OJSC COMSTAR UTS
AND SUBSIDIARIES

Independent Auditors' Report

Financial Statements
Years ended December 31, 2006, 2005 and 2004

COMSTAR UTS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Comstar UTS:

We have audited the accompanying consolidated and combined balance sheets of OJSC "COMSTAR – United TeleSystems" ("Comstar UTS") and its subsidiaries (collectively – the "Group") as of December 31, 2006, 2005 and 2004 and the related consolidated and combined 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 also 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 consolidated and combined financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006, 2005 and 2004, and the 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

April 28, 2007
(June 8, 2007 as to Note 26)

COMSTAR UTS AND SUBSIDIARIES

CONSOLIDATED AND COMBINED BALANCE SHEETS AS OF DECEMBER 31, 2006, 2005 AND 2004
(Amounts in thousands of US dollars)

	Note	December 31, 2006	2005	2004
Assets				
Current assets:				
Cash and cash equivalents	**5**	$ 136,621	$ 61,961	$ 67,436
Short-term investments	**6**	67,662	128,812	105,313
Trade receivables, net	**7**	95,868	78,310	63,504
Other receivables and prepaid expenses	**8**	87,654	80,572	60,669
Inventories and spare parts	**9**	33,740	26,881	23,004
Assets held for sale	**2**	–	15,260	–
Deferred tax assets, current portion	**21**	23,545	13,432	15,693
Total current assets		445,090	405,228	335,619
Property, plant and equipment, net	**10**	1,477,329	1,144,149	1,031,757
Intangible assets, net	**11**	91,835	55,355	30,240
Investments in shares of Svyazinvest	**4**	1,390,302	–	–
Other long-term investments	**12**	118,488	30,510	11,290
Restricted cash		4,008	2,272	3,268
Deferred tax assets, long-term portion	**21**	6,725	3,847	6,274
Deferred finance charges	**14**	3,808	–	–
Total assets		**$ 3,537,585**	**$ 1,641,361**	**$ 1,418,448**
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable		$ 51,023	$ 28,707	$ 17,699
Deferred connection fees, current portion		39,812	42,598	35,790
Subscriber prepayments		45,540	41,228	34,095
Accrued expenses and other current liabilities	**13**	49,631	43,409	23,620
Taxes payable		12,999	17,837	19,563
Debt, current portion	**14**	777,837	86,617	85,616
Capital lease obligations, current portion	**15**	14,107	14,050	6,782
Derivative financial instrument (Call and put option)	**4**	150,000	–	–
Total current liabilities		1,140,949	274,446	223,165
Long-term liabilities:				
Deferred connection fees, net of current portion		109,040	110,514	104,087
Debt, net of current portion	**14**	33,529	102,184	104,482
Capital lease obligations, net of current portion	**15**	17,467	30,765	19,917
Post-retirement obligations	**16**	10,182	16,216	11,513
Property, plant and equipment contributions	**17**	103,793	102,746	103,822
Deferred tax liabilities, long-term portion	**21**	47,619	9,005	19,397
Other long-term liabilities	**23, 24**	8,066	–	–
Total long-term liabilities		329,696	371,430	363,218
Total liabilities		1,470,645	645,876	586,383
Commitments and contingencies	**24**	–	–	–
Minority interests		496,745	516,114	450,624
Shareholders' equity:	**18, 24,**			
Share capital	**25**	23,900	18,982	72,133
Treasury stock		(4,004)	(3,929)	–
Additional paid-in capital		1,064,225	100,051	43,335
Retained earnings		433,145	352,647	250,756
Accumulated other comprehensive income		52,929	11,620	15,217
Total shareholders' equity		1,570,195	479,371	381,441
Total liabilities and shareholders' equity		**$ 3,537,585**	**$ 1,641,361**	**$ 1,418,448**

The accompanying notes are an integral part of these consolidated and combined financial statements.

COMSTAR UTS AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

(Amounts in thousands of US dollars, except for share and per share amounts)

	Note	Year ended December 31, 2006	2005	2004
Operating revenues	**19, 23**	$ 1,120,247	$ 907,624	$ 695,133
Operating expenses, net	**20, 23**	(884,708)	(639,273)	(521,414)
Operating income		235,539	268,351	173,719
Other income and expenses:				
Interest income	**23**	43,537	7,696	7,941
Interest expense	**23**	(22,145)	(17,961)	(18,695)
Change in fair value of a derivative financial instrument (call and put option)	**4**	(60,000)	–	–
Foreign currency transactions gain/(loss), net		19,938	(2,219)	4,368
Gain/(loss) from disposal of an affiliate	**4**	–	1,989	(6,610)
Income from continuing operations before income tax, income from affiliates and minority interests		216,869	257,856	160,723
Income tax expense	**21**	(72,422)	(59,329)	(41,076)
Income from affiliates		3,292	499	542
Minority interests		(65,243)	(93,141)	(44,400)
Income from continuing operations		$ 82,496	$ 105,885	$ 75,789
DISCONTINUED OPERATIONS:				
Gain from discontinued operations of disposed subsidiary P-Com	**3**	–	–	5,612
Income tax expense	**3**	–	–	(589)
Loss from discontinued operations	**3**	–	–	(4,672)
Net income		**$ 82,496**	**$ 105,885**	**$ 76,140**
Other comprehensive income/(loss):				
Translation adjustment, net of minority interest of $39,111, $13,788 and $34,175, respectively		41,309	(3,597)	13,538
Comprehensive income		**$ 123,805**	**$ 102,288**	**$ 89,678**
Weighted average number of common shares outstanding for the year ended December 31, 2006 and the period from November 22, 2005 to December 31, 2005 –				
basic	**2**	345,805,894	221,198,360	–
diluted	**2**	346,083,856	221,198,360	–
Earnings per common share, for the year ended December 31, 2006 and the period from November 22, 2005 to December 31, 2005 –				–
basic	**2**	$ 0.24	$ 0.04	–
diluted	**2**	$ 0.24	$ 0.04	–

The accompanying notes are an integral part of these consolidated and combined financial statements.

COMSTAR UTS AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004
(Amounts in thousands of US dollars)

	Year ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net income	$ 82,496	$ 105,885	$ 76,140
Adjustments to reconcile net income to net cash provided by operations:			
Gain from discontinued operations	–	–	(4,182)
Loss from disposal of discontinued operations	–	–	3,831
Depreciation and amortization	130,939	90,437	76,138
Change in fair value of derivative financial instrument (call and put option)	60,000	–	–
Stock-based compensation	2,746	–	–
Gain on compensation of losses from third parties	(9,217)	(2,959)	(634)
(Gain)/loss from disposal of fixed assets and assets held for sale and other non-cash items, net	(2,511)	775	4,312
(Gain)/loss from disposal of an affiliate	–	(1,989)	6,610
Deferred taxes	(653)	(5,796)	1,453
Income from affiliates	(3,292)	(499)	(542)
Foreign currency transactions (gain)/loss on non-operating activities, net	(5,172)	2,102	(4,177)
Postretirement benefits	(7,125)	5,117	6,315
Minority interests	65,243	93,141	44,400
Provision for doubtful debts	11,717	4,503	(243)
Inventory obsolescence charge, impairment of property, plant and equipment and other provisions	2,735	1,513	1,550
Changes in operating assets and liabilities:			
Trade receivables	(46,938)	(15,741)	(7,815)
Other receivables and prepaid expenses	(6,276)	(23,640)	(19,013)
Inventories and spare parts	(6,710)	(3,736)	(3,083)
Accounts payable	30,527	(3,377)	(2,727)
Deferred connection fees	(7,445)	15,316	30,790
Subscriber prepayments	2,574	10,229	4,683
Taxes payable	(6,391)	(1,309)	5,028
Accrued expenses and other current liabilities	1,472	1,180	6,338
Net cash provided by operating activities	**288,719**	**271,152**	**225,172**
Cash flows from investing activities:			
Purchases of property, plant and equipment	(280,298)	(172,181)	(149,847)
Proceeds from sale of property, plant and equipment	29,661	1,351	1,454
Proceeds from property insurance recovery (see Note 20)	–	5,806	–
Purchases of intangible assets	(26,160)	(22,127)	(18,366)
Proceeds from disposal of subsidiaries, net of cash disposed (see Note 4)	–	–	16,211
Acquisition of subsidiaries, net of cash acquired (see Note 4)	(20,050)	(24,277)	–
Acquisition of minority interests (see Note 4)	(184,052)	(8,529)	–
Purchases of long-term investments (see Note 4)	(1,300,000)	(36,394)	–
Proceeds from sale of long-term investments	–	13,449	652
Purchases of short-term investments	(586,614)	(339,750)	(249,465)
Proceeds from sale of short-term investments	602,249	326,442	211,656
Decrease in restricted cash	(1,736)	961	467
Net cash used in investing activities	**(1,767,000)**	**(255,249)**	**(187,238)**

The accompanying notes are an integral part of these consolidated and combined financial statements.

COMSTAR UTS AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004
(Amounts in thousands of US Dollars)

	Year ended December 31, 2006	2005	2004
Financing activities:			
Proceeds from issuance of common stock, net of issuance costs (see Note 1)	975,519	–	–
Acquisition of treasury stock, net of stock bonus granted (see Note 25)	(13,810)	–	–
Contributions from the controlling shareholder	–	12,508	–
Contributions from minority shareholders of subsidiaries	510	–	–
Proceeds from borrowings	1,503,995	125,126	101,329
Principal payments on borrowings	(896,155)	(128,147)	(99,969)
Principal payments on capital lease obligations	(13,455)	(12,439)	(10,641)
Deferred finance charges	(4,050)	–	–
Dividends and other distributions to shareholders	(1,662)	(17,393)	(10,201)
Net cash provided by/(used in) financing activities	**1,550,892**	**(20,345)**	**(19,482)**
Effects of foreign currency translation on cash and cash equivalents	2,049	(1,033)	2,032
Net increase/(decrease) in cash and cash equivalents	**74,660**	**(5,475)**	**20,484**
Cash and cash equivalents, beginning of the year	61,961	67,436	46,952
Cash and cash equivalents, end of the year	**$ 136,621**	**$ 61,961**	**$ 67,436**
Supplemental cash flows information:			
Cash paid for interest, net of amounts capitalized	$ 22,278	$ 16,201	$ 15,109
Income taxes paid	88,312	67,175	40,187
Non-cash investing and financing activities:			
Contributed property, plant and equipment	$ 5,387	$ 6,281	$ 13,597
Cost of construction incurred in transactions with Sistema Hals, a related party (see Note 23 and 24)	8,066	–	–
Equipment acquired through vendor financing	4,287	2,921	20,714
Equipment acquired under capital leases	–	28,779	25,966

In addition, non-cash investing activities during the years ended December 31, 2006, 2005 and 2004 included acquisitions and disposals of subsidiaries and affiliates as described in Note 4.

The accompanying notes are an integral part of these consolidated and combined financial statements.

COMSTAR UTS AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 and 2004

(Amounts in thousands of US dollars)

	Share capital	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balances at January 1, 2004	**$ 72,133**	**$ –**	**$ 43,335**	**$ 176,947**	**$ 1,679**	**$ 294,094**
Dividends declared	–	–	–	(2,331)	–	(2,331)
Net income	–	–	–	76,140	–	76,140
Translation adjustment, net of minority interest of $34,175	–	–	–	–	13,538	13,538
Balances at December 31, 2004	**$ 72,133**	**$ –**	**$ 43,335**	**$ 250,756**	**$ 15,217**	**$ 381,441**
Contribution from the controlling shareholder (see Note 6)	–	–	5,513	–	–	5,513
Acquisition of interest in a subsidiary from the controlling shareholder (see Note 4)	–	–	(4,301)	–	–	(4,301)
Common stock issuance by subsidiaries	–	–	6,995	–	–	6,995
Dividends declared	–	–	–	(3,994)	–	(3,994)
Net income	–	–	–	105,885	–	105,885
Restructuring of the Group	(53,151)	(3,929)	48,509	–	–	(8,571)
Translation adjustment, net of minority interest of $13,788	–	–	–	–	(3,597)	(3,597)
Balances at December 31, 2005	**$ 18,982**	**$ (3,929)**	**$ 100,051**	**$ 352,647**	**$ 11,620**	**$ 479,371**
Common stock issuance in the course of IPO, net of issue costs (see Note 1)	4,918	–	969,316	–	–	974,234
Acquisition of own stock (see Note 25)	–	(404)	(73,460)	–	–	(73,864)
Stock-based compensation (see Note 25)	–	329	62,471	–	–	62,800
Minorities' share in fair value of the call and put option at the grant date (see Note 4)	–	–	27,606	–	–	27,606
Revaluation of treasury stock in connection with acquisition of a minority interest in MGTS (see Note 4)	–	–	(21,759)	–	–	(21,759)
Dividends declared	–	–	–	(1,998)	–	(1,998)
Net income	–	–	–	82,496	–	82,496
Translation adjustment, net of minority interest of $39,111	–	–	–	–	41,309	41,309
Balances at December 31, 2006	**$ 23,900**	**$ (4,004)**	**$ 1,064,225**	**$ 433,145**	**$ 52,929**	**$ 1,570,195**

The accompanying notes are an integral part of these consolidated and combined financial statements.

1. DESCRIPTION OF THE BUSINESS

Nature of the Business

Open Joint-Stock Company "COMSTAR–United TeleSystems" ("Comstar UTS") and subsidiaries (together referred to as "the Company", or "the Group") is a provider of fixed line communications services, including voice, Internet dial-up and broadband, pay TV and various value added services, to commercial and residential customers throughout the Moscow metropolitan area and in several other regions in Russia, Ukraine and Armenia. The controlling shareholder of Comstar UTS is JSFC Sistema ("Sistema"), which manages operations of Comstar UTS through its subsidiary, Sistema Telecom. Primary operating entities of the Group are incorporated in the Russian Federation ("the RF"), Ukraine and Armenia.

