2006 the relevant legislation was correctly interpreted and the Company is highly likely to sustain its position in respect to tax, currency and customs legislation is high.

5. Segment Information

	2006				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Group**
REVENUE					
Sales to third parties	9,480,580	1,023,837	380,984	-	**10,885,401**
Inter–segment sales	58,486	-	39,627	(98,113)	**-**
Total revenue	**9,539,066**	**1,023,837**	**420,611**	**(98,113)**	**10,885,401**
GROSS PROFIT					
Segment result	1,525,600	386,199	(99,677)	-	**1,812,122**
Unallocated corporate expenses					**(379,072)**
Operating profit					**1,433,050**
Share of result of associates					(1,620)
Interest income					97,027
Interest expense					(639,171)
Other (losses)/gains from investments					(46,867)
Foreign exchange loss, net					19,262
Income tax expense					(522,880)
Net profit for the year					**338,801**
ASSETS AND LIABILITIES					
Segment assets	13,835,798	2,969,169	246,711	-	**17,051,678**
Investments in associates					**24,388**
Unallocated corporate assets					**274,223**

(in thousands of Russian Roubles)

	2006				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Group**
Consolidated total assets					**17,350,289**
Segment liabilities	(8,668,644)	(576,590)	(81,138)	-	**(9,326,372)**
Unallocated corporate liabilities					**(1,005,395)**
Consolidated total liabilities					**(10,331,767)**
OTHER SEGMENT INFORMATION					
Capital expenditure					
Fixed assets	1,828,357	241,169	-	-	**2,069,526**
Intangible assets	335,429	33,049	-	-	**368,478**
Depreciation and amortisation	(1,047,390)	(227,690)	(23,032)	-	**(1,298,112)**
Other non–cash expenses (allowance for doubtful receivables)	(40,165)	300	-	-	**(39,865)**

	2005				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Group**
REVENUE					
Sales to third parties	10,013,841	547,779	134,752	-	**10,696,372**
Inter–segment sales	59,427	23,531	-	(82,958)	**-**
Total revenue	**10,073,268**	**571,310**	**134,752**	(82,958)	**10,696,372**
GROSS PROFIT					
Segment result	1,509,126	160,580	49,496	-	1,719,202
Unallocated corporate expenses					(372,075)
Operating profit					**1,347,127**
Share of result of associates					(334)
Interest income					14,376
Interest expense					(475,511)
Other gain (loss) from investments, net					218,748
Foreign exchange loss, net					(5,332)
Income tax expense					(487,617)
Net profit for the year					**611,457**
ASSETS AND LIABILITIES					
Segment assets	11,893,140	927,290	152,634	-	12,973,064
Investments in associates					25,969
Unallocated corporate assets					1,129,293
Consolidated total assets					**14,128,326**
Segment liabilities	(6,070,526)	(274,836)	(23,631)	-	(6,368,993)
Unallocated corporate liabilities					(902,898)
Consolidated total liabilities					**(7,271,891)**
OTHER SEGMENT INFORMATION					
Capital expenditure					
Fixed assets	1,603,406	50,320	20,615		**1,674,341**
Intangible assets	141,658	3,041	-		**144,699**
Depreciation and amortization	(935,916)	(94,421)	(15,748)		**(1,046,085)**
Other non–cash expenses (provision for doubtful receivables)	89,712	-	-		**89,712**

The Company provides fixed line and mobile telecommunication services, as well as other services. Management believes that the Company operates in one geographical segment.

(in thousands of Russian Roubles)

Unallocated expenses, assets and liabilities are expenses, assets and liabilities that arise at the entity level and relate to the entity as a whole.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables, and operating cash and exclude financial investments, income tax assets and other assets that relate to the entity as a whole.

Segment liabilities primarily comprise operating liabilities, loans and leasing liabilities and exclude items such as deferred tax liabilities and other liabilities pertaining to the Company as a whole.

Capital expenditure comprises additions to property, plant, equipment and intangible assets. Loss of value and provisions relate only to those charges made against allocated assets.

6. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
Cost					
At 31 December 2004	4,480,761	5,728,821	767,001	738,710	11,715,293
Additions			1,674,341		1,674,341
Additions due to acquisition of subsidiaries	18,555	135,939	131,027	12,307	297,828
Disposals	(75,278)	(178,955)	-	(29,945)	(284,178)
Transfers	664,500	806,698	(1,664,913)	193,715	-
At 31 December 2005	**5,088,538**	**6,492,503**	**907,456**	**914,787**	**13,403,284**
Additions	1,464	1,434	2,064,448	2,180	2,069,526
Additions due to acquisition of subsidiaries	28,290	48,584	277	2,750	79,901
Reclassification	(24,093)	(528,762)	-	552,855	-
Disposals	(64,084)	(87,549)	(108,076)	(66,664)	(326,373)
Transfers	753,534	775,690	(2,202,051)	672,827	-
At 31 December 2006	**5,783,649**	**6,701,900**	**662,054**	**2,078,735**	**15,226,338**
Accumulated Depreciation					
At 31 December 2004	(343,571)	(916,953)	-	(309,943)	(1,570,467)
Charge for the year	(211,020)	(571,842)	-	(226,099)	(1,008,961)
Disposals	67,440	132,814	-	24,191	224,445
At 31 December 2005	**(487,151)**	**(1,355,981)**		**(511,851)**	**(2,354,983)**
Charge for the year	(242,542)	(632,599)	-	(321,107)	(1,196,248)
Charge of depreciation (reclassification)	8,063	221,076	-	(229,139)	-
Charge related to acquisition of subsidiaries	(5,081)	(20,597)	-	(1,543)	(27,221)
Disposals	43,836	60,384		33,098	137,318
At 31 December 2006	**(682,875)**	**(1,727,717)**	**-**	**(1,030,542)**	**(3,441,134)**
Net book value					
At 31 December 2004	**4,137,190**	**4,811,868**	**767,001**	**428,767**	**10,144,826**
At 31 December 2005	**4,601,387**	**5,136,522**	**907,456**	**402,936**	**11,048,301**
At 31 December 2006	**5,100,774**	**4,974,183**	**662,054**	**1,048,193**	**11,785,204**

In 2006 the Company increased construction in progress by the amount of capitalized interest totaling RUR 67,114 thousand (2005: RUR 54,065 thousand). Capitalisation rate in 2006 was 8.7% (2005: 10.4%).

(in thousands of Russian Roubles)

The net book value of plant and equipment held under finance leases at 31 December 2006 and 2005 amounted to:

	2006	**2005**
Buildings and constructions	2,498	2,641
Switches and transmission devices	1,621,514	1,659,582
Construction in progress and equipment for installation	11,228	45,188
Vehicles and other fixed assets	44,759	51,575
Total net book value of plant and equipment	**1,679,999**	**1,758,986**

Leased assets are pledged as security for the related finance lease obligations (see Note 21).

7. Intangible Assets and Goodwill

	Goodwill	**Licenses**	**Software**	**Other**	**Total**
Cost					
At 31 December 2004	-	**4,233**	**539,613**	**250**	**544,096**
Additions	-	4,393	132,794	7,509	**144,696**
Additions due to acquisition of subsidiaries	76,699	172,899	9,335	19,529	**278,462**
Disposals	-	(2,225)	(34,943)	-	**(37,168)**
At 31 December 2005	**76,699**	**179,300**	**646,799**	**27,288**	**930,086**
Additions	13,711	1,225	309,542	11,147	**335,625**
Disposals	-	(505)	(13,300)	-	**(13,805)**
At 31 December 2006	**90,410**	**180,020**	**943,041**	**38,435**	**1,251,906**
Amortisation					
At 31 December 2004	-	-	-	-	**-**
Impairment charge	**(76,699)**	**-**	**-**	-	**(76,699)**
At 31 December 2005	(76,699)	-	-	-	**(76,699)**
Impairment charge	(13,711)	-	-	-	**(13,711)**
At 31 December 2006	**(90,410)**	**-**	**-**	-	**(90,410)**
Accumulated amortization					
At 31 December 2004	-	(2,257)	(9,333)	(142)	**(11,732)**
Charge for the year	-	(16,293)	(10,198)	(10,633)	**(37,124)**
Disposals	-	2,221	5,692	-	**7,913**
At 31 December 2005	-	**(16,329)**	**(13,839)**	**(10,775)**	**(40,943)**
Charge for the year	-	(26,157)	(58,133)	(17,574)	**(101,864)**
Disposals	-	492	12,037	-	**12,529**
At 31 December 2006	-	**(41,994)**	**(59,935)**	**(28,349)**	**(130,278)**
Net book value as of 31 December 2004	-	**1,976**	**530,280**	**108**	**532,364**
Net book value as of 31 December 2005	-	**162,971**	**632,960**	**16,513**	**812,444**
Net book value as of 31 December 2006	-	**138,026**	**883,106**	**10,086**	**1,031,218**

Oracle e-Business Suite (OEBS)

As of 31 December 2006 software includes OEBS software with a net book value of RUR 326,280 thousand (2005: RUR 370,369 thousand), including interest capitalized of RUR 4,034 thousand (2005: RUR 54,653 thousand).

In March 2006, the Company commenced the commercial operation of OEBS in relation to the modules for accounting for non-current assets and human resources. Implementation was made at all branches.

In April 2006, the Company commenced amortizing the cost of mentioned software, such amortization charges are included into "Depreciation and amortization" line of the consolidated income statement. The useful life of this software is 10 years.

Costs related to the second release are included into intangible assets and will be amortized after its implementation.

