JSC SITRONICS AND SUBSIDIARIES

Consolidated Financial Statements

As of September 30, 2006 (unaudited) and December 31, 2005 (restated) and for the Nine Months Ended September 30, 2006 (unaudited) and 2005 (restated)

JSC SITRONICS AND SUBSIDIARIES

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Deloitte.

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Shareholders of JSC SITRONICS:

We have reviewed the accompanying consolidated balance sheet of JSC SITRONICS and subsidiaries (the "Group") as of September 30, 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the nine months ended September 30, 2006 and 2005. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 30, the accompanying financial statements for the nine months ended September 30, 2005 have been restated.

Deloitte & Touche

ZAO Deloitte & Touche CIS

January 15, 2007
Moscow, Russia

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005 (RESTATED)
(Amounts in thousands of U.S. Dollars, except share amounts)

	Notes	September 30, 2006	December 31, 2005 (As restated, see Note 30)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	$ 185,736	$ 83,359
Short-term investments	5	10,951	10,397
Trade receivables, net	6	627,199	158,855
Other receivables and prepaid expenses, net	7	95,802	56,880
Inventories and spare parts	8	243,748	113,917
Deferred tax assets, current portion	23	5,615	4,785
Total current assets		1,169,051	428,193
Property, plant and equipment, net	9	232,153	94,947
Intangible assets, net	10	84,748	19,734
Long-term investments	11	1,728	865
Long-term trade receivables	12	79,574	14,575
Prepaid rent	13	2,135	2,230
Restricted cash	14	2,167	2,105
Debt issuance costs	18	1,186	-
Deferred tax assets	23	15,391	3,441
TOTAL ASSETS		**$ 1,588,133**	**$ 566,090**

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005 (RESTATED)
(Amounts in thousands of U.S. Dollars, except share amounts)

	Notes	September 30, 2006	December 31, 2005 (As restated, see Note 30)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	15	$ 281,016	$ 104,488
Taxes payable		49,241	40,557
Accrued expenses and other current liabilities	16	173,076	105,909
Derivative financial instruments	22	28,685	-
Short-term loans and notes payable	17	122,854	105,062
Current portion of long-term debt	18	130,176	925
Deferred tax liabilities, current portion	23	578	664
Total current liabilities		785,626	357,605
LONG-TERM LIABILITIES:			
Capital lease obligations	19	3,225	1,605
Long-term debt	18	209,609	6,125
Other long-term liabilities	21	6,340	-
Deferred tax liabilities	23	9,552	9,010
Total long-term liabilities		228,726	16,740
COMMITMENTS AND CONTINGENCIES		-	-
TOTAL LIABILITIES		1,014,352	374,345
MINORITY INTERESTS		172,685	28,926
SHAREHOLDERS' EQUITY:			
Share capital (7,703,771,000 and 1,886,771,000 shares authorized and issued as of September 30, 2006 and December 31, 2005, respectively, with par value of 1 ruble)	24	265,982	59,213
Treasury stock (748,806,541 shares with par value of 1 ruble as of September 30, 2006)	24	(27,135)	-
Shareholder's receivable	24	(10,899)	-
Additional paid-in capital	24	99,375	76,130
Retained earnings		62,248	28,490
Accumulated other comprehensive income/(loss)		11,525	(1,014)
TOTAL SHAREHOLDERS' EQUITY		401,096	162,819
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 1,588,133**	**$ 566,090**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED) AND 2005 (RESTATED)

(Amounts in thousands of U.S. Dollars, except share and per share amounts)

	Notes	Nine months ended September 30, 2006	Nine months ended September 30, 2005 (As restated, see Note 30)
Revenues		$ 1,049,790	$ 634,208
Cost of sales, exclusive of depreciation and amortization shown separately below		(802,258)	(455,395)
Research and development expenses		(27,314)	(11,901)
Selling, general and administrative expenses		(102,545)	(35,469)
Depreciation and amortization		(35,251)	(7,735)
Other operating expenses, net		(2,929)	(1,452)
OPERATING INCOME		79,493	122,256
Interest income		5,056	529
Interest expense, net of amounts capitalized		(22,779)	(7,432)
Foreign currency transactions gain/(loss)		940	(2,247)
Income before income tax and minority interests		62,710	113,106
Income tax expense	23	(23,391)	(29,173)
Income before minority interests		39,319	83,933
Minority interests		(2,321)	(24,690)
NET INCOME		**$ 36,998**	**$ 59,243**
Translation adjustment, net of minority interests of $972 and ($380), respectively, and income tax effect of nil		12,539	(1,145)
Comprehensive income		$ 49,537	$ 58,098
Weighted average number of common shares outstanding		5,912,372,903	1,886,771,000
Earnings per share, basic and diluted, USD		0.006	0.031

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED) AND 2005 (RESTATED)
(Amounts in thousands of U.S. Dollars)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005 (As restated, see Note 30)
OPERATING ACTIVITIES:		
Net income	$ 36,998	$ 59,243
Adjustments to reconcile net income to net cash used in operations, net of impact of acquired subsidiary:		
Depreciation and amortization charge	22,396	7,735
Minority interests	2,321	24,690
Loss/(gain) from disposal of property, plant and equipment	126	(2,389)
Deferred income tax benefit	(3,862)	(432)
Doubtful accounts receivable provision/(recovery)	4,249	(1,599)
Changes in operating assets and liabilities:		
Trade receivables	(71,119)	(133,814)
Other receivables and prepaid expenses	(23,014)	(18,830)
Inventories and spare parts	(30,965)	(19,959)
Prepaid rent	-	266
Accounts payable	10,149	52,572
Taxes payable	(6,884)	31,674
Accrued expenses and other current liabilities	(41,124)	(21,970)
Net cash used in operating activities	(100,729)	(22,813)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(59,167)	(19,850)
Proceeds from disposals of property, plant and equipment	3,121	2,546
Purchases of intangible assets	(4,104)	(633)
Purchases of businesses, net of cash acquired	(57,520)	(15,042)
Purchases of short-term investments	(145,531)	(2,021)
Proceeds from sales of short-term investments	146,055	8,319
Purchases of long-term investments	-	(179)
Net cash used in investing activities	$ (117,146)	$ (26,860)

