JSC SITRONICS AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements
Years ended December 31, 2006 and 2005

JSC SITRONICS AND SUBSIDIARIES

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Sitronics:

We have audited the accompanying consolidated balance sheets of JSC Sitronics and subsidiaries (the "Group") as of December 31, 2006 and 2005 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

May 25, 2007
Moscow, Russia

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2006	2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	$ 89,840	$ 83,359
Short-term investments	5	28,725	10,397
Trade receivables, net	6	658,498	158,855
Other receivables and prepaid expenses, net	7	95,806	56,880
Inventories and spare parts, net	8	250,351	113,917
Deferred tax assets, current portion	23	6,517	4,785
Total current assets		1,129,737	428,193
Property, plant and equipment, net	9	268,820	94,947
Intangible assets, net	10	89,813	19,734
Long-term investments	11	1,728	865
Long-term trade receivables	12	84,105	14,575
Prepaid rent	13	2,033	2,230
Restricted cash	14	50,544	2,105
Debt issuance costs	18	700	-
Deferred tax assets	23	19,887	3,441
TOTAL ASSETS		**$ 1,647,367**	**$ 566,090**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2006 AND 2005
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	15	$ 296,502	$ 104,488
Taxes payable		34,490	40,557
Accrued expenses and other current liabilities	16	132,872	105,909
Derivative financial instruments	22	34,317	-
Short-term loans and notes payable	17	157,555	105,062
Current portion of long-term debt	18	9,935	925
Deferred tax liabilities, current portion	23	607	664
Total current liabilities		666,278	357,605
LONG-TERM LIABILITIES:			
Capital lease obligations	19	3,074	1,605
Long-term debt	18	330,966	6,125
Other long-term liabilities	21	11,723	-
Deferred tax liabilities	23	10,302	9,010
Total long-term liabilities		356,065	16,740
COMMITMENTS AND CONTINGENCIES	27	-	-
TOTAL LIABILITIES		1,022,343	374,345
MINORITY INTERESTS		177,501	28,926
SHAREHOLDERS' EQUITY:			
Share capital (7,997,247,990 and 1,886,771,000 shares authorized and issued as of December 31, 2006 and 2005, respectively, with par value of 1 ruble)	24	276,941	59,213
Treasury stock (748,806,541 shares with par value of 1 ruble as of December 31, 2006)	24	(27,135)	-
Shareholder's receivable	24	(11,102)	-
Additional paid-in capital	24	94,868	76,130
Retained earnings	24	86,564	28,490
Accumulated other comprehensive income/(loss)		27,387	(1,014)
TOTAL SHAREHOLDERS' EQUITY		447,523	162,819
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 1,647,367**	**$ 566,090**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Amounts in thousands of U.S. dollars or if otherwise stated)

	Notes	2006	2005
Revenues		$ 1,610,734	$ 952,569
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,240,899)	(715,634)
Research and development expenses		(27,213)	(23,644)
Selling, general and administrative expenses		(163,805)	(54,755)
Depreciation and amortization		(44,048)	(11,476)
Other operating expenses, net		(6,531)	(4,819)
OPERATING INCOME		128,238	142,241
Interest income		11,060	872
Interest expense, net of amounts capitalized		(32,065)	(9,810)
Foreign currency transactions loss		(9,002)	(2,914)
Income before income tax and minority interests		98,231	130,389
Income tax expense	23	(32,288)	(35,147)
Income before minority interests		65,943	95,242
Minority interests		(4,629)	(26,015)
NET INCOME		**$ 61,314**	**$ 69,227**
Translation adjustment, net of minority interests of $7,900 and ($380), respectively, and income tax effect of $nil		28,401	(3,788)
Comprehensive income		$ 89,715	$ 65,439
Weighted average number of common shares outstanding		6,225,013,990	1,886,771,000
Earnings per share, basic and diluted, USD:		0.01	0.04

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Amounts in thousands of U.S. dollars)

	2006	2005
OPERATING ACTIVITIES:		
Net income	$ 61,314	$ 69,227
Adjustments to reconcile net income to net cash (used in)/provided by operations, net of impact of acquired subsidiary:		
Depreciation and amortization charge	31,148	11,476
Minority interests	4,629	26,015
Gain from disposal of property, plant and equipment	(275)	(2,389)
Deferred income tax benefit	(6,622)	(314)
Doubtful accounts receivable provision/(recovery)	7,776	(2,296)
Changes in operating assets and liabilities:		
Trade receivables	(82,014)	(136,186)
Other receivables and prepaid expenses	(19,981)	(19,300)
Inventories and spare parts	(21,501)	(32,114)
Prepaid rent	-	1,067
Accounts payable	7,485	64,023
Taxes payable	(24,504)	29,985
Accrued expenses and other current liabilities	(102,984)	49,411
Net cash (used in)/provided by operating activities	$ (145,529)	$ 58,605
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(82,276)	(40,642)
Proceeds from disposals of property, plant and equipment	3,918	2,546
Purchases of intangible assets	(5,496)	(6,752)
Purchases of businesses, net of cash acquired	(57,520)	(28,658)
Cash deposited for acquisition of Intracom Telecom	(46,100)	-
Increase in other restricted cash	(2,339)	-
Purchases of short-term investments	(163,694)	(4,414)
Proceeds from sales of short-term investments	146,084	8,319
Purchases of long-term investments	-	(194)
Net cash used in investing activities	$ (207,423)	$ (69,795)

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Amounts in thousands of U.S. dollars)

	2006	2005
FINANCING ACTIVITIES:		
Debt issuance costs	$ (1,835)	-
Dividends paid to minority shareholders of subsidiaries	(1,586)	-
Distributions to the controlling shareholder	-	$ (24,498)
Proceeds from issuance of common stock	240,257	56,766
Repurchase of common stock	(40,926)	-
Proceeds from short-term borrowings	167,636	92,250
Principal payments on short-term borrowings	(217,648)	(64,488)
Proceeds from long-term borrowings	204,424	10,679
Principal payments on long-term borrowings	(1,478)	(12,800)
Principal payments on capital lease obligations	(2,934)	(1,193)
Net cash provided by financing activities	345,910	56,716
Effects of foreign currency translation on cash and cash equivalents	13,523	(1,852)
INCREASE IN CASH AND CASH EQUIVALENTS	6,481	43,674
CASH AND CASH EQUIVALENTS, beginning of the year	83,359	39,685
CASH AND CASH EQUIVALENTS, end of the year	89,840	83,359
CASH PAID DURING THE YEAR FOR:		
Interest, net of amounts capitalized	(16,346)	(9,201)
Income taxes	(54,294)	(7,925)
NON-CASH ITEMS:		
Equipment acquired under capital lease	3,458	2,500

Non-cash investing and financing activities for the years ended December 31, 2006 and 2005 included acquisitions of subsidiaries, as described in Note 3.

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in thousands of U.S. dollars)

	Share capital	Treasury stock	Share-holder's receivable	Additional paid-in capital	(Accumula-ted deficit)/ retained earnings	Accumulated other com-prehensive (loss)/income	Total
Balances at January 1, 2005	**$ 59,213**	**$ -**	**$ -**	**$ 43,862**	**$ (40,737)**	**$ 2,774**	**$ 65,112**
Contribution of the controlling shareholder	-	-	-	56,766	-	-	56,766
Distribution to the controlling shareholder	-	-	-	(24,498)	-	-	(24,498)
Translation adjustment, net of minority interests of $(380) and income tax of $nil	-	-	-	-	-	(3,788)	(3,788)
Net income	-	-	-	-	69,227	-	69,227
Balances at December 31, 2005	**$ 59,213**	**$ -**	**$ -**	**$ 76,130**	**$ 28,490**	**$ (1,014)**	**$ 162,819**
Issuance of common stock to Sistema (Note 24)	206,769	-	-	(56,766)	-	-	150,003
Issuance of common stock to EBRD (Note 24)	10,959	-	-	68,705	-	-	79,664
Capital transaction of a subsidiary (Note 24)	-	-	-	6,248	-	-	6,248
Repurchase of common stock (Note 24)	-	(40,926)	-	-	-	-	(40,926)
Sale of treasury stock (Note 24)	-	13,791	(10,551)	-	(3,240)	-	-
Interest on shareholders receivable (Note 24)	-	-	(551)	551	-	-	-
Translation adjustment, net of minority interests of $7,900 and income tax of $nil	-	-	-	-	-	28,401	28,401
Net income	-	-	-	-	61,314	-	61,314
Balances at December 31, 2006	**$ 276,941**	**$ (27,135)**	**$ (11,102)**	**$ 94,868**	**$ 86,564**	**$ 27,387**	**$ 447,523**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

