



*Appendix No.2 to Item 1 of the Agenda of
OJSC Rostelecom Annual General Meeting upon the results of the year 2006*

ОАО “Ростелеком”

Audit Report
on financial statements
for the year ending December 31, 2006

March 2007

TRANSLATION OF ORIGINAL RUSSIAN VERSION

TRANSLATION OF ORIGINAL RUSSIAN VERSION

CONTENTS

PAGE

Independent auditor's report on financial statements of OAO “ROSTELECOM”

Appendices

Financial statements of OAO “ROSTELECOM” for the period from January 1, 2006
through December 31, 2006:

Balance Sheet

Statement of Income

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
OF OAO "ROSTELECOM"**

(Translation from Statutory Auditor's Report expressed in the Russian Language)

To the shareholders of OAO "ROSTELECOM"

DETAILS OF THE AUDITING FIRM

Name: ERNST & YOUNG LLC

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1

Certificate of an entry made to the Uniform State Register of Legal Entities Concerning a Legal Entity Registered Before July 1, 2002; date of the entry - December 5, 2002, series 77 No. 007367150, registered by the Moscow Registration Chamber State Institution at No. 108.877 on June 20, 2002, Main State Registration Number 1027739707203.

Audit License No. E002138, approved by Order No. 223 of the Russian Ministry of Finance dated September 30, 2002, for a term of five years.

Membership of an accredited professional auditors' association - ERNST & YOUNG LLC is a member of Non-profit Partnership «The Institute of Professional Accountants of Russia» («IPAR»).

DETAILS OF THE AUDITED ENTITY

Name: OAO "ROSTELECOM"

Address: St. Petersburg, Dostoevskogo street, 15.

Information about the State Register of Legal Entities: Certificate № 021.833, series B3-008630 issued by the Moscow Registration Chamber State Institution on September 23, 1993.

TRANSLATION OF ORIGINAL RUSSIAN VERSION

We have audited the accompanying financial statements of OAO "ROSTELECOM" for the period from 1 January through 31 December, 2006, which are comprised of the balance sheet and the statements of income, changes in the shareholders' equity, cash flows, and the related appendix to the balance sheet and the explanatory notes to the financial statements, inclusive of sections 4, 6-12. The management of OAO "ROSTELECOM" is responsible for the compliance of accounting procedures, preparation and presentation of these financial statements. Our responsibility is to express an opinion on the fairness, in all material respects, of these statements and on compliance of accounting procedures insofar as they relate to the preparation of financial statements in accordance with the legislation of the Russian Federation based on our audit.

We conducted our audit in accordance with the Federal Law on Auditing Activity, the Federal Rules (Standards) on Auditing, the Rules (Standards) for Auditing Activities, as approved by the Committee on Auditing Activity under the President of the Russian Federation, and International Standards on Auditing.

The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit was performed on a selective basis and included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements concerning the financial and business operations of the audited entity; assessing the compliance with accounting principles and rules used in the preparation of financial statements, and significant estimates made by management of the audited entity; as well as the evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the fairness, in all material respects, of these financial statements and on compliance of accounting procedures insofar as they relate to the preparation of financial statements in accordance with the legislation of the Russian Federation.

In our opinion, the accounting procedures at OAO "ROSTELECOM", insofar as they relate to the preparation of financial statements in 2006, complied with the requirements of Federal Law on Accounting No. 129-FZ of 21 November, 1996, in all material respects, and the aforementioned financial statements referred to above have been prepared in accordance with the aforementioned Law and present fairly, in all material respects, the financial position of OAO "ROSTELECOM" as of 31 December, 2006 and the results of its operations for the period from 1 January through 31 December, 2006 in accordance with regulations of the Russian Federation insofar as they relate to the preparation of financial statements.