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED) AND 2005 (RESTATED)
(Amounts in thousands of U.S. Dollars)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005 (As restated, see Note 30)
FINANCING ACTIVITIES:		
Debt issuance costs	$ (1,835)	-
Dividends paid	(1,586)	-
Proceeds from issuance of common stock	229,666	$ 32,930
Repurchase of common stock	(40,926)	-
Proceeds from short-term borrowings	121,944	63,389
Principal payments on short-term borrowings	(194,504)	(48,782)
Proceeds from long-term borrowings	204,424	8,579
Principal payments on long-term borrowings	(1,478)	(11,809)
Principal payments on capital lease obligations	(2,201)	(991)
Net cash provided by financing activities	313,504	43,316
Effects of foreign currency translation on cash and cash equivalents	6,748	(1,741)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	102,377	(8,098)
CASH AND CASH EQUIVALENTS, beginning of the period	83,359	39,685
CASH AND CASH EQUIVALENTS, end of the period	$ 185,736	$ 31,587
CASH PAID DURING THE PERIOD FOR:		
Interest, net of amounts capitalized	$ (15,218)	$ (7,322)
Income taxes	(25,685)	(4,368)
NON-CASH ITEMS:		
Equipment acquired under capital lease	3,458	1,500

Non-cash investing and financing activities for the years ended December 31, 2005, 2004 and 2003 included acquisitions of subsidiaries, as described in Note 3.

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED) AND 2005 (RESTATED)
(Amounts in thousands of U.S. Dollars)

	Share capital	Treasury Stock	Shareholder's Receivable	Additional paid-in capital	(Accumulated deficit)/ retained earnings	Accumulated other comprehensive income/(loss)	Total
Balances at January 1, 2005 (as restated, see Note 30)	**$ 59,213**	**$ -**	**$ -**	**$ 43,862**	**$ (40,737)**	**$ 2,774**	**$ 65,112**
Contribution of the controlling shareholder	-	-	-	32,930	-	-	32,930
Translation adjustment, net of minority interests of $380 and income tax of $nil	-	-	-	-	-	(1,145)	(1,145)
Net income	-	-	-	-	59,243	-	59,243
Balances at September 30, 2005 (as restated, see Note 30)	**$ 59,213**	**$ -**	**$ -**	**$ 76,792**	**$ 18,506**	**$ 1,629**	**$ 156,140**
Balances at January 1, 2006	**$ 59,213**	**$ -**	**$ -**	**$ 76,130**	**$ 28,490**	**$ (1,014)**	**$ 162,819**
Issuance of common stock (Note 24)	206,769	-	-	(56,766)	-	-	150,003
Prepayment for common stock (Note 24)	-	-	-	79,663	-	-	79,663
Repurchase of common stock (Note 24)	-	(40,926)	-	-	-	-	(40,926)
Sale of treasury stock (Note 24)	-	13,791	(10,551)	-	(3,240)	-	-
Interest on shareholder's receivable (Note 24)	-	-	(348)	348	-	-	-
Translation adjustment, net of minority interests of $972 and income tax of $nil	-	-	-	-	-	12,539	12,539
Net income	-	-	-	-	36,998	-	36,998
Balances at September 30, 2006	**$ 265,982**	**$ (27,135)**	**$ (10,899)**	**$ 99,375**	**$ 62,248**	**$ 11,525**	**$ 401,096**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The Group operates along five operating segments:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying financial statements as of September 30, 2006 and for each of the nine months ended September 30, 2006 and 2005 have been prepared by the Group, without audit. These financial statements should be read in conjunction with the audited financial statements and the notes thereto included herein. In the opinion of management, all adjustments (which include only normal recurring adjustments) are necessary to present fairly the financial position as of September 30, 2006, results of operations and cash flows for each of the nine months ended September 30, 2006 and 2005 and are not necessarily indicative of the operating results for the full year.

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

In prior periods, when controlling interests in certain subsidiaries of the Group were held by Sistema, the Group presented combined financial statements. In particular, the Group's combined financial statements for the year ended December 31, 2005 included the accounts of Videofon MV, a subsidiary of Sistema, which at that time was considered by Sistema to be a part of its High Technology business segment, was managed by the Group and contemplated for transfer to the Group in 2006. In 2006, Sistema reconsidered its strategy for the development of Videofon MV and decided to exclude Videofon MV from the Group. The consolidated interim financial statements have been prepared as if the exclusion of Videofon MV had occurred from the beginning of the earliest period presented.

The effective ownership interest and proportion of voting power of SITRONICS in its significant subsidiaries, as well as locations of their principal business operations as of September 30, 2006 and December 31, 2005 were as follows:

	Effective ownership interest		**Proportion of voting power**	
Operating entities	**September 30, 2006**	**December 31, 2005**	**September 30, 2006**	**December 31, 2005**
Telecommunication Solutions segment				
Intracom Telecom (Greece)	51%	-	51%	-
Intrarom (Romania)	34%[(1)]	-	67%	-
Strom Telecom (Czech Republic)	100%	100%	100%	100%
Tesla tech (Czech Republic)	100%[(1)]	100%[(1)]	100%	100%
SITRONICS TS (Russia)	100%	100%	100%	100%
Information Technologies Solutions segment				
Kvazar-Micro Corporation (Netherlands)	51%	51%	51%	51%
Kvazar-Micro International (United Kingdom)	51%[(1)]	51%[(1)]	100%	100%
Kvazar-Micro Techno (Ukraine)	51%[(1)]	51%[(1)]	100%	100%
Factory Kvazar-Micro (Ukraine)	51%[(1)]	51%[(1)]	100%	100%
Kvazar-Micro.ru (Russia)	51%[(1)]	51%[(1)]	100%	100%

[(1)] Including indirect ownership

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

Operating entities	Effective ownership interest September 30, 2006	Effective ownership interest December 31, 2005	Proportion of voting power September 30, 2006	Proportion of voting power December 31, 2005
Microelectronic Solutions segment				
Mikron (Russia)	78%	77%	78%	77%
VZPP-Mikron (Russia)	51%	51%	51%	51%
Smart Cards (Russia)	65%	65%	65%	65%
Consumer Electronics segment:				
Sitronics Consumer Electronics (Russia)	100%	100%	100%	100%
SITRONICS Ukraine	100%	100%	100%	100%
Electronics Manufacturing Services segment				
Kvant (Russia)	78%	78%	88%	88%
Elaks (Russia)	84%	82%	84%	82%
Elion (Russia)	75%	75%	90%	90%
Concel (Russia)	100%	100%	100%	100%

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

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

Variable Interest Entity – The Group consolidates Cosmos Wealth, a variable interest entity, of which the Group is a primary beneficiary. Cosmos Wealth operates in Southeast Asia, buying wafers from Russian entities of the Microelectronic Solutions segment, dicing the wafers into integrated circuits (ICs) and packaging the ICs for resale to original equipment manufacturers. Cosmos Wealth is directly owned by Sistema. The assets of Cosmos Wealth, as well as results of its operations have not been significant to the Group during the nine months ended September 30, 2006 and 2005.