The Group's Restructuring and the Initial Public Offering (IPO)

The Group was formed in the fourth quarter of 2005 through the consolidation by Sistema of its fixed line communications businesses under Comstar UTS. In November 2005, Comstar UTS issued 255,919,860 common shares to acquire Sistema's stakes in MGTS, MTU-Inform, Telmos and MTU-Intel and MGTS' stakes in MTU-Inform, Telmos and MTU-Intel. This merger was accounted for at cost as a transaction between entities under common control.

In December 2005, Sistema Multimedia, a subsidiary of Sistema, was merged into MTU-Intel (see Note 4).

In February 2006, Comstar UTS completed an initial public offering of 146,500,000 common shares, including 139,000,000 newly issued shares and 7,500,000 shares sold by the shareholders. The shares (in the form of global depositary receipts ("GDRs"), with one GDR representing one share) were admitted to trade on the London Stock Exchange. The Group's net proceeds from the offering approximated $975.7 million.

Legal Merger of Telmos, MTU-Inform, Contrast Telecom and M-Telecom Holding with Comstar UTS

On December 25, 2006 the Extraordinary General Meeting of Shareholders of Comstar UTS approved the merger of wholly-owned subsidiaries Telmos, MTU-Inform, Contrast Telecom and M-Telecom Holding (the owner of a 100% stake in Astelit) with Comstar UTS. The merger is expected to be completed in April 2007 (see Note 26).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Group's operating entities maintain accounting records and prepare their financial statements in local currency in accordance with the requirements of accounting and tax legislation in the countries of their incorporation. These financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP") and are expressed in terms of US dollars (see "Foreign Currency Translation Methodology" below). The accompanying consolidated and combined financial statements differ from the financial statements prepared for statutory purposes because they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

(Amounts in thousands of US dollars, unless otherwise stated)

The principal adjustments are related to revenue recognition, foreign currency translation, accounting for derivative financial instruments, deferred taxation, consolidation and combination, and valuation and depreciation of property, plant and equipment and intangible assets.

Principles of Consolidation and Combination

The Group's restructuring in November 2005 (see Note 1) has resulted in a change in the reporting entity. The consolidated financial statements presented for the periods subsequent to the restructuring include the financial statements of Comstar UTS and its subsidiaries.

The combined financial statements of the Group's entities are presented for the periods preceding the restructuring. The combined financial statements have been prepared as if the restructuring had occurred at the beginning of the earliest period presented.

The assets and liabilities of the entities transferred to the Group under the common control were recorded in these financial statements at the historical cost of their acquisition by the Group's controlling shareholder.

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

The ownership interest of Comstar UTS and proportion of its voting power in its major operating subsidiaries as of December 31, 2006 and 2005 were as follows:

Operating entities	December 31, 2006		December 31, 2005	
	Ownership interest	Proportion of voting power	Ownership interest	Proportion of voting power
MGTS	56%	56% (*)	46%	56%
MTU-Inform	100%	100%	99%	99%
Telmos	100%	100%	100%	100%
Porttelecom	100%	100%	100%	100%
Comstar-Direct (**)	52%	52%	52%	52%
Golden Line	52%	52%	52%	52%
Tyumenneftegazsvyaz (TNGS)	75%	89%	75%	89%
TK Overta	100%	100%	100%	100%
Conversiya-Svyaz	100%	100%	100%	100%
CTK Contrast-Telecom	100%	100%	100%	100%
Unitel	100%	100%	100%	100%
AMT	56%	56% (*)	46%	56%
Astelit	100%	100%	–	–
Comstar Ukraine	75%	75%	–	–
Technological Systems	75%	75%	–	–
TC Digital Global Telecommunications	75%	75%	–	–
Degre	75%	75%	–	–
Neophone	74%	74%	–	–
Callnet	75%	75%	–	–
Cornet	75%	75%	–	–

(*) As of December 31, 2006, Comstar UTS owns 67% of MGTS' common stock. MGTS decided not to pay dividend on preferred stock in 2006. Accordingly, preferred stock received voting rights at par with common stock (see also Notes 18 and 24).

(Amounts in thousands of US dollars, unless otherwise stated)

(**) MTU-Intel prior to November 2006.

The ownership interest and proportion of voting power of Sistema in the entities included in the combined financial statements as of December 31, 2004 and for the year then ended were as follows:

Operating entities	**Ownership interest**	**Proportion of voting power**
Comstar UTS	73%	100%
MGTS	46%	56%
MTU-Inform	72%	99%
Telmos	59%	80%
Porttelecom	100%	100%
AMT	46%	100%
MTU-Intel	84%	100%
Golden Line	84%	100%
Sistema Multimedia (*)	100%	100%

(*) In 2005, Sistema Multimedia was merged into MTU-Intel.

The ownership interest of Comstar UTS in its subsidiaries is determined by taking into account both the common and preferred (non-voting) shares (see also Note 18).

Accounts of newly acquired subsidiaries have been consolidated or combined, as appropriate, in the Group's financial statements from the beginning of the year when control was acquired, with pre-acquisition earnings included in minority interests in the statements of operations.

Use of Estimates

The preparation of financial statements in conformity with US 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 amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the useful lives and recoverability of long-lived tangible and intangible assets, average subscriber lives, fair value of financial instruments and valuation allowances on deferred tax assets.

Effective July 1, 2005, the Group has changed its estimates of average subscriber lives for residential subscribers of the broadband Internet services from 3 years to 1 year. The effect of this change in estimate in the year ended December 31, 2005 was an increase in net income of approximately $4.0 million, net of income tax.

In connection with acceleration of phasing out of MGTS' analogue switching equipment, which is being replaced by digital equipment and is expected to be completely disposed off by 2012, effective July 1, 2006, the management revised its estimates of residual lives of such equipment, which resulted in increase in depreciation and amortization charge for the year ended December 31, 2006 by approximately $10.8 million and in a decrease in basic and diluted earnings per common share by 0.03 US dollars ("USD").

Concentration of Business Risk

The Group's principal business activities are within the RF. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Foreign Currency Translation Methodology

Management has determined that the functional currency of all the Group entities except for MGTS, Conversiya-Svyaz, TK Overta, CTK Contrast Telecom and TNGS is USD, because the majority of their revenues, costs, capital expenditures and debt are either priced, incurred, payable or otherwise measured in USD.

Accordingly, transactions and balances not already measured in USD (primarily transactions involving Russian Rubles and Euros) have been re-measured into USD in accordance with the relevant provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". The objective of this re-measurement process is to produce the same results that would have been reported if the accounting records had been maintained in USD.

Cash, receivables, payables and loans are considered monetary assets and liabilities and have been translated using the exchange rate as of the balance sheet dates. Non-monetary assets and liabilities, including non-current assets and shareholders' equity, are stated at their actual USD cost or have been restated from their historic cost by applying the historical exchange rate as at the dates of the original transactions or approximations to these rates. Income, expenses and items in the statement of cash flows are restated by applying the actual exchange rates to underlying transactions or approximations to these rates.

Exchange gains and losses arising from the use of these different rates are credited or charged to the statement of operations.

Management has determined that the functional currency of MGTS, Conversiya-Svyaz, TK Overta, CTK Contrast Telecom and TNGS is the Russian Ruble ("RUR").

Effective August 1, 2006, in connection with change of all tariffs previously denominated in or linked to the US dollar to the Russian Ruble, Golden Line has changed its functional currency to the Russian Ruble. The effect of this change has not been material to the financial statements and has been reflected as part of the translation adjustment in the statement of changes in shareholders' equity as part of other comprehensive income.

In January and February 2007, Comstar, Telmos and MTU-Inform, for the purpose of subscriber billing, fixed the US dollar exchange rate at 28.70 Rubles for 1 US dollar for a significant number of the subscribers. Currently, the Company is evaluating if such change in rating policy will lead to a change in the functional currency of these three entities.

The Group has selected the USD as its reporting currency and translates the financial statements of subsidiaries which functional currency is Russian Ruble into USD. All assets and liabilities are translated at the exchange rates current at the balance sheet date. Shareholders' equity is translated at the applicable historical rates. Income and expenses are translated at average rates of exchange prevailing during the year. Such translation gains and losses are also reported in statement of changes in shareholders' equity as part of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF, between the RUR and the USD at December 31, 2006 was 26.33 Rubles to 1 US dollar (December 31, 2005: 28.78).

(Amounts in thousands of US dollars, unless otherwise stated)

The Russian Ruble is not a fully convertible currency outside the territory of the RF. The translation of Ruble denominated assets and liabilities into US dollars for the purpose of these financial statements does not indicate that the Group could realize or settle in US dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported US dollar values of capital and retained earnings to its shareholders.

Revenue Recognition

The Group's revenues are principally derived from the provision of telecommunication services which primarily consist of (i) monthly subscription fees, (ii) traffic charges, (iii) connection fees, (iv) revenues from data transmission and internet services, (v) revenues from value-added and additional telecommunication services, (vi) revenues from services to other operators and (vii) revenues from payphones. The Group records revenues over the periods they are earned as follows:

(i) Monthly subscription fees are recognized in the month during which the telephone services are provided to the subscribers;
(ii) Traffic charges are recognized as the services are provided;
(iii) Upfront fees received for the connection of new subscribers are deferred and recognized over the expected subscriber relationship period, which varies between 1 and 36 years, depending on the type of the subscriber and the region of operations;
(iv) Revenues from the provision of data transmission and internet services are recognized when the services are provided to the subscribers;
(v) Revenues derived from value-added and additional telecommunication services are recognized when the services are provided to the subscribers;
(vi) Revenues from services to other operators, including commission for provision of domestic and international long-distance ("DLD/ILD") services through the Group's network to the Group's subscribers are recognized when the services are provided to the operators; and
(vii) Revenues from payphones are recognized as the prepaid calling cards are used by the subscribers or expire.

Local telephone services provided by MGTS (traditional segment) are regulated tariff services, and changes in rate structure are subject to the Federal Tariff's Service ("FTS") approval. Further, effective July 1, 2006, the majority of MGTS' and Comstar UTS' services to operators, including interconnection and line rental became regulated. See Note 19 for the amounts the Group earned for such services during the years ended December 31, 2006, 2005 and 2004.

Fixed monthly fees approved by FTS for MGTS and effective during 2006 and 2005 are presented in the table below:

In Rubles:	**January 1 – September 30, 2005**	**October 1, 2005 – December 31, 2006**
Residential subscribers (including value-added tax)	170	200
State-financed institutions	170	200
Corporate entities	200	210

Residential subscribers of MGTS are charged a fixed monthly fee, while corporate entities and state-financed institutions are charged for local traffic in addition to a fixed monthly fee.
In December 2006, regulatory bodies approved new tariffs for MGTS, which come in effect from February 1, 2007. Instead of a single "unlimited" tariff plan for residential subscribers with a fixed monthly fee of 200 Russian Rubles (approximately USD 7.60), three tariff plans were introduced: (i)

a per-minute plan with a monthly fee of RUR 125 (approximately USD 4.80) and per minute charges of RUR 0.28 (approximately USD 0.01), (ii) a combined plan with a monthly fee of RUR 229 (approximately USD 8.70), which includes 370 prepaid minutes, and per minute charges of RUR 0.23 (approximately USD 0.01) for each additional minute, and (iii) an unlimited plan with a monthly fee of RUR 380 (approximately USD 14.50). In addition, new tariffs for the corporate subscribers were introduced.

Management believes that the Group is not subject to the requirements of SFAS No. 71, “Accounting for the Effects of Certain Types of Regulation” as the regulated rates for local telephone services provided by MGTS and Comstar UTS are not designed to recover the specific costs of providing the regulated services.

Before January 1, 2005, MGTS was required to grant discounts ranging from 20% to 100% on installation and monthly fees to certain categories of residential subscribers, such as pensioners, military veterans and disabled individuals, and was entitled to reimbursement from the federal budget for these discounts. Due to the lack of certainty of reimbursement, MGTS accounted for such revenues upon collection. During the year ended December 31, 2006, MGTS received a part of the compensation from the federal budget in the amount of approximately $25.8 million related to amounts due from the year ended December 31, 2004. This amount was recorded as revenues in the accompanying consolidated statement of operations for the year ended December 31, 2006. The Group did not recognize revenues or receivables in respect of the remaining compensation from the federal budget in the amount of approximately 957.0 million Rubles ($36.3 million as of December 31, 2006) due to uncertainty as to the collectibility of the amounts.

In accordance with the new legislation effective January 1, 2005, substantially all MGTS’ subscribers are required to pay the full price for residential service, and those entitled to discounts are to receive reimbursement from the government rather than discounts from MGTS.

The Company reports revenue net of value-added tax (“VAT”) and other taxes included in the sales price. In accordance with the Emergency Issue Task Force Consensus No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent”, the Group reports as revenue gross amounts billed to a customer when it has earned revenue from the sale of services or goods, or the net amount retained (that is, the amount billed to a customer less the amount paid to supplier) when it has earned a commission or fee.

Historically, the Group has entered into interconnect agreements, under which the Group provides services to, and receives services from, other operators for a fixed periodic fee, regardless of the volume of the outgoing or incoming traffic. Revenues under these agreements are recognized in the amount of the net fixed fee receivable by the Group. Following the introduction of the new interconnect rules, these arrangements are being phased out and replaced with agreements under which the Group bills its counterparties for the use of its network and pays other operators for the calls of its subscribers to other operators’ customers. Revenues under these arrangements are recognized in the amounts receivable by the Group and expenses are recorded for charges payable by the Group.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various highly liquid instruments with original maturities of three months or less.

Fair Value of Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, investments, accounts payable, capital lease obligations, debt and a liability under a call and put option granted in connection with acquisition of Svyazinvest shares (see Note 4). The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Short-term financial instruments consist primarily of cash and bank balances, receivables, short-term investments, payables, short-term debt and a call and put option. The estimated fair value of such financial instruments as of December 31, 2006 approximated their carrying value.

Long-term financial instruments consist primarily of long-term investments and long-term debt. It is not practicable for the Group to estimate the fair values of all of its long-term investments due to quoted market prices not being readily available and regular valuations are not being completed or obtained due to the excessive costs involved.