The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

March 30, 2007

Vadim A. Balashov
Partner

Engagement partner
Alexander Y. Grebeniuk
Partner

Auditor's qualification certificate for general audit No. 004329 issued June 11, 2003, unlimited validity

OJSC Rostelecom
Annual Financial Statements for 2006
(the balance sheet and the profit & loss statement)

BALANCE SHEET

as of **December 31, 2006**

Organization: **OJSC Rostelecom**

Taxpayer Identification Number: **7707049388**

Type of Activity: **Telecommunications**

Organizational and legal form/ form of ownership:

Unit of measure: **Thousand rubles**

Address: **15 Dostoevskogo st., St. Petersburg, 191002**

OKUD Form No. 1

Date (year, month, day)

OKPO code

TIN

OKPD

OKOPF/ OKFS

OKEI code

Codes
0710001
01.01.2007
17514186
7707049388
52300
47
384

ASSETS	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	3a	4	5
I. NON-CURRENT ASSETS					
Intangible assets:		110	110	17	16
Patents, licenses, trademarks (service marks), other similar rights and assets		111		17	16
Organization expenses		112		X	X
Goodwill		113		X	X
Fixed assets:	6.1	120	120	19,477,799	21,177,699
Land plots and natural resources		121		804	8,424
Buildings, plant and equipment		122		13,937,173	15,726,150
Construction in progress	6.1	130	130	4,603,293	5,925,281
Profitable investments in tangible assets:		135	135	-	-
Property for leasing		136		-	-
Property provided for rent		137		-	-
Long-term financial investments:	6.2	140	140	3,888,115	7,809,082
Investments		141		3,881,240	7,778,783
Other long-term financial investments		144		6,875	30,299
Deferred tax assets		145	145	-	-
Other non-current assets	6.3	150	150	2,392,533	3,642,996
TOTAL for Section I		190	190	30,361,757	38,555,074
II. CURRENT ASSETS					
Inventories:		210	210	718,369	472,880
Raw materials, consumables, and other assets	6.4	211	211	578,241	401,762
Work in progress costs (commercial costs)	6.4	213	213	-	-
Finished products and goods for resale	6.4	214	214	8,580	1,999
Shipped goods		215	215	-	-
Deferred expenses	6.3	216	216	131,548	69,119
Other reserves and expenses		217	217	-	-
Value-added tax on acquired assets		220	220	1,289,001	666,680
Accounts receivable (payment due more than 12 months after the reporting date):		230	230	13,055	14,381
Buyers and customers		231	231	-	606
Bills of exchange receivable				-	-
Accounts receivable from subsidiaries and associates				-	-
Prepayments		232		13,031	13,633
Other debtors		233		24	142
Accounts receivable (payment due within 12 months after the reporting date):		240	240	6,203,139	10,455,246
Buyers and customers	6.5	241	241	5,185,329	8,898,025

Bills of exchange receivable				-	-
Accounts receivable from subsidiaries and associates				-	-
Prepayments	6.6	242		363,118	428,177
Other debtors	6.6	243		654,692	1,129,044
Amounts owed by participants (founders) in respect of contributions to charter capital		244		-	x
Short-term financial investments:	6.2	250	250	12,232,255	9,269,247
Loans to organizations due within 12 months		251		-	-
Other short-term financial investments		253		12,232,255	9,269,247
Monetary assets:		260	260	2,090,882	
Cash		261		1,351	1,748
Banking accounts in rubles		262		2,040,646	983,576
Banking accounts in foreign currencies		263		44,616	87,048
Other monetary assets		264		4,269	3,618
Other current assets		270	270	183	205
TOTAL for Section II		290	290	22,546,884	21,954,629
BALANCE (sum of lines 190+290)		300	300	52,908,641	60,509,703