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

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

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

Management has determined that the functional currencies of the Group's significant subsidiaries for the nine months ended September 30, 2006 and 2005 are as follows:

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

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

The translation of assets and liabilities into USD for the purpose of these financial statements does not indicate that the Group could or will in the future convert the reported values of the assets and liabilities in USD.

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

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

The estimation of the Group's fair value of financial instruments with subsidiaries and affiliates of Sistema is not practicable based on the related party nature of underlying transactions. The estimated fair value of short-term financial instruments and long-term variable rate financial instruments with third parties as of September 30, 2006 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of

September 30, 2006 was 99.3% of the principal amount. The Group's other long-term financial instruments are not significant as of September 30, 2006.

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

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

For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the income statement.

The Group does not use derivatives for trading purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related debt. Debt issuance costs amounted to $1.2 million and $nil as of September 30, 2006 and December 31, 2005, respectively.

Impairment of Long-Lived Assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe any indicators of impairment occurred relating to the Group's long-lived assets during the nine months ended September 30, 2006.

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

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

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

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

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

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

Telecommunication Solutions Segment:

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

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (a) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; (b) the buyer can be expected to satisfy its obligations under the contract; (c) the Group can be expected to perform its contractual obligations. Revenue on such arrangements is recognized applying the percentage-of-completion method. The measurement of progress towards completion is based on efforts devoted to a contract at the particular stages. At Strom Telecom the extent of progress is measured by the ratio of hours performed to date to estimated total hours at completion.

Intracom Telecom calculates the extent of progress based on the ratio of costs incurred to total estimated costs. A contract is considered as substantially completed when (a) product is delivered, and (b) product is accepted by the customer.

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

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

Information Technologies Solutions Segment:

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

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

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

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

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services Segments:

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

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

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

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

Income Taxes – Income taxes for the Group's subsidiaries have been computed in accordance with the respective local laws. Income tax rate enacted as of September 30, 2006 in the RF equals 24%, Ukraine-25%, Czech Republic-24%, Greece-29%, Romania-16%.

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

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

(a) Defined contribution plans:

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

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

(b) Other post-retirement benefits:

At Intracom Telecom, employees are entitled to an indemnity in the event of termination of employment, including in the case of retirement, with the amount of payment varying in relation to the employees' compensation and length of service. In addition, Intracom Telecom should pay a lump-sum payment between 14 and 28 monthly salaries, depending on past service, upon death of an employee. Intracom Telecom is responsible for financing the compensation. The Group accounts for this plan following the requirements of SFAS No. 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". The plan is unfunded.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the nine months ended September 30, 2006 and 2005 were not significant.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the nine months ended September 30, 2006 and 2005 were $3.5 million and $2.0 million, respectively, and were reflected as a component of selling, general and administrative expenses in the consolidated statements of operations.

Earnings per Share – Earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the nine months ended September 30, 2006 and 2005.

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

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

Recently Adopted Accounting Pronouncements – In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations-an interpretation of FASB Statement No. 143." This Interpretation 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. Interpretation No. 47 became effective for the Group in the year ended December 31, 2005. The adoption of Interpretation No. 47 did not have a material impact on the Group's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", 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 the Group from January 1, 2006.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements", which was modified in September 2005. EITF No. 05-6 requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF No. 05-6 is effective for leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005. The adoption of EITF No. 05-6 did not have a material impact on the Group's financial position and results of operations.

In October 2005, the FASB issued FASB Staff Position ("FSP") FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period". 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 for the Group for the year ending December 31, 2006. The adoption of FSP FAS 13-1 did not have a material impact on the Group's financial position and results of operations.

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

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

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

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

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® (“SFAS 158”). SFAS 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 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS 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 Group does not expect the adoption of SFAS 158 to have a material impact on its financial position or results of operations.

3. ACQUISITIONS

In June 2006, SITRONICS acquired 51.0% of common shares of Intracom Telecom for EUR 120.0 million (equivalent of $150.6 million) from Intracom Holdings S.A., of which $106.7 million was paid in cash in June 2006 and $44.4 million was recorded as a liability as of September 30, 2006 (Note 16). The amount due will be finalized and become payable upon completion of an independent audit of Intracom Telecom. Intracom Telecom is a provider of telecommunications solutions and services, such as advanced technological products in the areas of fixed and wireless broadband access and transmission systems, and content delivery systems (IPTV, triple-play), primarily in the Eastern Europe and Middle East.

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

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

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

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

The purchase price allocation has been prepared on a preliminary basis, and reasonable changes are expected as additional information becomes available.

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

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

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

	(000's)	
	2006	**2005**
Pro forma:		
Revenues	$ 1,049,790	$ 881,378
Operating income	76,926	132,814
Net income	36,016	53,048
Earnings per share, basic and diluted:	$ 0.006	$ 0.028

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's)	
	September 30, 2006	**December 31, 2005**
EUR bank deposits	$ 16,465	$ 365
RUR and USD current accounts with subsidiary of Sistema:		
Moscow Bank for Reconstruction and Development (MBRD)	87,222	16,718
Current accounts with third parties:		
EUR current accounts	56,057	5,442
USD current accounts	12,400	42,186
CZK current accounts	9,005	3,694
RUB current accounts	3,017	13,125
Other	1,001	1,580
Cash on hand	569	249
Total	**$ 185,736**	**$ 83,359**

Euro denominated bank deposits represent accounts held by Intracom Telecom and Strom Telecom in different financial institutions. These deposits have the original maturities less than three months and bear interest from 3.0% to 4.1% per annum.

5. SHORT-TERM INVESTMENTS

USD and RUB denominated short-term investments as of September 30, 2006 and December 31, 2005 comprised the following:

			(000's)	
	Annual interest rate	**Maturity date**	**September 30, 2006**	**December 31, 2005**
Promissory notes of Sistema and subsidiaries	0%-0.5%	on demand	$ 10,058	$ 9,308
Other	various	various	893	1,089
Total short-term investments			**$ 10,951**	**$ 10,397**

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

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

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's) September 30, 2006	December 31, 2005
Trade receivables	$ 634,166	$ 163,041
Less: provision for doubtful accounts	(6,967)	(4,186)
Total	**$ 627,199**	**$ 158,855**

Included in trade receivables as of September 30, 2006 and December 31, 2005 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $146.1 million and $56.9 million, respectively (Note 26). Management anticipates no losses in respect of receivables from these entities.