Full implementation of Oracle E-Business Suite software is expected to be completed between 2008 and 2009.

Amdocs Billing System

As of 31 December 2006 software also includes Amdocs Billing Suite software with a gross book value of RUR 314,821 thousand (2005 – RUR 227,489 thousand). This software was purchased for the purpose of the implementation of unified automated system. The project of implementation of the unified automated settlements system is expected to last 4-5 years.

Amdocs Billing Suite software was supplied in December 2004 by LLC IBM Eastern Europe/Asia, in exchange for 18 promissory notes with the face value of RUR 232,787 thousand. At 31 December 2006 promissory notes were repaid.

The Company will commence amortizing this asset from the date of software implementation. Until then the Company annually tests this software for impairment.

Licenses

As of 31 December 2006 licenses mainly included GSM 900 licenses with the net book value of RUR 127,398 thousand (2005: RUR 152,206 thousand). The Company measured GSM licenses at cost less any accumulated amortization and any accumulated impairment loss. The remaining useful life of licenses is approximately 7 years.

Capitalisation of interest

In 2006 the Company increased intangible assets by the amount of capitalized interest totaling RUR 24,981 thousand (2005: RUR 54,653 thousand). Capitalisation rate in 2006 was 9.34% (2005: 10.4%).

Amortisation

Amortisation charge for 2006 in the amount of RUR 101,864 thousand (2005: RUR 37,124 thousand) was recorded in line "Depreciation and amortization" of Consolidated Income Statement.

8. Impairment of Goodwill

Impairment Testing of Goodwill

The recoverable amounts of CJSC "Sachalinugol Telecom" and LLC "Besprovodnie informatsionnie technologii" cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. Cash flow beyond the five-year period are extrapolated using a 4% and 10% for CJSC "Sakhalinugol Telecom" and LLC "Besprovodnie informatsionnie technologii", respectively, that were the same as the long-term average growth rate for the abovementioned cash generating unit. The discount rate applied to cash flow projections was 15% for CJSC "Sakhalinugol Telecom" and 16% for LLC "Besprovodnie informatsionnie technologii".

The following describes each key assumption applied by the management for cash flow projections to undertake impairment testing of goodwill and licenses:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements;

(in thousands of Russian Roubles)

- Bond rate – the yield on five-year Russian government Rouble-denominated bonds at the beginning of the budgeted year.

Goodwill allocated to each of the cash-generating unit was as follows:

Subsidiary	2006	2005
CJSC "Sachalinugol Telecom"	21,336	21,336
LLC "Besprovodnie informatsionnie technologii"	55,363	55,363
OJSC "A-svyaz"	13,711	-
Total	**90,410**	**76,699**
Impairment of goodwill	(90,410)	(76,699)
Carrying amount	-	-

As of 31 December 2006 and 2005 the impairment for the full amount of goodwill was recognized.

Impairment test of Intangible Assets not yet Available for use

The Company performed impairment tests of intangible assets not yet available for use. These assets represent cost of Oracle E-Business Suite and Amdocs Billing Suite totaling RUR 358,579 thousand at 31 December 2006 (as at 31 December 2005 – RUR 597,858 thousand). As at 31 December 2006 no impairment was identified.

9. Consolidated Subsidiaries

The consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries, which main activity is provision of cellular and other telecommunication services. The subsidiaries are listed below:

		Ownership,%		Voting Shares	
Subsidiary	**Main Activity**	**2006**	**2005**	**2006**	**2005**
LLC "Besprovodnie informatsionnie technologii"	Mobile services	100	100	100	100
CJSC "Sakhalinugol Telecom"	Fixed line telecom services	100	100	100	100
CJSC "Integrator.ru"	Investing activity	100	100	100	100
CJSC "AKOS" (owned by CJSC "Integrator.ru")	Mobile services	93.58	92.26	93.58	92.26
OJSC "A-Svyaz"	Fixed line telecom services	84.2	6.9	84.2	6.9

All the above companies are Russian legal entities registered in accordance with the Russian legislation, and have the same financial year as the Company.

The Company purchased OJSC "A-Svyaz" in June of 2006. Account of the purchasing of OJSC "A-Svyaz" was made in accordance with IFRS 3.

According to the Board decision (minute №24 dated April 28, 2006) the Company acquired a 77.3% stake in OJSC "A-Svyaz", and increased its share from 6.9% to 84.2%. Purchase contract was signed at 31 May 2006. There were 143,428 shares purchased for RUR 10,000 thousand.

Shares were purchased as long-term investments. Appropriate record in the shareholders register was made on 23 June 2006.

The main activity of the subsidiary is providing fixed line telecommunication services in the Amur region of the Far East region.

(in thousands of Russian Roubles)

Management has assigned the acquisition price for 77.3% stake in OJSC "A-Svyaz" as follows:

Acquisition price	10,000
Transaction costs	104
Total paid	**10,104**
Fair value of net identifiable assets and liabilities	
Property, plant and equipment	49,960
Intangible assets	277
Other non-current assets	13,969
Inventories	1,264
Trade and other receivables	10,182
Cash and cash equivalents	48
Non-current liabilities	(79,307)
Total net liabilities	**(3,607)**
Company's share in acquired liabilities, %	77.3%
Assigned value of acquired share in identifiable net liabilities	(3,607)
Amount of goodwill arising on acquisition	**13,711**

Goodwill arising on the acquisition of OJSC "A-Svyaz" which is individual cash generating unit was reviewed for impairment. Impairment loss was recognized in line "Other operating expenses, net" of the Consolidated Income Statement.

The net income contributed by OJSC "A-Svyaz" into the consolidated net income equals to RUR 4,364 thousand.

10. Investments in Associates

Investments in associates at 31 December 2006 and 2005 comprised the following:

		2006		2005	
Associate	**Activity**	**Voting shares**	**Carrying value**	**Voting shares**	**Carrying value**
LLC "Kamalyaskom"	Mobile services	50%	434	50%	337
LLC "Magalyaskom"	Mobile services	50%	17,717	50%	18,209
CJSC "TeleRoss-Vladivostok"	Mobile services	50%	6,198	50%	7,423
LLC "Interdaltelecom"	Mobile services	39%	39	39%	-
Total			**24,388**		**25,969**

All the above companies are Russian legal entities registered in accordance with Russian legislation and have the same financial year as the Company.

Movement in investments in associates for the years ended 31 December 2006 and 2005 is presented below:

	2006	**2005**
Investments in associates at 1 January	**25,969**	**26,303**
Share of loss, net of income tax and dividends received	(1,620)	(334)
Reclassification of investments	39	-
Investments in associates at 31 December	**24,388**	**25,969**

The carrying value of investments in associates shown in these consolidated financial statements is equivalent to the Company's share in the net assets of the associated companies.
The following table illustrates summarized financial information of the Company's associates:

(in thousands of Russian Roubles)

Associate	Voting shares	Assets	Liabilities	Revenues	Net income/ (loss)
2006					
LLC “Kamalyaskom”	50%	3,270	(2,325)	3,707	269
LLC “Magalyaskom”	50%	35,612	(178)	6,919	(1,233)
CJSC “TeleRoss-Vladivostok”	50%	12,461	(64)	2,859	(2,058)
2005					
LLC “Kamalyaskom”	50%	3,147	(2,471)	3,874	192
LLC “Magalyaskom”	50%	37,149	(732)	8,072	739
CJSC “TeleRoss-Vladivostok”	50%	15,760	(915)	5,755	(1,598)

11. Financial Investments

As of 31 December 2006 and 2005 the Company’s investments comprised the following:

	2006	2005
Long term financial investments available-for-sale	7,109	7,432
Total long term financial investments	**7,109**	**7,432**
Financial investments held for sale	1,248	886
Total short-term financial investments	1,248	886
Total financial investments	**8,357**	**8,318**

As of December 31 the Company’s investments comprised the following:

Company	2006 Ownership interest	2006 Carrying value	2005 Ownership interest	2005 Carrying value
Long–term investments				
OJSC “Svyazintech”	4.00%	4,579	4.00%	4,579
OJSC “SEZ Nakhodka”	8.47%	1,101	8.47%	1,101
OJSC “JSCB Svyazbank”	0.03%	681	0.03%	681
OJSC “Imperial”	-	-	19.60%	240
OJSC “Center of international collaboration”	-	-	0.60%	150
OJSC “A–Svyaz”	-	-	6.90%	128
Others		748		553
Total long–term investments		**7,109**		**7,432**
Short–term investments				
OJSC “Far East Commercial Bank Dalkombank”	1.40%	858	1.40%	858
OJSC “JSCB Nadezhnyi”	-	-	0.05%	18
OJSC “Imperial”	19.60%	240	-	-
OJSC “Center of international collaboration”	0.60%	150	-	-
Others	-	-	-	10
Total short–term investments		**1,248**		**886**
Total investments		**8,357**		**8,318**

(in thousands of Russian Roubles)

12. Long-term Accounts Receivable and Other Assets

As of 31 December 2006 and 2005 long-term accounts receivable and other assets comprised the following:

	2006	2005
Long-term accounts receivable	283	609
Long-term loans given	16,477	22,545
Total	**16,760**	**23,154**

As of 31 December 2006 and 2005 long-term loans given to employees are accounted at amortized cost using the effective interest rate of 16% (2005 - 17%).