The financial statements of JSC SITRONICS and subsidiaries (the "Group") reflect the consolidation of separate financial statements of operating entities related by means of direct or indirect ownership of a majority voting interest by the Group's holding company, JSC SITRONICS. The Group's business was established upon the acquisition by JSFC Sistema ("Sistema") of semiconductor and industrial electronics assets, through a combination of privatisation and private transactions from 1994 to 1998. In 2002, Sistema established a holding company for these technology businesses, that was subsequently renamed JSC SITRONICS ("SITRONICS"). At the same time, the Group obtained control over Strom Telecom , that was subsequently renamed into SITRONICS TS CR, a Czech telecommunication equipment and software manufacturer. In July 2004, Sistema acquired a 51% stake of Kvazar-Micro, a Ukrainian IT and systems integration company, which the Group acquired from Sistema in October 2005. In June 2006, the Group acquired a 51% stake in Intracom Telecom S.A., a Greek telecommunication solutions provider. Sistema remains the controlling shareholder of SITRONICS, which represents the Technology business segment of Sistema.

The Group operates along five operating segments:

Telecommunication Solutions segment is engaged in the design, manufacture and distribution of hardware and software products including convergence solutions. It also offers system integration and customization services for fixed line and mobile telecommunication operators.

Information Technologies Solutions segment is engaged in computer hardware distribution, systems integration, IT consulting and software development services for telecommunication operators, banking and financial institutions and the public sector.

Microelectronic Solutions segment is engaged in design, manufacture, testing and distribution of semiconductor products and components; distribution and production of chip cards, microchip packaging and related solutions.

Consumer Electronics segment is engaged in the manufacture and sale of a range of consumer products, including televisions, DVD systems, portable electronics and mobile devices, as well as industrial electronics devices. The segment sells products under SITRONICS brand and is engaged in distribution of products under other brands.

Electronics Manufacturing Services segment is engaged in the manufacture of electronic devices for original equipment manufacturers, with a primary focus on LCD monitors, notebook computers and mobile phones.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation of Financial Statements – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Group's entities maintain accounting records in local currencies of the countries of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Principles of Consolidation – The consolidated financial statements include the accounts of SITRONICS, and its majority-owned subsidiaries, as well as the accounts of Cosmos Wealth, a variable interest entity of which the Group is a primary beneficiary. The consolidated financial statements also include accounts of variable interest entities where the Group is a primary beneficiary. As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been presented as if the transfers of Sistema's interests in the Group's subsidiaries had occurred from the beginning of the earliest period presented. The assets and liabilities of the subsidiaries transferred to the Group by Sistema are recorded in these financial statements at the historical cost of Sistema. Any difference between the historical cost of net assets, and the consideration paid is accounted for as an adjustment to the shareholders' equity of the Group.

The effective ownership interest and proportion of voting power of SITRONICS in its significant subsidiaries as well as locations of their principal business operations as of December 31, 2006 and 2005 were as follows:

Operating entities	**Effective ownership interest as of December 31,**		**Voting interest as of December 31,**	
	2006	**2005**	**2006**	**2005**
Telecommunication Solutions segment:				
Intracom Telecom (Greece)	51%	-	51%	-
Intrarom (Romania)	34% (1)	-	67%	-
SITRONICS TS CR (Czech Republic)	100%	100%	100%	100%
Tesla tech (Czech Republic)	100% (1)	100%(1)	100%	100%
SITRONICS TS (Russia)	100%	100%	100%	100%
Information Technologies Solutions segment:				
Kvazar-Micro Corporation (Netherlands)	51%	51%	51%	51%
Kvazar-Micro International (United Kingdom)	51% (1)	51%(1)	100%	100%
Kvazar-Micro Techno (Ukraine)	51% (1)	51%(1)	100%	100%
Kvazar-Micro.ru (Russia)	51% (1)	51%(1)	100%	100%
Microelectronic Solutions segment:				
Mikron (Russia)	78%	77%	78%	77%
VZPP-Mikron (Russia)	97%	51%	97%	51%
Smart Cards (Russia)	65%	65%	65%	65%
Consumer Electronics segment:				
SITRONICS (Russia)	100%	100%	100%	100%
SITRONICS Ukraine	100%	100%	100%	100%
Electronics Manufacturing Services segment:				
Kvant (Russia)	78%	78%	88%	88%
Elaks (Russia)	84%	82%	84%	82%
Elion (Russia)	75%	75%	90%	90%
Concel (Russia)	73%	100%	73%	100%

(1) – Including indirect ownership

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

All significant intercompany transactions, balances and unrealized gains/ (losses) on transactions have been eliminated.

Variable Interest Entity – The Group consolidates Cosmos Wealth, a variable interest entity, of which the Group is a primary beneficiary. Cosmos Wealth operates in Southeast Asia, buying wafers from Russian entities of the Microelectronic Solutions segment, dicing the wafers into integrated circuits (ICs) and packaging the ICs for resale to original equipment manufacturers. Cosmos Wealth is directly owned by Sistema. The assets of Cosmos Wealth, as well as results of its operations have not been significant to the Group during the years ended December 31, 2006 and 2005.

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

Examples of significant estimates include revenue recognition, allowance for doubtful accounts, carrying value of long-lived assets and inventories, valuation allowance on deferred tax assets, warranty liabilities, obligations related to employee benefits, and contingencies.

Foreign Currency Translation Methodology – The Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation".

Management has determined that the functional currencies of the Group's significant subsidiaries for the years ended December 31, 2006 and 2005 are as follows:

Telecommunication Solutions segment:	
Intracom Telecom (Greece)	EURO ("EUR")
Intrarom (Romania)	EUR
SITRONICS TS CR (Czech Republic)	Czech Krone ("CZK")
Tesla tech (Czech Republic)	CZK
SITRONICS TS (Russia)	Russian Ruble ("RUB")
Information Technologies Solutions segment:	
Kvazar-Micro Corporation (Netherlands)	US Dollar ("USD")
Kvazar-Micro International (United Kingdom)	USD
Kvazar-Micro Techno (Ukraine)	Ukrainian Hryvnia ("UAH")
Factory Kvazar-Micro (Ukraine)	UAH
Kvazar-Micro.ru (Russia)	RUB
Microelectronic Solutions segment:	
Mikron (Russia)	RUB
VZPP-Mikron (Russia)	RUB
Smart Cards (Russia)	RUB
Consumer Electronics segment:	
SITRONICS (Russia)	RUB
SITRONICS Ukraine	UAH

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Electronics Manufacturing Services segment:	
Kvant (Russia)	RUB
Elaks (Russia)	RUB
Elion (Russia)	RUB
Concel (Russia)	RUB

The Group has selected the USD as its reporting currency and has translated the financial statements of subsidiaries with a different functional currency into the USD. Assets and liabilities are translated at the exchange rates current at the balance sheet date, while income and expense items are translated at average rates of exchange prevailing during the period. The resulting translation gain/(loss) was recorded as a separate component of other comprehensive income/(loss).

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments having original maturities of less than three months.

Fair Value of Financial Instruments – Financial instruments carried on the balance sheet include cash, accounts receivable, investments, derivative financial instruments, accounts payable and fixed and variable rate debts. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The estimation of the Group's fair value of financial instruments with subsidiaries and affiliates of Sistema is not practicable based on the related party nature of underlying transactions. The estimated fair value of short-term financial instruments and long-term variable rate financial instruments with third parties as of December 31, 2006 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of December 31, 2006 was 99.4% of the principal amount. The Group's other long-term financial instruments are not significant as of December 31, 2006.