Fair values of corporate bonds issued by MGTS are disclosed in Note 14. As of December 31, 2006, the fair value of other fixed rate debt, including capital lease obligations and variable rate debt approximated carrying value.

The Group does not discount promissory notes of and loans granted to related parties, interest rates on which are different from market rates. Accordingly, fair value of such notes and loans may be different from their carrying value.

Short-Term Investments

Short-term investments represent investments in promissory notes, loans and time deposits, which have original maturities in excess of three months and mature within twelve months from the balance sheet date. These investments are being accounted for at amortized cost. Management periodically assesses the recoverability of the carrying values of the investments and, if necessary, records impairment losses to write the investment down to fair value. For the years ended December 31, 2006, 2005 and 2004, no such impairments have occurred.

Accounts Receivable

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

Concentrations of credit risk with respect to trade receivables are limited due to a highly diversified customer base, which includes a large number of individuals, private businesses and state-financed institutions.

Prepaid Expenses

Prepaid expenses are primarily comprised of advance payments for inventories, spare parts and services to vendors.

Value-Added Taxes

VAT related to sales are payable to the tax authorities upon provision of services and issuance of an invoice to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. Management periodically reviews the recoverability of the balance of VAT receivable and believes that the amounts reflected in the financial statements are fully recoverable within one year.

Inventories and Spare Parts

Inventories and spare parts are primarily comprised of goods for resale, cables and spare parts and are stated at the lower of cost or market value. Cost is computed on a weighted average basis. The management periodically assesses inventories and spare parts for obsolete or slow moving stock and writes down slow-moving inventories and spare parts to their market value.

Assets Held for Sale

Assets held for sale comprise the cost of a building renovated by the Group with the intention to sell it to a third party.

Property, Plant & Equipment

For the Group's entities acquired by Sistema through business combinations accounted for by the purchase method, property, plant and equipment ("PP&E") were assigned their fair values at the date of acquisition by Sistema. For the Group's entities acquired by the Group other than in the course of merger described in Note 1, PP&E were assigned their fair values at the date of acquisition by the Group. 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 all costs directly attributable to bringing the asset to working condition for its intended use, except for rental costs, as well as 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 statements of operations as incurred. Interest expense incurred during the construction phase of a project is capitalized as part of property, plant and equipment until the project is completed and the asset is placed into service. Interest expense capitalized for the years ended December 31, 2006, 2005 and 2004 amounted to $0.9 million, $0.5 million and $0.8 million, respectively.

Property, plant and equipment items transferred to MGTS free of charge (Note 17) are capitalized at their fair value at the date of transfer and deferred revenue is recorded and amortized to the consolidated and combined statements of operations over the contributed asset's useful life.

The Group accounts for leases based on the requirements of SFAS No. 13, "Accounting for Leases". Leases are classified as capital leases whenever terms of the lease transfer substantially all of the benefits and rewards incident to the ownership. All other leases are classified as operating leases. Capital leases are recorded at the fair market value of the asset or the present value of future minimum lease payments, whichever is lower. The discount rate used in determining the present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to learn the implicit rate computed by the lessor and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used.

(Amounts in thousands of US dollars, unless otherwise stated)

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

Property, plant and equipment are depreciated on a straight-line method over the estimated useful lives of the assets as follows:

Buildings and site improvements	20-47 years
Telecommunication equipment:	
Cables and transmission devices	10-31 years
Other telecommunication equipment (*)	7-17 years
Office equipment and other	3-25 years

(*) Analogue switching equipment of MGTS, depreciation of which has been accelerated to reflect the anticipated early redemption of such equipment as discussed above, is depreciated over remaining useful lives ranging from 1 to 6 years.

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when such renewals are reasonably assured.

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

Asset Retirement Obligations

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 arise from certain of its leases and relate primarily to the cost of removing equipment from such lease sites. As of December 31, 2006, 2005 and 2004, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

Intangible Assets and Goodwill

Intangible assets are stated at acquisition cost. Current operating licenses of the Group do not provide for automatic renewal upon expiration. As the Group and the industry do not have sufficient experience with the renewal of licenses, license costs are being amortized during the initial license period without consideration of possible future renewals, subject to periodic review for impairment, on a straight-line basis over the license period starting from the date such license area becomes commercially operational. Amortization of other finite-life intangible assets, comprised mostly of billing systems and other software, is computed on a straight-line basis over their estimated useful lives, generally five years.

The goodwill recorded in connection with the acquisition of subsidiaries is not amortized but tested for impairment at least annually.

Impairment of Long-Lived Assets

The Company 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 Company compares the 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 Company records impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets. During the years ended December 31, 2006, 2005 and 2004, no such impairments have occurred, except for a $1.5 million write-off relating to certain equipment that was identified as obsolete in 2005.

Investments

Investments in businesses in which the Group does not have control, but exercises significant influence over operating and financial policies ("affiliates"), are accounted for using the equity method.

Prior to December 2005, MGTS owned 51% of voting common shares of Mediatel, with the remaining shares owned by Concern SITRONICS, a subsidiary of Sistema. Mediatel, a company incorporated in the RF, provides support and maintenance services for telecommunication equipment and software. In January 2004, MGTS entered into an agreement with Concern SITRONICS in respect of corporate governance of Mediatel that provides that control over the operating and financial policies of Mediatel (including, but not limited to, the rights to establish its operating and capital decisions, including budgets, and the rights to select and set the compensation of management responsible for implementation of these decisions) was transferred to Concern SITRONICS. The Group's investment in Mediatel was accounted for using the equity method of accounting in 2005 and 2004 based upon the above agreement and the fact that the Group had ceded operational control of Mediatel to Concern SITRONICS. In December 2005, MGTS sold 51% stake in Mediatel to Concern SITRONICS for cash consideration of $1.9 million.

Investments in corporate shares where the Group does not have the ability or intent to control or exercise significant influence over operating and financial policies are accounted for at cost of acquisition. Management periodically assesses the ability to recover the carrying values of such investments and records an impairment loss if, based upon the expected undiscounted cash flows, such investment's carrying value will not be recovered. Any such impairment loss is based upon recording as a new carrying amount of the investment, the lesser of the historical carrying amount and the expected discounted future cash flows.

The promissory notes purchased and loans granted by the Group are carried at cost and a discount against the nominal value is accrued over the period to maturity, if it exceeds one year. A provision is made, based on management's assessment, for notes that are considered uncollectible.

Deferred Finance Charges

Arrangement, commission, commitment and related legal fees paid to secure a firm commitment from lenders and other direct debt issuance costs incurred in connection with new borrowings are deferred and amortized over the expected terms of the related loans using the effective interest method.

Income Taxes

Income taxes have been computed in accordance with the laws of the country of incorporation of respective companies included in the Group. Income tax rates in the RF, Ukraine and Republic of Armenia equal 24%, 25% and 10%, respectively. Income tax rate on dividends paid within Russia is 9% effective January 1, 2005.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated and combined financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Retirement Benefit and Social Security Costs

In Russia, all social contributions, including contributions to the pension fund, are included in the 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 National Pension Fund, where the rate of contributions vary from 20% to 2% (before January 1, 2005 – from 35.6% to 2%), depending on the annual gross salary of each employee. UST contributions are expensed as incurred.

MGTS has historically offered its employees certain benefits upon and after retirement. The cost of such benefits is recognized during an employee's years of active service (see Note 16). The Group accounts for pension plans following the requirements of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106".

Advertising Costs

Advertising costs are expensed as incurred and are reflected as a component of operating expenses in the statements of operations (see Note 20).

Subscriber Acquisition Costs

Subscriber acquisition costs represent the direct costs incurred to connect each new subscriber including dealer's commissions. The Group expenses these costs as incurred.

Minority Interests

In the consolidated financial statements of the Group minority interests represent shares in book value of net assets of subsidiaries proportional to equity interests in those entities owned by shareholders other than Comstar UTS. In the combined financial statements presented for the periods prior to the Group's restructuring, minority interests represented shares in book value of net assets of the combined entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Sistema.

Distributions to Shareholders

Dividends are recognized at the date they are declared. Distributable retained earnings of the Group are based on amounts extracted from statutory accounts of individual entities and may differ from amounts calculated on the basis of US GAAP (see Note 18).

(Amounts in thousands of US dollars, unless otherwise stated)

Earnings Per Share (EPS)

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the treasury stock method based. Net income available to Comstar UTS's shareholders for each period subsequent to the Group's restructuring (from November 22, 2005 to December 31, 2005, and for the year ended December 31, 2006) is divided by the weighted average number of common shares outstanding during the respective period.

Earnings per share amount for the period from November 22, 2005 to December 31, 2005 may not be comparable to earnings per share amounts determined for the year ended December 31, 2006 and for the future years and, further, such earnings per share amount may not fully reflect the expected relationship between earnings for the year ended December 31, 2005 and the amount of outstanding stock as of that date.

The following table reconciles numerator (income) and denominator (shares) for EPS for the year ended December 31, 2006:

	Income ('000 USD)	Shares (units)	EPS (USD)
EPS – basic	$ 82,496	345,805,894	$ 0.24
Effect of call and put option (Note 4)	–	277,962	(0.00)
EPS – diluted	82,496	346,083,856	0.24

The options to purchase 3,343,525 shares of common stock at $4.6 per share (see Note 25) were outstanding for the period from November 15, 2006 until December 31, 2006 but were not included in the computation of diluted EPS because the effect of these options is anti-dilutive.

For the period from November 22, 2005 to December 31, 2005, diluted earnings per share equals basic earnings per share, as the Group did not have any dilutive instruments outstanding during that period.

Comprehensive Income

Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Stock-Based Compensation

The Group accounts for stock-based compensation in accordance with provisions of SFAS No. 123R (revised 2004), "Share-Based Payment". Under SFAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the income statement. The cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments. The Company adopted SFAF No. 123R effective January 1, 2006 in connection with the stock-based compensation plan approved in 2006 (see Note 25).

Derivative Financial Instrument (Call and Put Option)

The Company accounts for the call and put option granted in connection with acquisition of 25% plus one share stake in Svyazinvest (see Note 4) in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. At the grant date, the fair value of call and put option approximating $90.0 million was included in cost of acquisition of Svyazinvest shares and recorded as a liability in the accompanying consolidated balance sheet. Subsequent changes in the fair value of the call and put option are recorded in the consolidated statement of operations. During the year ended December 31, 2006, the fair value of the call and put option increased by $60.0 million.

Comparative Information

Certain prior year amounts and disclosures have been reclassified to conform to the 2006 presentation. Certain particular items of cash flows were reclassified from investing activities into operating activity.

New Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" (FIN No. 47). FIN No. 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. FIN No. 47 is effective for the Group beginning January 1, 2006. The adoption of FIN No. 47 did not have a material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Company's financial statements.

In October 2005, the FASB issued FASB Staff Position ("FSP") FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS 13-1"). Under the provisions of FSP FAS 13-1, lessees may not capitalize rental costs incurred on building or ground operating leases during a construction period. Instead, rental costs should be expensed on a straight-line basis starting at the beginning of the lease term, i.e., when the lessee takes possession of or is given control of the leased property. The provisions of FSP FAS 13-1 are effective starting with the first reporting period beginning after December 15, 2005. The adoption of FSP FAS 13-1 did not have a material effect on the Company's financial statements.

In June 2006, the FASB issued Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes" — an interpretation of FASB Statement No. 109. The validity of any tax position is a matter of tax law. The tax law is subject to varied interpretation, and whether a tax position will ultimately be sustained upon examination by a taxing authority may be uncertain. Under FIN No. 48, the impact of an uncertain income tax position on the income tax provision must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. FIN No. 48 also requires additional disclosures about unrecognized tax benefits associated with uncertain income tax positions and a reconciliation of the change in the unrecognized benefit. In addition, FIN No. 48 requires interest to be recognized on the full amount of deferred benefits for uncertain tax positions. An income tax penalty is recognized as an expense when the tax position does not meet the minimum statutory threshold to avoid the imposition of a penalty. FIN No. 48 removes income taxes from the scope of SFAS No. 5, "Accounting for Contingencies", and is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN No. 48 effective January 1, 2007. The Company is currently evaluating whether FIN No. 48 will have a material impact on the Company's financial position, results of operations, or cash flow.

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 Company's consolidated financial position or results of operations.

In September 2006, the FASB issued FASB Statement No. 157 ("SFAS No. 157"), "Fair Value Measurements". The standard provides guidance for using fair value to measure assets and liabilities and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, its adoption will have on the Company's financial statements.

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 effect on the Company's financial statements.

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, which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, 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. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements, and (3) elects to apply the provisions of FASB Statement No. 157, “Fair Value Measurements”. The Company is currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, its adoption will have on the Company’s financial statements.

3. DISCONTINUED OPERATIONS

During 2003, the Group adopted a decision to dispose of the operations of P-Com, a subsidiary of the Group. In August 2004, the Group sold its 83.25% of P-Com’s voting common shares to Sky-Link, an affiliate of Sistema, for a cash consideration of $16.0 million.

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, P-Com’s business was classified as discontinued operations in the financial statements of the Group for the year ended December 31, 2004. Accordingly, assets, liabilities and income and expense items of P-Com have been excluded from the respective captions in the statement of operations and have been reported as gain or loss from discontinued operations, net of applicable taxes for the year ended December 31, 2004.

Revenues from discontinued operations and income from discontinued operations before income taxes and minority interest for the year ended December 31, 2004 (prior to the date of disposal) were $32.4 million and $8.4 million, respectively.

4. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATES

Acquisition of minority interest in Telmos

In February 2005, Sistema acquired an additional 20% equity stake in Telmos from Rostelecom for a total cash consideration of $8.5 million, increasing its proportion of voting power in Telmos to 100%. In September 2005, Comstar UTS purchased the 20% stake in Telmos from Sistema for a total cash consideration of $12.8 million. The excess of purchase price over the respective share in net assets of Telmos of $4.3 million was recorded as a decrease in the Group’s additional paid-in capital.