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's) September 30, 2006	December 31, 2005
Advances to suppliers	$ 59,050	$ 23,896
Recoverable VAT	12,350	13,478
Other taxes prepaid	11,419	7,533
Prepaid expenses	5,626	5,158
Loans to employees	438	1,353
Other	9,970	7,045
Less: provision for doubtful accounts	(3,051)	(1,583)
Total	**$ 95,802**	**$ 56,880**

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

8. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's) September 30, 2006	December 31, 2005
Raw materials and spare parts	$ 72,723	$ 20,994
Work-in-progress	59,315	28,030
Finished goods and goods for resale	111,710	64,893
Total	**$ 243,748**	**$ 113,917**

As of September 30, 2006 and December 31, 2005, inventory with the carrying amount of $14.5 million and $27.3 million, respectively, was pledged to Intel (Note 15).

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's) September 30, 2006	December 31, 2005
Land	$ 17,691	$ 1,377
Buildings and leasehold improvements	124,064	58,908
Plant, machinery and equipment (including leased vehicles and equipment of $14,204 and $7,635, respectively)	99,874	56,590
Construction in progress and equipment for installation	36,620	12,646
	278,249	129,521
Less: accumulated depreciation (including leased vehicles and equipment of $2,981 and $2,078, respectively)	(46,096)	(34,574)
Total	**$ 232,153**	**$ 94,947**

Depreciation expense for property, plant and equipment for the nine months ended September 30, 2006 and 2005 comprised $22.8 million (including $9.1 million of depreciation expense at Intracom Telecom for the pre-acquisition period) and $3.5 million, respectively.

Land and buildings with approximate carrying value of $1.9 million as of September 30, 2006 and December 30, 2005, were pledged to collateralize the outstanding balance of debt to BAWAG Bank (see Note 18).

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

10. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's)					
	September 30, 2006			**December 31, 2005**		
	Gross carrying value	**Accumulated Amortization**	**Net carrying value**	**Gross carrying value**	**Accumulated amortization**	**Net carrying value**
Finite-life intangible assets:						
Customer contracts and the related customers relationships	$ 21,344	$ (10,642)	$ 10,702	$ 13,864	$ (6,921)	$ 6,943
Software costs	72,350	(5,740)	66,610	9,366	(1,276)	8,090
Licenses	2,781	-	2,781	1,490	-	1,490
Other	1,522	(78)	1,444	-	-	-
	97,997	**(16,460)**	**81,537**	**24,720**	**(8,197)**	**16,523**
Indefinite-life intangible assets:						
Trademarks	3,211	-	3,211	3,211	-	3,211
Total intangible assets	**$ 101,208**	**$ (16,460)**	**$ 84,748**	**$ 27,931**	**$ (8,197)**	**$ 19,734**

Amortization expense for the nine months ended September 30, 2006 and 2005 comprised $12.5 million (including amortization expense at Intracom Telecom of $3.8 million for the pre-acquisition period) and $4.2 million, respectively.

Based on the finite-life intangible assets existing as of September 30, 2006, the estimated amortization expense for the fourth quarter of 2006 and for each of the five succeeding fiscal years and thereafter is as follows:

	(000's)
4th quarter of 2006	$ 4,820
2007	18,468
2008	18,205
2009	18,205
2010	13,920
2011	3,880
Thereafter	4,039
Total	**$ 81,537**

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

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

11. LONG-TERM INVESTMENTS

Long-term investments as of September 30, 2006 and December 31, 2005 comprised the following:

	(000's) September 30, 2006	December 31, 2005
Voting common shares of Angstrem (11%)	$ 735	$ 655
Voting common shares of Angstrem-M (11%)	234	210
Voting common shares of Intracom Construct (8%)	724	-
Voting common shares of Lotrom (16%)	35	-
Total long-term investments	**$ 1,728**	**$ 865**

12. LONG-TERM TRADE RECEIVABLES

Long-term portion of trade receivables as of September 30, 2006 and December 31, 2005 comprised the following:

	Annual interest rate	Maturity Date	(000's) September 30, 2006	December 31, 2005
Trade receivables from third parties	EURIBOR+1.5-2.5%	December, 2007-March, 2013	$ 79,574	$ 575
Trade receivables from Sistema affiliates	0%	October, 2007	-	14,000
Total trade receivables, long-term portion			**$ 79,574**	**$ 14,575**

13. PREPAID RENT

In July 2004, Kvazar-Micro.ru entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow for a period of 86 months. The short-term portion of the prepaid rent is included in other receivables and prepaid expenses. See also Note 27.

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

14. RESTRICTED CASH

Restricted cash as of September 30, 2006 and December 31, 2005 represents three deposits placed by Kvazar-Micro in ING Bank to secure guarantees issued by the bank in favor of certain IT vendors, including Intel (Note 15). Although all these deposits mature not later than December 31, 2006, management intends to prolong these arrangements.

15. ACCOUNTS PAYABLE

As of September 30, 2006 and December 31, 2005, the Group's accounts payable included $21.9 million and $11.3 million, respectively, due to Intel. The amounts due to Intel are collateralized by all proceeds (including accounts receivable) derived by the Group from distribution of Intel's products, the Group's inventory of Intel's products and a guarantee in the amount of $2.1 million issued by ING Bank, which is, in its turn, collateralized by the Group's cash deposit of the same amount in the bank (Note 14).

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of September 30, 2006 and December 31, 2005 comprised the following:

		(000's) September 30, 2006		(000's) December 31, 2005
Customers' prepayments and billings in excess of project costs	$	100,486	$	82,104
Payable for purchase of Intracom Telecom shares (Note 3)		44,400		-
Accrued payroll and vacation		11,649		2,983
Current portion of capital lease (Note 19)		3,156		1,332
Warranty obligations		3,456		590
Interest payable on debt		2,783		2,616
Current portion of pension benefit obligations		428		-
Accrued expenses and other current liabilities		6,718		16,284
Total	**$**	**173,076**	**$**	**105,909**

Customers' prepayments and deferred revenue as of September 30, 2006 and December 31, 2005 included amounts related to transactions with subsidiaries and affiliates of Sistema of $50.0 million and $70.9 million, respectively (Note 26).