Derivative Financial Instruments and Hedging Activities – The Group accounts for derivative instruments in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". All derivatives are measured at fair value and recognized as either assets or liabilities on balance sheets.

The Group designates derivatives as either fair value hedges or cash flow hedges when the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of operations, together with any changes in the fair value of hedged asset or liability that are attributed to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of operations.

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statements of operations.

The Group does not use derivatives for trading purposes.

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

The Telecommunication Solutions segment of the Group enters into sale agreements with certain of its clients, including, but not limited to, Sistema subsidiaries and affiliates, where the final payment is not due until more than 12 months from the delivery date. Long-term trade receivables from parties other than Sistema subsidiaries are measured at amortized cost using the effective interest method.

Value-Added Taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are reclaimable after the balance sheet dates are recorded in other receivables and prepaid expenses.

Inventories and Spare Parts – Inventories and spare parts comprise raw materials and spare parts, work-in-progress, finished goods and goods for resale and are stated at the lower of cost or market.

Information Technologies Solutions segment accounts for its inventories using the first-in-first out ("FIFO") cost method. The cost of inventories of other Group's entities is computed on an average cost basis.

Cost of raw materials includes cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost, which includes manufacturing overheads. The Group periodically assesses its inventories and spare parts for obsolete and slow-moving stock.

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

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

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

Land is not depreciated. PP&E are depreciated on a straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	40-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Plant, machinery and equipment	3-15 years

Intangible Assets – Intangible assets represent costs of purchased and internally developed software, costs of customer contracts and the related customer relationships, trademarks and licenses.

The intangible assets acquired through business combinations accounted for by the purchase method were assigned their fair values at the acquisition date. Other acquired intangible assets are recorded at cost.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Costs of developing computer software products incurred by the Group are accounted for in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Accordingly, software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

Finite-life intangible assets are amortized on a straight-line method as follows:

Software development costs	Greater of the ratio of current product revenues to total projected product revenues or the estimated economic life of the product (3-5 years)
Customer contracts and the related customer relationships	3-10 years
Purchased software, licenses and other intangible assets	3-5 years

The Group's trademarks have unlimited contractual life and are not amortized, but are reviewed, at least annually, for impairment.

Investments – Investments in corporate shares where the Group owns less than 20% of share capital are accounted for at cost of acquisition.

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related debt. Debt issuance costs amounted to $1.3 million and $nil as of December 31, 2006 and 2005, respectively.

Impairment of Long-lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe any indicators of impairment occurred relating to the Group's long-lived assets during the years ended December 31, 2006 and 2005.

Leasing Arrangements – The Group accounts for leases, which include leases of equipment and vehicles, as well as office premises, based on the requirements of SFAS No. 13, "Accounting for Leases."

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as capital leases. For capital leases, the present value of the future minimum lease payments at the inception of the lease or fair value which ever is less is reflected as an asset and a liability in the balance sheet. Principal amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

Revenue Recognition – The Group's segments recognize revenues only when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured.

Revenues under arrangements specific to respective segments of the Group are recognized as follows:

Telecommunication Solutions segment:

The segment's arrangements for sale of software products are multiple-element arrangements, involving provision of related services, including customization, implementation and integration services, as well as ongoing support and maintenance provided to customers.

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; (c) the Group can be expected to perform its contractual obligations. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages. At SITRONICS TS CR, the extent of progress is measured by the ratio of hours performed to date as compared to the estimated total hours at completion. Intracom Telecom calculates the extent of progress based on the ratio of costs incurred to total estimated costs. A contract is considered as substantially completed when (a) product is delivered, and (b) product is accepted by the customer.

If the services element of the arrangement is not deemed essential to the functionality of the software, the service revenues are accounted for separately from the software revenues. In such multiple-element arrangements, the software component is accounted for using the residual method.

In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, unless a history of collection, without providing concessions, has been established under comparable arrangements.

Information Technologies Solutions segment:

Because of frequent sales price reductions and rapid technology obsolescence, revenues from the segment's computer hardware sales to dealers under agreements allowing price protection are deferred until the dealers sell the merchandise.

The segment's arrangements regarding systems integration services typically include multiple elements, such as equipment and software, installation services and post-contract support. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: i) the delivered items have value to the customer on a standalone basis; ii) there is objective and reliable evidence of the fair value of the undelivered items; iii) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

If evidence of the fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue on a pro rata basis over the support period. Fees allocated to other services are recognized as revenue as services are performed.

Revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services segments:

The products of these segments are generally sold with a limited warranty of product quality. The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale. The Group accrues for known warranty if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity.

The Electronics Manufacturing Services segment enters into arrangements with certain manufacturers and distributors of consumer electronics products to assemble such products at its facilities. In those cases where the Group's responsibility to the customer is limited solely to assembly services or where the Group buys components from and subsequently sells the assembled devices to the same counterparty, the Group records only the net amount retained as its revenues.

Vendor Programs – Funds received from IT vendors for price protection, vendor rebates, marketing, training, product returns and promotion programs are recorded as adjustments to product costs, revenue, or selling, general and administrative expenses according to the nature of the program.

Research and Development Costs – Research and development ("R&D") costs are fully charged to the consolidated statements of operations when incurred. Costs of producing software incurred between the start date of the related projects and the date on which technological feasibility is established and when the related software product is available for general release to customers are capitalized.

Income Taxes – Income taxes for the Group's subsidiaries have been computed in accordance with the respective local laws. Income tax rates effective during the years ended December 31, 2006 and 2005, in countries where the Group primarily operates were as follows:

	2006	2005
Russian Federation ("RF")	24%	24%
Ukraine	25%	25%
Czech Republic	24%	26%
Greece	29%	29%
Romania	16%	16%

Starting from January 2007, income tax rate in Greece was changed to 25%.

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

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

(a) Defined contribution plans:

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

Other subsidiaries of the Group are required to contribute a specified percentage of each employee payroll up to a fixed limit to pension fund, unemployment fund and social security fund.

(b) Other post-retirement benefits:

At Intracom Telecom, employees are entitled to an indemnity in the event of termination of employment, including in the case of retirement, with the amount of payment varying in relation to the employees' compensation and length of service. In addition, Intracom Telecom should pay lump-sum payment between 14 and 28 monthly salaries, depending on past service, upon death of an employee. Intracom Telecom is responsible for financing the compensation. The Group accounts for this plan following the requirements of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", as amended by SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans and SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits. The plan is unfunded.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2006 and 2005 were not significant.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2006 and 2005 were $5.4 million and $4.9 million, respectively, and were reflected as a component of selling, general and administrative expenses in the consolidated statements of operations.

Earnings per Share – Earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the years ended December 31, 2006 and 2005.

Minority Interests – Minority interests represent shares in the book value of net assets of the Group's subsidiaries proportional to equity interests in those entities owned by shareholders that are not members of the Group.

Distributions to Shareholders – Distributable retained earnings of the JSC Sitronics are based on amounts determined in accordance with Russian statutory accounting regulations and differ significantly from the amounts calculated on the basis of U.S. GAAP.

Recently Issued Accounting Pronouncements – In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment to SFAS No. 133 'Accounting for Derivative Instruments and Hedging activities' and SFAS No. 140 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155 addresses application of SFAS No. 133 to beneficial interests in securitized financial assets and permits to re-measure fair value for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, requires to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument, and clarifies certain other derivatives classification issues. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that starts after September 15, 2006, and is not expected to have a material impact on the Group's financial position and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets". SFAS No. 156 amends SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement clarified and amended the measurement methods and principles of recognition of mortgage and other servicing assets and liabilities. SFAS No.156 is effective as of beginning of the first fiscal year begins after September 15, 2006. The Group does not anticipate that this Statement will have a material impact on the Group's financial position and results of operations.