Investment in Metrocom

In September 2005, Comstar UTS completed the purchase of a 45% stake in Metrocom, a leading alternative fixed line operator in St-Petersburg, for a total cash consideration of $12.2 million. The Company accounts for an investment in Metrocom under the equity method (see also Note 12).

(Amounts in thousands of US dollars, unless otherwise stated)

Acquisitions of controlling interests in regional fixed line operators

In 2005 and 2006, as a part of its program of regional expansion, the Group has acquired controlling interests in a number of alternative fixed-line operators in certain regions of Russia, Republic of Armenia and Ukraine. The acquisitions were accounted for using the purchase method of accounting. Full-year results of the acquired companies were included in the consolidated and combined statements of operations in the year of acquisition, with pre-acquisition net income or loss reported as minority interest.

The following table summarizes the purchase price allocation of the companies acquired during the year ended December 31, 2005:

	TNGS	Conversia Svyaz and Overta	CTK Contrast Telecom	Unitel	Total
Month of acquisition	October	December	December	December	
Share acquired	89.4% of the ordinary shares and 31.9% of the preferred shares	100% shares	100% shares	100% shares	
Region of operations	Tyumen region, autonomous districts of Khanty Mansi and Yamalo Nenets	Saratov region	Moscow region	Moscow region	
Current assets	$ 3,642	$ 2,569	$ 2,065	$ 370	**$ 8,646**
Property, plant and equipment	11,457	9,750	698	1,277	**23,182**
Numbering capacity	–	–	800	776	**1,576**
Subscriber base	–	–	1,536	2,536	**4,072**
Billing systems and other intangible assets	402	83	–	–	**485**
Goodwill	1,633	–	1,126	799	**3,558**
Other non-current assets	1,189	–	–	–	**1,189**
Current liabilities	(4,839)	(4,063)	(102)	(1,260)	**(10,264)**
Non-current liabilities	(1,940)	(929)	(561)	(1,019)	**(4,449)**
Minority interests	(2,465)	–	–	–	**(2,465)**
Purchase price	**$ 9,079**	**$ 7,410**	**$ 5,562**	**$ 3,479**	**$ 25,530**

The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed. Property and equipment was adjusted to fair value using a net current replacement cost valuation method. Numbering capacity was valued based on net current replacement cost valuation method. Fair value of subscriber base was determined using incremental income approach. Non-interest bearing long-term liabilities were adjusted to fair value using discounted cash flows method. The excess purchase price over the fair value of the net assets acquired of approximately $3.6 million has been assigned to goodwill which is not deductible for tax purposes.

(Amounts in thousands of US dollars, unless otherwise stated)

The following table summarizes the purchase price allocation of the companies acquired during the year ended December 31, 2006:

	M-Telecom Holding (*)	Callnet and Cornet	DG Tel, Tecnologic Systems, Degre, Neophone	MTU-Inform	MGTS	Total
Month of acquisition	June	October	October	February	various	
Share acquired	100%	75%	100% (**)	1% (***)	11.26% voting and 9.39% total shares (***)	
Region of operations	Moscow region	Republic of Armenia	Ukraine	Moscow	Moscow	
Current assets	$ 754	$ 1,080	$ 514	$ –	$ (903)	**$ 1,445**
Property, plant and equipment	2,900	407	2,409	–	49,229	**54,945**
Subscriber base	–	–	–	375	6,080	**6,455**
Licenses	–	5,252	3,179	–	–	**8,431**
Other intangible assets	–	–	1,457	–	6,713	**8,170**
Goodwill	4,353	–	–	–	–	**4,353**
Other non-current assets	335	–	–	–	–	**335**
Current liabilities	(530)	(963)	(852)	–	2,859	**514**
Non-current liabilities	–	(1,196)	(2,897)	–	123	**(3,970)**
Treasury stock	–	–	–	–	21,759	**21,759**
Minority interests	–	(133)	(430)	2,277	95,498	**97,212**
Purchase price	**$ 7,812**	**$ 4,447**	**$ 3,380**	**$ 2,652**	**$ 181,358**	**$ 199,649**

(*) A company holding a 100% stake in Astelit, an alternative fixed line operator based in the Moscow Region.

(**) The shares were acquired through a 75%-owned subsidiary Comstar-Ukraine.

(***) Acquisition of minority interests in the existing subsidiaries. Acquisition of a 1% minority interest in MTU-Inform was executed to streamline the intended legal merger of MTU-Inform and Comstar-UTS (see Note 1). Acquisition of a minority stake in MGTS was executed as a part of Comstar's strategy to maximize control over its key subsidiaries.

The purchase price allocation of M-Telecom Holding, Ukrainian and Armenian subsidiaries acquired in 2006 has not been finalized as of the date of these financial statements.

Acquisition of a 25% stake plus one share in Svyazinvest

In December 2006, as a part of its program of regional expansion, the Group acquired a 25% stake plus one share in Telecommunication Investment Joint Stock Company ("Svyazinvest") from Mustcom Limited for a total consideration of approximately $1,390.0 million, including cash of $1,300.0 million and the fair value of the call and put option described below of $90.0 million. In a series of transactions, Comstar UTS and MGTS Finance S.A., a subsidiary of MGTS, have acquired 4,879,584,306 ordinary shares of Svyazinvest, with Comstar UTS buying 3,378,173,750 shares, which represent 17.3% of total outstanding shares of Svyazinvest, and MGTS Finance S.A. buying 1,501,410,556 shares, representing 7.7% of total outstanding shares of Svyazinvest.

(Amounts in thousands of US dollars, unless otherwise stated)

Simultaneously with the acquisition of the 25% stake plus one share in Svyazinvest, MGTS Finance S.A. and "2711 Centerville Cooperatief U.A." ("2711 UA"), an affiliate of Mustcom Limited, signed a call and put option agreement, which gives 2711 UA a right to purchase and sell 46,232,000 shares of Comstar UTS, representing 11.06% of total issued shares, from MGTS Finance S.A. The call option acquired by 2711 UA may be exercised at a strike price of USD 6.97 per share at any time following the signing of the agreement with respect to 10.5% of Comstar UTS' shares. The call option for the remaining 0.56% stake may be exercised at any time beginning from April 1, 2007. The call option will expire in one year from the date of signing of the agreement. 2711 UA may exercise its put option at any time within two years from the date of exercising the call option at a strike price, which will be calculated based on a weighted average price of Comstar UTS' GDRs during the 90 trading days period preceding the exercise of the put.

Fair value of the call and put option as of December 11, 2006, the grant date, was estimated at $90.0 million and included in cost of investment in Svyazinvest. The Group estimates the fair value of the respective liability using an option pricing model and re-measures it as of each balance sheet date. Respective gains and losses are included in the statement of operations for the period and amounted to $60.0 million loss for the year ended December 31, 2006.

The Group continues its evaluation of whether the acquisition of 25% plus one share of Svyazinvest allows the Group to exercise significant influence over this entity, in which case the Group will account for its investment in Svyazinvest under the equity method. In the accompanying consolidated financial statements for the year ended December 31, 2006, the Group's investment in Svyazinvest is stated at cost of acquisition. The Group believes that application of the equity method to the Group's holding in Svyazinvest for the period from the date of acquisition to December 31, 2006 would not have a material impact on the Group's results of the operations for the year ended December 31, 2006, or on its financial position as of that date. Due to lack of consolidated financial statements of Svyazinvest prepared in accordance with US GAAP as of December 31, 2006 or earlier date, the Group is unable to present summarized information as to assets, liabilities and results of operations of Svyazinvest. As of the date of these financial statements, the Group had not performed any purchase price allocation in respect of this acquisition.

Pro-forma results of operations (unaudited)

The following pro forma financial data for the years ended December 31, 2006, 2005 and 2004 give effect to the acquisition of subsidiaries and minority interests discussed above as if they had occurred as of January 1, 2004:

	2006	2005	2004
Operating revenues	$ 1,120,247	$ 917,666	$ 732,467
Operating income	237,115	269,306	176,528
Net income	112,820	124,895	83,430

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

(Amounts in thousands of US dollars, unless otherwise stated)

Other acquisitions and disposals of subsidiaries and affiliates

In June 2004, 100% of voting common shares of MTU-Inform Plus were sold to Sistema Mass Media, a subsidiary of Sistema, for $0.2 million. Subsequent to the sale, the name of the company was changed to Sistema Multimedia. The Group retained control over Sistema Multimedia operations. In December 2005, Sistema Multimedia was merged into MTU-Intel (see Note 1). As a result of the merger, Comstar UTS' ownership in MTU-Intel decreased from 100% to 52%. The remaining shares of the merged entity are held by Sistema Mass Media. The respective share of MTU-Intel's net assets in the amount of $8.5 million was recorded as minority interest and a concurrent decrease in the Group's additional paid-in capital.

Acquisition of controlling interest in Hellas On Line SA

In December 2006, Comstar UTS has entered into an agreement with Intracom Holdings to purchase a 51% stake in Hellas On Line SA, an Internet provider operating in Greece, for a cash consideration of Euro 47.9 million. The acquisition will be executed to get access to Greek market and enjoy synergies resulting from sharing the experience of implementation of ADSL technology. Management believes that the closing of the transaction, which is subject to certain conditions precedent, including approval of Greek regulatory authorities, will take place in the first half of 2007. Management believes that the fair value of the contract as of December 31, 2006 is not material for the Company's financial statements.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Cash	$ 48,816	$ 45,699	$ 32,837
Cash equivalents:			
Promissory notes	–	8,120	30,535
Deposits	87,579	6,428	3,935
Other	226	1,714	129
	87,805	16,262	34,599
Total	**$ 136,621**	**$ 61,961**	**$ 67,436**

Cash and cash equivalents with the Moscow Bank of Reconstruction and Development ("MBRD"), a subsidiary of Sistema, as of December 31, 2006, 2005 and 2004 amounted to $87.5 million, $45.1 million and $45.5 million, respectively. Interest income earned on cash and cash equivalents and short-term investments in MBRD is disclosed in Note 23.

(Amounts in thousands of US dollars, unless otherwise stated)

6. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
RUR-denominated time deposits in MBRD	$ 8,888	$ 52,116	$ 19,821
USD-denominated time deposits in MBRD	7,940	4,600	4,600
RUR-denominated time deposits in other banks	26,123	–	–
Promissory notes of other subsidiaries and affiliates of Sistema:			
Sistema Telecom	–	49,714	34,828
Sky-Link	–	11,845	26,277
MBRD	24,711	5,603	12,081
P-Com	–	3,822	5,087
	24,711	70,984	78,273
Other short-term investments	–	1,112	2,619
Total	**$ 67,662**	**$ 128,812**	**$ 105,313**

The interest rates of RUR-denominated time deposits in MBRD vary from 7.0% to 7.5% per annum. USD-denominated time deposits in MBRD bear interest of 9.3% per annum. The interest rates of RUR-denominated time deposits in other banks vary from 7.15% to 7.5% per annum. Interest income earned on cash and cash equivalents and short-term investments in MBRD is disclosed in Note 23.

MBRD's promissory notes are RUR-denominated and bear interest at 7.27% per annum.

As of December 31, 2004, Telmos held three RUR-denominated, substantially interest free, unsecured promissory notes of a party, controlled by Sistema. Two notes with a face value equivalent to $2.3 million and $2.2 million were repayable on demand but not earlier than March and June 2012, respectively. Another note with a face value equivalent to $1.0 million was repayable on demand but not earlier than November 2006. As repayment of those notes was considered doubtful, the Group recognized impairment loss equal to the carrying value of the promissory notes. In September 2005, the notes were disposed to a subsidiary of Sistema for a cash consideration of $5.5 million. The gain from disposal was recorded in additional paid-in capital.

As of December 31, 2005, the Group held several promissory notes of and loans granted to P-Com and Sky-Link, related parties. In accordance with agreement between the controlling shareholder, the Group, P-Com and Sky-Link, repayment of these loans and notes was postponed. Exact timing of repayment is being negotiated, but management believes that substantially all repayments will occur after December 31, 2007. Accordingly, these loans and notes were reclassified to long-term investments as of December 31, 2006 (see Note 12).

(Amounts in thousands of US dollars, unless otherwise stated)

7. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful debts, as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Trade receivables	$ 116,007	$ 87,697	$ 69,563
Provision for doubtful receivables	(20,139)	(9,387)	(6,059)
Total	**$ 95,868**	**$ 78,310**	**$ 63,504**

Trade receivables as of December 31, 2006, 2005 and 2004 include receivables from subsidiaries and affiliates of Sistema of $7.1 million, $16.6 million and $13.5 million, respectively, of which receivables from Skylink's subsidiaries (P-Com and MCC) amounted to $4.8 million, $14.1 million and $11.0 million, respectively (see also Note 6). As of December 31, 2006 certain accounts receivable from Skylink's subsidiaries were reclassified to other long-term investments (see Note 12).

8. OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
VAT recoverable	$ 28,048	$ 42,485	$ 34,718
Other taxes receivable	23,913	4,688	4,555
Prepayments	9,967	9,657	8,670
Other receivables	25,726	23,742	12,726
Total	**$ 87,654**	**$ 80,572**	**$ 60,669**

(Amounts in thousands of US dollars, unless otherwise stated)

9. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Equipment for resale	$ 9,988	$ 8,816	$ 5,888
Spare parts and other materials	23,752	18,065	17,116
Total	**$ 33,740**	**$ 26,881**	**$ 23,004**

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Buildings and site improvements	$ 335,493	$ 222,627	$ 206,577
Telecommunications equipment	1,110,934	964,141	815,698
Other fixed assets	267,857	175,863	170,256
Construction in progress and equipment for installation	251,979	143,425	135,661
Property, plant and equipment, at cost	1,966,263	1,506,056	1,328,192
Less: accumulated depreciation	(488,934)	(361,907)	(296,435)
Property, plant and equipment, net	**$ 1,477,329**	**$ 1,144,149**	**$ 1,031,757**

The depreciation charge for the years ended December 31, 2006, 2005 and 2004, net of amortization of property, plant and equipment contributions (see Note 17), amounted to $110.6 million, $82.3 million and $71.6 million, respectively.