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

17. SHORT-TERM LOANS AND NOTES PAYABLE

At September 30, 2006 and December 31, 2005, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at September 30, 2006)	(000's) September 30, 2006	December 31, 2005
Revolving credit facilities			
Including:			
Euro-denominated facilities of Intracom Telecom	EURIBOR+0.8%-1.5% (4.22%-4.92%)	$ 79,081	-
CZK-denominated facilities of Strom Telecom	PRIBOR+0.7% (3.33%)	14,525	
USD-denominated facilities	-	-	$ 49,816
		93,606	**49,816**
USD and RUB-denominated loans and notes payable to Sistema subsidiaries	0%-15%	**18,168**	**18,995**
Loans and notes payable to other parties			
Including:			
CZK-denominated	various	3,783	-
USD-denominated	various	2,245	34,230
Other	0%-12%	5,052	2,021
		11,080	**36,251**
Total		$ **122,854**	$ **105,062**

Revolving Credit Facilities – In December 2005, Intracom Telecom entered into several EUR-denominated loan agreements with a number of financial institutions, including Societe Generale-Geniki Bank, National Bank of Greece, Emporiki Bank, Alfa Bank, HypoVereinsBank, Piraeus Bank, Aspis Bank, ING Bank, Hellenic Bank and Eurobank. The loans bore interest from EURIBOR + 0.8% to EURIBOR + 1.5% and matured in December 2006.

In July 2006, Strom Telecom entered into a credit facility agreement with ABN Amro Bank, limited to $15.0 million. The facility can be drawn in EUR, USD or CZK in form of short-term loans, overdraft, letters of guarantees or bank guarantees. The loans can bear interest rates of EURIBOR + 0.7%, LIBOR + 0.7%, or PRIBOR + 0.7% per annum, depending on the currency of loans.
As of September 30, 2006 Strom Telecom has drawn $14.5 million in CZK. The loan bears PRIBOR + 0.7% per annum interest and matures in July 2007.

USD and RUB-Denominated Loans and Notes Payable to Sistema and Subsidiaries – In 2005 and during the nine months ended September 30, 2006, the Group entered into several RUB and USD-denominated short-term loan agreements with Sistema subsidiaries, bearing interest rates from 0% to 15% and maturing upon demand. The amount outstanding under these agreements comprised $18.2 million and $19.0 million, as of September 30, 2006 and December 31, 2005, respectively.

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

Loans and Notes Payable to Other Parties – In May 2006, Strom Telecom entered into CZK-denominated loan agreements with HSBC Bank, BAWAG Bank and Commerzbank, bearing interest rates of PRIBOR+0.5% and maturing from October 2006 to May 2007. As of September 30, 2006, the amounts outstanding under these agreements comprised $2.2 million, $0.4 million and $1.2 million, respectively.

In May 2005, Intracom, a subsidiary of Intracom Telecom, entered into several USD-denominated loan agreements with Citibank. The loans bear interest rates of EURIBOR + 1.5%, BUBOR + 1.5%, LIBOR + 1.5% and are payable on demand.

18. LONG-TERM DEBT

Long-term debt as of September 30, 2006 and December 31, 2005 consisted of the following:

	Currency	Annual interest rate (Actual at September 30, 2006)	(000's) September 30, 2006	December 31, 2005
Eurobonds	USD	7.88%	$ 199,472	-
Syndicated loan to Intracom Telecom	USD	LIBOR+1.50% (6.87%)	121,201	-
Syndicated loan to Conklin Corporation	USD	LIBOR+1.35% (6.72%)	6,502	-
Science and Industrial Policy Department of the Moscow Government	RUB	2.88%	8,103	$ 3,011
BAWAG Bank	CZK	PRIBOR+2.10% (4.73%)	2,046	1,929
Other	various	0%-7%	2,461	2,110
			339,785	**7,050**
Less amounts maturing within 12 months			(130,176)	(925)
Total			**$ 209,609**	**$ 6,125**

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

Syndicated loan to Intracom Telecom – In 2002, Intracom Holding S.A. entered into a syndicated loan agreement with a number of banks (Alphabank, National Bank of Greece, Commercial bank of Greece, Societe Generale-Geniki bank). In 2005, the outstanding balance under the loan in the amount of $121.0 million was transferred to Intracom Telecom. The loan bears interest of LIBOR+ 1.5% per annum and is payable in January 2007, with an option for prolongation until January 2008. The loan is guaranteed by Intracom Holding S.A. and contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios. Management believes that as of the date of these statements, Intracom Telecom is in compliance with all existing covenants.

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

Syndicated Loan to Conklin Corporation – In 2002, Intracom Holding S.A. entered into a syndicated loan agreement with a number of banks (PIRAEUS BANK, Societe Generale -Geniki Bank, OMEGA BANK), for EUR 5.6 million ($6.5 million as of September 30, 2006). In 2005, the loan was transferred to Conklin Corporation, a subsidiary of Intracom Telecom. The loan bears an interest rate of LIBOR + 1.35% per annum, matures in August 2007 and is guaranteed by Intracom Holding S.A.

Science and Industrial Policy Department of the Moscow Government – In December 2005, Mikron entered into a credit facility with the Science and Industrial Policy Department of the Moscow Government. The facility is limited to 217 million RUB ($8.1 million as of September 30, 2006). The facility bears interest determined as one fourth of the official rate of the Central Bank of Russia (2.88% as of September 30, 2006) and matures in 2010. As of September 30, 2006, $8.1 million was outstanding under this credit facility.

BAWAG – In 2005, Strom Telecom obtained a CZK-denominated loan of $1.9 million from BAWAG Bank. The loan bears interest of PRIBOR + 1.75% per annum and matures not later than in 2018. Land and buildings of Strom Telecom and its subsidiary, Tesla tech, with an approximate carrying value of $1.9 million and shares of Tesla tech are pledged under the agreement.

The following table presents the aggregate scheduled maturities of the total debt outstanding as of September 30, 2006:

Year ended September 30,		**(000's)**
2007	$	130,176
2008		217
2009		199,599
2010		8,230
2011		127
Thereafter		1,436
Total	**$**	**339,785**

19. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of September 30, 2006 and December 31, 2005 are presented as follows:

		(000's) September 30, 2006		**December 31, 2005**
Total minimum lease payments (undiscounted)	$	6,948	$	3,241
Less amount representing interest		(567)		(304)
Present value of net minimum lease obligations		6,381		2,937
Less current portion of lease obligations (Note 16)		(3,156)		(1,332)
Non-current portion of lease obligations	**$**	**3,225**	**$**	**1,605**

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

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

Future rental payments under capital leases in effect as of September 30, 2006, are as follows:

Year ended September 30,		**(000's)**
2007	$	3,818
2008		2,120
2009		1,010
		6,948
Less amount representing interest		(567)
Total	**$**	**6,381**

20. POST-RETIREMENT BENEFITS

According to the Greek labor legislation, Intracom Telecom is obliged to provide certain post-retirement benefits to its employees (Note 2). A discount rate of 4.6% and future increase of salaries of 4.5% were used in determining the projected benefit obligation and net periodic pension expense.