13. Long-Term Advances Given

As of 31 December 2006 and 2005 long-term advances given comprised the following:

	2006	2005
Long term advances given for investing activities	2,295,030	-
Long term advances given for capital construction	258,920	279,349
Long term advance given for operating activities	416	591
Total	**2,554,366**	**279,940**

14. Inventories

Inventories at 31 December 2006 and 2005 comprised the following:

	2006	2005
Cable, materials, fuel and spare parts for telecommunications equipment	160,229	199,710
Instruments and other inventories	169,964	173,598
Finished goods and goods for resale	7,391	9,550
Total	**337,584**	**382,858**

In 2006 the Company established the allowance for obsolete inventories in the amount of RUR 2,653 thousand (2005: nil) and related expenses were recognized in line “Other operating expenses”.

As of 31 December 2005 no inventories have been pledged as security for borrowings.

In 2006 the cost of inventories included in operating expenses in 2006 was RUR 516,548 thousand (2005: RUR 508,076 thousand).

15. Accounts Receivable

Accounts receivable as of 31 December 2006 and 2005 comprised the following:

	2006	2005
Trade receivables – telecommunication services	1,177,514	993,013
Trade receivables – other	72,440	82,211
Allowance for doubtful receivables	(222,510)	(248,655)
Total	**1,027,444**	**826,569**

(in thousands of Russian Roubles)

Accounts receivable for telecommunication services detailed by major customer groups were as follows:

	2006	**2005**
Corporate customers	544,748	407,698
Residential customers	485,248	407,286
Government customers	56,378	54,786
Budget – tariff compensation	91,140	123,243
Total	**1,177,514**	**993,013**

The Company invoices its customers on a monthly basis. The Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in Roubles, in effect at the time the calls are made. In some cases the Company received penalty fees for the delayed payments and obtain repayments by court decisions.

As of 31 December 2006 the receivable for tariff compensation from the state budget related to granting discounts to certain categories of privileged subscribers amounted to 7.7% of total accounts receivable from customers (2005 – 12.4%).

In December 2006, the Company estimated the possibility of cost compensation from the state budget related to granting privileges to certain categories of subscribers, and taking into account the possible compensation by court decisions, created bad debt provision in amount of RUR 45,935 thousand, that amounts to 50.5% of the total receivable from the state budget as at 31 December 2006.

In 2006 the Company received RUR 40,832 thousand.

The following summarizes the changes in the allowance for doubtful receivables:

	2006	**2005**
Balance at January, 1	248,655	437,886
Allowance/(recovery of) for the year	39,865	(89,712)
Trade receivables write-off	(66,010)	(99,519)
Balance at 31 December	**222,510**	**248,655**

The amount of the allowance for doubtful receivables accrued during 2006 of RUR 39,865 thousand (2005: the reversal of the provision of RUR 89,712 thousand) and was reflected as “Expenses/reversal of the provision for receivables impairment” in the consolidated income statement.

16. Other Current Assets

As of 31 December 2006 and 2005 other current assets comprised the following:

	2006	**2005**
VAT receivable	127,924	359,206
Prepayments and advance payments	116,465	83,194
Other current assets	87,804	34,908
Deferred expenses	49,304	52,424
Short-term loans given	17,156	16,954
Other prepaid taxes	12,330	6,004
Settlements with personnel	3,874	3,975
Allowance for impairment of other current assets	(34,897)	(637)
Total	**379,960**	**556,028**

(in thousands of Russian Roubles)

17. Cash and Cash Equivalents

As of 31 December 2006 and 2005 cash and cash equivalents comprised the following:

	2006	2005
Cash on hand and at bank	184,407	153,116
Short-term deposits with a maturity up of three months	52	4,900
Other cash and cash equivalents	-	315
Total	**184,459**	**158,331**

18. Significant Non-Cash Transactions

In 2006 the Company purchased property, plant and equipment under vendor financing and finance lease agreements in the amount of RUR 71,949 thousand and RUR 78,585 thousand respectively (2005: RUR 144,987 thousand and RUR 190,155 thousand respectively).

Non-cash transactions were excluded from the Consolidated Cash Flow Statement.

19. Share Capital

Total number of outstanding shares comprises:

	Number of shares outstanding (thousands)	Treasury shares (thousands)	Number of shares on issue (thousands)	Total par value	Carrying value
As at 31 December 2004	**126,750**	**-**	**126,750**	**2,535,000**	**4,365,706**
Preference	31,169	-	31,169	623,380	1,081,053
Ordinary	95,581	-	95,581	1,911,620	3,284,653
As at 31 December 2005	**126,750**	**-**	**126,750**	**2,535,000**	**4,365,706**
Preference	31,143	26	31,169	623,380	1,081,053
Ordinary	95,568	23	95,581	1,911,620	3,284,653
As at 31 December 2006	**126,691**	**59**	**126,750**	**2,535,000**	**4,365,706**

All shares have a par value of RUR 20. The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated through 1 January 2003.

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share of 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. Annual amount of dividends on preference shares may not be less than dividends on ordinary shares. The preference shareholders participate in earnings along with ordinary shareholders. Accordingly, the Company's preferred shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 30).

(in thousands of Russian Roubles)

At the balance sheet date the Company held 26,375 of preference shares and 23,062 of ordinary shares (2005: nil).

In a case of liquidation, the property remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to the number of owned shares.

Distributable earnings of the parent company are limited to its respective retained earnings, as mandated by the statutory accounting rules. Statutory retained earnings of the Company as of 31 December 2006 and 2005 amounted to RUR 2,524,355 thousand and RUR 1,927,681 thousand, respectively.

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from net income as shown in the Company's Russian statutory financial statements. The Company reported net income of RUR 760,734 thousand and RUR 851,979 thousand in its statutory financial statements in 2006 and 2005, respectively.

Dividends were declared in 2006 in respect of 2005 to holders of ordinary shares and preference shares of RUR 0.9 per ordinary share (2005 – RUR 1.2 per ordinary share) and RUR 2.69 per preference share (2005 – RUR 3.61 per preference share). See also Note 31.

In August 2001 the Company executed a depositary agreement with JP Morgan Chase Bank regarding placement of American Depositary Receipts (ADRs), Level 1. The issue was registered on August 22, 2001. The depositary agreement between the Company and JP Morgan Chase Bank was revised on August 16, 2002 in accordance with the reorganization of the Company. In accordance with the depositary agreement each ADR is equal to 30 ordinary shares of the Company. As of the end of 2006, 25,137 ADRs represented 754,110 deposited ordinary shares, which constituted 0.79% of total ordinary shares issued.

The following table represents ADR registration for 2003-2006:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
31 December 2003	**78,866**	**2,365,980**	**2.48%**	**1.87%**
Withdrawal 2004	(27,263)	(817,890)		
31 December 2004	**51,603**	**1,548,090**	**1.62%**	**1.22%**
Additions 2005	397	11,910		
31 December 2005	**52,000**	**1,560,000**	**1.63%**	**1.23%**
Withdrawal 2006	(26,863)	(805,890)		
31 December 2006	**25,137**	**754,110**	**0.79%**	**0.59%**

The Company's shareholding structure as of 31 December 2006 was as follows:

	Ordinary shares		**Preference shares**		
	Number (thousands)	**%**	**Number (thousands)**	**%**	**Total**
OJSC "Svyazinvest"	48,331	50.57	-	-	48,331
Other legal entities	41,276	43.18	22,922	73.54	64,198
ADR holders	754	0.79	-	-	754
Individuals	5,220	5.46	8,247	26.46	13,467
Total	**95,581**	**100.00**	**31,169**	**100.00**	**126,750**

(in thousands of Russian Roubles)

20. Borrowings

As of 31 December 2006 and 2005 borrowings comprised the following:

	Interest rate	Maturity date	2006	2005
Short–term borrowings				
Bank loans (Roubles)	8-13%	2006	-	274,683
Bonds (Roubles)			-	16,027
Promissory notes (Roubles)	8.60%	2007	1,950,000	47,542
Accrued interest		2007	69,524	344
Other short term borrowings (Roubles)	8%	2007	1,975	-
Total short–term borrowings			**2,021,499**	**338,596**
Long–term borrowings				
Bank loans (Roubles)	11.25-14%	2008-2009	55,000	845,435
Bonds (Roubles)	8.6%	2010-2012	3,486,060	1,000,000
Vendor financing (Roubles)		2008	27,351	-
Vendor financing (US Dollars)	5.4-10%	2007-2008	82,084	99,661
Vendor financing (Euro)	8%	2007	20,115	42,369
Promissory notes	6.0%-14%	2006	-	464,840
Less: Current portion of long–term borrowings			(423,538)	(1,726,362)
Total long–term borrowings			**3,247,072**	**725,943**

In 2006, the Company entered into 4 bank loan agreements to receipt of current and non-current assets and financing of current operations with the carrying value of RUR 452,526 thousand. The interest rates of the loans vary from 7% to 10% per annum. Bank loans are secured by property, plant and equipment with the carrying value of approximately RUR 134,412 thousand (2005 – RUR 1,218,592 thousand). There was advanced repayment of all received bank loans in 2006.

As of 31 December 2006 the short-term and long-term borrowings had the following maturity schedule:

Maturity date	Bank loans	Bonds	Vendor financing	Promissory notes	Others	Total
2007	16,549	318,775	150,617	1,957,122	1,975	2,445,038
2008	38,500	744,314	14,257	-	-	797,071
2009	-	750,000	-	-	-	750,000
2010	-	600,000	-	-	-	600,000
2011	-	1,100,000	-	-	-	1,100,000
Total	**55,049**	**3,513,089**	**164,874**	**1,957,122**	**1,975**	**5,692,109**

(in thousands of Russian Roubles)

As of 31 December 2006 and 2005 the Company's borrowings are denominated in the following currencies:

	2006	2005
Russian roubles	5,589,910	2,520,707
US Dollars	82,084	227,825
Euro	20,115	42,369
Total	**5,692,109**	**2,790,901**

The Company has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Short-term borrowings

Promissory notes

Short-term borrowings denominated in Roubles mainly represent promissory notes.