Effective July 1, 2006, the management changed its estimate of residual useful lives of certain analogue equipment at MGTS (see Note 2).

(Amounts in thousands of US dollars, unless otherwise stated)

11. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2006, 2005 and 2004 consisted of the following:

	December 31, 2006			December 31, 2005			December 31, 2004		
	Gross carrying value	Accu-mulated amorti-zation	Net carrying value	Gross carrying value	Accu-mulated amorti-zation	Net carrying value	Gross carrying value	Accu-mulated amorti-zation	Net carrying value
Licenses and TV content	$ 19,838	$ (2,989)	$ 16,849	$ 9,135	$ (1,458)	$ 7,677	$ 4,130	$ (401)	$ 3,729
Customer base	15,524	(1,222)	14,302	8,822	-	8,822	-	-	-
Billing systems and other software	84,171	(38,772)	45,399	64,332	(28,945)	35,387	44,897	(22,532)	22,365
Goodwill	3,459	-	3,459	-	-	-	-	-	-
Other	16,276	(4,450)	11,826	5,359	(1,890)	3,469	4,542	(396)	4,146
Total intangible assets	**$139,268**	**$(47,433)**	**$ 91,835**	**$ 87,648**	**$(32,293)**	**$ 55,355**	**$ 53,569**	**$(23,329)**	**$ 30,240**

Amortization expense recorded on intangible assets for the years ended December 31, 2006, 2005 and 2004 amounted to $20.3 million, $8.1 million and $4.5 million, respectively. Based on the intangible assets existing at December 31, 2006, the estimated amortization expense for each of the five succeeding years is as follows: 2007 – $19.6 million; 2008 – $18.7 million; 2009 – $16.9 million; 2010 – $6.5 million and 2011 – $5.8 million.

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.

12. OTHER LONG-TERM INVESTMENTS

Other long-term investments as of December 31, 2006, 2005 and 2004 consisted of the following:

	December 31, 2006		December 31, 2005		December 31, 2004	
	Ownership, %	Investment	Ownership, %	Investment	Ownership, %	Investment
Metrocom (see Note 26).	45%	$ 16,164	45%	$ 12,773	–	$ –
MBRD	5.35%	6,028	6%	5,514	6%	5,720
Promissory notes of Sistema Telecom		55,296		–		–
MBRD RUR-denominated deposits ...		–		10,640		–
Loans to, notes of and accounts receivable from Skylink and subsidiaries, related parties (see Notes 6 and 7)...........................		27,222		–		3,964
Advance to the Moscow City Government..........		10,400		–		–
Other investments...........		3,378		1,583		1,606
Total..............................		**$ 118,488**		**$ 30,510**		**$ 11,290**

(Amounts in thousands of US dollars, unless otherwise stated)

Sistema Telecom's promissory notes include $34.2 million of RUR-denominated notes, which bear interest of 4.4% per annum, and $21.0 million of USD-denominated notes, which bear interest at 3.0% per annum. Interest income earned on investments in Sistema Telecom's promissory notes is disclosed in Note 23.

In connection with the long-term program of digitalization of MGTS' network (see Note 24) and planned renovation and disposal of certain MGTS' buildings, during the fourth quarter of 2005, MGTS has made an advance payment to the Moscow City Government, which will be offset against the future liability of MGTS to provide the Moscow City Government with its share in the buildings when their reconstruction is complete and the sales commence. Due to changes in schedule of the certain stages of the program, as of December 31, 2006 the advance was classified as long-term investments.

In 2006, the management of Skylink started negotiations to extend timing of repayment of certain receivables, loans and notes, the majority of which were overdue as of December 31, 2006. While the negotiations has not yet resulted in a firm repayment schedule, management believes that substantially all of the amounts will be paid off in 2008 or thereafter. Accordingly, as of December 31, 2006 respective amounts were re-classified to long-term investments. In December 2006, the Company received an irrevocable offer from Sistema to sell to Sistema, at book value, substantially all of the amounts receivable from P-Com, Sky-Link and MCC, including loans and notes together with accrued interest, and accounts receivable. The offer expired on February 1, 2007 and was subsequently renewed with new expiration date set as June 30, 2007.

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Accrued payroll and applicable taxes	$ 24,034	$ 14,604	$ 13,300
Accrued interest	2,542	2,046	3,664
Dividends payable	368	384	344
Other current liabilities	22,687	26,375	6,312
Total	**$ 49,631**	**$ 43,409**	**$ 23,620**

(Amounts in thousands of US dollars, unless otherwise stated)

14. DEBT OBLIGATIONS

The Group's debt obligations as of December 31, 2006, 2005 and 2004 consisted of the following:

	Currency	Annual interest rate (actual at December 31, 2006)	2006	2005	2004
MGTS Bonds 5th issue	RUR	8.3%	$ 55,842	$ 52,115	$ –
MGTS Bonds 4th issue	RUR	7.1%	27,533	52,115	54,057
MGTS Bonds 3rd issue	RUR	–	–	–	36,038
Total corporate bonds			83,375	104,230	90,095
ABN Amro	USD	LIBOR+1.2% (6.56%)	675,000	20,000	–
Citibank	USD	LIBOR+1.6% (6.96%)	17,117	21,227	15,144
MBRD, related party	Euro	EURIBOR + 2.75% (6.33%)	2,526	2,996	5,000
Vneshtorgbank	Euro	various	21,428	13,107	9,908
Vneshtorgbank	USD	–	–	2,920	7,073
Commerzbank	Euro	4.0%	2,337	2,708	–
Alfa Bank	USD	–	–	–	1,517
Sberbank	RUR	14.00%	418	–	12,613
Sistema Mass Media, related party	RUR	–	–	–	6,994
Raiffeisenbank	USD	–	–	–	3,750
Vnesheconombank	USD	–	–	–	2,216
Vendor financing	various	various	6,001	16,260	33,566
Other	various	various	3,164	5,353	2,222
Total debt			811,366	188,801	190,098
Less: amounts maturing within one year			(777,837)	(86,617)	(85,616)
Debt, net of current portion			**$ 33,529**	**$ 102,184**	**$ 104,482**

Corporate bonds

In April 2004, MGTS issued 5-year RUR-denominated bonds (fourth issue) with the face value of RUR 1,500 million (equivalent to $57.0 million as of December 31, 2006). The bonds carried a coupon of 10.0% per annum, which was decreased to 7.1% per annum in April 2006. MGTS made an unconditional offer to repurchase the bonds at par value in April 2006, which was exercised in the amount of approximately $30.1 million. In April 2007, MGTS decided to keep the interest rate on the fourth issue of bonds at the same level of 7.1%. The interest rate will be re-set, at management discretion, in October 2007.

In May 2005, MGTS issued 5-year RUR-denominated bonds (fifth issue) with a face value of RUR 1,500 million (equivalent to $57.0 million as of December 31, 2006). The bonds carry a coupon of 8.3% per annum during the two years ending April 2007. The interest rate will be re-set, at management discretion, in May 2007.

Currently, MGTS has an unconditional outstanding offer to repurchase the fourth and the fifth issues of the bonds at par in April and May 2007, respectively. Accordingly, both issues are classified as current liability in the accompanying consolidated balance sheet as of December 31, 2006.

As of December 31, 2006, the total fair value of the bonds was approximately $83.7 million.

ABN Amro

In September 2005, to finance acquisitions, Comstar UTS entered into a credit line with ABN Amro Bank limited to $20.0 million. The credit line bore interest of LIBOR+2.95% per annum and was repayable in seven equal consecutive quarterly installments with the last payment in September 2007. The credit line was fully repaid in March 2006.

In December 2006, to finance the acquisition of a 25% plus one share stake in Svyazinvest (see Note 4), Comstar UTS entered into a credit facility with ABN Amro Bank for the amount of $675.0 million. The facility matures in June 2007 and bears interest at LIBOR+1.2% per annum (6.56% as of December 31, 2006). Under the agreement, Comstar and the Bank may extend maturity of the facility until December 2007, which would increase the interest to LIBOR+1.575% per annum (6.935% as of December 31, 2006) for the period of extension, and require Comstar to pay the Bank a commission of 0.25% of the amount of extension. Deferred financing costs of approximately $4.1 million were capitalized in connection with this facility.

Citibank

In 2003-2006, MGTS entered into four credit facilities with Citibank for a total amount of $25.1 million. All facilities bear interest of LIBOR+1.6% per annum (6.96% as of December 31, 2006) and are repayable in 8 semi-annual installments. The final payments under these facilities fall into 2008 – 2009. These credit facilities were opened to finance the acquisitions of equipment from STROM Telecom, a subsidiary of Sistema. The facilities are collateralized by equipment with approximate carrying amount of $16.9 million as of December 31, 2006, a deposit of $2.3 million in Citibank and are guaranteed by Export Guarantee and Insurance Corporation of the Czech Republic. As of December 31, 2006, the amount outstanding under these facilities was $17.1 million.

MBRD

In March and July 2005, Sistema Multimedia entered into two credit facilities with MBRD for a total of $13.7 million. After the legal merger with MTU-Intel in December 2005, the rights and obligations under these facilities were transferred to MTU-Intel. Both facilities were unconditionally and irrevocably guaranteed by Sistema, bore interest of 11.0% per annum and were repaid by MTU-Intel in 2006.

In July 2006, MGTS entered into a credit agreement with MBRD for an amount of Euro 2.1 million (equivalent of $2.8 million as of December 31, 2006) to finance the acquisition of equipment. The loan is repayable in equal semi-annual installments in 2006-2011 and bears interest at EURIBOR+2.75% per annum (6.6% as of December 31, 2006). As of December 31, 2006, the amount outstanding under the agreement was $2.5 million.

Vneshtorgbank

In January 2006, MGTS entered into a credit agreement with Vneshtorgbank for an amount of Euro 7.7 million (equivalent of $9.0 million as of December 31, 2006) to finance the acquisition of equipment. The loan matures in January 2012 and bears interest at EURIBOR+5.0% per annum (8.73% per annum as of December 31, 2006). Equipment with approximate carrying value of $9.2 million is pledged in connection with this credit agreement. As of December 31, 2006, the amount outstanding under the agreement was $10.2 million.

In March 2005, MGTS entered into a credit agreement with Vneshtorgbank for an amount of Euro 5.3 million (equivalent of $7.0 million as of December 31, 2006) to finance the acquisition of equipment. The loan matures in September 2010 and bears interest at EURIBOR+5.0% per annum (8.73% as of December 31, 2006). Equipment with approximate carrying value of $6.2 million is pledged in connection with this credit agreement. As of December 31, 2006, the amount outstanding under the agreement was $5.5 million.

In July 2004, MGTS entered into two credit agreements for a total amount of Euro 7.3 million (equivalent of $9.6 million as of December 31, 2006) to finance the acquisition of equipment. The loans mature in January 2010 and bear interest at the highest of EURIBOR+5.35% (9.2% as of December 31, 2006) or 7.5% per annum. Equipment with approximate carrying value of $7.8 million was pledged in connection with these agreements. As of December 31, 2006, the amount outstanding under these credit agreements was $5.7 million.

In 2002, the Group received a number of loans from Vneshtorgbank maturing in 2005-2006 to finance working capital. As of December 31, 2006, these loans were fully repaid.

Commerzbank

In December 2004, Sistema Multimedia entered into a credit line agreement with Commerzbank for Euro 5.5 million (equivalent of $7.2 million as of December 31, 2006). The loan bears interest at 4.0% per annum and matures in 2010. As of December 31, 2006, $2.3 million was outstanding under this credit line.

(Amounts in thousands of US dollars, unless otherwise stated)

Raiffeisenbank

In January 2006, MGTS entered into a credit agreement with ZAO Raiffeisenbank Austria (Raiffeisenbank) for an amount of $7.9 million to finance the acquisition of equipment. The loan was repayable in equal quarterly installments in 2006-2010 and bore interest at LIBOR+3.5% per annum. In December 2006, MGTS made an early repayment of this loan.

ING Bank

In January 2006, Comstar UTS entered into a $140.0 million credit facility with ING Bank. It was fully repaid in March 2006.

Vendor financing

Suppliers of telecommunications equipment provide uncollateralized commercial credit to the Group denominated in various currencies on short-term and long-term bases, mostly interest free. The present value of the obligations under vendor financing agreements was determined using the Group's incremental borrowing rate prevailing at the date of transaction.

Debt Repayments Schedule

The debt repayments over future periods are as follows:

Year ended December 31,		
2007	$	777,837
2008		14,264
2009		11,069
2010		4,262
2011		2,316
thereafter		1,618
Total	**$**	**811,366**

Compliance with Covenants and Other Restrictive Provisions

Loans from Citibank and ABN Amro effective as of December 31, 2006 impose certain covenants and restrictions on the Company, including but not limited to restrictions on Debt to Equity ratio, Debt Service to Earnings before Interest and Taxes ("EBIT") ratio and amount of maximum aggregate debt of MGTS, as well as negative pledge in respect of equity interest in Svyazinvest (see Note 4), limitations on incurrence of financial indebtedness by the Group, assurance in respect of financial indebtedness outside the Group, and significant acquisitions. Management believes that as of December 31, 2006, the Group is in compliance with all existing restrictive provisions and covenants of its debt obligations.

(Amounts in thousands of US dollars, unless otherwise stated)

15. CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of December 31, 2006, 2005 and 2004 consisted of the following:

	2006	2005	2004
Total capital lease obligations	$ 31,574	$ 44,815	$ 26,699
Less: current portion	(14,107)	(14,050)	(6,782)
Capital lease obligations, net of current portion	**$ 17,467**	**$ 30,765**	**$ 19,917**

MGTS and Telmos entered into several agreements for the lease of telecommunication equipment with Raiffeisen Leasing, MMB-Leasing and InvestSvyazHolding, a subsidiary of Sistema. The agreements expire on various dates in 2006-2009 and provide for transfer of ownership of the equipment to the Group after the last lease payment is made.