The change in the projected benefit obligation for the nine months ended September 30, 2006 is presented in the following table:

		(000's)
Projected benefit obligation, beginning of the period	$	4,066
Service cost		366
Interest cost		129
Amendment		787
Benefit payments		(302)
Currency translation effect		152
Projected benefit obligation, end of the period	**$**	**5,198**

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

Year ended September 30,		**(000's)**
2007	$	428
2008		409
2009		390
2010		373
2011-2015		3,598
Total	**$**	**5,198**

As of September 30, 2006, the long-term portion of post-retirement benefit liabilities amounted to $4.8 million (Note 21).

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

21. OTHER LONG-TERM LIABILITIES

As of September 30, 2006 other long-term liabilities of the Group comprised the following:

	(000's) September 30, 2006	(000's) December 31, 2005
Post-retirement benefit obligations, long-term portion (Note 20)	$ 4,770	$ -
Warranty obligations, long-term portion	1,570	-
Total other long-term liabilities	**$ 6,340**	**$ -**

22. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Agreement – In March 2006, SITRONICS entered into a forward agreement with Dresdner bank to buy $40.0 million at fixed rate of 27.8 RUB. This arrangement is used to hedge the fair value of the Group's RUB-denominated investments and accounts receivable, to offset the effect on earnings of changes in exchange rates until these investments and receivables are collected. The loss from change in fair value of the instrument comprised $1.5 million and is recognized in the income statement for the nine months ended September 30, 2006.

Cross-Currency Swap Agreement – In 2002, Intracom Holdings S.A. entered into a swap agreement with Alpha Bank to eliminate the foreign currency exposure risk and to effectively convert a syndicated loan of $121.2 million at a rate of three months LIBOR +1.50% to EUR 118.0 million ($148.4 million as of September 30, 2006) bearing three months EURIBOR +1.59% interest rate (Note 18). The terms of the swap matched the terms of the underlying debt. The arrangement did not qualify for hedge accounting. In 2005, the loan and the swap were transferred to Intracom Telecom. As of September 30, 2006, the Group recorded a liability of $28.7 million in relation to this instrument in the accompanying consolidated balance sheet and a loss of $9.0 million for the nine months ended September 30, 2006, which was offset by the foreign exchange gain resulting from underlying debt.

23. INCOME TAX

The Group's provision for income taxes for the nine months ended September 30, 2006 and 2005 is as follows:

	(000's) Nine months ended September 30, 2006	2005
Current expense	$ 26,594	$ 29,605
Deferred benefit	(3,203)	(432)
Total income tax expense	**$ 23,391**	**$ 29,173**

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

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

	(000's) Nine months ended September 30, 2006	2005
Income tax provision computed on income before taxes at Russian statutory rate	$ 15,050	$ 27,145
Adjustments due to:		
Expenses not deductible for tax purposes	6,518	1,198
Effect of different tax rates	1,750	1,808
Foreign currency transactions differences	73	(978)
Income tax expense	**$ 23,391**	**$ 29,173**

Temporary differences between tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at September 30, 2006 and December 31, 2005:

	(000's) September 30, 2006	December 31, 2005
Deferred tax assets		
Property, plant and equipment	$ 32,580	$ 4,593
Tax losses carried forward	5,374	-
Accounts receivable	4,593	4,222
Accrued expenses	1,388	1,547
Inventories and spare parts	842	481
Other	3,914	212
Total deferred tax assets	**$ 48,691**	**$ 11,055**
Deferred tax liabilities		
Undistributed untaxed profit	(12,660)	-
Property, plant and equipment	(11,150)	(8,479)
Intangible assets	(10,672)	(2,407)
Other	(3,333)	(1,617)
Total deferred tax liabilities	**$ (37,815)**	**$ (12,503)**
Net deferred tax assets, current	$ 5,615	$ 4,785
Net deferred tax assets, long-term	$ 15,391	$ 3,441
Net deferred tax liabilities, current	$ (578)	$ (664)
Net deferred tax liabilities, long-term	$ (9,552)	$ (9,010)

As of September 30, 2006, deferred tax assets relating to tax losses carried forward in amount of $5.4 million are attributable to Intracom Telecom. These tax losses expire in 2011.

24. EQUITY TRANSACTIONS

In March 2006, SITRONICS issued to Sistema 5,817,000,000 voting common shares with par value of 1 RUB for $206.8 million ($56.8 million was paid in 2005 and $150.0 million in the nine months ended September 30, 2006).

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

Concurrently with the purchase of treasury stock, Sistema approved the sale of 385,188,550 common shares of SITRONICS to the newly-appointed Sistema's CEO, who served as SITRONICS' CEO from July 2003 to February 2006. The shares were sold for $13.8 million with a payment date not later than 2010. At the date of the transaction, the fair value of shares sold to Sistema's CEO was estimated at $105.0 million, the award being attributed to his employment by Sistema. SITRONICS recorded the sale of shares at the present value of the amount receivable for shares ($10.6 million as of the date of transaction), that was deducted from shareholders' equity. The unamortized discount on shareholder's receivable of $3.2 million has been reflected as a reduction of retained earnings. The interest accrued for the nine months ended September 30, 2006 comprized $0.3 million and was recorded in additional paid-in-capital.

In September 2006, SITRONICS signed a definitive agreement for the issuance of additional 293,476,990 common shares with a par value of 1 RUB with European Bank for Reconstruction and Development (EBRD) for $80.0 million. The issuance of shares was completed in October 2006 (Note 29). These shares will be puttable to Sistema. The funds contributed by EBRD have been reflected as an increase of additional paid-in capital as of September 30, 2006.

25. SEGMENT INFORMATION

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

During the nine months ended September 30, 2006, the Group has five reportable segments: Telecommunication Solutions, Information Technologies Solutions, Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services. Diversification of business entities by those segments was based on principles of production process and product specification. The Group's management evaluates performance of the segments based on their operating income. In 2006, the Group changed the structure of its internal organization to split its former Consumer Electronics segment into two segments: Consumer Electronics and Electronics Manufacturing Services. The Group has retroactively restated its segment information for all periods presented.