In June 2006, the Emerging Issues Task Force reached a consensus on EITF Issue No. 06-03 ("EITF No. 06-03"), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)". EITF No. 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF No. 06-03 become effective for fiscal years beginning after December 15, 2006. The adoption of EITF No. 06-03 is not expected to have a material effect on the Group's consolidated financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", of SFAS No. 109, "Accounting for Income Taxes". The Interpretation applies to all tax positions that are within the scope of SFAS No. 109 and requires the two-step approach for recognizing and measuring tax benefits. The Interpretation establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. To meet this threshold, the enterprise must determine that upon examination by the taxing authority, the tax position is more likely to be sustained than not, based on the technical merits of the position. Once the recognition threshold has been met, enterprises are required to recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. In both steps, enterprises must presume that the taxing authority has full knowledge of all relevant information. The Interpretation also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including a detailed rollforward of tax benefits taken that do not qualify for financial statement recognition. The Interpretation is effective for fiscal years beginning after December 15, 2006, and should be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of the Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Group is currently assessing the impact of the adoption of this Interpretation.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Group on January 1, 2008. The Group does not anticipate that this Statement will have a material impact on the Group's financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS No. 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS No. 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The adoption of SFAS No. 158 did not have a material impact on the Group's financial position or results of operations.

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

3. ACQUISITIONS

Intracom Telecom – In June 2006, SITRONICS acquired 51.0% of common shares of Intracom Telecom for EUR 120.0 million (equivalent of $150.6 million) from Intracom Holdings S.A., of which $106.7 million was paid in cash in June 2006 and $46.1 million was recorded as a liability as of December 31, 2006 and for which cash was reserved on escrow account (Notes 14 and 16). As of the date of these statements, the amount of EUR 29.2 million ($38.5 million as of December 31, 2006) was paid, and the remaining amount is payable not later than 2008. Intracom Telecom is a provider of telecommunications solutions and services, such as advanced technological products in the areas of fixed and wireless broadband access and transmission systems, and content delivery systems (IPTV, triple-play), primarily in the Eastern Europe and Middle East.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

SITRONICS also entered into a put option with the other shareholder of Intracom Telecom to acquire the remaining 49.0% of common shares of Intracom Telecom. The exercise period of the put option is 36 months following a 24 months period after the acquisition date. The agreement stipulates that the purchase price will be agreed by the parties, or will be equal to the fair value as determined by an independent appraiser.

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

Current assets:		
Cash and cash equivalents	$	48,924
Trade and other receivables		371,230
Inventories and spare parts		102,054
Non-current assets:		
Property, plant and equipment		82,525
Customer contracts and the related customer relationships		7,096
Software costs		66,106
Other intangible assets		654
Long-term trade receivables		97,899
Deferred tax assets		11,287
Current liabilities:		
Accounts payable		(161,007)
Taxes payable		(11,674)
Accrued expenses and other current liabilities		(73,880)
Short-term loans and notes payable		(118,332)
Current portion of long-term debt		(127,835)
Long-term liabilities:		
Capital lease obligations		(1,126)
Other long-term liabilities		(6,337)
Minority interests		(137,020)
Purchase price	**$**	**150,564**

Mikron – In December 2006, SITRONICS signed an agreement with Waltermore Ltd. to repurchase 7.6% of voting shares of Mikron for $7.3 million, to increase the Group's voting power in Mikron from 78% to 86%. In January 2007, SITRONICS has purchased the shares, however the purchase price allocation was not finalized as of the date of these financial statements.

VZPP-Mikron – In December 2006, SITRONICS purchased from a minority shareholder 45.7% of voting shares of VZPP-Mikron for $4.5 million, thus increasing the Group's voting power in VZPP-Mikron from 51% to 97%. The excess of the purchase price over the acquired interest in net assets of VZPP-Mikron in the amount of $1.9 million was allocated to the production plant.

The following unaudited pro forma summary presents information as if Intracom Telecom had been acquired on January 1, 2005. The pro forma amounts include certain adjustments, including recognition of depreciation and amortization based on the allocated purchase price of the property, plant and equipment and intangible assets acquired. The pro forma amounts do not reflect any benefits from economies which might be achieved from consolidating the operations.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The pro forma information does not necessarily reflect the actual results that would have occurred had Intracom Telecom been acquired at January 1, 2005, nor is it necessarily indicative of the future results of operations of the Group:

	2006	2005
Pro forma:		
Revenues	$ 1,610,734	$ 1,299,207
Operating income	126,944	137,900
Net income	60,330	55,899
Earnings per share, basic and diluted:	0.01	0.03

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2006 and 2005 comprised the following:

	2006	2005
RUB and USD current accounts with subsidiary of Sistema:		
Moscow Bank for Reconstruction and Development (MBRD)	$ 49,239	$ 16,718
Term deposits with third parties:		
UAH deposits	7,921	-
EUR deposits	5,372	365
USD deposits	2,670	-
Other deposits	1,753	-
Current accounts with third parties:		
USD current accounts	8,172	42,186
EUR current accounts	4,840	5,442
CZK current accounts	2,828	3,694
RUB current accounts	2,301	13,125
Other	4,103	1,580
Cash on hand	641	249
Total	**$ 89,840**	**$ 83,359**

Term deposits have original maturities less than three months. As of December 31, 2007, UAH, EUR and USD bank deposits bear interest 8% per annum, from 2.7% to 3.7% per annum, and from 4.4% to 5.3% per annum, respectively.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

5. SHORT-TERM INVESTMENTS

USD and RUB denominated short-term investments as of December 31, 2006 and 2005 comprised the following:

	Annual interest rate	Maturity date	2006	2005
Promissory notes of Sistema and its subsidiaries	0%-0.5%	on demand	$ 26,180	$ 9,308
Other	various	various	2,545	1,089
Total			**$ 28,725**	**$ 10,397**

Management anticipates no losses in respect of short-term investments in promissory notes of Sistema and its subsidiaries.

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Trade receivables	$ 669,327	$ 163,041
Less: provision for doubtful accounts	(10,829)	(4,186)
Total	**$ 658,498**	**$ 158,855**

Included in trade receivables as of December 31, 2006 and 2005 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $144.3 million and $56.9 million, respectively (Note 26). Management anticipates no losses in respect of receivables from these entities.

During 2006, Intracom Telecom sold, without recourse, under the factoring agreement, accounts receivable in amount of $19.7 million. The loss from this transaction did not have material impact on the consolidated financial position and results of operations of the Group.

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Advances to suppliers	$ 52,869	$ 23,896
Recoverable VAT	17,254	13,478
Prepaid expenses	11,649	5,158
Other taxes prepaid	9,377	7,533
Loans to employees	1,360	1,353
Other	6,013	7,045
Less: provision for doubtful accounts	(2,716)	(1,583)
Total	**$ 95,806**	**$ 56,880**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

8. INVENTORIES AND SPARE PARTS, NET

Inventories and spare parts as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Raw materials and spare parts	$ 98,120	$ 20,994
Work-in-progress	39,974	28,030
Finished goods and goods for resale	112,257	64,893
Total	**$ 250,351**	**$ 113,917**

As of December 31, 2006 and 2005, inventory with the carrying amount of $20.5 million and $27.3 million, respectively, was pledged to Intel (Note 15).

Inventories obsolesce expenses comprised $12.8 million (including provision of $11.2 in Intracom Telecom recorded as expense in the pre-acquisition period) and $0.8 million, for the years ended December 31, 2006 and 2005, respectively.

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Land	$ 20,017	$ 1,377
Buildings and leasehold improvements	136,764	58,908
Plant, machinery and equipment (including leased vehicles and equipment of $15,992 and $7,635, respectively)	113,743	56,590
Construction in progress and equipment for installation	47,216	12,646
	317,740	129,521
Less: accumulated depreciation (including leased vehicles and equipment of $3,771 and $2,078, respectively)	(48,920)	(34,574)
Total	**$ 268,820**	**$ 94,947**

Depreciation expense for property, plant and equipment for the years ended December 31, 2006 and 2005 comprised $26.1 million (including $9.1 million of depreciation expense at Intracom Telecom for the pre-acquisition period) and $6.4 million, respectively.