LIABILITIES	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	3a	4	5
III. CAPITAL AND RESERVES					
Charter capital	6.9	410	410	2,429	2,429
Own shares redeemed from shareholders	6.10	440	411	-	-
Additional capital		420	420	10,109,717	8,935,595
Reserve capital:		430	430	364	364
Statutory reserves		431	431	364	364
Reserves formed in accordance with foundation documents		432	432	-	-
Social fund		450		X	X
Undistributed profit of previous years		460		28,971,563	26,930,759
Uncovered losses of previous years		465		-	-
Undistributed profit of the reporting year		470	470	-	8,239,787
Uncovered losses of the reporting year		475		-	-
TOTAL for Section III		490	490	39,084,073	44,108,934
IV. LONG-TERM LIABILITIES					
Loans and credits	6.12	510	510	5,542,555	4,711,212
Bank credits repayable more than 12 months after the reporting date		511		3,231,537	2,400,194
Loans repayable more than 12 months after the reporting date		512		2,311,018	2,311,018
Deferred tax liabilities	6.13	515	515	626,884	964,685
Other long-term liabilities	6.14	520	520	136,645	496,622
TOTAL for Section IV		590	590	6,306,084	6,172,519
V. SHORT-TERM LIABILITIES					
Loans and credits	6.12	610	610	711,728	580,814
Bank credits repayable within 12 months of the reporting date		611		183,462	580,415
Loans repayable within 12 months of the reporting date		612		528,266	399
Accounts payable		620	620	6,240,158	7,732,161
Suppliers and contractors		621	621	4,820,783	6,164,241
Bills of exchange payable				-	-
Accounts payable to subsidiaries and associates				-	-
Receipts in advance		622	622	171,737	701,077
Amounts owed to employees		623	623	222,314	484
Amounts owed to state extrabudgetary fund		624	624	75,511	44,612

Amounts owed to the budget	6.15.1	625	625	124,104	231,195
Other creditors	6.15.2	626	626	825,709	590,552
Income payable to participants (founders)		630	630	55,755	67,459
Deferred income	6.16	640	640	169,457	139,715
Provisions for expenses	6.17	650	650	341,386	1,708,101
Other short-term liabilities		660	660	-	-
TOTAL for Section V		690	690	7,518,484	10,228,250
BALANCE (sum of lines 490 + 590 + 690)		700	700	52,908,641	60,509,703

**STATEMENT
OF ASSETS ON OFF-BALANCE ACCOUNTS**

Item	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1			2	3	4
Rented fixed assets		910	910	144,959	171,767
including leased assets		911	911	1,980	-
Valuables in custody		920	920	3,552	1,098,288
Materials accepted for processing		921		-	-
Equipment accepted for assembly		922		-	-
Consigned goods		930	930	455	427
Bad debts written off as losses		940	940	1,666,543	1,879,588
Received collateral for obligations and payments		950	950	3,223	1,997,863
Issued collateral for obligations and payments		960	960	3,855,127	3,371,661
Depreciation of housing		970	970	86,946	49,144
Depreciation of amenities and similar facilities		980	980	1,089	-
Strict accountability forms		990	990	57	269
Fixed assets provided for lease		991		-	-
Implements and economic accessories		992		192,113	205,482
Pre-paid telecommunication cards		993		-	-
Intangible assets received for use		994		-	-

General Director _____ s&s _____ Dmitry Ye. Yerokhin

Chief Accountant _____ s&s _____ Roman A. Frolov

Dated March 30, 2007.

STATEMENT OF INCOME

for **2006 year**

Organization: **OJSC Rostelecom**

Taxpayer Identification Number: **7707049388**

Type of Activity: **Telecommunications**

Organizational and legal form/ form of ownership:

Unit of measure: **Thousand rubles**

Address: **15 Dostoevskogo st., St. Petersburg, 191002**

OKUD Form No. 2

Date (year, month, day)