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

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine months ended September 30, 2006						
	Telecommunication Solutions	Information Technologies Solutions	Microelectronic Solutions	Consumer Electronics	Electronics Manufacturing Services	Corporate	Total
Net sales to external customers	$ 503,907	$ 347,678	$ 77,970	$ 88,172	$ 32,001	$ 62	$ 1,049,790
Intersegment sales	-	1,345	161	-	2,373	-	3,879
Depreciation and amortization	(28,199)	(3,925)	(1,655)	(114)	(1,229)	(129)	(35,251)
Operating income/(loss)	75,221	4,878	14,394	(4,751)	(6,997)	(3,252)	79,493

	Nine months ended September 30, 2005						
	Telecommunication Solutions	Information Technologies Solutions	Microelectronic Solutions	Consumer Electronics	Electronics Manufacturing Services	Corporate	Total
Net sales to external customers	$ 194,610	$ 312,912	$ 38,444	$ 42,575	$ 45,386	$ 281	$ 634,208
Intersegment sales	40	-	-	50	432	-	522
Depreciation and amortization	(1,887)	(3,727)	(1,323)	-	(661)	(137)	(7,735)
Operating income/(loss)	112,297	5,947	2,932	1,351	(813)	542	122,256

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

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

	(000's) Nine months ended September 30, 2006	2005
Total segment operating income	$ 79,493	$ 122,256
Interest income	5,056	529
Interest expense	(22,779)	(7,432)
Foreign currency transactions gain/(loss)	940	(2,247)
Consolidated income before income tax and minority interests	**$ 62,710**	**$ 113,106**

As of September 30, 2006 and December 31, 2005, the total assets of reportable segments comprised the following:

	(000's) September 30, 2006	December 31, 2005
Telecommunication Solutions	$ 993,879	$ 213,347
Information Technologies Solutions	138,745	110,178
Microelectronic Solutions	164,457	98,866
Consumer Electronics	135,427	90,863
Electronics Manufacturing Services	63,288	49,287
	1,495,796	**562,541**
Corporate	323,379	60,659
Intersegment eliminations	(231,042)	(57,110)
Total assets	**$ 1,588,133**	**$ 566,090**

For the nine months ended September 30, 2006 and 2005, the Group's additions to property, plant and equipment and intangible assets, including assets acquired in conjunction with the acquisition of Intracom Telecom, comprised the following:

	(000's) Nine months ended September 30, 2005	2006
Telecommunication Solutions	$ 196,613	$ 19,035
Information Technologies Solutions	663	1,214
Microelectronic Solutions	36,612	2,148
Consumer Electronics	409	-
Electronics Manufacturing Services	2,752	7,214
Corporate	411	416
Total additions to property, plant and equipment and intangible assets	**$ 237,460**	**$ 30,027**

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

26. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2006 and 2005, the Group entered into transactions with related parties as follows:

	(000's) Nine months ended September 30, 2006	2005
Sales of software and telecommunication equipment	$ 180,578	$ 183,957
Systems integration	41,047	45,289
Sales of smart cards	22,097	-
Sales of handsets	2,155	10,981
Interest income	2,122	-
Interest expense	(314)	(4,968)
Other	1,384	3,929

Sales of software and telecommunication equipment

Mobile TeleSystems ("MTS") – During the nine months ended September 30, 2006 and 2005, Strom Telecom and SITRONICS Telecom Solutions entered into agreements with MTS, a subsidiary of Sistema, and its affiliate Mobile TeleSystems Belarus ("MTS Belarus") for sale of a billing system, a communications software support system and sale of telecommunication equipment. Pursuant to these contracts, Strom Telecom sold software, equipment and related services for approximately $146.4 million and $149.7 million during the nine months ended September 30, 2006 and 2005, respectively.

Moscow City Telephone Network ("MGTS") – During the nine months ended September 30, 2006 and 2005, Strom Telecom and SITRONICS Telecom Solutions provided telecommunication equipment and billing system maintenance services to MGTS, a subsidiary of Sistema. Revenues from sale of services to MGTS amounted to $15.3 million and $18.3 million during the nine months ended September 30, 2006 and 2005, respectively.

Invest-Svyaz-Holding – During the nine months ended September 30, 2006 and 2005, Strom Telecom sold telecommunication equipment to Invest-Svyaz-Holding, a subsidiary of Sistema, for $15.8 million and $12.6 million, respectively.

Multiregional TransitTelecom (MTT) – During the nine months ended September 30, 2005, Strom Telecom sold telecommunication equipment to MTT, an affiliate of Sistema, for $3.4 million.

Systems integration

During the nine months ended September 30, 2006 and 2005, Kvazar-Micro provided systems integration services to MTS and other Sistema affiliates in the amount of $41.0 million and $45.3 million, respectively.

Sales of handsets

During the nine months ended September 30, 2006 and 2005, the Group sold handsets to Sky Link, an affiliate of Sistema, for $2.2 million and $11.0 million, respectively.

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

Sales of smart cards

During the nine months ended September 30, 2006, Smart Cards sold smart cards to MTS for $22.1 million.

Interest income

During the nine months ended September 30, 2006, the Group has earned $2.1 million from deposits placed at MBRD.

Interest expense

During the nine months ended September 30, 2006 and 2005, the Group had several short-term and long-term loans outstanding from Sistema and its subsidiaries, including MBRD (Note 17). Interest expense on these loans amounted to $0.3 million and $5.0 million for the nine months ended September 30, 2006 and 2005, respectively.

Transactions and balances with Intracom Holdings

During the nine months ended September 30, 2006, Intracom Telecom entered into transactions with subsidiaries and affiliates of Intracom Holdings, its minority shareholder. For the nine months ended September 30, 2006, revenues from these transactions amounted to $35.4 million; the corresponding balances of accounts receivable and advances received as of September 30, 2006 comprised $55.8 million and $23.8 million, respectively. In addition, Intracom Telecom's expenses for services consumed and inventories purchased from these entities amounted to $62.7 million for the nine months ended September 30, 2006. As of September 30, 2006, trade and other payables to subsidiaries and affiliates of Intracom Holdings were $58.2 million.

27. COMMITMENTS AND CONTINGENCIES

Operating Leases – In July 2004, Kvazar-Micro.ru has entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow, which expires in 2011. In addition, the Group leases land and vehicles from other parties through contracts, which expire in various years through 2024. Rental expenses under these leases were $1.1 million and $0.8 million for each of the nine months ended September 30, 2006 and 2005, respectively, and were included in operating expenses in the consolidated statements of operations.

Future minimum rental payments under operating leases in effect as of September 30, 2006, are as follows:

		(000's)
Year ended September 30,		
2007	$	1,796
2008		1,796
2009		1,796
2010		1,796
2011		1,059
Thereafter		5,602
Total	**$**	**13,845**

Capital Commitments – In the nine months ended September 30, 2006, Mikron entered into purchase agreements for supply of equipment in the amounts of approximately $120.0 million.