In December 2006, the Company entered into 2 promissory note loans with Svyazbank in the total amount RUR 1,950,000 thousand. The loan bears interest of 8.6%. As of 31 December 2006, the outstanding amount was RUR 1,957,122 thousand (including RUR 1,950,000 thousand as principal, RUR 7,122 thousand as accrued interest).

Long-term borrowings

Bonds

In June 2006 the Company registered two interest rate bonds issues consisting of 2,000,000 bonds and 1,500,000 bonds with a nominal value of RUR 1,000 each. Bond issues have 12 and 6 coupon payments, respectively. Payments on the 1st coupon was made on 182nd day after placement (in December 2006), payment on other coupons will be made after each 182 days. Interest rate on coupons was determined as 8.85% and 8.6%, respectively. Bonds are payable in the proportion determined in percentage of nominal value starting from December 2007 (for RUR 1,500,000 thousand bond issue) and starting from December 2009 (for RUR 2,000,000 thousand bond issue). The full repayment of bonds payable should be in July 2009 and May 2012, respectively.

Issued bonds provide the right for the advance repayment for bonds holders on appropriate dates. The nearest date of such offer is 4 June 2010.

In November 2006, the Company fully repaid bonds for RUR 1,000,000 thousand issued on 18 July 2003.

In December 2006, the Company discharged its interest obligations on coupon payments in the amount of RUR 217,400 thousand. The total amount of each coupon payment was as follows: RUR 64,320 thousand for bonds issue of RUR 1,500,000 thousand; RUR 88,260 thousand for bonds issue of RUR 2,000,000 thousand and RUR 64,820 thousand for bonds issue of RUR 1,000,000 (issue was on 18 July 2003). The amount of coupon income for each bonds was as follows: RUR 42.88, RUR 44.13 and RUR 64.82, respectively. The interest obligation was discharged within the time period prescribed by Prospectus for bond issue.

(in thousands of Russian Roubles)

Vendor financing

IskrauralTel

In 2004-2005, the Company entered into several agreements with IskrauralTel denominated in Euro, under which it delivered telecommunication equipment to the Company. These agreements bear interest rate of 8%. The amount outstanding as of 31 December 2006 was RUR 20,136 thousand (including interest payable of RUR 21 thousand). Equipment received under these agreements is pledged to the supplier until the final payment is made.

BETO-Huawei

In 2003-2005, the Company entered into several agreements with BETO-Huawei denominated in US Dollars, under which it delivered telecommunication equipment to the Company. The amount outstanding as of 31 December 2006 was RUR 47 thousand. Equipment received under these agreements is pledged to the supplier until the final payment is made.

Soft-Pro

In 2005, the Company entered into several agreements with Soft-Pro denominated in US Dollars, under which it delivered telecommunication equipment to the Company. These agreements bear interest rate of 5.4-10%. The outstanding amount as of 31 December 2006 was RUR 388 thousand. Equipment under these agreements is pledged to the supplier until the final payment is made.

C- Boss

In May 2006 the Company entered into agreement with C-Boss for software delivery, the contract is denominated in Russian Roubles. The outstanding amount as of 31 December 2006 was RUR 27,333 thousand.

21. Financial lease obligations

The Company has financial lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of 31 December 2006 and 2005 are as follows:

	2006		2005	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	531,294	371,918	580,241	349,791
2 to 5 years	669,753	554,725	1,115,779	867,626
Over 5 years	-	-	-	-
Total minimum lease payments	**1,201,047**	**926,643**	**1,696,020**	**1,217,417**
Less amounts representing finance charges	(274,403)		(478,603)	
Present value of minimum lease payments	**926,644**	**926,643**	**1,217,417**	**1,217,417**
Less current portion of long term financial lease obligations	-	(371,917)	-	(349,791)
Long-term financial lease obligations	-	**554,726**	**-**	**867,626**

In 2006 and 2005, the Company's primary lessors were OJSC "RTK-Leasing" and LLC "Promsvyazleasing". In 2006, the effective interest rate on lease liabilities ranged from 19% to 38% per annum (2005: 20% to 34% per annum).

(in thousands of Russian Roubles)

OJSC "RTC-Leasing" purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company's obligations under finance leases to OJSC "RTC-Leasing" as of 31 December 2006 amounted to RUR 883,435 thousand (2005 – RUR 1,133,553 thousand).

OJSC "RTC-Leasing" is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

22. Accounts Payable and Accrued Expenses

As of 31 December 2006 and 2005, the Company's accounts payable and accrued expenses comprised the following:

	2006	2005
Trade accounts payable	282,318	138,478
Advances received from subscribers	354,704	301,598
Accounts payable for capital investments	108,927	149,467
Salaries and wages	475,320	729,516
Other accounts payable	71,818	71,909
Total	**1,293,087**	**1,390,968**

Other accounts payable include outstanding settlements with insurance providers and payments to NP CIPRT.

23. Taxes payable and Social Security payable

Short-term taxes payable

As of 31 December 2006 and 2005 taxes payable comprised the following:

	2006	2005
Value-added tax	15,647	281,079
Property tax	42,865	39,830
Individual income tax	13,425	11,506
Unified social tax	30,360	41,354
Other taxes	3,833	5,176
Total	**106,130**	**378,945**

Included in value added tax payable is the amount of RUR 15,647 thousand (2005: RUR 159,132 thousand), which represents deferred value added tax, that is only payable to the tax authorities when the underlying receivables are recovered or written off.

Starting 1 January 2006 amendments to the Tax Code relating to rules of determination of the taxable base of the Value Added Tax were introduced.

Long-term Taxes Payable

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of Government Resolution No. 1002 dated 3 September 1999.

(in thousands of Russian Roubles)

The Long-term taxes payable has the following maturity schedule:

	2006			2005		
	Federal Budget	**Regional budgets and other non-budget funds**	**Total**	**Federal Budget**	**Regional budgets and other non-budget funds**	**Total**
1 to 2 years	211	35	246	722	2,496	3,218
2 to 3 years	188	460	648	290	529	819
3 to 4 years	42	410	452	245	481	726
4 to 5 years	-	109	109	40	159	199
more 5 years	-	-	-	-	56	56
Long-term portion of the restructured taxes payable	441	1,014	1,455	1,297	3,721	5,018
Short-term portion	236	739	975	308	1,316	1,624
Total restructured	**677**	**1,753**	2,430	**1,605**	**5,037**	**6,642**

Long-term taxes payable is accounted for at fair value at restructuring date and at amortized cost in subsequent period. Fair value is present value of future cash flows discounted by rate of 12%.

24. Pensions and Other Post-Employment Benefits

In addition to statutory pension benefits the Company also provides for non-government pension using the post-employment benefit plans.

Non-government pension fund Telecom-Soyuz, which is related to the Company, maintains the defined benefit pension plan.

Defined benefit pension plans

The defined benefit pension plans cover most of employees and provide old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men.

According to the plan terms the pensions are defined monetary values for each regional branches of the Company and depend on participants' positions, past service in the Company and wage at retirement. The benefits do not vest until and are subject to the employee retiring from the Company on or after the above-mentioned ages.

The Company further provides other long-term employee benefits such as a death-in-service payments and lump-sum payment upon retirement of a defined benefit nature.

Additionally the Company provides death-in-pension payments and financial support of a defined benefit nature to its old age and disabled pensioners.

There were 13,806 active employees participating to the defined benefit pension plan of the Company and no pensioners eligible to the post-employment and post-retirement benefits, as of 31 December 2006 (as of 31 December 2005 – RUR 16,964 thousand and RUR 1,674 thousand respectively).

As of 31 December 2006 and 2005 the net liabilities of defined benefit pension and other post-employment benefit plans comprised the following:

(in thousands of Russian Roubles)

	2006	2005
Present value of defined benefit obligation	699,146	999,187
Fair value of plan assets	(26,521)	(173,128)
Present value of unfunded obligations	672,625	826,059
Unrecognized past service cost	116,356	(411,969)
Unrecognized actuarial losses	(353,025)	(37,685)
Net pension liability in the balance sheet	**435,956**	**376,405**

As of 31 December 2006 management estimated employees' average remaining working life at 8 years (2005 - 8 years).

The amount of net expense for the defined benefit pension and other post-employment benefit plans recognized in 2006 and 2005 is as follows:

	2006	2005
Service cost	42,884	40,998
Interest cost	65,706	66,934
Expected return on plan assets	(6,773)	(14,571)
Past service cost recognized in current year	-	38,052
Amortization of past service cost – non–guaranteed potion	42,707	23,000
Curtailment or final settlement effect	(32,244)	-
Net expense for the defined benefit pension plans	**112,280**	**154,413**

The amount of net expense for the defined benefit pension and other post-employment benefit plans is included in the consolidated statement of operations line "Wages, salaries, other benefits and payroll taxes".