In February 2005, Sistema Multimedia entered into an agreement for the lease of equipment with BSGV Leasing. After the legal merger with MTU-Intel in December 2005, the rights and obligations under the agreement were transferred to MTU-Intel. The agreement expires in 2009 and provides for transfer of ownership of this equipment to the Group after the last lease payment is made.

The net book value of leased assets approximated $66.9 million, $69.0 million and $42.7 million as of December 31, 2006, 2005 and 2004, respectively. Interest expense accrued on capital lease obligations for the years ended December 31, 2006, 2005 and 2004 amounted to $3.8 million, $2.9 million and $2.5 million, respectively.

The following table presents future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of December 31, 2006:

Year ended December 31,	
2007	$ 16,540
2008	12,748
2009	6,312
Total minimum lease payments (undiscounted)	35,600
Less: amount representing interest	(4,026)
Total present value of net minimum lease payments	**$ 31,574**

16. RETIREMENT AND POST-RETIREMENT OBLIGATIONS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. Currently, the main features under the defined benefit pension program include the following:

Monthly regular pension

Employees retiring with at least fifteen years of service receive lifetime payments varying from RUR 3,600 (equivalent of USD 137 as of December 31, 2006) to RUR 50,400 (equivalent of USD 1,914 as of December 31, 2006) per year depending on employee’s actual years of service and qualification;

(Amounts in thousands of US dollars, unless otherwise stated)

Death-in-service

Lump-sum payment of RUR 15,000 (equivalent of USD 570 as of December 31, 2006), payable upon death of an employee, irrespective of past service;

Lump-sum upon retirement

Lump-sum payment upon retirement of employees with at least five years of service varying from RUR 3,700 (equivalent of USD 141 as of December 31, 2006) to RUR 22,200 (equivalent of USD 843 as of December 31, 2006) depending on an employee's actual years of service;

Monthly telephone subsidy

Qualifying pensioners (those who served more than 30 years at MGTS) receive a 50% subsidy (approximately USD 3.8 per month as of December 31, 2006) for their monthly telephone bills from MGTS;

Death-while-pensioner

MGTS pays lump-sum benefits to the relatives of deceased pensioners of up to RUR 10,000 (equivalent of USD 380 as of December 31, 2006).

MGTS' pension obligations are measured as of December 31. The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	6.5%
Future salary increases	6.5%
Future pension increases	0.0%
Average life expectancy of members from date of retirement	17 years

The change in the projected benefit obligation and the change in plan assets are presented in the following table:

	Year ended December 31,		
	2006	2005	2004
Change in projected benefit obligation			
Projected benefit obligation, beginning of the year	$ 18,868	$ 13,550	$ 6,034
Service cost	(8,538)	2,914	1,601
Interest cost	1,232	1,441	634
Plan amendments	–	–	4,488
Actuarial losses	6,352	2,118	855
Benefit payment	(365)	(668)	(433)
Foreign currency translation effect	(1,607)	(487)	371
Projected benefit obligation, end of the year	15,942	18,868	13,550
Change in fair value of plan asset			
Fair value of plan asset, beginning of the year	2,651	2,037	1,137
Actual return on plan assets	337	667	433
Employer contributions	3,137	614	900
Benefits paid	(365)	(666)	(433)
Fair value of plan assets, end of the year	5,760	2,652	2,037
Unfunded status of the plan, end of the year, net	**$ 10,182**	**$ 16,216**	**$ 11,513**

(Amounts in thousands of US dollars, unless otherwise stated)

Service cost in the year ended December 31, 2006 represents benefit and relates primarily to decrease in the number of employees and reduction of average age of MGTS' employees.

The increase in projected benefit obligation due to plan amendment in the year ended December 31, 2004 relates to the increase in the base rate used to determine the monthly payments to the retired employees. The changes in the projected benefit obligation due to actuarial losses for the years ended December 31, 2006, 2005 and 2004 relate primarily to the changes in the discount rate and employees turnover assumptions.

The accumulated benefit obligation as of December 31, 2006, 2005 and 2004 was $15.9 million, $18.9 million and $13.6 million, respectively.

The components of the net periodic benefit costs for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Year ended December 31,		
	2006	2005	2004
Service cost	$ (8,538)	$ 2,914	$ 1,601
Interest cost	1,232	1,441	634
Net periodic benefit cost	**$ (7,306)**	**$ 4,355**	**$ 2,235**

The Group's management expects contributions to the plan during the year ended December 31, 2007 to amount to $1.1 million.

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended December 31,	
2007	$ 3,737
2008	1,441
2009	1,390
2010	1,343
2011	1,300
2012-2016	4,867
Total	**$ 14,078**

The plans assets for lifetime payments to employees retiring after January 1, 2004, are managed by Sistema Pension Fund, a subsidiary of Sistema.

(Amounts in thousands of US dollars, unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT CONTRIBUTIONS

MGTS receives telecommunication infrastructure which is intended to operate as an integral part of the Moscow city wire line network from the real estate constructors free of charge as provided by the regulations of the city government. Property, plant and equipment contributions received by MGTS during the years ended December 31, 2006, 2005 and 2004 were as follows:

	Year ended December 31, 2006	2005	2004
Property, plant and equipment contributions, beginning of the year	$ 102,746	$ 103,822	$ 88,388
Contributions received during the year	5,387	6,268	13,597
Change in the fair value of property, plant and equipment contributions in the course of allocation of purchase price of MGTS shares (Note 4)	(9,561)	–	–
Currency translation effect	9,217	(3,729)	4,993
Deferred revenue amortized	(3,996)	(3,615)	(3,156)
Property, plant and equipment contributions, end of the year	**$ 103,793**	**$ 102,746**	**$ 103,822**

18. SHAREHOLDERS' EQUITY

As of December 31, 2006, Comstar UTS' share capital comprised of 417,940,860 common shares with par value of 1 Russian Ruble, and amounted to $23,900. As a result of the Group's reorganization, MGTS owns 57,742,500 shares, or approximately 13.8% of total issued shares of Comstar UTS. In addition, as a result of shares buy-back in October-December 2006 and stock bonus granted in November 2006 (see Note 25), as of December 31, 2006 Comstar UTS owns 1,970,004 own shares, or approximately 0.5% of total issued shares. All shares of Comstar UTS owned by the Group are accounted for as treasury stock and are recorded at par value in the accompanying consolidated financial statements with the difference between par value and the cost of acquisition accounted for as a reduction to additional paid-in capital in the statement of changes in shareholders' equity.

MGTS' preferred shares carry guaranteed non-cumulative dividend rights amounting to the higher of (a) 10% of MGTS' net profit as determined under Russian accounting regulations and (b) the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. If the preferred dividend is not paid in full in any year the preferred shares also obtain voting rights, which will lapse after the first payment of the dividend in full. Otherwise, preferred shares carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS and changes/amendments to MGTS' charter restricting the rights of holders of preferred shares. Such resolutions require the approval of 75% of the preferred shareholders. In the event of liquidation, dividends to preferred shareholders that have been declared but not paid have priority over ordinary shareholders.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as reported in the Company's Russian statutory financial statements, subject to certain restrictions. Comstar UTS had approximately $336.2 million of undistributed and unreserved earnings as at December 31, 2006. In addition, the Company's share in the undistributed and unreserved earnings of its subsidiaries was approximately $678.8 million as at December 31, 2006.

(Amounts in thousands of US dollars, unless otherwise stated)

19. OPERATING REVENUES

Operating revenues for the years ended December 31, 2006, 2005 and 2004, net of intersegment eliminations, consisted of the following:

	Year ended December 31,		
	2006	**2005**	**2004**
Alternative fixed line communications			
Moscow metropolitan area			
Corporates			
Voice	$ 68,915	$ 73,476	$ 73,396
Data and internet	80,829	62,148	50,820
Value-added services	11,867	9,344	4,884
Other	1,985	2,950	2,404
Residential			
Voice	2,770	3,295	942
Data and internet: broadband	77,554	50,370	9,682
Internet: dial-up	10,324	16,923	25,097
Other	200	100	1,566
Operators	106,871	105,798	102,731
Other	14,079	7,318	10,151
Other regions of the RF, Armenia and Ukraine	49,773	37,506	–
Total revenue of alternative segment, net	**425,167**	**369,228**	**281,673**
Traditional fixed line communications			
Residential			
Voice	318,310	226,840	156,094
Payphones	1,640	5,134	8,008
Additional telecommunication services	10,558	9,230	5,268
Other	2,965	2,502	2,061
Corporates			
Voice	146,348	129,153	125,403
Access node / Trunks rental	50,853	33,678	19,215
Additional telecommunication services	14,412	12,428	9,907
Other	11,348	10,925	7,179
Operators	138,646	108,506	80,325
Total revenue of traditional segment, net	**695,080**	**538,396**	**413,460**
Total	**$ 1,120,247**	**$ 907,624**	**$ 695,133**

To comply with the new long-distance traffic routing rules which came into effect starting January 1, 2006 (see Note 24), the companies comprising alternative segment of Comstar UTS entered into agent agreements with authorized DLD/ILD providers and started migration of its end-user customer base to the agent contracts in June 2006. As of December 31, 2006 the migration has been substantially completed. Under the agent agreements, Comstar re-sells the services of authorized DLD/ILD operators, receiving a share in long-distance revenues generated by the end users from authorized operators in the form of commission. Under the old arrangements, the Group had been providing services as a principal under its own operating license and, accordingly, reported all DLD/ILD revenues on a gross basis, i.e. full amount earned from subscriber was shown as revenue and corresponding traffic cost was included in operating expenses. Under the new rules, the DLD/ILD revenues generated by the customers are reported on a net basis, i.e. only the commission is shown as revenue from a DLD/ILD operator with no corresponding traffic cost. The long-distance revenues from subscribers that were not yet transferred in 2006 to the agent scheme were reported on a gross basis. DLD/ILD revenues reported net by Comstar UTS during the year ended December 31, 2006 approximated $4.6 million.

MGTS historically has been providing DLD/ILD services to its subscribers under the agent agreement with authorized DLD/ILD operators, reporting in revenues only a commission received from authorized DLD/ILD operators. Accordingly, new long-distance traffic routing rules had no impact on the revenues of the traditional segment of the Group.

Effective July 1, 2006, the Calling Party Pays rule (“the CPP rule”) was introduced in Russia, under which the subscribers are to pay for outgoing calls, and all incoming calls are free of charge. Accordingly, the Group started to charge its subscribers for calls to mobile operators; included in voice revenue of alternative and traditional segments for the year ended December 31, 2006 are approximately $3.4 million and $32.9 million of additional revenue earned under the CPP rule, respectively.

Included in residential voice revenue of the traditional segment for year ended December 31, 2006 is approximately $25.8 million of compensation from the federal budget of the discounts on installation and monthly fees to certain categories of residential subscribers, such as pensioners and military veterans, granted according to the applicable legislation prior to January 1, 2005 (see Note 2).

(Amounts in thousands of US dollars, unless otherwise stated)

20. OPERATING EXPENSES

Operating expenses for the years ended December 31, 2006, 2005 and 2004 consisted of the following:

	Year ended December 31,		
	2006	2005	2004
Employee costs, net of stock-based compensation	$ 280,766	$ 237,147	$ 198,190
Depreciation and amortization	130,939	90,437	76,138
Interconnection and line rental	104,237	50,592	31,002
Repairs and maintenance	72,251	69,746	67,145
Stock-based compensation (see Note 25)	62,800	–	–
Taxes other than income taxes	37,813	33,839	29,528
Advertising, selling and marketing	35,664	27,836	19,452
Utilities and energy	26,598	17,659	16,443
Rent	23,013	18,200	16,006
Bank charges	12,710	10,567	9,109
Allowance for doubtful accounts	11,717	4,503	(243)
Cost of equipment sold	11,583	10,502	5,394
Transportation	8,767	9,181	3,343
Insurance	6,541	10,749	7,684
Compensation of losses from the third parties	(9,217)	(2,959)	(634)
Impairment of property, plant and equipment	–	1,513	–
Insurance coverage	–	(5,806)	–
Other	68,526	55,567	42,857
Total	**$ 884,708**	**$ 639,273**	**$ 521,414**

Included in interconnection and line rental expenses for the year ended December 31, 2006 is approximately $28.7 million of costs incurred by the Group in connection with introduction of the CPP Rule (see also Note 19).

In February 2003, a fire occurred in one of MGTS' switching stations, significantly damaging Telmos' and MGTS' equipment. As a result of the fire, 40,000 telephone lines were damaged. The net book value of the damaged equipment and equipment that became obsolete as a result of replacement of the damaged equipment amounted to $9.7 million, including the net book value of leased equipment of $1.4 million. The damaged equipment of Telmos was insured by Rosno, a subsidiary of Sistema, and Rossia Insurance Co ("Rossia"). Telmos received insurance coverage of $1.7 million from Rosno and entered in litigation with Rossia seeking compensation of damages in amount of $5.8 million. Additionally, MGTS has filed a claim against a third party seeking compensation of damages caused by a fire in the amount of approximately $8.7 million. Moscow arbitration court and, subsequently, courts of appeal ruled in favour of the Group in its litigation with Rossia regarding the insurance coverage for the equipment damaged as a result of the fire. In 2005, the Group has collected insurance recovery in amount of $5.8 million and recognized a gain in the same amount.

During the years ended December 31, 2006, 2005 and 2004, MGTS has received in-kind compensation from the third parties for the cable and other fixed assets damaged in the course of construction works in Moscow in the amount of $9.2 million, $3.0 million and $0.6 million, respectively, which have been capitalized in the cost of property, plant and equipment.

(Amounts in thousands of US dollars, unless otherwise stated)

During the year ended December 31, 2006, MGTS sold a building renovated in cooperation with the co-investor for cash consideration of approximately $22.9 million, which resulted in a gain of $7.6 million recorded in the accompanying consolidated income statement. As of December 31, 2005, this building was classified as assets held for sale.