Land and buildings with approximate carrying value of $4.8 million as of December 31, 2006 and 2005, were pledged to collateralize the outstanding balance of debt to BAWAG Bank (Note 18).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

10. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2006 and 2005 comprised the following:

	2006			2005		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-life intangible assets:						
Customer contracts and the related customers relationships	$ 21,334	$ (11,914)	$ 9,420	$ 13,864	$ (6,921)	$ 6,943
Software costs	83,833	(10,478)	73,355	9,366	(1,276)	8,090
Licenses	2,240	-	2,240	1,490	-	1,490
Other	1,697	(110)	1,587	-	-	-
	109,104	**(22,502)**	**86,602**	**24,720**	**(8,197)**	**16,523**
Indefinite-life intangible assets:						
Trademarks	3,211	-	3,211	3,211	-	3,211
Total	**$ 112,315**	**$ (22,502)**	**$ 89,813**	**$ 27,931**	**$ (8,197)**	**$ 19,734**

Amortization expense for the years ended December 31, 2006 and 2005 comprised $17.9 million (including amortization expense at Intracom Telecom of $3.8 million for the pre-acquisition period) and $5.1 million, respectively.

Based on the finite-life intangible assets existing as of December 31, 2006, the estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

2007	$ 25,534
2008	23,597
2009	23,597
2010	5,795
2011	4,126
Thereafter	3,953
Total	**$ 86,602**

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

11. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Voting common shares of Angstrem (11%)	$ 735	$ 655
Voting common shares of Intracom Construct (8%)	724	-
Voting common shares of Angstrem-M (11%)	234	210
Voting common shares of Lotrom (16%)	35	-
Total	**$ 1,728**	**$ 865**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

12. LONG TERM TRADE RECEIVABLES

Long-term portion of trade receivables as of December 31, 2006 and 2005 comprised the following:

	Annual interest rate	Maturity date	2006	2005
Trade receivables from third parties	EURIBOR +1.5-2.5%	2008-2013	$ 79,435	$ 575
Trade receivables from Sistema affiliates	PRIBOR + 2.0%	2008	4,670	14,000
Total			**$ 84,105**	**$ 14,575**

13. PREPAID RENT

In July 2004, Kvazar-Micro.ru entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow for the period of 86 months and performed the advance rent payments. The short-term portion of the prepaid rent is included in other receivables and prepaid expenses.

14. RESTRICTED CASH

Subject to terms of the share purchase agreement for Intracom Telecom, the deferred compensation of EUR 35 million ($46.1 million as of December 31, 2006) was placed by SITRONICS on the escrow account as a deposit. As of the date of these statements, the amount of EUR 29.2 million ($38.5 million as of December 31, 2006) was paid, and the remaining amount is payable not later than 2008.

Deposits of Intracom Telecom in the amount of $2.3 million relate to payments made by customers with regards to invoices which have been factored to HypoVereinsBank. The deposits were repaid to the bank at the end of the factoring agreement in January 2007.

In 2001-2004, Kvazar-Micro.ru placed three deposits in ING Bank to secure guarantees issued by the bank in favor of certain IT vendors, including Intel (Note 15). These deposits amount to $2.1 million and mature not later than December 31, 2007. Management intends to prolong these arrangements.

15. ACCOUNTS PAYABLE

As of December 31, 2006 and 2005, the Group’s accounts payable included $17.6 million and $11.3 million, respectively, due to Intel. The amounts due to Intel are collateralized by all proceeds (including accounts receivable) derived by the Group from distribution of Intel’s products, the Group’s inventory of Intel’s products and a guarantee in the amount of $2.1 million issued by ING Bank, which is collateralized by the Group’s cash deposit of the same amount in the bank (Note 14).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2006 and 2005 comprised the following:

	2006	2005
Payable for purchase of Intracom Telecom shares (Note 3)	$ 46,122	-
Customers' prepayments and billings in excess of project costs	30,484	$ 82,104
Accrued payroll and vacation	13,528	2,983
Interest payable on debt	7,220	2,616
Payable for VZPP-Mikron shares (Note 3)	4,500	-
Current portion of capital lease (Note 19)	3,643	1,332
Warranty obligations	3,185	590
Current portion of pension benefit obligations	580	-
Accrued expenses and other current liabilities	23,610	16,284
Total	**$ 132,872**	**$ 105,909**

Customers' prepayments and billings in excess of project costs as of December 31, 2006 and 2005 included amounts related to transactions with subsidiaries and affiliates of Sistema of $9.5 million and $70.9 million, respectively (Note 26).

17. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2006 and 2005, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at December 31, 2006)	(000's) 2006	2005
Revolving credit facilities:			
Including:			
EUR-denominated credit facilities	EURIBOR+1.0% -1.5% (4.7%-5.2%)	$ 65,789	-
CZK-denominated credit facilities	PRIBOR+0.7% (3.3%)	29,939	-
Credit facilities in other currencies	LIBOR+1.3% – BUBOR+1.3% (6.6% – 9.9%)	2,890	-
USD-denominated facilities	-	-	$ 49,816
		98,618	**49,816**
USD and RUB-denominated loans and notes payable to Sistema subsidiaries	10%-14%	**5,353**	**18,995**
Loans and notes payable to other parties:			
Including:			
CZK-denominated	PRIBOR + 0.5%-1.2% (3.1%-3.8%)	36,878	-
RUB-denominated	13%-14%	5,476	-
EUR-denominated	EURIIBOR +1.5%-3.5% (5.2%-7.1%)	4,970	-
USD-denominated	LIBOR+1.5% (5.1%)	1,230	34,230
Other	0%-BUBOR +1.5% (0%-10.2%)	5,030	2,021
		53,584	**36,251**
Total		**$ 157,555**	**$ 105,062**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Revolving credit facilities – In December 2005, Intracom Telecom entered into several EUR-denominated loan agreements with a number of financial institutions, including Societe Generale – Geniki Bank, National Bank of Greece, Emporiki Bank, Alfa Bank, HypoVereinsBank, Piraeus Bank, Aspis Bank, ING Bank, Hellenic Bank and Eurobank. The loans bore interest from EURIBOR+1.0% to EURIBOR+1.5% and were repaid in January-February 2007.

During the year ended December 31, 2006, SITRONICS TS CR entered into a number of credit facility agreements with ABN Amro Bank, limited in aggregate to $30.0 million. The facilities can be drawn in EUR, USD or CZK in form of short-term loans, overdraft, letters of guarantees or bank guarantees. The facility bears interest rates of EURIBOR +0.7-0.9%, LIBOR + 0.7-0.9%, or PRIBOR + 0.7-0.9% per annum, depending on the currency of loans. As of December 31, 2006, SITRONICS TS CR has drawn $29.9 million in CZK under the facility. The drawdowns mature in January and July 2007.

USD and RUB-denominated loans and notes payable to Sistema and subsidiaries – During the years ended December 31, 2006 and 2005, the Group entered into several USD and RUB -denominated short-term loan agreements with Sistema subsidiaries, bearing interest rate from 10% to 14% and maturing upon demand. The amount outstanding under these agreements comprised $5.4 million and $19.0 million, as of December 31, 2006 and 2005, respectively.

Loans and notes payable to other parties – During the year ended December 31, 2006 , SITRONICS TS CR entered into CZK-denominated loan agreements with HSBC Bank, BAWAG bank, Commerzbank and Raiffeisenbank, bearing interest rates of from PRIBOR+0.5% to PRIBOR+1.2% and maturing from July 2007 to September 2007. As of December 31, 2006, the amounts outstanding under these agreements comprised $25.9 million, $7.2 million, $3.4 million and $0.4 million, respectively.