The movements in the net liability for defined benefit pension and other post-employment benefit plans in 2006 and 2005 are as follows:

	2006	2005
Net liability at 1 January	376,405	231,000
Net expense for the year	112,280	154,413
Contributions	(52,729)	(9,008)
Net liability at December 31	**435,956**	**376,405**

As of 31 December 2006 and 2005 the principle actuarial assumptions of defined benefit pension and other post-employment benefit plans were as follows:

	2006	2005
Discount rate	6.50%	7.00%
Expected return on plan assets	7.29%	9.96%
Future salary increases	9.20%	8.15%
Rate used for calculation of annuity value	6.00%	6.00%
Increase in financial support benefits	0.00%	5.00%
Staff turnover	7.00%	7.00%
Mortality tables (source of information)	USSR 1985/86	USSR 1985/86

(in thousands of Russian Roubles)

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2006 and 2005 are characterized by the following factors:

	2006	2005
Fair value of plan assets at January 1	173,128	160,000
Actual return on plan assets	7,503	20,769
Employer contributions	52,729	9,008
Benefits paid	(13,096)	(16,649)
Curtailment or final settlement effect	(193,743)	-
Fair value of plan assets at December 31	**26,521**	**173,128**

Actual return on plan assets for 2006 was 4.3%.

As of 31 December 2006 the pension plan assets did not include the Company's financial instruments.

25. Revenues

By revenue types	**2006**	**2005**
Local telephone calls	3,257,376	2,843,162
Revenues from interconnected operators	2,162,424	1,039,917
Long distance and intrazonal telephone services	1,501,279	2,696,364
New services (Internet, ISDN, ADSL, IP-telephony)	1,253,582	798,490
Cellular services	1,003,982	553,375
Installation and connection fees	352,879	494,542
Radio and TV broadcasting	208,246	173,221
Data transfer and telemetric services	174,633	156,672
Rent of telephone channels	146,528	142,764
Documentary services	25,110	27,889
Universal telecommunication services	16	-
Long distance telephone services – international	-	546,503
Other telecommunications services	421,446	445,026
Other revenues	377,900	778,447
Total	**10,885,401**	**10,696,372**

Starting the year 2006, according to the changes in legislation, the rules of rendering of services of intrazone, intercity and international connection changed.

In the year 2006 the Company ceased rendering of intercity and international calls services, as in compliance with the new regulations the mentioned services can be rendered only by the operators possessing licenses on intercity and international calls services. Starting the year 2006 the Company renders the services of intrazone connection under the corresponding license.

In 2005 the revenue from intrazonal telephone services was not separated due to the fact that tariffs for long distance calls were approved without separation of the intrazonal tariff. Therefore, revenue from intrazonal, long distance and international calls for 2006 and 2005 are not comparable due to the changes in legislation introduced in 2006 which regulates these services and regulates licensing issues between the Company and long distance and international calls operators.

In October 2005 the Company was nominated to provide universal telecommunication services using payphones on the territory of Khabarovsky and Primorsky krais, Amur, Sakhalin, Kamchatka, Magadan and Jewish Autonomy oblasts, Koryaksky Autonomous region. The period of contract for universal telecommunication service provision is 5 years.

(in thousands of Russian Roubles)

In February 2006 the Company partially started provision of universal telecommunication services in all above mentioned regions. Full implementation of the universal telecommunication services commenced in September 2006.

The Company installed 2,019 payphones. The revenue from universal telecommunication service for 2006 equals to RUR 16 thousand.

The Company identifies revenue by the following major customer groups:

Customer groups	**2006**	**2005**
Residential customers	5,855,387	5,811,513
Corporate customers	4,069,323	3,914,817
Government customers	960,691	970,042
Total	**10,885,401**	**10,696,372**

The residential customers group includes revenues on tariff compensation from the state budget in amount RUR 23 thousand (2005 – RUR 504 thousand).

In 2006 part of company's revenue from service rendering and goods sold was received on contract with non-cash discharge of obligations:

	2006	**2005**
Total number of counterparties with non-cash payments	494	1,129
OJSC "Rostelecom"	1,496,318	512,971
LLC "Vostoktelecom TC"	68,844	-
OJSC "Mejregionalniy tranzit telecom"	56,573	-
OJSC "Novaya telefonnaya kompaniya"	33,627	-
LLC "Dalsvyaz-Kurier"	24,117	10,141
CJSC "Rostelegraph"	22,018	28,526
CJSC "AKOS"	20,116	13,581
LLC "Ekvant"	8,405	14,109
"Interdaltelecom"	3,381	9,372
Others	108,449	132,460
Total	**1,841,848**	**721,160**

The price for rendered services and goods sold was defined on market by the Company.

(in thousands of Russian Roubles)

26. Other Operating Expenses, Net

	2006	2005
Fire and other security services	183,295	157,092
Lease of premises	171,126	134,455
Audit and consulting fees	134,766	46,662
Advertising expenses	124,645	52,365
Agency fees	107,934	48,230
Universal service fund payments	72,384	53,387
Non-commercial partnership expenses	69,495	45,873
Business travel expenses and representation costs	50,403	53,631
Insurance	49,583	52,879
Civil Defense	29,570	50,140
Member fees, charity contribution, payments to labor unions	29,049	23,844
Compensations to Board of Directors members and Revision Committee	26,776	23,364
Banks service fees	25,409	27,002
Transportation services	20,412	20,500
Cost of goods sold	17,778	9,564
Impairment of goodwill	13,711	12,604
Education expenses	11,681	11,733
Post services	8,213	12,046
AR written-off	7,072	15,846
Social expenses	5,100	25,793
Write off of property, plant and equipment and inventories	2,155	980
Tax penalties and Tax sanctions	2,029	-
Other expenses	197,767	154,511
Total	**1,360,353**	**1,032,531**

27. Interest expense, net

	2006	2005
Interest expense	400,407	165,336
Interest expense accrued on finance leases	238,764	309,720
Interest expense on vendor financing	-	455
Total	**639,171**	**475,511**

28. Other (losses)/gains From Financial Investments, net

	2006	2005
(Loss)/gains on sale of other investments	(47,653)	218,748
Dividend income	786	-
Total	**(46,867)**	**218,748**

29. Income Tax

Income tax charge for the years ended 31 December 2006 and 2005 comprised the following:

	2006	2005
Current income tax expense	460,869	439,059
Deferred tax expense	62,011	48,558
Total income tax for the year	**522,880**	**487,617**

(in thousands of Russian Roubles)

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2006	2005
Profit before income tax and minority interest	861,681	1,099,074
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	206,803	263,778
Increase resulting from the effect of:		
Non-taxable income	(20,438)	(18,252)
Non-deductible expenses	336,515	242,091
Total income tax of effective tax rate 60.68 % (2005 – 44.37%)	**522,880**	**487,617**

Deferred income tax assets and liabilities as of 31 December 2006 and 2005, and their movements in 2006 were as follows:

	31 December 2004, as restated	Origination and reversal of temporary differences	Sale of subsidiaries	31 December 2005	Origination and reversal of temporary differences	Subsidiaries acquisition	31 December 2006
Deferred tax assets:							
Property, plant and equipment	**-**	(2,836)	10,951	**8,115**	(15,924)	7,809	
Accounts Payable	**99,270**	(701)	4,435	**103,004**	(43,705)	(741)	**58,558**
Accounts Receivable	**50,314**	(41,367)	-	**8,947**	(8,947)	-	**-**
Inventories	**-**	-	-	**-**	7,626	-	**7,626**
Pension liability	**-**	38,518	-	**38,518**	67,530	-	**106,048**
Finance lease	**-**	10,675	-	**10,675**	40,671	-	**51,346**
Finance investments	**-**	-	-	**-**	14,162	-	**14,162**
Deferred revenue	**24,133**	805	-	**24,938**	(24,938)	-	**-**
Other	**11,171**	6,581	-	**17,752**	(17,752)	-	**-**
Deferred tax asset, total	**184,888**	**11,675**	**15,386**	**211,949**	**18,723**	**7,068**	**237,740**
Deferred tax liabilities:							
Property, plant and equipment	**(917,850)**	(75,977)	(714)	**(994,541)**	(39,750)	(8,886)	**(1,043,177)**
Intangible assets	**(10,945)**	1,520	(48,189)	**(57,614)**	(16,478)	-	**(74,092)**
Finance lease	**(13,361)**	13,361	-	**-**	-	-	**-**
Finance investments	**(1,203)**	863	-	**(340)**	340		**-**
Investment revaluation effect	**(50,551)**	50,551	-	-	-	-	**-**
Accounts receivables	-	-	-	-	(22,063)	164	**(21,899)**
Accounts payable and accrued expenses	-	-	-	-	(1,129)	-	**(1,129)**
Deferred income tax liability, total	**(993,910)**	**(9,682)**	**(48,903)**	**(1,052,495)**	**(79,080)**	**(8,722)**	**(1,140,297)**
Total deferred income tax liability, net	**(809,022)**	**1,993**	**(33,517)**	**(840,546)**	**(60,357)**	**(1,654)**	**(902,557)**

The movement in deferred tax asset for the years ended 31 December 2006 and 2005 was as follows:

	2006	2005
Deferred tax asset, at January 1	211,949	184,888
Deferred tax income	18,723	11,675
Subsidiary acquisition	7,068	15,386
Deferred tax asset, at December 31	**237,740**	**211,949**

The movement in deferred tax liability for the years ended 31 December 2006 and 2005 was as follows:

	2006	2005
Deferred tax liability, at January 1	(1,052,495)	(993,910)
Deferred tax (expense) income	(79,080)	(60,233)
Deferred tax expense related to changes in fair value of investments available-for-sale	-	50,551
Subsidiary acquisition	(8,722)	(48,903)
Deferred tax liability at December 31	**(1,140,297)**	**(1,052,495)**

A temporary difference relating to investments in subsidiaries of RUR 10,325 thousand has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

30. Earnings per Share

Earnings per share is calculated by dividing the profit attributable to ordinary and to preference shareholders (see note 19) by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

The following is a reconciliation of the profit attributable to ordinary and preference shareholders:

	2006	2005
Net profit for the year attributable to the shareholders of the Company	328,557	613,035
Less: attributable to preference shareholders	(80,796)	(150,751)
Attributable to ordinary shareholders	247,761	462,284

The following is a reconciliation of the weighted average number of ordinary shares:

In thousands of shares	2006	2005
Issued shares at 1 January	95,581	95,581
Effect of own shares held	(12)	-
Weighted average number of shares for the year ended 31 December	95,569	95,581

31. Dividends Declared and Proposed for Distribution

Dividends declared in 2006 based on 2005:

Dividends on ordinary shares – RUR 0.9 per share	86,024
Dividends on preference shares – RUR 2.69 per share	83,844
	169,868

The number of shares using for calculation the dividends amount is equal to the number of shares on issue at the reporting date.