21. INCOME TAXES

The Group's provision for income taxes for the years ended December 31, 2006, 2005 and 2004 was as follows:

	Year ended December 31,		
	2006	**2005**	**2004**
Current income tax	$ 73,075	$ 65,125	$ 39,623
Deferred income tax (benefit)	(653)	(5,796)	1,453
Total	**$ 72,422**	**$ 59,329**	**$ 41,076**

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

	Year ended December 31,		
	2006	**2005**	**2004**
Income tax charge computed on income before taxes, income from affiliates and minority interests at standard rate applicable to the Group of 24%	$ 52,049	$ 61,885	$ 38,574
Change in valuation allowance	(4,328)	(4,868)	(3,645)
Stock-based compensation (Note 25)	15,072	–	–
Change in fair value of derivative financial instrument (call and put option) (Note 4)	14,400	–	–
Foreign currency transactions differences	(14,481)	(1,290)	1,007
Non-deductible expenses and other, net	9,710	3,602	5,140
Provision for income taxes reported in the consolidated and combined financial statements	**$ 72,422**	**$ 59,329**	**$ 41,076**

(Amounts in thousands of US dollars, unless otherwise stated)

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities at December 31, 2006, 2005 and 2004:

	2006	2005	2004
Deferred tax assets			
Deferred connection fees	$ 35,725	$ 39,020	$ 36,220
Property, plant and equipment contributions	24,910	24,659	24,917
Valuation of property, plant and equipment	30,781	35,613	36,681
Allowance for doubtful accounts	469	654	3,758
Accrued operating expenses	20,697	5,188	3,164
Post-retirement benefits	2,444	3,892	2,763
Tax losses carry-forward	4,314	1,324	1,607
Other	2,025	353	2,272
Less: valuation allowance	(25,816)	(30,144)	(35,012)
Total	**95,549**	**80,559**	**76,370**
Deferred tax liabilities			
Depreciation of property, plant and equipment	$ (93,320)	$ (71,156)	$ (70,210)
Assets recognized in purchase price allocation and other	(19,578)	(1,129)	(3,590)
Total	**$ (112,898)**	**$ (72,285)**	**$ (73,800)**
Net deferred tax assets, current portion	$ 23,545	$ 13,432	$ 15,693
Net deferred tax assets, long-term portion	6,725	3,847	6,274
Net deferred tax liabilities, long-term portion	(47,619)	(9,005)	(19,397)

Deferred tax assets relating to tax losses carried forward attributable to Comstar UTS in amount of \$2.8 million as of December 31, 2006 expire in 2016. Deferred tax assets relating to tax losses carried forward attributable to MTU Inform in amount of \$1.5 million as of December 31, 2006 expire in 2012.

22. SEGMENT INFORMATION

The Group operates in two business segments – the Traditional fixed line communications segment, comprised of MGTS and its subsidiaries and the Alternative fixed line communications segment, comprised of all other entities of the Group. The Group has presented its business segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources. The Group's management evaluates performance of the segments based on operating income.

(Amounts in thousands of US dollars, unless otherwise stated)

An analysis and reconciliation of the Group's business segment information to the respective information in the financial statements for the years ended December 31, 2006, 2005 and 2004 is as follows:

	Year ended December 31, 2006		
	Alternative fixed line communication services	**Traditional fixed line communication services**	**Total**
Net sales to external customers	$ 425,135	$ 695,112	$ 1,120,247
Intersegment sales	1,127	105,913	107,040
Depreciation and amortization	(38,116)	(92,823)	(130,939)
Operating income/(loss)	(23,112)	262,048	238,936
Interest income	38,131	6,312	44,443
Interest expense	(6,977)	(16,074)	(23,051)
Income tax expense	(11,004)	(63,572)	(74,576)
Segment assets (*)	1,027,362	2,963,560	3,990,922
Cash and cash equivalents	110,412	26,209	136,621
Indebtedness [(a)]	(685,882)	(558,939)	(1,244,821)
Capital expenditures	62,500	253,632	316,132

(*) Investment in Svyazinvest shares (see Note 4) was allocated to traditional segment.

	Year ended December 31, 2005		
	Alternative fixed line communication services	**Traditional fixed line communication services**	**Total**
Net sales to external customers	$ 369,128	$ 538,496	$ 907,624
Intersegment sales	3,706	101,157	104,863
Depreciation and amortization	(30,030)	(60,407)	(90,437)
Operating income	64,721	206,357	271,078
Interest income	3,923	3,773	7,696
Interest expense	(2,926)	(15,035)	(17,961)
Income tax expense	(17,962)	(41,367)	(59,329)
Segment assets	457,502	1,232,862	1,690,364
Cash and cash equivalents	47,157	27,482	74,639
Indebtedness [(a)]	(39,862)	(193,754)	(233,616)
Capital expenditures	46,549	185,740	232,289

(Amounts in thousands of US dollars, unless otherwise stated)

	Year ended December 31, 2004		
	Alternative fixed line communication services	Traditional fixed line communication services	Total
Net sales to external customers	$ 281,673	$ 413,460	$ 695,133
Intersegment sales	716	67,387	68,103
Depreciation and amortization	(22,216)	(53,922)	(76,138)
Operating income	62,387	113,129	175,516
Interest income	4,511	3,430	7,941
Interest expense	(1,562)	(17,133)	(18,695)
Income tax expense	(16,421)	(24,655)	(41,076)
Segment assets	374,739	1,065,473	1,440,212
Cash and cash equivalents	38,688	28,748	67,436
Indebtedness [a]	(27,237)	(189,560)	(216,797)
Capital expenditures	36,728	191,762	228,490

[a] – Represents the total of short-term and long-term debt and capital lease obligations.

The reconciliation of segment operating income to the income before income tax and minority interests and reconciliation of segment assets to the consolidated (combined) segment assets are as follows:

	Year ended December 31,		
	2006	2005	2004
Total segment operating income	$ 238,936	$ 271,078	$ 175,516
Intersegment eliminations	(3,397)	(2,727)	(1,797)
Operating income	235,539	268,351	173,719
Interest income	43,537	7,696	7,941
Interest expense	(22,145)	(17,961)	(18,695)
Foreign currency transactions gain/(loss), net	19,938	(2,219)	4,368
Gain/(loss) from disposal of an affiliate	–	1,989	(6,610)
Income before income tax, income from affiliates and minority interests	**$ 276,869**	**$ 257,856**	**$ 160,723**
Total segment assets	$ 3,990,922	$ 1,690,364	$ 1,440,212
Intersegment eliminations	(453,337)	(49,003)	(21,764)
Total assets	**$ 3,537,585**	**$ 1,641,361**	**$ 1,418,448**

For the years ended December 31, 2006, 2005 and 2004, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's revenues.

23. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, 2005 and 2004, major transactions involving related parties (subsidiaries and affiliates of Sistema) were as follows:

Mobile Telesystems (MTS)

The Group has interconnection arrangements and line rental agreements with MTS, a subsidiary of Sistema. MTS also rents buildings for administrative, sales and marketing offices from the Group as well as premises for its switching and base station equipment. Amounts received by the Group under these agreements during the year ended December 31, 2006, 2005 and 2004 were approximately $45.9 million, $35.7 million and $36.3 million, respectively. In addition, during the year ended December 31, 2004 MTS purchased telephone numbering capacity from the Group for the amount of $4.2 million.

In addition, in connection with introduction of the CPP, during the year ended December 31, 2006 the Group incurred approximately $8.0 million of interconnection costs payable to MTS.

Rosno

The Group purchases insurance services from Rosno, a subsidiary of Sistema. The insurance premiums paid to Rosno during the year ended December 31, 2006, 2005 and 2004 amounted to $6.9 million, $8.5 million and $7.4 million, respectively. Insurance recovery received from Rosno for the same periods amounted to $nil, $nil and $0.2 million, respectively.

STROM telecom and Mediatel

The Group purchases telecommunication equipment and software from STROM telecom and Mediatel, subsidiaries of Sistema. The cost of equipment and software purchased from these entities during the year ended December 31, 2006, 2005 and 2004 was $25.6 million, $22.7 million and $13.2 million, respectively. Related accounts payable as of December 31, 2006, 2005 and 2004 amounted to $8.3 million, $6.9 million and $12.1 million, respectively.

MBRD

The Group has certain amounts of cash and cash equivalents and short-term investments in MBRD (see Notes 5 and 6). During the years ended December 31, 2006, 2005 and 2004, the Group has received interest income on MBRD's promissory notes and deposits of $9.1 million, $3.0 million and $3.1 million, respectively.

Sistema Telecom, Sky-Link

The Group provides financing in the form of loans and promissory notes to Sistema Telecom, a subsidiary of Sistema, and Sky-Link, an affiliate of Sistema (see Notes 6 and 12). Interest income received by the Group on promissory notes of and loans to Sistema Telecom and Sky-Link for the years ended December 31, 2006, 2005 and 2004 amounted to $1.7 million, $2.2 million and $1.0 million, respectively.

In addition, the Group provides Sky-Link interconnection services. Respective revenues for the years ended December 31, 2006 and 2005 and 2004 approximated $7.9, $6.9 and $8.4 million, respectively. Respective receivables are disclosed in Note 7.

(Amounts in thousands of US dollars, unless otherwise stated)

RA Maxima

During the years ended December 31, 2006 and 2005, the Group purchased advertising from advertising agency RA Maxima, a subsidiary of Sistema. The amount of advertising purchased from RA Maxima during the years ended December 31, 2006 and 2005 was $9.2 million and $5.6 million, respectively.

InvestSvyazHolding

The Group enters into agreements with InvestSvyazHolding, a subsidiary of Sistema, for leasing of network equipment and billing system. These leases were recorded as capital leases based on the requirements of SFAS No. 13, "Accounting for Leases". The net book value of assets leased under such agreements as of December 31, 2006, 2005 and 2004 was $57.3 million, $53.5 million and $28.5 million, respectively. The interest rate implicit in the leases varied from 10% to 14%.

The following table summarizes the future minimum lease payments under capital leases to InvestSvyazHolding together with the present value of the net minimum lease payments as of December 31, 2006:

Year ended December 31,		
2007	$	15,137
2008		11,734
2009		5,686
Total minimum lease payments (undiscounted)		32,557
Less: amount representing interest		(3,423)
Present value of net minimum lease payments		29,134
Less: current portion of lease obligations		(12,910)
Non-current portion of lease obligations	**$**	**16,224**

Sistema Hals

As described in Note 24, MGTS entered into a series of agreements with Sistema Hals, a subsidiary of Sistema, on project development and reconstruction of buildings of automatic telephone exchanges. As of December 31, 2006, as a result of the work performed by Sistema Hals under these contracts, MGTS recorded a liability of $8.0 million payable to Sistema Hals which was included in other long-term liabilities in the accompanying consolidated balance sheet as of December 31, 2006. In addition, as of December 31, 2006, MGTS owes Sistema Hals $0.4 million for construction works performed.

Svyazinvest and Subsidiaries

Effective December 11, 2006, the Group owns 25% plus one share stake in Svyazinvest. Moreover, Svyazinvest owns approximately 28% voting shares in MGTS; accordingly, all transactions between MGTS and Svyazinvest are considered related party transactions. Entities of the Group enter in agent agreements with Rostelecom, a subsidiary of Svyazinvest, for provision of ILD/DLD services to the Group's subscribers and interconnection agreements with other subsidiaries of Svyazinvest.

(Amounts in thousands of US dollars, unless otherwise stated)

The Group's accounts payable to and accounts receivable from the subsidiaries of Svyazinvest as of December 31, 2006 amounted to $2.2 million and $12.2 million, respectively, including approximately $1.0 million and $11.2 million owed to and from Rostelecom, respectively.

MGTS' revenue from Rostelecom for the years ended December 31, 2006, 2005 and 2004 under the agent agreement on provision of DLD/ILD services to MGTS' subscribers amounted to $22.9 million, $23.5 million and $25.9 million, $2.5 million, $2.2 million and $1.8 million for rental of telecommunication equipment and $3.7 million, $3.6 million and $2.8 million for other services, respectively. In addition, during the years ended December 31, 2006, 2005 and 2004, MGTS purchased services, including interconnection, from Rostelecom for the amounts of $8.2 million, $1.8 million and $1.3 million, respectively. In 2006, MGTS incurred additional traffic cost from Rostelecom amounted $4.3 million in connection with CPP traffic (see also Note 24)..

In the year ended December 31, 2004, MGTS purchased equipment from Central Telegraph, a subsidiary of Svyazinvest, for the amount of $6.4 million. In addition, during the year ended December 31, 2006, in connection with new regulations on telecommunications which came in effect in 2006, MGTS' revenue from Central Telegraph for incoming traffic and costs for outgoing traffic amounted to $12.0 million and $3.8 million, respectively.

MezhregionTranzitTelecom

In 2006, Comstar UTS entered into a series of agreements with MezhregionTranzitTelecom (MTT), an affiliate of Sistema, under which MTT provides DLD/ILD services to Comstar UTS' subscribers for a commission (see Notes 19 and 24), which amounted to approximately $4.6 million for the year ended December 31, 2006.

24. COMMITMENTS AND CONTINGENCIES

Operating Leases

MGTS leases buildings, office premises, bridgeworks and collectors mainly from Moscow Government through contracts, which expire in 1 to 20 years and generally are extended at expiration. Rental expenses under operating leases are included in the statements of operations (see Note 20).

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

Year ended December 31,		
2007	$	14,084
2008		18,925
2009		24,542
2010		35,182
2011		49,230
Thereafter		136,880
Total	**$**	**278,843**

Capital Commitments

In December 2003, MGTS announced its long-term investment program for the period from 2004 to 2012, providing for extensive capital expenditures, including expansion and full digitalization of the Moscow telephone network. The program was approved by the resolution of the Moscow City Government on December 16, 2003. At the inception of the investment program, capital expenditures were estimated to be approximately $1,600.0 million and included reconstruction of 350 local telephone stations and installation of 4.3 million of new phone lines. As a result of implementation of the investment program, new digital equipment will be installed at telephone nodes buildings and a substantial amount of floor space will become available after the replacement of analogue switching equipment. Moreover, additional floor space constructed is expected to be sold to third parties or rented out. There are 114 automatic telephone station buildings which are to be reconstructed or rebuilt in the course of the investment program. Currently MGTS had not made a decision weather to sell free floor space created in the course of investment program or rent it out.