18. LONG-TERM DEBT

Long-term debt as of December 31, 2006 and 2005 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2006)	2006	2005
Eurobonds	USD	7.9%	$ 199,526	-
Syndicated loan to Intracom Telecom	USD	LIBOR + 1.5% (6.9%)	121,200	-
Syndicated loan to Conklin Corporation	USD	LIBOR+1.4% (6.7%)	7,404	-
Science and Industrial Policy Department of the Moscow Government	RUB	2.9%	8,241	$ 3,011
BAWAG Bank	CZK	PRIBOR+2.1% (4.7%)	2,159	1,929
Other	various	0%-7%	2,371	2,110
			340,901	**7,050**
Less: amounts maturing within 12 months			(9,935)	(925)
Total			**$ 330,966**	**$ 6,125**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Eurobonds – In March 2006, SITRONICS Finance S. A. ("SITRONICS Finance"), a 100% subsidiary of SITRONICS issued $200.0 million notes bearing 7.875% interest rate at 99.7% of par. The notes are fully and unconditionally guaranteed by SITRONICS and mature in March 2009. SITRONICS Finance is required to make interest payments on the notes semi-annually in arrears in March and September of each year. The notes are listed on the London Stock Exchange. Proceeds received from the notes were $199.4 million and the related issuance costs in the amount of $1.8 million were capitalized. The arrangement is subject to certain restrictive covenants to the Group, including, but not limited to, limitations on the incurrence of additional indebtedness, any merger, consolidation or disposition of assets, and compliance with certain financial ratios. Management believes that as the date of these statements, the Group is in compliance with all existing covenants.

Syndicated loan to Intracom Telecom – In 2002, Intracom Holding S.A. has entered into a syndicated loan agreement with a number of banks (Alphabank, National Bank of Greece, Commercial bank of Greece, Societe Generale – Geniki bank). In 2005, the outstanding balance under the loan in the amount of $121.2 million was transferred to Intracom Telecom. The loan bears an interest of LIBOR+ 1.5% per annum and is payable in January 2008. The loan is guaranteed by Intracom Holding S.A. and contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios. Management believes that as of the date of these statements, Intracom Telecom is in compliance with all existing covenants.

Syndicated Loan to Conklin Corporation – In 2002, Intracom Holding S.A. entered into a syndicated loan agreement with a number of banks (Piraeus Bank, Societe Generale – Geniki Bank, Omega BANK), for EUR 5.6 million ($7.4 million as of December 31, 2006). In 2005, the loan was transferred to Conklin Corporation, a subsidiary of Intracom Telecom. The loan bears an interest rate of LIBOR + 1.4% per annum, matures in August 2007 and is guaranteed by Intracom Holding S.A.

Science and Industrial Policy Department of the Moscow Government – In December 2005, Mikron entered into a credit facility with the Science and Industrial Policy Department of the Moscow Government. The facility is limited to 217 million RUB ($8.2 million as of December 31, 2006). The facility bears interest determined as one fourth of the official rate of the Central Bank of Russia (2.9% as of December 31, 2006) and matures in 2010. As of December 31, 2006, $8.2 million was outstanding under this credit facility.

BAWAG – In 2005, SITRONICS TS CR obtained a CZK-denominated loan of $2.2 million from BAWAG Bank. The loan bears interest of PRIBOR + 2.1% per annum and matures not later than in 2013. Land and buildings of SITRONICS TS CR and its subsidiary, Tesla tech, with an approximate carrying value of $4.8 million and shares of Tesla tech are pledged under the agreement.

The following table presents the aggregate scheduled maturities of the total debt outstanding as of December 31, 2006:

Year ended December 31,		
2007	$	9,935
2008		121,296
2009		199,653
2010		8,368
2011		127
Thereafter		1,522
Total	**$**	**340,901**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

19. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2006 and 2005 are presented as follows:

	2006	2005
Total minimum lease payments (undiscounted)	$ 7,053	$ 3,241
Less: amount representing interest	(336)	(304)
Present value of net minimum lease obligations	6,717	2,937
Less: current portion of lease obligations (Note 16)	(3,643)	(1,332)
Non-current portion of lease obligations	**$ 3,074**	**$ 1,605**

During 2001-2006, the Group entered into several lease agreements for equipment and vehicles. Most of the agreements expire prior to 2009 and assume transfer of ownership for leased assets to the Group at the end of the lease term.

Future rental payments under capital leases in effect as of December 31, 2006, are as follows:

Year ended December 31,	
2007	$ 3,875
2008	2,866
2009	312
	7,053
Less: amount representing interest	(336)
Total	**$ 6,717**

20. POSTRETIREMENT BENEFITS

According to the Greek labor legislation, Intracom Telecom is obliged to provide certain post-retirement benefits to its employees (Note 2). Discount rate of 4.1% and future increase of salaries of 4.5% were used in determining the projected benefit obligation and net periodic pension expense.

The change in the projected benefit obligation for the year ended December 31, 2006 is presented in the following table:

Projected benefit obligation, beginning of the year	$ 4,066
Service cost	523
Interest cost	253
Amendment	787
Benefit payments	(512)
Acturial losses	1,085
Currency translation effect	588
Projected benefit obligation, end of the year	**$ 6,790**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The future payments to employees under the plan are expected as follows:

Year ended December 31,		
2007	$	580
2008		632
2009		698
2010		764
2011-2015		4,116
Total	**$**	**6,790**

As of December 31, 2006, the long-term portion of post-retirement benefit liabilities amounted to $6.2 million (Note 21).

21. OTHER LONG-TERM LIABILITIES

As of December 31, 2006, other long-term liabilities of the Group comprised the following:

		2006		**2005**
Post-retirement benefit obligations, long-term portion (Note 20)	$	6,210	$	-
Accounts payable for construction		3,682		-
Warranty obligations, long-term portion		1,831		-
Total	**$**	**11,723**	**$**	**-**

22. DERIVATIVE FINANCIAL INSTRUMENTS

SITRONICS – In March 2006, SITRONICS entered into a forward agreement with Dresdner bank to buy $40.0 million at fixed rate of 27.8 RUB for 1USD. This arrangement is used to hedge the fair value of the Group's RUB-denominated investments and accounts receivable, to offset the effect on earnings of changes in exchange rates until these investments and receivables are collected. The loss from change in fair value of the instrument comprised $1.5 million and is recognized in the consolidated statements of operations for the year ended December 31, 2006.

Intracom Telecom – In 2002, Intracom Holdings S.A. had entered into a swap agreement with Alpha Bank to eliminate the foreign currency exposure risk and to effectively convert a syndicated loan of $121.2 million at a rate of three months LIBOR +1.50% to EUR 118.0 million ($155.5 million as of December 31, 2006) bearing three months EURIBOR +1.59% interest rate (Note 18).
The terms of the swap matched the terms of the underlying debt. The arrangement did not qualify for hedge accounting. In 2005, the loan and the swap were transferred to Intracom Telecom.
As of December 31, 2006, the Group recorded a liability of $34.3 million in relation to this instrument in the accompanying consolidated balance sheets and a loss of $15.5 million for the year ended December 31, 2006, which was offset by the foreign exchange gain resulting from underlying debt.

SITRONICS TS CR – In 2006, SITRONICS TS CR entered into several currency swap agreements with ABN-AMRO bank. These arrangements were used to hedge the fair value of the USD and EUR-denominated accounts receivable of SITRONICS TS CR in the amount of $22.1 million against the effect on earnings of changes in exchange rates until these receivables are settled. The gain from change in fair values of those instruments comprising $2.0 million was recognized in the consolidated statements of operations for the year ended December 31, 2006.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

23. INCOME TAX

The Group's provision for income taxes for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Current tax expense	$ 38,910	$ 35,461
Deferred tax benefit	(6,622)	(314)
Total income tax expense	**$ 32,288**	**$ 35,147**

The provision for income taxes is different from that which would be obtained by applying the Russian statutory income tax rate of 24% to income before income tax and minority interests. The items causing this difference are as follows:

	2006	2005
Income tax provision computed on income before taxes at Russian statutory rate	$ 23,576	$ 31,293
Adjustments due to:		
Expenses not deductible for tax purposes	6,170	2,188
Tax losses not available for carryforward	7,806	1,270
Effect of different tax rates	(2,819)	2,530
Foreign currency transactions differences	(2,445)	(2,134)
Income tax expense	**$ 32,288**	**35,147**

Temporary differences between tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at December 31, 2006 and December 31, 2005:

	2006	2005
Deferred tax assets		
Property, plant and equipment	$ 35,483	$ 4,593
Tax losses carried forward	8,490	-
Accounts receivable	1,625	4,222
Accrued expenses	3,348	1,547
Inventories and spare parts	2,691	481
Other	948	212
Total deferred tax assets	**$ 52,585**	**$ 11,055**
Deferred tax liabilities		
Undistributed untaxed profit	(13,325)	-
Property, plant and equipment	(13,424)	(8,479)
Intangible assets	(9,479)	(2,407)
Other	(862)	(1,617)
Total deferred tax liabilities	**$ (37,090)**	**$ (12,503)**
Net deferred tax assets, current	$ 6,517	$ 4,785
Net deferred tax assets, long-term	$ 19,887	$ 3,441
Net deferred tax liabilities, current	$ (607)	$ (664)
Net deferred tax liabilities, long-term	$ (10,302)	$ (9,010)

As of December 31, 2006, deferred tax assets relating to tax losses carried forward in amount of $3.4 million are attributable to Intracom Telecom. These tax losses expire in 2011. The remaining balance of deferred tax assets is attributable to the Russian subsidiaries in Consumer Electronics and Electronics Manufacturing Services segments. These tax losses can be utilized within 10 years.