Dividends declared and approved subsequent in 2006

Dividends declared to shareholders are determined by the Board of Directors and will be officially recommended at the annual shareholders' meeting:

Dividends on ordinary share – RUR 0.80 per share	76,464
Dividends on preferred share – RUR 2.40 per share	74,806
Total	**151,270**

The number of shares using for calculation the dividends amount is equal to the number of shares on issue at the reporting date.

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting. Earnings available for dividends are limited to profits of the Company determined in accordance with the Russian Join Stock Companies Law and based on the Company's Financial Statements compiled in accordance with the Russian statutory accounting regulations.

32. Provisions for tax liabilities

Legal proceedings

The provision of RUR 1,404 thousand recognized in the balance sheet represents the total amount of provision with respect to appropriate actions at law instigated against the Company. Management believes that the amount of provision as at 31 December 2006 will be fully utilized in the first half of 2007. Management estimates that amount of final payment will not exceed the amount of the provision as at 31 December 2006

Tax contingencies

In 2004, the tax authorities conducted the tax audit of the Company for 2001-2002. Based on the results of the tax audit the Company received a claim totaling RUR 718,080 thousand, including fines and penalties of RUR 256,245 thousand. The claim primarily related to:

- Settlements on interconnection agreement. According to the claim – the Company should have recognized for tax purposes deemed revenue from international calls termination in settlements with OJSC "Rostelecom". The amount of such revenue was determined based on calculation made by the tax authorities. The total amount of related underpaid tax was estimated at RUR 92,077 thousand;
- Recognition of the revenue on long distance calls. The tax authorities estimated the amount of revenue for long distance calls by application of the average rate for long distance call to the whole volume of inter-city traffic. However the significant part of inter-city traffic related to intrazone call (i.e. calls within one region). The average rate used by the tax authorities was approximately RUR 6 per minute as compared to the rate for intrazone calls approved by the Government of RUR 2.65 per minute. The total amount of related underpaid tax was estimated at RUR 466,487 thousand;

The Company did not agree with the results of the tax audit in respect of accrual of additional amount of taxes, fines and penalties and filed a court claim.

According the Decision of the Moscow Arbitrary Court dated 11 September 2006, the Company's claim was partially satisfied reducing the amount of underpaid tax, fines and penalties to RUR 633,468 thousand. The Company proceeded with the litigation and file an appeal. The Ninth Arbitrary Appeal Court on 10 January 2007 supported the initial Moscow Arbitrary Court decision. On 7 May 2007, the Federal Arbitrary Court of the Moscow District supported the decision as well. After that, the Company fully repaid the claim in the amount of RUR 633,468 thousand.

In 2006 the tax authorities conducted the tax audit for 2003-2005 as a result of this audit the Company received a claim totaling RUR 908,773 thousand, including fines and penalties of RUR 759,051 thousand. The claim particularly relates to:

- Settlements on interconnection agreement. According to the claim – the Company should have recognized for tax purposes deemed revenue from international calls termination in settlements with OJSC "Rostelecom". The amount of such revenue was determined based on calculation made by the tax authorities. The total amount on this case is RUR 178,080 thousand;
- Violation of the five day rule on provision of the requested invoices issued to the customers for 2003-

2005. According to p. 1 art. 126 of the Tax Code the tax authority calculated the amount of penalties based on the quantity of customers. According to the tax authorities the total amount of unprovided documents equaled to 14 millions. The total amount of claim on this case is RUR 707,814 thousand.

The Company did not agree with the results of tax audit and claimed amount of additional taxes, fines and penalties and declared the suit to the Court. Currently the Moscow Arbitrary Court is investigating this case.

The Company made a complaint on the above mentioned decision to the Federal Tax Service of the Ministry of Finance of the Russian Federation (FTS). On 2 May 2007 FTS partially satisfied the claim in respect of penalties for non-provision of requested documents (copies of invoices issued to customers for 2003-2005) and, therefore, the related part of claim on results of tax audits was cancelled for the amount of RUR 707,314 thousand.

Considering the fact that the Company failed to challenge the results of tax audit for 2001-2002 in three court instances and that the case from 2003-2005 tax audit on settlements on interconnection agreements totaling RUR 178,080 thousand is similar to the case for 2001-2002, the Company made a decision to accrue the provision for tax liabilities of RUR 810,420 thousand.

The Company plans to appeal on the results of the tax audit for 2001-2002 to the Supreme Arbitrary Court of the Russian Federation.

Employee Redundancy Program

As part of the enhancement of the efficiency the Company embraced the Employee Redundancy Program approved by the order of General Director No. 380 dated 26 December 2005.

In December 2005, the Company accrued contingent liabilities for compensation payments to employees which are to be dismissed according to the Program.

The related expenses of RUR 67,465 thousand, are included in the consolidated statement of operations line “Wages, salaries, other benefits and payroll taxes”.

During 2006 the Company recognized liabilities which previously were recognized as conditional related to employees dismissed in 2006 in amount of RUR 67,465 thousand.

In December 2006 the Company accrued the provision for compensation payments to employees which are to be dismissed according to the Program and which are eligible to receive compensation in 2007 (until employment). The related expenses of RUR 72,175 thousand, are included in the consolidated statement of operations line “Wages, salaries, other benefits and payroll taxes”.

33. Commitments

As of 31 December 2006 the Company has commitments for capital investments into the modernization and expansion of its network in the amount of RUR 619,435 thousand (2005: RUR 513,540 thousand).

34. Contingencies and Operating Risks

Operating Environment of the Company

The Russian Federation has been experiencing political and economic change that has affected , and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Taxation

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncement in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As of 31 December 2006 the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax, currency and customs positions will be sustained.

At the same time there is a high probability that the tax authority could challenge the management position with respect to taxation as not appropriate. In 2004 and 2006 the Company received claims as a result of tax audits for 2001-2002 and 2003-2005, respectively. These claims relate to transactions with other operators under interconnection agreements.

Insurance

The Insurance Business in Russia is on the development stage and many insurance services are not distributed in the Russian Federation yet, which available in other countries. During 2005 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Legal proceedings

Management is not able to assess the further development of the Russian Court system and probable influence of such changes on the financial position of the Company and its future operations. In the future the Company could be influenced by such factors. This consolidated financial statement does not include any adjustments as a result of such uncertainties.

The Company acts as defendant in a number of legal proceedings including with tax authorities.

The Company acts as plaintiff in the legal proceeding against the Federal Antimonopoly Agency on the cancellation of its decision. According to this decision of the Federal Antimonopoly Agency dated 17 November 2005 the Company was adjudicated in violation of the legislation in respect setting prices on interconnection. On 23 January 2006 based on this decision the Federal Antimonopoly Agency issued a decision to remit to the federal budget the amount of income received as result of this practice, the amount is RUR 205,768 thousand.

The Company seized these decisions in the court. Based on the Decision of the Moscow Arbitrary Court dated 17 July 2006 was partially satisfied: the decision on remittance of the income to the federal budget received as a result of this practice; other issues were shelved. By the decision of the Ninth Arbitrary Appeal Court dated 13 November 2006 the abovementioned decision was not changed. By the decision of the Federal Arbitrary Court of Moscow district dated 20 February 2007 the abovementioned decision was not changed in respect of the decision of the Federal Antimonopoly Agency on remittance of the income to the federal budget received as a result of the abovementioned practice. The legal case in that part was appealed to the Moscow Arbitrary Court.

(in thousands of Russian Roubles)

Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2007 to 2012. The Company has renewed these licenses on a regular basis in the past, and believes that it will be able to renew the licenses without additional cost in the normal course of business. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Company.

The Government of the Russian Federation is in process of liberalization of the telecommunications market for which additional licenses on providing of DLD/ILD have been granted to a number of alternative operators. It is possible that the Company's future results of operations or cash flows could be materially affected in a particular period but these effects can not be currently determined.
The management believes there are no reasons licenses would not be prolonged or some of them would be suspended or cancelled.

Guarantees Issued

The Group has provided financial guarantees for loans advanced to third parties for the total amount of RUR 899,944 thousand (2005: RUR 1,946,342 thousand). The Group's estimated maximum exposure to credit losses in the event of non-performance by the other parties to the financial guarantees is represented by the contractual amounts disclosed above. Management believes that the likelihood of material payments being required under these agreements is remote. As of 31 December 2006 the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

35. Balances and Transactions with Related Parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship attention is directed to the substance of the relationship, and not merely the legal form.
The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2006 are detailed below.