In November 2006, MGTS signed an agreement with the Moscow City Government, under which MGTS' investment program was approved. Under the agreement, the Moscow City Government is entitled to receive not less than 30% of the market value of additional floor space constructed during the course of the investment program. The obligation arises at the time reconstruction of specified properties is completed. In December 2003, MGTS made a prepayment to Moscow City Government under this program which will be offset against the future liability arising as a result of the investment program (see Note 12).

During the course of implementation of the investment program, MGTS entered into a series of agreements with Sistema Hals, a subsidiary of Sistema, related to project development and reconstruction of buildings of the telephone stations. The main portion of the work under these contracts will be performed between 2008 and 2012. Under the agreements with Sistema Hals, Sistema Hals on behalf of MGTS prepares the project documentation and performs construction works, and MGTS reimburses all expenses in relation to construction process, a margin of 4.75% on incurred expenses and a fixed fee of $0.04 million per one building. During 2006, the work on projects development and site preparation was performed by Sistema Hals on 48 sites, which resulted in $8.0 million addition to construction in progress in 2006 and recognition of payable to Sistema Hals in the same amount (see Note 23). No construction or other works were performed for other sites in 2006, as related business plans are still under development.

In addition, MGTS has entered into joint venture agreements with ten project organizations affiliated to Sistema Hals. MGTS intends to engage these organizations in construction and reconstruction of certain sites and grant them the investor's rights to receive their share of property in new or reconstructed property.

Licenses

Substantially all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. Most of these licenses expire in various years ranging from 2007 to 2013. The management has no reason to believe that the licenses will not be renewed or that any license will be suspended or terminated.

Issued Guarantees

In December 2004, MGTS became a guarantor under the credit facility between Sistema Hals, a subsidiary of Sistema, and West LB Vostok Bank. The loan of $10.4 million was fully repaid in March 2006.

MGTS is a guarantor under several credit facilities between Commerzbank (Eurasia) and InvestSvyazHolding, a subsidiary of Sistema. The credit facilities mature in 2007-2008. The guarantees amounted to $15.0 million as of December 31, 2006.

In 2006, MGTS became a guarantor under a credit facility provided to InvestSvyazHolding by Komercni banka, a.s., Prague. The credit line for the total amount of Euro 10.4 million matures in April 2011. MGTS' guarantee amounted to $13.7 million as of December 31, 2006.

In 2006, MGTS became a guarantor under a credit facility provided to MBRD, a subsidiary of Sistema, by Bankgesellschaft Berlin AG, Berlin. The credit line for the total amount of Euro 2.1 million matures in June 2011. MGTS' guarantee amounted to $2.5 million as of December 31, 2006.

Under these guarantees the Group could be potentially liable for a maximum amount of $31.2 million in case of borrower's default under the obligations. As of December 31, 2006 the Group's guarantee amounted to $31.2 million, no event of default has occurred under any of the guarantees issued by the Group. Management believes that the fair value of these guarantees and related potential liability is *de minimis*. The Group does not recognize a liability at inception for the fair value of the guarantor's obligation, as provisions of SFAS Interpretation No. 45 do not apply to the guarantees issued between corporations under common control.

Pledges

As discussed in Note 14, the Company pledged property, plant and equipment with total net book value approximating $40.1 million as of December 31, 2006 in connection with certain loans.

Operating Environment

The Russian economy, while deemed to be of market status starting from 2002, continues to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be subject to the government's continued actions with regard to legal and economic reforms.

Interest of the Moscow City Government in the Telecommunications Sector in the Moscow Metropolitan Area

The operations of the telecommunications network in Moscow are of considerable interest to the city government. The city government has exercised and may be expected to continue to exercise influence over the Group's operations. In particular, the city government may influence setting of tariffs charged to customers to protect low income groups, such as pensioners.

Regulations on Telecommunications

The Russian government has issued several implementing acts under the Law on Communications, such as Resolution No. 87, dated February 18, 2005, approving the list of the types of licensed telecommunication activities, and Resolution No. 68, dated February 11, 2005, regarding the rules applicable to the state registration of telecommunication infrastructure such as real property. However, it is presently not yet clear how these regulations would be implemented. Thus, the uncertainty related to the Law on Communications continues.

The Communications Law also opened the DLD/ILD market to competition and introduced a new three-layer interconnection system effective from January 1, 2006, consisting of DLD/ILD, zone and local operators. Under this new structure, end-users have the right to pre-select a long-distance operator and DLD/ILD operators are required to have interconnection points in each of the 86 sub-federal units of the Russian Federation. Operators that lack the DLD/ILD license need to enter into agency agreements with DLD/ILD operators in order to share in the revenues from DLD/ILD traffic generated by its subscribers. Additionally, under the new regulatory regime, the Group lost the opportunity to provide DLD/ILD services directly to its subscribers, as well as the opportunity to manage long-distance tariffs. Thus, the liberalization of the long-distance market may result in a decrease of long-distance tariffs, thereby putting pressure on the Group's operating revenues (see also Note 19).

On March 4, 2006, the Russian President approved amendments to the Telecommunications Law that introduced the Calling Party Pays rules. Effective July 1, 2006, under the CPP Rules, all incoming calls on fixed and mobile lines in Russia became free of charge, and only the fixed-line or mobile operators originating the call may charge the subscriber for the call. The CPP Rules primarily impacted the fixed-to-mobile calls, as fixed-line operators traditionally did not charge any fee for outgoing calls to mobile lines in Russia. Additional revenues earned and costs incurred by the Group as a result of introduction of CPP Rules for the year ended December 31, 2006 are significant (see Notes 19 and 20).

In March 2006, Russian telecommunication authorities included Comstar UTS and MGTS into the register of operators occupying a "substantial position" in the market. Connection and traffic transmission tariffs that such operators may charge other operators are regulated by the government. Tariffs are set at the economically justified levels based on actual costs for interconnection provided by operators.

Taxation Environment

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax ("VAT"), corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is 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 that is more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year.

Management believes that the Company is in compliance with the tax laws affecting its operations; however, the risk remains that governmental authorities could take differing positions with regard to interpretative issues.

Contingencies

During second half of 2006, holders of preferred shares of MGTS filed a lawsuit against MGTS, disputing MGTS' decision not to declare dividends on preferred shares for 2005. During 2006, the court of first instance and the court of appeals ruled in favor of MGTS. In February 2007, Moscow Federal Arbitration Court returned the case to the court of first instance for the re-trial, directing to reconsider the decision. Management believes that the Group has sustainable position in defending the case and MGTS' decision not to declare or pay any dividends for 2005 does not violate provisions of MGTS' Charter and relevant legislation and therefore will prevail in the proceedings. However, should the holders of the preferred shares win the case against MGTS, the latter will be liable to pay dividends for 2005 on its preferred shares. Such dividend, if declared and paid, may amount to 879.0 million Rubles (approximately $31.1 million as of December 31, 2006). See also Note 26.

During the 2006 and January 2007, Rostelecom filed several claims in the Moscow Arbitration Court against MGTS for the disputed interconnection fees from traffic to mobile operators generated by MGTS' subscribers and transferred via Rostelecom. The disputed revenues of MGTS from Rostelecom amount to approximately $5.5 million for the first half of 2006 and was recognized as revenues in the financial statements for the six months ended June 30, 2006, since management believed that the amount would be paid by Rostelecom. In second half of 2006, the Arbitration Court ruled in favor of Rostelecom and therefore, no revenue was recognized in relation to disputed traffic in the second half of 2006. In December 2006, management recorded an allowance for receivable from Rostelecom in the amount of approximately $5.5 million.

In addition to mentioned above, in the normal course of business, the Group is subjected to proceedings, lawsuits, and other claims. While such matters are subject to many uncertainties, and outcomes are not predictable with assurance, management believes that any financial impact arising from these matters would not be material to the Group's financial position or annual operating results.

Working Capital Deficit

As of December 31, 2006, the Group had a working capital deficit of $695.9 million, which was primarily attributable to the $675.0 million loan from ABN Amro (see Note 14) attracted to finance the acquisition of a stake in Svyazinvest, and the $150.0 million liability under the call and put option agreement granted in connection with aforementioned acquisition (see Note 4). The call will be settled in shares of Comstar UTS and will not require additional cash outflow from the Company; on the contrary, the exercise of the call is expected to yield in approximately $322.2 million of cash proceeds from sale of Comstar UTS stock. Management believes that Comstar UTS has conservative gearing, good credit rating, and therefore can obtain financing as required on an *ad hoc* basis (see Note 26). Additionally, capital expenditures can be deferred to meet short-term liquidity requirements. Accordingly, management believes that cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

(Amounts in thousands of US dollars, unless otherwise stated)

25. STOCK-BASED COMPENSATION AND SHARE BUY-BACK

On September 15, 2006, the Extraordinary General Meeting of shareholders approved the stock option and stock bonus program ("the Program") for the Board of Directors and senior management of Comstar UTS. The Program is being implemented based on separate decisions of the Board of Directors. In order to fund the Program, on September 25, 2006 the Board of Directors of Comstar UTS approved the share buyback of up to 4.5% of the total number of shares in the form of GDRs to be completed by the end of 2009.

From the launch of the Program on October 30, 2006 to December 31, 2006, Comstar UTS acquired 10,746,761 shares in form of GDRs, or 2.6% of its total issued shares, for a total cash consideration of approximately $73.9 million.

Within the framework of the Program, and in accordance with a separate decision of the Board of Directors, on November 15, 2006, Comstar UTS granted stock bonuses in the form of shares (GDRs) for the total of 8,776,757 (2.10% of total issued shares) to Mr. Schebetov, Chairman of the Board of Directors, who received 2,507,645 shares in the forms of GRDs (0.60% of total issued shares), and Mr. Lagutin, a member of the Board of Directors, who received 6,269,112 shares in the form of GDRs (1.5% of total issued shares). Fair value of the awards as of the grant date approximated $17.8 million and $44.4 million, respectively, and was included in operating expenses for the year ended December 31, 2006 (see Note 20).

In November 2006, the Company's Board of Directors approved the grant of options to certain members of the Board of Directors and senior management of Comstar UTS. The exercise price for these options is 122 Rubles, or approximately USD 4.6 per share. These stock options vest in November 2008.

The following assumptions were used in the option-pricing model:

Risk-free interest rate	4.82%
Expected option life (years)	2
Expected dividend yield	Nil
Expected volatility	38.1%
Grant date fair value of options (per share)	USD 3.16

Estimated volatilities are based on historical volatility of the Company's stock.

The following table summarizes information about non-vested common stock options during the year ended December 31, 2006:

	Quantity	**Exercise price, USD**
Non-vested as of December 31, 2005	–	–
Granted	3,343,525	4.6
Vested	–	–
Forfeited	–	–
Non-vested as of December 31, 2006	3,343,525	4.6

The costs recognized in accordance with stock option plan for the year ended December 31, 2006 approximated $0.7 million and was included in operating expenses in the accompanying consolidated statement of operations (see Note 20). Total compensation cost related to non-vested awards not yet recognized as of December 31, 2006 amounted to $9.9 million. This cost will be recognized over the 23 months ending November 2008.

26. SUBSEQUENT EVENTS

Disposal of shares of Metrocom

In March 2007, Comstar UTS sold its 45% stake in Metrocom to a third party for a total cash consideration of $20.0 million.

Legal Merger of Telmos and MTU-Inform with Comstar UTS

In April 2007, as part of the Group's reorganization, Comstar UTS' wholly-owned subsidiaries Telmos and MTU-Inform were merged into Comstar UTS. The merger was executed to streamline the decision-making process in respect of the Moscow and Moscow Region operations of the Group's alternative segment. Management does not expect the transaction to have a material impact on the Company's financial statements.

Receipt of compensation from the RF budget

During April and May 2007 MGTS received compensation from the RF budget related to reimbursement for discounts granted before January 1, 2005 to certain categories of residential subscribers on installation and monthly fees amounting to 568.6 million Rubles (approximately $22.0 million as of the date of cash collection).

Legal Dispute in Respect of MGTS' dividend for 2005

In May 2007, certain minority shareholder won the case against MGTS in respect of non-payment of dividend on preferred shares for 2005 (see Note 24) in the court of first instance, and the court determined such decision of MGTS' general shareholders' meeting in respect of dividends for 2005 null and void. Management plans to sustain its position in the court.

Dividend for 2006

In May 2007, the Board of Directors of Comstar UTS recommended an annual dividend of approximately 62.7 million Rubles (approximately $2.4 million as of the date of announcement), or 0.15 Rubles (approximately 0.0058 US dollars as of the date of the announcement) per share or GDR. The dividend is subject to approval by the Company's annual general meeting of shareholders which was scheduled for June 27, 2007 and is to be paid within 60 days after such approval.

In May 2007, the Board of Directors of MGTS recommended an annual dividend of approximately 1.3 billion Rubles (approximately $51.5 million as of the date of announcement), or 8.75 Rubles (approximately 0.34 US dollars as of the date of the announcement) per ordinary share and 39.77 Rubles (approximately 1.54 US dollars as of the date of the announcement) per preferred share. The dividend is subject to approval by annual general meeting of MGTS' shareholders which was scheduled for June 29, 2007 and is to be paid by the end of 2007.

Sberbank loan

In June 2006, Comstar UTS entered into a non-revolving credit line facility with Sberbank for the amount of RUR 26.0 billion (approximately $1.0 billion as of the date of the agreement). Proceeds from this facility will be used to finance the network build-out and re-financing the $675.0 million ABN Amro loan (see Note 14). The facility bears interest at 7.6% per annum and is repayable in equal quarterly installments from September 2009 until June 2012. A commission fee of RUR 39.0 million (approximately $1.5 million) was paid to Sberbank for organizing the facility. A 25% plus one share stake in Svyazinvest (see Note 4) was pledged as a collateral for this facility.