OKPO code

TIN

OKPD

OKOPF/ OKFS

OKEI code

Codes

0710001

01.01.2007

17514186

7707049388

52300

47

384

Item	Note	Line code	Index code	For the reporting period	For the same period of the preceding year
1	2	2a	2b	4	5
I. Income and expenses for core activities					
Proceeds (net) from sale of goods, products, work, services (less the VAT, excises, and similar obligatory payment):	7.1	010	010	60,033,112	40,291,672
Sale of telecommunication services		011		59,481,378	39,775,679
Cost price of goods, products, work, and service sold	7.2	020	020	(52,246,952)	(28,330,557)
Including telecommunication services		021		(51,674,971)	(27,906,208)
Gross profit		029	029	7,786,160	11,961,115
Trading costs		030		X	X
Management costs		040		X	X
Operating profit		050	050	7,786,160	11,961,115
II. Other income and expenses					
Interest receivable	7.3.1	060	060	881,806	786,427
Interest payable	7.3.2	070	070	(267,322)	(125,644)
Income from participation in other organizations	7.3.1	080	080	96,763	101,166
Other operating income	7.3.1	090	090	22,646,649	14,938,592
Other operating expenses	7.3.2	100	100	(21,249,015)	(15,501,567)
Profit (loss) before taxes		140	140	9,895,041	12,160,089
Profit tax	7.4	150	150	(2,372,101)	(2,776,826)
Income (expenses) for deferred tax assets (liabilities)	7.4	151	142	(337,801)	(355,361)
Net profit		160		7,185,139	9,027,902
FOR INFORMATION					
Permanent tax obligations	7.4	191	200	334,754	213,764
Basic income (loss) per share	7.5	192		8.8742	11.1502
Diluted income (loss) per share	7.5	193		8.8742	11.1502

INDIVIDUAL INCOME AND EXPENSE ITEMS

Item	Line code	For the reporting period		For the same period of the preceding year	
		profit	loss	profit	loss
1	2	3	4	5	6
Fines, penalties, and charges acknowledged by payer or payable pursuant to the decision of a court (arbitral tribunal)	210	44,068	719	52,511	10,018
Accumulated income (loss)	220	136,264	94,378	211,275	398,034
Compensation for losses caused by nonperformance or undue performance of obligations	230	7,510	183	15,148	213
Exchange-rate differences in foreign-exchange operations	240	172,979	-	45,049	-
Provision expenses	250	10,063	202,847	112,621	25,476
Write-off of receivables and payables upon expiration of limitation period	260	248	-	357	-

General Director _____ **s&s** _____ **Dmitry Ye. Yerokhin**

Chief Accountant _____ **s&s** _____ **Roman A. Frolov**

Dated March 30, 2007.

**THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF OJSC ROSTELECOM**

**EXTRACT FROM THE MINUTES NO.8 OF
THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
OJSC ROSTELECOM**

Date of meeting: April 4, 2007.

Location: room 702, 14, 1st Tverskaya-Yamskaya St., Moscow.

Date of signing: April 6, 2006.

Chairman of the Committee: Valery V. Degtyarev.

Corporate Secretary: Olga V. Mokhoreva.

3 from 3 members of the Committee participated in the meeting: Valery V. Degtyarev (Chairman of the Committee), Natalia A. Terentyeva (as financial expert), and Vladimir N. Bobin.

Elena P. Selvich attended the meeting as Observer of the Committee.

The quorum required for the meeting was present.

ITEM No.6 OF THE AGENDA:

Consideration of the report of the Company's auditor LLC Ernst & Young on OJSC Rostelecom 2006 financial statements and preparation of a recommendation to the Board of Directors regarding this matter.

Invitees:

1. Andrei A. Gaiduk, First Deputy General Director – Finance Director, OJSC Rostelecom;
2. Roman A. Frolov, Chief Accountant, OJSC Rostelecom;
3. Yevgeny A. Pelymsky, Director of Internal Audit Department, OJSC Rostelecom.

ITEM No.6 OF THE AGENDA:

Consideration of the report of the Company's auditor LLC Ernst & Young on OJSC Rostelecom 2006 financial statements and preparation of a recommendation to the Board of Directors regarding this matter.

CONSIDERED ITEM No.6 OF THE AGENDA:

Consideration of the report of the Company's auditor LLC Ernst & Young on OJSC Rostelecom 2006 financial statements for and preparation of a recommendation to the Board of Directors regarding this matter.

Reporter: Roman A. Frolov, Chief Accountant, OJSC Rostelecom.

AUDIT COMMITTEE RESOLVED:

To recommend the Board of Directors to take into account the report of the Company's auditor LLC Ernst & Young on OJSC Rostelecom 2006 financial statements.