Rendering of services and other income

During the financial years the Company rendered services to the following related parties:

Related party	Relationship	Type of sales	Price determina-tion method	2006	2005
OJSC "Rostelecom"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	1,415,686	441,917
OJSC "AKB Svyaz-Bank"	Svyazinvest Group Company	Financial interest	Contracted price	72,262	-
LLC "Interdaltelecom"	Associate company	Telecommunication services	Market price	22,033	-

(in thousands of Russian Roubles)

Related party	Relationship	Type of sales	Price determina-tion method	2006	2005
CJSC "Rostelegraph"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	18,813	24,850
CJSC "TeleRoss-Vladivostok"	Associate company	Telecommunication services	Market price	-	23,429
OJSC "RTKomm.ru"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	4,016	-
Others				4,344	3,824
Total				**1,537,154**	**494,020**

(in thousands of Russian Roubles)

Purchases

During the financial year the following related parties rendered a significant amount of services to the Company:

Related party	Relationship	Type of sales	Price determina-tion method	2006	2005
OJSC "RTKomm.RU"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	126,940	151,978
OJSC "Rostelecom"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	120,201	1,292,605
OJSC Svyazintech	Svyazinvest Group Company	Telecommunication services	Contracted price	101,707	-
NCP "Center for Research of Problems in Development of Telecommunications"	Svyazinvest Group Company	Agent agreement	Contracted price	69,495	45,873
NCP "Center for Research of Problems in Development of Telecommunications"	Svyazinvest Group Company	Agent agreement	Contracted price	27,331	4
OJSC "AKB Svyaz-Bank"	Svyazinvest Group Company	Bank charges	Contracted price	26,838	32
CJSC "Rostelegraph"	Svyazinvest Group Company	Telecommunication services	Regulated tariff	20,589	26,352
NP "Telecom Soyuz"	Svyazinvest Group Company	Non-State pension insurance	Contracted price	-	39,744
"Russian Fund of Telecommunication History" fund	Svyazinvest Group Company	Telecommunication services	Contracted price	4,200	-
LLC "SP Magalyascom"	Associate company	Telecommunication services (channel lease)	Market price	3 053	6 534
CSJC "Registrator-Svyaz"	Svyazinvest Group Company	Registrar services	Market price	-	1,666

(in thousands of Russian Roubles)

Related party	Relationship	Type of sales	Price determination method	2006	2005
OJSC "Objedinennaya registracionnaya kompaniya"	Svyazinvest Group Company	Registrar services	Market price	2,892	-
OJSC "Giprosvyaz"	Svyazinvest Group Company	Project services	Market price	2,478	-
LLC "Interdaltelecom"	Associate company	Telecommunication services	Market price	989	-
OJSC "Nacionalnaya taksofonnaya set"	Svyazinvest Group Company	Payphone cards	Market price	-	598
Others				1,371	354
Total				**508,084**	**1,565,740**

Settlements with Related Parties

As of 31 December 2006 significant balances of accounts receivable from related parties and payables to related parties were as follows:

Related party	Relationship	Type of Settlement	2006	2005
Accounts Receivable				
OJSC "Rostelecom"	Svyazinvest Group Company	Telecommunication services	198,057	-
NCP "Center for Research of Problems in Development of Telecommunications"	Svyazinvest Group Company	Agent agreement Target membership fees	105,415	105,149
LLC "Interdaltelecom"	Associate company	Telecommunication services	20,586	-
OJSC "Informacionnie tehnologii svyazi"	Svyazinvest Group Company	Telecommunication Services	17,620	-
OJSC "AKB Svyaz-Bank"	Svyazinvest Group Company	Bank services	9,426	13,663
CJSC "TeleRoss-Vladivostok"	Associate company	Telecommunication Services	-	2,864
Others			**4,312**	**677**
Total			**355,416**	**122,353**

(in thousands of Russian Roubles)

Related party	Relationship	Type of Settlement	2006	2005
Accounts Payable				
CJSC “RusLizingSvyaz”	Svyazinvest Group Company	Lease	4,460	5,598
OJSC “Rostelecom”	Svyazinvest Group Company	Telecommunication Services	7,580	85,155
NPF “Telecom-Soyuz”	Svyazinvest Group Company	Non-state pension security	(6,135)	46,898
NCP “Center for Research of Problems in Development of Telecommunicatio n ”	Svyazinvest Group Company	Target Membership fees	20,300	20,300
LLC “SP Magalyascom”	Associate company	Telecommunication Services (rent of channels)	3,603	-
OJSC “RTComm.Ru”	Svyazinvest Group Company	Telecommunication Services	984	3,116
LLC “Interdaltelecom”	Associate company	Telecommunication Services	2,652	-
Others			3,927	2,906
Total			**37,371**	**163,973**

OJSC “Svyazinvest”

The Company’s parent entity - OJSC “Svyazinvest” - was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of OJSC “Svyazinvest” to the private sector.

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of OJSC “Svyazinvest” and its subsidiary companies.

The Government’s influence is not confined to its share holdings in OJSC “Svyazinvest”. It has general authority to regulate tariffs, including domestic long distance tariffs. In addition, the Ministry of Information Technologies and Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

Transactions with government organisations

Government organizations are a significant element in the Company’s customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. Certain entities financed by the Government budget are users of the Company’s network. These entities are generally charged lower tariffs as approved by the Federal Antimonopoly Agency than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

(in thousands of Russian Roubles)

In the context of activity the Company operates with third parties controlled directly or indirectly by the Government.

The Company does not operate through entities controlled directly or indirectly by the Government.

The Company operates with third parties controlled directly or indirectly by the Government at a market price.

Companies controlled by the Government directly or indirectly do not influence on the Company's operations with third parties.

The Company is not able to switch off a number government-controlled companies due to the fact that they are strategic based on decisions of the Government of the Russian Federation. Tariffs for such companies are determined by regulator and they are at the same level as compared to the tariffs for commercial organizations.

Below is the summary of operations and settlements with companies controlled by the Government for the years ended 31 December 2006:

	31 December 2006		**2006**	
Type of operations	**Accounts receivable**	**Accounts payable**	**Revenue**	**Expenses**
Telecommunication services	-	-	1,285,628	-
Interconnection services	-	-	157,886	-
Other services	-	-	103,332	-
Accounts receivable	218,887	-	-	-
Electricity and heating expenses	-	-	-	165,719
Rent expenses	-	-	-	53,788
Other expenses	-	-	-	627,124
Accounts payable	-	147,438	-	-
Total	**218,887**	**147,438**	**1,546,846**	**846,631**

As of 31 December 2006 the share of government-controlled companies' receivables in total accounts receivable balance was equal to 27% (2005: 18%).

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications
The non-commercial partnership Centre for Research of the Problems in Development of Telecommunications (hereinafter "the Partnership") is an entity, which OJSC "Svyazinvest" controls through its subsidiaries.

NPF Telecom-Soyuz

In 2005 the Company signed new centralized pension agreement with NPF Telecom-Soyuz (see Note 22). OJSC "Svyazinvest" holds the majority in the Board of Directors of NPF Telecom-Soyuz ("the Fund").

The total amount of payment to NPF Telecom Soyuz for 2006 was RUR 70,654 thousand (2005: RUR 46,898 thousand).

Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board and the Board of Directors of the Company.

Total compensation paid to key management personnel included in "Wages, salaries, other benefits and payroll taxes" and "Other operating expenses, net" in the consolidated income statement amounted to RUR 52,770 thousand for the year ended 31 December 2006 (2005: RUR 45,611 thousand).

36. Financial Instruments

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Company's statement of operations, balance sheet and/or cash flows. Foreign currency denominated obligations give rise to foreign exchange risk exposure.

The Company does not have arrangements to mitigate foreign exchange risks of the Company's operations.

As at 31 December 2006 the Company's liabilities in foreign currency were RUR 102,199 thousand (2005: RUR 270,194 thousand), including liabilities denominated in US dollars RUR 82,084 thousand (2005: RUR 227,825 thousand) and Euro RUR 20,115 thousand (2005: RUR 42,369 thousand).

For the period from 31 December 2005 to 31 December 2006 the exchange rate of the Russian Ruble to the US Dollar appreciated by approximately 8.5% and the exchange rate of the Russian Ruble to the Euro decreased by approximately 1.5%.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results.

The Company has no borrowings, which bear floating rates of interest.

The following table presents as of 31 December 2005 and 2006 the carrying amount by maturity of the Company's financial instruments that are exposed to interest rate risk:

(in thousands of Russian Roubles)

	< 1 year	1 - 5 years	> 5 years	Total
As of 31 December 2005:				
Fixed rate				
Short–term borrowings	338,596	-	-	338,596
Current portion of long–term borrowings	1,726,362			1,726,362
Long–term borrowings	-	725,943	-	725,943
Finance lease obligations	349,791	867,626	-	1,217,417

	< 1 year	1 - 5 years	> 5 years	Total
As of 31 December 2006:				
Fixed rate				
Short–term borrowings	2,021,499	-	-	2,021,499
Current portion of long–term borrowings	423,538	-	-	423,538
Long–term borrowings	-	3,247,072	-	3,247,072
Finance lease obligations	371,917	554,726	-	926,643

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The Company has no significant interest-bearing assets.

Credit Risk

Credit risk is the risk that a counter-party will fail to discharge an obligation and cause the Company to incur a financial loss.