24. EQUITY TRANSACTIONS

In March 2006, SITRONICS issued to Sistema 5,817,000,000 voting common shares with par value of 1 RUB for $206.8 million ($56.8 million was paid in 2005 and $150.0 million in 2006).

In March 2006, SITRONICS Management, a 100% subsidiary of SITRONICS, purchased from Sistema 1,133,995,091 voting common shares of SITRONICS, for a cash consideration of $40.9 million. The treasury stock was accounted for at cost.

Concurrently with the purchase of treasury stock, Sistema has approved the sale of 385,188,550 common shares of SITRONICS to the newly-appointed Sistema's CEO, who served as SITRONICS' CEO from July 2003 to February 2006. The shares were sold for $13.8 million with a payment date not later than 2010. At the date of the transaction, the fair value of shares sold to Sistema's CEO was estimated at $105.0 million, the award being attributed to his employment by Sistema. SITRONICS recorded the sale of shares at the present value of the amount receivable for shares ($10.6 million as of the date of transaction), that was deducted from the shareholders' equity. The unamortized discount on shareholder's receivable of $3.2 million has been reflected as a reduction of retained earnings. The interest accrued for the year ended December 31, 2006 comprised $0.6 million and was recorded in additional paid-in capital.

In August 2006, Mikron shareholders approved an issue of 1,088,000 additional common shares in a closed subscription with par value of 0.025 RUB in favor of the RF Agency for Management of Federal Property. In December 2006, the Group received prepayment of approximately $10.6 million for these shares. The excess of consideration received over net book value of net assets acquired comprised $6.2 million and was recorded as additional paid-in capital.The registration of the shares issue was completed in January 2007.

In October 2006, SITRONICS issued additional 293,476,990 common shares with a par value of 1 RUB to European Bank for Reconstruction and Development (EBRD) for $80.0 million. These shares are puttable to Sistema. As of December 31, 2006 the shares were fully paid by EBRD.

In November 2006, SITRONICS' Board of Directors has approved an additional issue of 5,000,000,000 common shares with a par value of 1 RUB.

25. SEGMENT INFORMATION

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

During the year ended December 31, 2006, the Group has five reportable segments: Telecommunication Solutions, Information Technologies Solutions, Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services. Diversification of business entities by segments, mentioned above, was based on principles of production process and product specification.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The Group's management evaluates performance of the segments based on their operating income. In 2006, the Group changed the structure of its internal organization to split its former Consumer Electronics segment into two segments: Consumer Electronics and Electronics Manufacturing Services. The Group has retroactively restated its segment information for all periods presented.

Intercompany eliminations presented below consist primarily of intercompany sales transactions, intercompany investments and loans and other intercompany transactions and balances conducted under the normal course of operations.

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2006 and 2005 is as follows:

	2006						
	Telecom-munication Solutions	**Information Technologies Solutions**	**Micro-electronic Solutions**	**Consumer Electronics**	**Electronics Manufactu-ring Services**	**Corporate**	**Total**
Net sales to external customers	$708,243	$559,438	$122,639	$171,100	$49,227	$87	$1,610,734
Intersegment sales	69	1,774	207	52	3,117	3	5,222
Depreciation and amortization	(33,937)	(5,400)	(2,668)	(151)	(1,746)	(146)	(44,048)
Operating income/(loss)	114,511	15,595	23,771	(3,826)	(12,319)	(9,494)	128,238

	2005						
	Telecom-munication Solutions	**Information Technologies Solutions**	**Micro-electronic Solutions**	**Consumer Electronics**	**Electronics Manufactu-ring Services**	**Corporate**	**Total**
Net sales to external customers	$ 246,592	$ 468,404	$ 56,937	$ 124,038	$ 56,533	$ 65	$ 952,569
Intersegment sales	47	-	15	-	641	-	703
Depreciation and amortization	(3,166)	(5,089)	(1,964)	(1)	(1,036)	(220)	(11,476)
Operating income/(loss)	132,049	6,469	3,622	1,921	(1,678)	(142)	142,241

The reconciliation of segment operating income to the consolidated income before income tax and minority interests is as follows:

	2006	**2005**
Total segment operating income	$ 128,238	$ 142,241
Interest income	11,060	872
Interest expense	(32,065)	(9,810)
Foreign currency transactions loss	(9,002)	(2,914)
Consolidated income before income tax and minority interests	**$ 98,231**	**$ 130,389**

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2006 and 2005 is shown below.

	2006	**2005**
Russia	$ 702,227	$ 495,696
Ukraine	303,921	266,647
Greece	175,546	-
Central and Eastern Europe	248,809	158,146
Asia-Pacific region	116,872	18,120
Others	63,359	13,960
Total sales to external customers	**$ 1,610,734**	**$ 952,569**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As of December 31, 2006 and 2005, the total assets of reportable segments comprised the following:

	2006	2005
Telecommunication Solutions	$ 1,009,520	$ 213,347
Information Technologies Solutions	177,284	110,178
Microelectronic Solutions	205,116	98,866
Consumer Electronics	156,910	90,863
Electronics Manufacturing Services	63,934	49,287
	1,612,764	**562,541**
Corporate	342,690	60,659
Intersegment eliminations	(308,087)	(57,110)
Total assets	**$ 1,647,367**	**$ 566,090**

For the years ended December 31, 2006 and 2005, the Group's additions to property, plant and equipment and intangible assets, including assets acquired in conjunction with the acquisition of Intracom Telecom, comprised the following:

	2006	2005
Telecommunication Solutions	$ 200,145	$ 26,009
Information Technologies Solutions	1,103	2,968
Microelectronic Solutions	56,491	4,856
Consumer Electronics	416	39
Electronics Manufacturing Services	2,777	22,026
Corporate	429	525
Total additions to property, plant and equipment and intangible assets	**$ 261,361**	**$ 56,423**

As of December 31, 2006 and 2005, the Group's property, plant and equipment and intangible assets, net of accumulated depreciation and amortization in respect of their geographical location is as follows:

	2006	2005
Russia	$ 134,605	$ 67,427
Greece	129,392	-
Czech Republic	61,444	30,592
Romania	19,846	-
Ukraine	10,256	16,662
Others	3,090	-
Total property, plant and equipment and intangible assets, net of accumulated depreciation and amortization	**$ 358,633**	**$ 114,681**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

26. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2006 and 2005, the Group entered into transactions with related parties as follows:

	2006	2005
Sales of software and telecommunication equipment	$ 263,744	$ 227,972
Systems integration	61,142	68,722
Sales of smart cards	34,414	-
Sales of handsets	2,757	12,007
Other revenue	1,516	1,324
Interest income	2,176	-
Interest expense	(309)	(6,219)
Operating services consumed	(6,014)	-
Other income	-	989

Sales of software and telecommunication equipment

Mobile TeleSystems ("MTS") – During the years ended December 31, 2006 and 2005, SITRONICS TS CR and SITRONICS TS entered into agreements with MTS, a subsidiary of Sistema, and its affiliate Mobile TeleSystems Belarus ("MTS Belarus") for sale of a billing system, a communications software support system and sale of telecommunication equipment. Pursuant to these contracts, SITRONICS TS sold software, equipment and related services for approximately $219.8 million and $178.4 million during the years ended December 31, 2006 and 2005, respectively.