VOTING RESULTS ON ITEM No.6 OF THE AGENDA:

«For»	«Against»	«Abstain»
3 votes	No	No

Chairman of the Committee Valery V. Degtyarev.

EXTRACT FROM THE MINUTES IS CORRECT

**Corporate Secretary
April 30, 2007.**

/s&s/

Olga V. Mokhoreva



**RESOLUTION
of the Audit Commission
on 2006 Financial Statements of
OJSC Rostelecom**

Moscow

April 16, 2007

The following members of the Audit Commission of OJSC Rostelecom were elected by the General Shareholders' Meeting on June 09, 2006:

Chairman of the Audit Commission O. G. Koroleva;

Members of the Audit Commission S. N. Bocharova and N. S. Vorobyeva.

Acting within the authority defined by the Federal Law On Joint Stock Companies, the Charter of OJSC Rostelecom and the Regulation on the Audit Commission of OJSC Rostelecom, the Audit Commission reviewed the Company's financial and operating performance for the 2006 fiscal year.

The review of the Company's annual financial statements for the fiscal year starting from January 1 till December 31, 2006, was carried out within the period starting from February 5 till April 15, 2007, in accordance with the decision of Rostelecom's Audit Commission (Minutes No. 4 dated February 5, 2007).

The review based on the documents, accounting and taxation records, registers and clarifications provided by the Company's management was aimed at examination that the Company accurately reflects business activities in its financial (accounting) statements, examination of the Company's accounting principles and methods, as well as of the rules for preparation of financial (accounting) statements and the annual report.

The Audit Commission used test-check methods to review the Company's transactions within the framework of the financial and operating activities.

Information on the Company

Company's Full Name: Open Joint Stock Company for Long-Distance and International Telecommunications "Rostelecom".

Legal Address: 15 Dostoevskogo St., Saint-Petersburg, 191002.

Sole Executive Authority Location: 14, 1st Tverskaya-Yamskaya St., Moscow, 125047.

State Registration Date: September 23, 1993.

State Registration Number: 021.833.

Executives responsible for the Company's book-keeping and preparation of accounting statements during the reviewed period were:

- General Director – Dmitry Ye. Yerokhin,
- Chief Accountant – Alexander A. Lutsky (before February 4, 2006), Roman A. Frolov (starting from February 4, 2006).

The supreme governing authority of the Company is the General Shareholders' Meeting. During the periods between the General Shareholders' Meetings the Company is run by the Board of Directors

headed by the Chairman. The collective executive authority of OJSC Rostelecom is the Management Board.

Company's Key Performance Indicators in 2006

	Indicator	Unit	2005	2006
1.	Revenues from sales of goods, works, services	mln. rubles	40,291	60,033
2.	including revenues from telecommunications services	mln. rubles	39,775	59,481
3.	Cost of goods, works, services sold	mln. rubles	28,330	52,246
4.	including cost of telecommunications services	mln. rubles	27,906	51,675
5.	Operating profit	mln. rubles	11,961	7,786
6.	Profit before taxes	mln. rubles	12,158	9,895
7.	Net profit	mln. rubles	9,027	7,185
8.	OIBDA	mln. rubles	14,682	11,045
9.	Operating margin	%	29.69	12.97
10.	Return on sales	%	42.22	14.90
11.	Cost of 100 ruble earnings	%	70.31	87.03
12.	OIBDA margin	%	36.44	18.40
13.	Revenue per employee	thousand rubles	1,691.86	2,668.38
14.	Financial independence coefficient	-	0.74	0.73
15.	Long-term borrowed funds coefficient	-	0.14	0.12
16.	Average repayment period for accounts receivable	days	57.81	49.95
17.	Repayment period for accounts payable	days	80.74	48.14

Net assets amount to RUR 44,249 million.

The Company's financial position as of December 31, 2006, is considered as stable. Key financial figures have sound values.

Accounting Statements

The Company's accounting principles meet the requirements of relevant regulatory acts of the Russian Federation and are based on the Accounting Policy approved by the General Director's Resolution No.445 as of December 30, 2005.