Financial assets, which are potentially subject to credit risk, consist principally of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

The Company has no significant concentrations of credit risk due to the significance of the client base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by state and other non-commercial organizations. Recovery of this debt is influenced by political and economic factors. Management believes that as of 31 December 2006 there is no significant risk of loss to the Company beyond the provision already recorded.

The Company places cash on bank accounts in a number of Russian commercial financial institutions. Insurance of bank accounts is not provided by financial institutions operating in Russia. To manage the credit risk the Company places cash in different financial institutions, and the Company's management analyzes the risk of default of these financial institutions on a regular basis.

(in thousands of Russian Roubles)

Fair Value

	2006		2005	
Financial instruments	**Carrying Amount**	**Fair value**	**Carrying Amount**	**Fair value**
Financial Assets				
Investments in associates	24,388	24,388	25,969	25,969
Long–term investments available for sale	7,109	7,109	7,432	7,432
Long–term accounts receivable	283	283	609	609
Long–term borrowings given	16,477	16,477	22,545	22,545
Accounts receivable	1,027,444	1,027,444	826,569	826,569
Cash and cash equivalents	184,459	184,459	158,331	158,331
Total	**1,260,160**	**1,260,160**	**1,041,455**	**1,041,455**
Financial Liabilities				
Long–term bank loans	38,500	38,500	668,773	668,773
Long–term bonds	3,194,314	3,200,000	-	-
Long–term suppliers' credits	13,921	13,921	57,170	57,170
Long–term finance lease obligations	554,726	554,726	867,626	867,626
Accounts payable	1,293,087	1,293,087	1,390,968	1,390,968
Short–term promissory notes	1,957,122	1,957,122	-	-
Other loans payable	1,975	1,975	-	-
Short-term bank loans	16,592	16,592	274,683	274,683
Current portion of bank loans	-	-	176,662	176,662
Current portion of bonds	354,034	362,289	1,016,027	1,040,000
Current portion of promissory notes	-	-	512,382	512,382
Current portion of suppliers' credits	115,651	115,651	85,204	85,204
Current portion of long–term finance lease obligations	371,918	371,918	349,791	349,791
Total	**7,911,840**	**7,925,781**	**5,399,286**	**5,423,259**

Fair value of monetary assets and liabilities equals to their carrying value; balance denominated in foreign currencies were translated to Russian roubles using appropriate exchange rate at the period end.

Carrying value of cash and cash equivalents equals to their fair value considering their short term nature and minimal credit risk.

37. Subsequent Events

Acquisition of subsidiaries

According to the Board decision (minute No. 5 dated November 30, 2006) the Company acquired shares of OJSC "Sakhatelecom". The appropriate contract was signed on December 12, 2006.

As a result of the transaction the Company acquired 51% of voting shares of OJSC Sakhatelecom. The number of acquired shares equal to 764,769, the amount of consideration paid is RUR 2,295,030 thousand.

The shares were acquired as long term investments. The appropriate record in the shareholders register was made on January 25, 2007.

The main activity of OJSC Sakhatelecom is fixed line telecommunication services in the territory of Sakha-Yakutia.

The Company engaged an independent appraiser in order to determine the fair value of identifiable assets and liabilities of OJSC Sakhatelecom. The results of the appraisal will be used in purchase price allocation accounting in accordance with IFRS. As of 25 May 2007 the appraisal was not completed.

Dividends

In June 2007, the general meeting of the Company's shareholders will approve dividends per share. The Company's Board of Directors took decision of offering the dividends for 2006 in the amounts of RUR 0.80 per ordinary share and RUR 2.40 per preferred share (in 2005: RUR 0.90 and RUR 2.69 respectively). Total dividends declared amounted to RUR 151,270 thousand in 2006 (2005: RUR 169,868 thousand). Dividends for the year will be accrued in the financial statements for the year after declaration.

Employee Redundancy Program

In accordance with the Employee Redundancy Program approved by the Company's Management Board on 26 December 2005 №380 the Company dismissed 825 employees paying compensation totaling RUR 32,373 thousand between 31 December 2006 and the date of the authorization of the financial statements for the issue.

Changes in Settlements with OJSC "Rostelecom"

In 2007 there will be change in the relationships with OJSC Rostelecom in respect of the interconnection agreement. In 2007 the Company does not plan to connect to OJSC Rostelecom' network at long-distance and international calls level, while OJSC Rostelecom will connect to the Company's network at zone level. Therefore, the Company expects additional revenue for interconnect (both one-off payments and monthly payments).

In 2007 the Company plans to implement interconnection agreement with OJSC Rostelecom in respect of every second tariffication which will lead to decrease in interconnection revenue by 12-16%. The date of implementation such tariffication is 1 January 2007, this date was agreed with OJSC Rostelecom and will be approved by the Board of Directors in June 2007.

Federal Law No. 119-FZ dated 22 July 2005 introduced amendments to the Chapter 21 of the Tax Code effective 1 January 2007; these amendments determine the principles of VAT reimbursement for non-cash transactions (particularly, mutual set-off). Starting from 1 January 2007 VAT could be reimbursed only after actual payment made, these amendments could lead to changes in the settlement scheme with OJSC Rostelecom in respect of set-off cancellation.

Changes in the industry legislation

In July 2007 amendments to the Federal Law on Communications No. 126-FZ date July 7, 2003 will come into force.

The following amendments will come into force:

- Mandatory expertise of system projects to the requirements of the Government of the Russian Federation in telecommunication;
- Registration of operators' network part of public networks in accordance with the procedures established by the Government of the Russian Federation.

Considering the fact that the procedures in respect of mandatory expertise and registration of operators' network are not elaborated and approved by the Government of the Russian Federation, the Company is not able to assess the consequences of new amendments.

Operators' networks construction of which was completed prior to the amendments come into force should be registered in accordance with the new requirements of the Federal Law on Communications not later that 1 January 2010.

Tariffs

The Federal Tariff Service by the Order No. 280-c/4 approved tariffs for local, intrazone calls and compensation surcharge to the price for local and intrazone initiation services in the amount of RUR 0.54 per minute.

The following was determined for the Company:

- For residential customers – three mandatory tariff plans (with time rate, rate with subscribers' fee and combined tariff);
- For corporate customers – one mandatory tariff (with time rate) and one additional plan (with subscribers fee for unlimited volume of local telephony services).

Monthly payment for services of local interconnection will consists of obligatory payments for "Rendering of subscriber line in use" service and "Rendering of local interconnection" service (one system of payments by choice).

Tariff plan with subscriber payments primarily orients for much-speaking subscribers who do not limit themselves in communication by phone. This tariff allows phone unlimited amount of minutes and pay fixed amount monthly.

Time rate plan proposes per minute payment for calls starting from the first second, at the same time telephone connections with duration less 6 seconds are free-of-charge.

Tariff plan with combined payments includes monthly basic time limit (377 min) for a fixed payment and anticipates per minute payment of calls over limit by decreased rate per minute. Thereby, additional minutes will cost cheaper for customers.

Bank loan agreement with Sberbank

On January 30, 2007 the Company concluded the bank loan agreement with OJSC Sberbank Rossii for the amount of RUR 1,955,000 thousand. The loan to be repaid by 29 January 2012. The interest rate is 8.75% per annum. The bank loan is pledged as with:

- Telecommunication equipment with a carrying value of RUR 202,512 thousand (pledge value of RUR 162,002 thousand);
- 764,769 ordinary shares of OJSC Sakhatelecom with nominal value RUR 1,000 each; with a pledge value of RUR 2,400.724924 each.

Claim received from OJSC "Novaya Telefonnaya Kompaniya" (OJSC "NTK")

On 3 April 2007 the Company received the claim from OJSC "NTK" on debt collection for services rendered in the amount of RUR 27,246 thousand. The suit was claim into the Arbitrary Court of Primorsky krai.

OJSC "NTK" claims that the Company owes the above mentioned amount for the termination on their network during the period from 1 January 2006 until 30 December 2006.

As of 28 May 2007 the Company does not have any information on the acceptance of the above mentioned suit by the Arbitrary court of Primorsky krai and the date of the court sitting. As of 28 May 2007 the Company does not have any arguments confirming the position of OJSC "NTK".

As of 28 May 2007 based on the above mentioned claim the Company is not able to assess the validity of the claim and to assess the possible results.

Issue of promissory notes

For the settlement of taxes payable in the amount of RUR 632,961 thousand as a result of tax audit for 2001-2002 the Company attracted RUR 630,000 thousand. For this purpose the Company issued promissory notes with interest.

On 10 May 2007 the Company concluded the agreement on sale of promissory notes with OJSC AKB Svyaz Bank for the total amount of RUR 380,000 thousand. The promissory notes are payable at sight not earlier that 16 June 2007. The interest rate is 7.7%:

- Promissory note No. 596954 – RUR 100,000 thousand;
- Promissory note No. 596959 – RUR 100,000 thousand;
- Promissory note No. 596960 – RUR 100,000 thousand;
- Promissory note No. 596961 – RUR 80,000 thousand.

On 10 May 2007 the Company concluded the agreement on sale of promissory notes with CJSC Russian Industrial Bank for the total amount of RUR 250,000 thousand. The promissory notes are payable at sight not earlier that 11 June 2007. The interest rate is 7.5%:

- Promissory note No. 596950 – RUR 50,000 thousand;
- Promissory note No. 596951 – RUR 50,000 thousand;
- Promissory note No. 596952 – RUR 50,000 thousand;
- Promissory note No. 596953 – RUR 100,000 thousand.