As of September 30, 2006, Intracom Telecom had executed non-binding purchase agreements in the amounts of approximately EUR 11.6 million (equivalent of $14.7 million) to subsequently acquire property, plant and equipment.

Issued Guarantees – During the year ended December 31, 2005, the Group has issued guarantees to Commerzbank for loans obtained by Invest-Svyaz-Holding, a subsidiary of Sistema, for a total amount of $18.0 million. The guarantees expire in 2007. As of September 30, 2006, no event of default has occurred under any of these guarantees.

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

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

28. CONCENTRATIONS

Credit Risks – During the nine months ended September 30, 2006 and 2005, the Group's sales to Sistema's subsidiaries and affiliates amounted to $246.5 million and $240.3 million, respectively, or 23.5% and 37.9% of the Group's consolidated revenues for the respective periods. The Group's trade receivables from Sistema's subsidiaries and affiliates as of September 30, 2006 and December 31, 2005 are disclosed in Notes 6 and 12; the Group's cash and short-term investments balances with Sistema's subsidiaries and affiliates are disclosed in Notes 4 and 5, respectively.

Kvazar-Micro collects proceeds from distribution of computer hardware products in the RF and Ukraine through a small number of independent dealers. Amounts due from these dealers as of September 30, 2006 and December 31, 2005 were $39.0 million and $31.8 million, respectively. During the nine months ended September 30, 2006 and 2005, revenues of Kvazar-Micro from distribution of products purchased under a distribution agreement with Intel International B.V. ("Intel") amounted to $153.1 million and $169.0 million, respectively, or 14.6% and 26.6% of the Group's consolidated revenues for the respective periods.

Intracom Telecom encounters a concentration of receivables among a few significant customers. Four customers in this segment accounted for revenues of $106.4 million in the nine months ended September 30, 2006, which is 10.1% of the Group's consolidated revenues for this period. Trade receivables from these customers amounted to $150.2 million as of September 30, 2006.

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

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

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

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

29. SUBSEQUENT EVENTS

Financing – In October 2006, STROM Telecom signed amendments to existing agreements with HSBC and BAWAG for renewal of its credit facilities. These facilities bear interest rate of PRIBOR + 0.5% and PRIBOR + 1.2%, respectively. The facilities are limited to $26.3 million and $9.7 million, respectively, and mature in 2007.

In November 2006, Strom Telecom entered into a credit facility with ABN-AMRO limited to $15.0 million. The loan bears an interest rate of PRIBOR + 0.9% per annum. The facility can be utilized in USD, EUR or CZK and matures in 2007.

Registration of Shares Issued to EBRD – In October 2006, SITRONICS has completed issuance of 293,476,990 common shares to EBRD.

Issue of Additional Shares – In November 2006, SITRONICS' Board of Directors approved additional issuance of 5,000,000,000 common shares with par value of 1 RUB.

Transactions with Mikron Shares – In December 2006, SITRONICS signed an agreement with Waltermore Ltd. to repurchase 7.6% of voting shares of Mikron for $7.3 million, thus increasing the Group's voting power in Mikron from 78% to 86%.

In December 2006, the Group received a prepayment of 274.6 million rubles (or approximately $10 million) from the Russian Federation Agency for Management of Federal Property for 10% of Mikron ordinary shares to be issued to the Agency in 2007.

Acquisition of VZPP-Micron Shares – In December 2006, SITRONICS purchased from a minority shareholder 45.7% of voting shares of VZPP-Micron for $4.5 million, thus increasing the Group's voting power in VZPP-Micron from 51% to 97%.

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

30. RESTATEMENT

Subsequent to the issuance of the Group's financial statements for the nine months ended September 30, 2005, the Group's management identified the following errors in application of generally accepted accounting principles that occurred in the nine months ended September 30, 2005:

- during this period the Group has recognized revenues from Strom Telecom's software sales to Sistema subsidiaries under requirements of SOP 97-2, "Software Revenue Recognition" based on the management's estimate that the Group's software supplied to Sistema subsidiaries does not require significant customization subsequent to delivery. In 2006, the Group's management has reviewed the implementation process for such software and concluded that the required customization in certain instances was significant and that revenue on such arrangements should be recognized in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts";
- in the nine months ended September 30, 2005, the Group did not consolidate accounts of Cosmos Wealth, a variable interest entity, of which it was a primary beneficiary (see Note 2). In 2006, the Group's management has concluded that accounts of Cosmos Wealth should have been consolidated in the Group's financial statements for the nine months ended September 30, 2005;
- certain misclassifications described in the "Reclassification amounts" columns in the table below.

In addition, the Group has combined the accounts of Videofon MV, a subsidiary of Sistema, in its financial statements for the nine months ended September 30, 2005. Videofon MV at that time was considered by Sistema to be a part of its Technology business segment, was managed by the Group and contemplated for transfer to the Group in 2006. In 2006, Sistema reconsidered its strategy for the development of Videofon MV and decided to exclude Videofon MV from the Group. The accounts of Videofon MV have been excluded from the Group's financial statements for the nine months ended September 30, 2005.

As a result, the Group's financial statements have been restated from the amounts previously reported as follows:

For the nine months ended September 30, 2005	As previously reported	Exclusion of Videofon MV	Reclassification amounts	Restatement amounts	As restated
Revenues	$ 652,256	$ (3,640)	-	$ (14,408)	$ 634,208
Cost of sales, exclusive of depreciation and amortization shown separately below	(471,349)	2,862	$ 11,901	1,191	(455,395)
Research and development expenses	-	-	(11,901)	-	(11,901)
Selling, general and administrative expenses	(36,029)	560	-	-	(35,469)
Other operating expenses, net	(1,511)	59	-	-	(1,452)
Operating income	135,632	(159)	-	(13,217)	122,256
Interest expense, net of amounts capitalized	(7,722)	290	-	-	(7,432)
Foreign currency transactions loss	(2,377)	130	-	-	(2,247)
Income before income tax and minority interests	126,062	261	-	(13,217)	113,106
Income tax expense	(32,396)	28	-	3,195	(29,173)
Income before minority interests	93,666	289	-	(10,022)	83,933
Minority interests	(28,288)	-	-	3,598	(24,690)
Extraordinary gain	3,956	-	-	(3,956)	-
Net income	69,334	289	-	(10,380)	59,243
Comprehensive income	$ 68,189	$ 289	$ -	$ (10,380)	$ 58,098