Accounting statements for 2006 were prepared within the time limits set by the Federal Law On Accounting and include balance sheet, profit and loss statement, appendices thereto, and an explanatory note.

During the review the Audit Commission did not detect any material violation of law of the Russian Federation or any material misrepresentations of financial and operating activities.

The Company's accounting statements accurately and fully represent its financial and operating activities and results of operations required by management to run business day-to-day, as well as by investors, creditors, government bodies, and other stakeholders.

Material Business Facts

Rostelecom's Corporate Governance Code and the Code of Ethics of OJSC Rostelecom (approved by the Board of Directors on April 28, 2004), the Declaration of Corporate Governance Principles of OJSC Rostelecom (approved by the Board of Directors on April 11, 2002) set the corporate governance principles of the Company. The regulations above were prepared by the Company

according to the requirements and recommendations of the New York Stock Exchange, the U.S. Securities and Exchange Commission and the recommendations of the Federal Commission for the Securities Market (FCSM).

Pursuant Article 23. 3.18 of the Charter and the resolution of the Board of Directors of OJSC Rostelecom the Company's General Director Dmitry Ye. Yerokhin was appointed for a 2-year term of office starting November 3, 2003, and then starting November 4, 2005. The labour contracts concluded with the General Director was approved by the Board of Directors.

The Company's Management Board consisting of 11 members (as of the end of the year) has been formed by the Board of Directors in accordance with Article 23.3.9 of the Charter of OJSC Rostelecom. By resolution of the Company's Board of Directors, term of office of the following members of Management Board were terminated: Stanislav P. Avdiyants, Yury A. Bilibin (on December 20, 2006), Konstantin V. Belyaev (on July 1, 2006), Igor A. Kalugin (on March 10, 2006), Alexander A. Lutsky (on February 14, 2006), Dmitry V. Sigalov (on July 1, 2006). Resolutions on issues within the competence of the Management Board were adopted in compliance with the Charter and the Regulations on the Management Board of OJSC Rostelecom.

Disclosure of information in the form of reports on material facts were made in compliance with the Regulations on the Information Disclosure by Issuers of Securities approved by the order No.05-5/pz-n dated March 16, 2005, of the Federal Service for Financial Markets Service of the Russian Federation, requirements and recommendations of the New York Stock Exchange and the U.S. Securities and Exchange Commission. No violations of such procedures were detected.

Lists of affiliated persons of the Company and changes to the list were prepared in compliance with the form set by the Regulations on the Information Disclosure by Issuers of Securities approved by order of the Federal Financial Markets Service as of March 16, 2005 No.05-5/pz-n. The lists of affiliated persons and changes to the list were posted on the Company's web-site on a quarterly basis.

Internal Control System

In October, 2006, to improve the Company's internal controls in accordance with the Sarbanes-Oxley Act the Internal Audit Department was created. Director of the Internal Audit Department is reporting to the Company's Board of Directors and accountable to the Audit Committee and the Board of Directors for performing the following functions:

- independent evaluation and analysis of the Company's financial position;
- compliance with the Company's internal control procedures.

The Internal Audit Department provides the Company's governing authorities with checking information in respect of financial and operating activities, including the information about risks detected while check-up.

Preparation of the Company's financial statements is controlled in accordance with the Regulations on Internal Control over Financial Reporting of OJSC Rostelecom.

Conclusion

Upon results of the review of the Company's financial and operating activities, the Audit Commission has concluded that:

- resolutions on issues relating to financial and operating activities adopted in 2006 by the Management Board and the Board of Directors were in compliance with the applicable laws, regulations and the Charter of the Company;

- 2006 accounting statements accurately and fully reflect the financial position and the results of financial and operating activities of the Company for the period from January 1 to December 31, 2006;
- the Company's 2006 annual report contains all relevant material information required to be disclosed by the applicable laws and regulations.

Chairman of the Audit Commission /signed/ O. G. Koroleva

Members of the Audit Commission: /signed/ S. N. Bocharova

/signed/ N. S. Vorobyeva