Comstar UTS – During the years ended December 31, 2006 and 2005, SITRONICS TS CR and SITRONICS TS entered into several agreements with subsidiaries of Sistema currently comprising Comstar UTS (MGTS, MTU-Inform, Comstar and Telmos). Pursuant to these contracts, SITRONICS TS sold telecommunication equipment and rendered system maintenance services for approximately $24.9 million and $25.9 million during the years ended December 31, 2006 and 2005, respectively.

Invest-Svyaz-Holding – During the years ended December 31, 2006 and 2005, SITRONICS TS sold telecommunication equipment to Invest-Svyaz-Holding, a subsidiary of Sistema, for $16.5 million and $18.3 million, respectively.

Multiregional TransitTelecom (MTT) – During the years ended December 31, 2006 and 2005, SITRONICS TS sold telecommunication equipment to MTT, an affiliate of Sistema, for $0.4 million and $5.4 million, respectively.

Systems integration

During the years ended December 31, 2006 and 2005, Kvazar-Micro.ru provided systems integration services to MTS and other Sistema subsidiaries and affiliates for $61.1 million and $68.7 million, respectively.

Sales of smart cards

During the year ended December 31, 2006, Smart Cards sold smart cards to MTS for $34.4 million.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Sales of handsets

During the years ended December 31, 2006 and 2005, the Group sold handsets to Sky Link, an affiliate of Sistema, for \$2.8 million and \$12.0 million, respectively.

Interest expense

During the years ended December 31, 2006 and 2005, the Group had several short-term and long-term loans outstanding from Sistema and its subsidiaries, including MBRD (Note 17). Interest expense on these loans amounted to \$0.3 million and \$6.2 million for the years ended December 31, 2006 and 2005, respectively.

Interest income

During the year ended December 31, 2006, the Group has earned \$2.2 million from deposits placed at MBRD.

Transactions and balances with Intracom Holdings S. A.

During the year ended December 31, 2006, Intracom Telecom entered into transactions with subsidiaries and affiliates of Intracom Holdings S. A., its minority shareholder. Revenues from these transactions amounted to \$63.1 million; the corresponding balances of accounts receivable and advances received as of December 31, 2006 comprised \$81.0 million and \$0.1 million, respectively.

In addition, Intracom Telecom's expenses for services consumed and inventories purchased from these entities amounted to \$75.5 million for the year ended December 31, 2006. As of December 31, 2006, trade and other payables to subsidiaries and affiliates of Intracom Holdings S. A. were \$78.2 million.

27. COMMITMENTS AND CONTINGENCIES

Operating Leases -The Group leases land and vehicles from other parties through contracts, which expire in various years through 2024. Rental expenses under these leases were \$3.3 million and \$0.8 million for the years ended December 31, 2006 and 2005, respectively, and were included in operating expenses in the consolidated statements of operations.

Future minimum rental payments under operating leases in effect as of December 31, 2006, are as follows:

Year ended December 31,		
2007	$	5,934
2008		4,428
2009		3,800
2010		2,419
2011		1,080
Thereafter		2,203
Total	**$**	**19,864**

Capital Commitments – In the year ended December 31, 2006, Mikron entered into purchase agreements for supply of equipment in the amounts of approximately $120.0 million. As of December 31, 2006, Intracom Telecom had executed non-binding purchase agreements in the amounts of approximately EUR 37.0 million (equivalent of $48.8 million) to subsequently acquire property, plant and equipment.

Issued Guarantees – During the year ended December 31, 2005, the Group has issued guarantees to Commerzbank for loans obtained by Invest-Svyaz-Holding, a subsidiary of Sistema, for a total amount of $18.0 million. The guarantees expire in 2007. As of December 31, 2006, no event of default has occurred under any of these guarantees.

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

Importation of Goods – Kvazar-Micro utilizes third parties to import goods into the CIS countries. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position cannot be quantified at this stage due to the lack of precedent for such determinations. No contingent liabilities have been recorded in the Group's financial statements in relation to these transactions.

28. CONCENTRATIONS

Credit Risks – During the years ended December 31, 2006 and 2005, the Group's sales to Sistema's subsidiaries and affiliates amounted to $363.6 million and $310.0 million, respectively, or 22.6% and 32.5% of the Group's consolidated revenues for the respective periods. The Group's trade receivables from Sistema's subsidiaries and affiliates as of December 31, 2006 and December 31, 2005 are disclosed in Notes 6 and 12; the Group's cash and short-term investments balances with Sistema's subsidiaries and affiliates are disclosed in Notes 4 and 5, respectively.

Kvazar-Micro collects proceeds from distribution of computer hardware products in the RF and Ukraine through a small number of independent dealers. Amounts due from these dealers as of December 31, 2006 and 2005 were $43.7 million and $31.8 million, respectively. During the years ended December 31, 2006 and 2005, revenues of Kvazar-Micro from distribution of products purchased under a distribution agreement with Intel International B.V. ("Intel") amounted to $207.7 million and $228.0 million, respectively, or 12.9% and 23.9% of the Group's consolidated revenues for the respective periods.

Intracom Telecom encounters a concentration of revenue and receivables among a few significant customers. Five customers in this segment accounted for revenues of $172.7 million in the year ended December 31, 2006, which is 10.7% of the Group's consolidated revenues for this period.
Trade receivables from these customers amounted to $130.1 million as of December 31, 2006.

Operating Environment – The Russian and Ukrainian economies, while deemed to be of market status, continue to display certain traits consistent with that of emerging markets. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian and Ukrainian economies will be subject to their respective governments' continued actions with regard to legal and economic reforms.

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

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

Industry Risks – The industries in which the Group is operating are characterized by rapid technological changes, competitive pricing pressures and cyclical market patterns. The Group's financial results are affected by a wide variety of factors, including general economic conditions in countries where Group's entities operate, industry- specific economic conditions, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in rapidly evolving markets and reliance on vendors and independent distributors. The Group is exposed to the risk of obsolescence of its inventory depending on the mix of future business. As a result, the Group may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above or other factors.

29. SUBSEQUENT EVENTS

Initial Public Offering – On February 7, 2007, SITRONICS completed an initial public offering of 1,675,000,000 common shares, with a par value of 1 RUB per share comprising 125,160,800 ordinary shares and 30,996,784 global depositary receipts ("GDRs"), with 1 GDR representing 50 shares.

The GDRs were admitted to trade on the London Stock Exchange. Proceeds from the offering, net of the underwriters' discount, comprised of $356.4 million.

Acquisition of VZPP-Mikron Shares – In March 2007, SITRONICS purchased from a minority shareholder 3.3% of voting shares of VZPP-Mikron for $0.4 million, thus increasing the Group's voting power in VZPP-Mikron from 97% to 100%

Stock Options Plan – In April 2007, SITRONICS' Board of Directors established a stock option plan for 23 selected officers and key employees of the Group, where they can buy up to 747,742,688 shares, representing 7.83% of the share capital, from the Group's treasury stock, contingent on continued employment of the grantees with the Group or, in some cases, with Sistema. According to the terms of the plan, grantees are entitled to buy option shares in four installments, representing 1/6 of the total amount due to each person during the years 2007, 2008 and 2009, and remaining 1/2 of the total amount in 2010. The exercise price is 1 RUB per share. All the participants of this option plan are restricted to sell their shares until 2010.

Eurobonds early redemption - In May 2007, SITRONICS announced the intention to redeem its $200 million of outstanding Eurobond Notes due 2009 on June 27, 2007. Sitronics Finance S.A. will redeem the Notes with a coupon rate of 7.875%, which were issued in March 2006, at a principal amount plus the applicable premium (as defined in the terms and conditions to the Notes) and an accrued and unpaid interest, if any, on the Notes up to but not including the redemption date.